

2016  
ANNUAL  
REPORT



## Fact Sheet

### THSRC Milestones

Date of Incorporation: May 1998

Construction Stage: March 2000 – December 2006

Operation Stage: Started in January 2007

Capitalization: NT\$56.28 billion

### Key Operating Statistics for 2016

Number of Train Services: 51,106

Punctuality (defined as departure within five minutes of scheduled time): 99.43%

Annual Ridership: 56.59 million

Annual Revenues: NT\$40.6 billion

Loading Factor: 63.52%

Passenger Kilometers: 10,488 million

Total Route Length: 350 km

Number of Cities/Counties Passed Through: 11

Maximum Operating Speed: 300 km/hr

Number of Seats Per Train: 989 (923 in standard and 66 in business class carriages)

Stations in Service: 12 (Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan and Zuoying)

Maintenance Depots in Service: 5 (Liujiia/Hsinchu, Wuri/Taichung, Taibao/Chiayi, Zuoying/Kaohsiung and Yanchao Main Workshop/Kaohsiung)

Note:

Loading Factor = Passenger-kilometers/seat-kilometers x100%

Passenger-Kilometers = Sum of the mileage traveled by each passenger

Seat-Kilometers =  $\sum$  (Number of seats per trainset x sum of the mileage of trains operated in revenue service)

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THSRC Annual Report 2016

# Chairman's Letter to Shareholders

Discover a New Way of Life with THSR





# Chairman's Letter to Shareholders



Chairman

*Y. C. Chiang*

## Dear Fellow Shareholders,

2016 was a breakthrough year for Taiwan High Speed Rail Corporation (THSRC). We welcomed our 400 millionth passenger in December, a decade after we opened our high-speed rail line. Reaching this milestone is a testament to the hard work and dedication of our employees. Another milestone we achieved last year was the inauguration of Nangang HSR Station, which increases connectivity between the Greater Taipei area and the eastern counties of Ilan and Hualien while easing the congestion at Taipei HSR Station during peak travel times. More importantly, this new station enhances service levels and quality by allowing more efficient and flexible fleet management to meet the projected capacity demand and providing much-needed space for maintenance facilities.

Throughout our history as a rail service provider, we have brought significant changes to people's lifestyles, connected urban and rural communities closer together, and catalyzed growth and employment opportunities. We are excited about what the future holds as we continue to deliver on our promise of service excellence, customer satisfaction and corporate citizenship, with the principle of "Go Extra Mile" guiding every action we take.

## 2016 Results

We have carried over 400 million passengers since we launched Taiwan High Speed Rail (THSR) connecting the western Taiwan in January 2007. Last year was our 10th anniversary, and we continued to increase ridership despite a difficult operating environment.

During 2016, our passenger volume increased to 56.59 million, and we provided a total of 51,106 train services, up by 574 compared with 50,532 train services in 2015. Daily northbound and southbound train services reached a maximum of 158, or 197 during the holiday season. Our loading factor was 63.52%, up by 3.87 percentage points compared to 59.65% in 2015. The total passenger-kilometers reached 10,488 million in 2016, up by 8.63% compared to the year before. The average daily passenger volume was at its lowest in September at 147,400 and at its highest in February at 166,900. Even with this increase in volume, we achieved excellent on-time performance with 99.43% punctuality and 100.00% reliability, excluding delays due to force majeure events.

We are proud of our zero accident record over the past year – no accidents or injuries to passengers or the public on railway

premises were caused by train service operations or malfunctions of railway equipment.

In 2016, we continued to offer Early Bird ticketing, discounts for college students, enhanced business class offerings and vacation packages and deals under our T Holiday Program in order to promote train travel and attract new passengers. We worked to improve the way train tickets are purchased, including at convenience stores, via smartphone, and using a contactless EasyCard. We also improved accessibility to our HSR stations by providing free shuttle bus services to and from downtown areas.

As to our financial performance, we generated NT\$40.61 billion in revenue. Profit before tax and net profit was at NT\$5 billion and NT\$4.15 billion, respectively.

## Research & Development

During 2016, we continued to enhance our maintenance capabilities and reduce the cost and risk of loss resulting from the delayed or failed delivery of spare parts. To meet these objectives, we secured local suppliers for spare parts and improved our maintenance facilities, in particular those for the repair of electronic equipment. Through extensive research, we developed solutions for maintaining and managing critical track and signaling assets.

## Looking Ahead

### (1) Management objective

The high-speed rail has become the most important means of travel along Taiwan's western corridor, serving as a catalyst for growth in the regional economies and enhancing the lives of those we serve.

In the year ahead, we plan to bring to passengers new service offerings as well as enhanced safety, reliability and comfort. We also will grow our affiliated businesses in order to drive revenue and profit growth. As part of our commitment to supporting local development, we will continue giving back to the communities in which we work and serve.

### (2) Growth target

We will continue to develop innovative services that meet customer needs and explore new opportunities for growth. We have set an annual ridership target of 57.8 million for 2017.

### (3) Main initiatives

Since the commencement of our operation, we have investigated all aspects of passenger behaviors and researched their needs and satisfaction levels. We have also tailored our services to



CEO

A handwritten signature in black ink that reads "James J. Wang". The signature is stylized and fluid.

anticipate and meet passenger expectations in order to remain competitive, gain market share and increase ridership. In the year ahead, we will focus on seven major initiatives. They include:

- ensuring safe and stable transport
- planning new products and services
- broadening the breadth and depth of services to increase passenger revenues
- expanding cooperation with partners beyond the transportation industry
- improving the quality of service and enabling the sharing of information and knowledge through one common platform across the organization
- accelerating the development of affiliated businesses
- reiterating our vision of a smart, sustainable and competitive railway system in the spirit of four Ts – Transportation, Technology, Taiwan and Touch

THSRC Annual Report 2016

# Overview

Travel Safe. Travel Fast. Travel Right.







# Company Profile

## Business scope

THSRC's business scope covers the operation of the high-speed rail and the affiliated businesses.

### A. High-speed rail service

THSRC provides high-speed rail services along Taiwan's western corridor via 12 stations: Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan and Zuoying. A total of 51,106 train services were delivered in 2016 with maximum traffic volume reaching as many as 197 daily services on one of the consecutive holidays. Offering speed, convenience and dependability, THSRC has become the transport of choice for residents and travelers alike.

### B. Affiliated businesses

To serve the needs of the traveling public, at high-speed rail stations, we provide various commercial outlets that supply goods and services, including food, beverages, newspapers and other reading materials, souvenirs, car rental and travel services, and car parking facilities.

Advertising, both in stations and on board trains, makes a significant contribution to revenues, offering passengers within the rail system a unique blend of distinctive artwork and information.

All these commercial outlets and facilities are designed to add value to passengers' high-speed rail experience and



demonstrate THSRC's commitment to providing high-quality services in its stations, which play an important role in the communities served by the high-speed rail network.

**Business strategy and vision**

THSRC not only identifies itself as a major participant in Taiwan's transport industry, but also plays a significant role in supporting economic activities in areas served by high-speed rail.

THSRC enhances mobility by improving access to modes of transportation and works to identify and meet the needs of those traveling along Taiwan's western corridor. THSRC continually works to improve the quality and standard of its services by ensuring that its stations are well connected and accessible via the high-speed rail network and through connections with other transport modes.

Five core values – Discipline, Integrity, Efficiency, Innovation and Sensibility – form the basis of THSRC's objective of establishing and developing long-term partnerships with those choosing to travel by high-speed rail. In addition to these five core values, four attributes characterize THSRC's rail service: Real, Progressive, Passionate and Premium. THSRC's corporate culture, founded on these core values and attributes, can best be exemplified by the guiding principle of "Go Extra Mile," which aptly describes the company's commitment to meeting passengers' needs and improving performance in all facets of its organization.

Looking ahead, THSRC will continue to adhere to its core values and attributes to develop and improve its high-speed rail service to respond to the demands and needs of the industries, businesses, and residents in the towns and cities it serves. In addition, THSRC will continue to play a key role in Taiwan's transport network and take steps to seamlessly integrate its stations with the surrounding neighborhoods. THSRC remains committed to pursuing these strategic initiatives in order to deliver value to its passengers, employees and shareholders.



## Our Core Values

### Discipline

Discipline defines our ways of carrying out tasks. We demand the highest standards of ourselves. This is the foundation of safety, punctuality and service reliability.

### Integrity

Carrying out our duties in accordance with all relevant codes and standards, we are dedicated, in hearts and minds, to meeting the highest standards of probity in order to deserve the trust of shareholders and customers.

### Efficiency

We seek to carry out each task efficiently through regular review and assessment of the most effective approach to our daily activities.

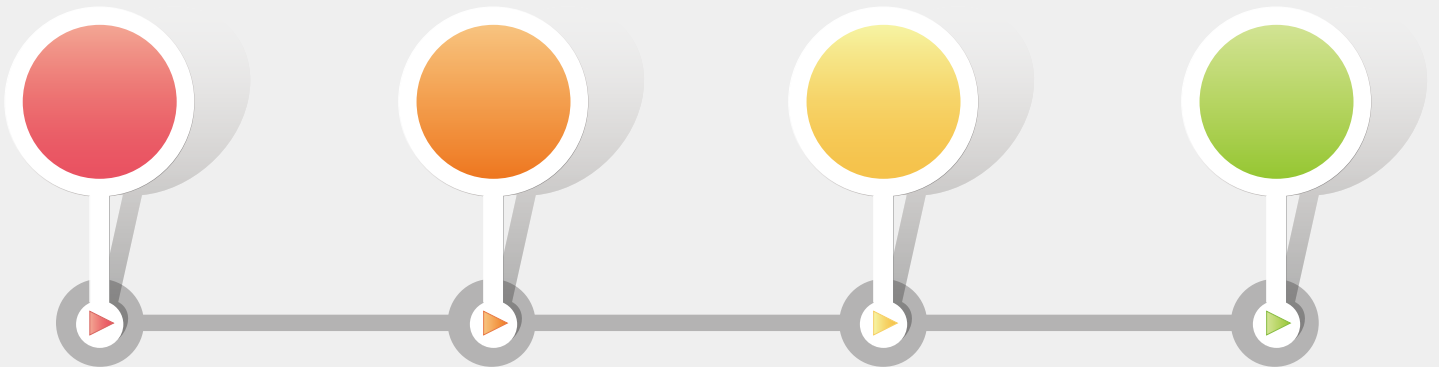
### Innovation

Constantly exploring innovative methods and ways to improve our services, we aim to achieve continuous improvement in all areas of our business.

### Sensibility

In our quest for service excellence, we strive to understand our customers' needs through research and systematic assessments and develop standards and facilities accordingly.

## Our Attributes



### Real

We encourage all employees to be realistic in their approach to life, identifying that which is substantive when addressing the facts in each encounter with problems or adverse circumstances.

### Progressive

By taking a measured and progressive approach to achieving improvement in all our activities, we aim to meet customers' needs and provide a railway of world-class standards.

### Passionate

We are driven by a passionate desire to succeed in our goals of making each passenger experience memorable and encouraging public use of high-speed rail.

### Premium

In pursuing the highest standards of quality in all our activities and provision of rail services, we are determined to demonstrate true "Value for Money" for each journey by high-speed rail.

# Company History

## Development Stage

November 1996	The Taiwan High Speed Rail Consortium is established.
September 1997	The Ministry of Transportation and Communications (the MOTC) awards the Taiwan High Speed Rail Consortium with a concession to build and operate THSR.
May 1998	THSRC is incorporated.
July 1998	THSRC and the MOTC sign the Taiwan North-South High Speed Rail Construction and Operation Agreement, the Taiwan North-South High Speed Rail Station Zone Development Agreement, the Memorandum on Government Commitment Matters and the Memorandum on Contract Execution.
February 2000	THSRC enters into a syndicated loan agreement with 25 banks, under which THSRC obtains credit facilities of NT\$323.3 billion. THSRC, the syndicate and the MOTC sign a tripartite agreement at the same time.

## Construction Stage

March 2000	THSRC begins the construction of the high-speed rail project.
December 2000	THSRC enters into the Core System Supply Contract and the Core System Integration and Installation Contract with Taiwan Shinkansen Corporation and Taiwan Shinkansen International Engineering Corporation.
April 2001	The Securities and Futures Bureau approves THSRC's re-registration as a public company.
September 2003	THSRC applies to the GreTai Securities Market for permission to trade on the Emerging Stock Market.
January 2004	A ceremony that unveils the THSR 700T trainset is held in Kawasaki's manufacturing facilities in Kobe, Japan.
October 2005	A train to be delivered to THSRC reaches a top speed of 315 km/hr on a test run.
July 2006	THSRC enters into a second syndicated loan agreement with seven banks, under which THSRC secures credit facilities of NT\$40.7 billion.
October 2006	THSRC launches a new corporate identity system.

## Operation Stage

January 2007	THSRC starts operating the rail line between Banqiao and Zuoying with 38 train services a day.
May 2007	Lehman Brothers Asia and the parties to the second syndicated loan agreement agree to raise credit facilities to NT\$65.5 billion.
September 2007	The number of train services run by THSRC increases to 91 a day. THSRC launches an around-the-clock online reservation system. THSRC reaches a major ridership milestone of 10 million passengers since its inception.
November 2007	The number of train services run by THSRC increases to 113 a day. THSRC starts offering non-reserved seats on its trains.
November 2008	THSRC introduces HSR Dual Color Fare. The Orange Fare for a standard reserved seat is 35% off the regular fare and the Blue Fare is 15% off the regular fare.
December 2008	The number of train services run by THSRC increases to a range from 130 to 142 services a day depending on peak or off-peak days of the week.
January 2009	In its second year of operation, THSRC sees ridership reach 46.5 million passengers.
January 2010	THSRC enters into yet another syndicated loan agreement with eight banks, under which THSRC secures NT\$382 billion in credit facilities for refinancing its existing two syndicated loans. THSRC, the syndicate and the MOTC also renew their tripartite agreement.
February 2010	THSRC allows passengers to book, pay for and collect train tickets at partnering convenience stores of FamilyMart. With this new service, passengers can pass through ticket barriers by scanning the QR codes printed on their tickets.
April 2010	The number of convenience stores where passengers can book, pay for and collect train tickets increases to more than 7,000 after THSRC partners with President Chain Store.
May 2010	THSRC draws down the facilities designated as tranches A, B and C of its new loan of NT\$382 billion to repay the outstanding balance of its first syndicated loan of NT\$323.3 billion and tranches A, B and C of its second loan.

<b>August 2010</b>	The Taiwan North-South High Speed Rail Project is honored with the Outstanding Civil Engineering Project Award by the Asian Civil Engineering Coordination Council. THSRC carries its 100 millionth passenger.
<b>October 2010</b>	The number of train services run by THSRC increases to 915 a week. THSRC also improves its interactive voice response system to provide around-the-clock information to callers and allows travelers to receive notification about reservations via text message.
<b>January 2011</b>	THSRC introduces early-bird fares to encourage travelers to start purchasing tickets in advance.
<b>February 2011</b>	THSRC tops an online poll conducted by the Public Construction Commission, Executive Yuan to select Taiwan's most important 100 public works.
<b>March 2011</b>	THSRC claims a top 10 spot in an online poll conducted by the Public Construction Commission, Executive Yuan to select Taiwan's most important 100 public works. The poll is part of a government campaign to mark the launch of an online exhibition of past and current infrastructure projects.
<b>August 2011</b>	THSRC wins a total of six awards in the MOTC's 12th Golden Road Award including: five first place awards in the categories of maintenance of vehicle, maintenance of signal communications equipment, maintenance of route network, maintenance of depot electrical and mechanical equipment and maintenance of station electrical and mechanical equipment; and a second place award in the category of maintenance of yard environment.
<b>October 2011</b>	THSRC receives a Distinguished Award in the 20th R.O.C. Enterprise Environmental Protection Award hosted by the Environmental Protection Administration. THSRC launches T Express, a new ticketing system that enables customers to book and purchase tickets using their smartphones. Tickets are displayed as QR codes on smartphone screens, allowing passengers to pass through ticket barriers.
<b>November 2011</b>	THSRC is recognized for achievement in entrepreneurship by the GreTai Securities Market in the 1st Golden Laurel Award.
<b>April 2012</b>	THSRC and the International Union of Railways (UIC) hold the 2nd UIC World High Speed Interaction Workshop, offering a global platform for the exchange between experts and institutions in the area of high-speed rail system maintenance.

<b>July 2012</b>	THSRC is selected as overall winner across all categories in the 2012 Golden Service Award hosted by Commonwealth Magazine. THSRC launches the Fun Reading for Family initiative, allowing passengers to borrow and return children's books at different HSR stations.
<b>November 2012</b>	THSRC participates in the 14th UIC Regional Assembly for Asia and Oceania and the 11th Asian Management Committee (AMC) in Moscow, and is recognized as a member of the AMC effective from 2013. Vice President of the Republic of China (Taiwan) Wu Den-yih presents a Distinguished Award to THSRC in the 21st Annual Enterprise Environmental Protection Award. Lloyd's Register Quality Assurance issues an ISO 9001 compliance certificate to THSRC's rail operation, maintenance and passenger service. All audited items conform to the standards of ISO 9001 Quality Management System. National Geographic editors select one of THSRC's T Holiday packages as Best Winter Trip for 2013, citing ease of travel with high-speed rail. They note that taking the high speed train through Taiwan's western corridor allows travelers to quickly move between cities and counties while providing a gateway to other attractions and scenic spots.
<b>December 2012</b>	THSRC carries its 200 millionth passenger.
<b>January 2013</b>	THSRC holds groundbreaking ceremonies for new stations planned in Yunlin, Miaoli and Changhua.
<b>July 2013</b>	To celebrate the arrival of its 31st trainset, THSRC gives the train a fun, energetic look by painting it in cartoon characters. A group of children supported by Good Shepherd Social Welfare Services and Children Are Us Foundation are treated to free rides on this new train's first day of service.
<b>August 2013</b>	THSRC wins six first place awards in the MOTC's 14th Golden Road Award in the categories of maintenance of vehicle, maintenance of signal communications equipment, maintenance of route network, maintenance of depot electrical and mechanical equipment, maintenance of station electrical and mechanical equipment and maintenance of yard environment.
<b>October 2013</b>	THSRC raises passenger fares using a formula approved by the MOTC.

<b>November 2013</b>	THSRC receives a Distinguished Award in the 22nd R.O.C. Enterprise Environmental Protection Award hosted by the Environmental Protection Administration.	<b>January 2015</b>	THSRC receives a carbon footprint certificate for high-speed rail service from the Environmental Protection Administration, Executive Yuan.
<b>December 2013</b>	THSRC holds beam-raising ceremonies for new stations planned in Yunlin, Miaoli and Changhua.  THSRC and JR Kyushu Railway Company exchange work practices of train attendants so as to expand understanding of the different operating practices and cultures within Taiwanese and Japanese high-speed rail operators.	<b>March 2015</b>	THSRC allows passengers who have booked and bought train tickets online via the IRS, T Express and IVR to collect proofs for missing pre-booked trains using their reservation numbers at convenience stores in the event of them missing the trains they wanted to travel or needing to claim reimbursement of travel expenses.  Deliver Love with HSR to Children, a tuition assistance program held jointly with Child Welfare League Foundation, raises over NT\$11 million for 2015, benefiting more than 1,000 school children from disadvantaged backgrounds. Since 2010, THSRC has raised close to NT\$88 million to help more than 17,500 students stay in school.
<b>January 2014</b>	The third of four new 700T trainsets purchased from Japan arrives in Kaohsiung for remodeling, testing and acceptance inspection.	<b>April 2014</b>	THSRC tops the list in the Ground Transportation category in Commonwealth Magazine's Golden Service Award.
<b>May 2014</b>	THSRC and the UIC jointly organize a series of conferences that include the 6th UIC Asia-Pacific Technical Directors Meeting, the 17th Asia-Pacific Regional Assembly and the 1st UIC Conference on Natural Disaster Management of Railway Systems at Le Meridien Taipei.  THSRC is honored in the 2013 Occupational Safety Award and receives an Excellence Award for Self Inspection by the Labor Inspection Office of Taipei City Government.	<b>July 2015</b>	THSRC and the MOTC enter into two agreements including: the Fourth Supplement to Taiwan North-South High Speed Rail Construction and Operation Agreement; and the Termination of Taiwan North-South High Speed Rail Station Zone Development Agreement.  THSRC launches a new multi-ride ticket. After reporting a lost or stolen card, the cardholder may choose either to receive a refund or to have a new card issued.
<b>June 2014</b>	THSRC ranks in third place across all categories and tops the Transportation category for a fourth straight year in the 2014 Digital Service Benchmark Enterprise Award hosted by Business Next Magazine.	<b>August 2015</b>	The TR34 trainset, the newest addition to THSRC's high-speed train fleet, arrives in Kaohsiung for remodeling, testing and acceptance inspection. This train will begin service when three new train stations open for traffic.
<b>September 2014</b>	THSRC wins a total of six awards in the MOTC's 15th Golden Road Award including: five first place awards in the categories of maintenance of vehicle, maintenance of signal communications equipment, maintenance of route network, maintenance of depot electrical and mechanical equipment and maintenance of station electrical and mechanical equipment; and a second place award in the category maintenance of yard environment.	<b>September 2015</b>	THSRC unveils a Muslim prayer room in Taichung HSR Station in order to better cater to Muslim passengers' needs.
<b>October 2014</b>	THSRC's emergency response and management system is selected as recipient of the 2014 ITS Application Award by the Intelligent Transportation Society of Taiwan.	<b>October 2015</b>	Three new HSR stations in Miaoli, Changhua and Yunlin pass final inspections and obtain operating permits from the MOTC.  THSRC's QR code e-ticket solution receives the 2015 ITS Application Award from the Intelligent Transportation Society of Taiwan.
		<b>November 2015</b>	A train carrying the motif of underglaze blue dragon is launched to mark the start of shuttle bus service connecting Chiayi HSR Station and the Southern Branch of the National Palace Museum.

**December 2015** Three new HSR stations in Miaoli, Changhua and Yunlin open for traffic. THSRC also announces schedule adjustments in the same month.  
Train fares are rolled back to the level they were before a hike was implemented on October 8, 2013.

**January 2016** A ceremony is held to celebrate the arrival of a test train coming to the new Nangang HSR Station and the completion of system testing.

**February 2016** THSRC experiences record levels of station and passenger traffic on the 228 Peace Memorial Day weekend. Taoyuan HSR Station handles a record 146,000 travelers and passenger volume around the island hits an all-time high of over 267,000 on day two of the three-day long weekend.

**March 2016** As part of the Deliver Love with HSR to Children Program and in partnership with Eden Social Welfare Foundation, THSRC has raised over NT\$12 million to support more than 600 children with developmental disabilities. Since its launch in 2010, the program has received donations of more than NT\$100 million, helping more than 18,000 students pay tuition fees and stay in school.  
Shareholders, at an extraordinary general meeting, approve plans formulated by the THSRC Board for an initial public offering (IPO). THSRC enters into a Memorandum of Understanding with Central Weather Bureau, MOTC on disaster preparedness collaboration. The bureau will provide THSRC with weather information to ensure timely formulation of emergency response plans in the event of typhoon. THSRC also will receive alerts from the bureau's earthquake early warning system that detects a quake before it hits so that a high-speed train could be slowed down or stopped for safety after it receives an alert 10 seconds before an earthquake hits. THSRC also plans to set up electronic display boards showing the latest weather information within train stations in order to improve the level of passenger service.

**April 2016** Changhua HSR Station is named a Popular Choice Winner by the Architizer A+ Awards in the Bus & Train Station category.  
THSRC wins a Gold Award in the Transportation category in CommonWealth Magazine's 2016 Golden Service Award.

**May 2016** THSRC and the International High-Speed Railway Association (IHRA) hold the 5th annual meeting in Taipei.



**July 2016** A new HSR station opens in Nangang District of Taipei City.  
Passengers booking their tickets via THSRC's online ticketing system can choose their preferred seat, be it window or aisle.

**September 2016** THSRC adds a new feature to its T-Shop app, allowing passengers to shop by scanning the QR codes printed in THSRC's on-board magazine.

**October 2016** THSRC is presented with ITS World Congress Hall of Fame Award at the 2016 ITS World Congress in Melbourne, Australia.  
THSRC becomes the first listed rail operator in Taiwan with its stock market debut on the Taiwan Stock Exchange.

**November 2016** THSRC's Main Workshop in Yanchao is recognized for outstanding water conservation efforts by the Water Resources Agency, Ministry of Economic Affairs.  
THSRC is honored with ITS Application Award in the Maintenance Access Scheduling and Depot Management System categories at the 2016 Annual Meeting and the Intelligent Transport Systems Conference held by the Intelligent Transportation Society of Taiwan.  
THSRC receives Silver Award for its delivery of three new station projects from the 2016 Enterprise Project Management Benchmarking Awards.

**December 2016** THSRC is recognized for its workplace wellness program that helps employees lower their cancer risk by the Department of Health, Taipei City Government.  
THSRC carries its 400 millionth passenger.

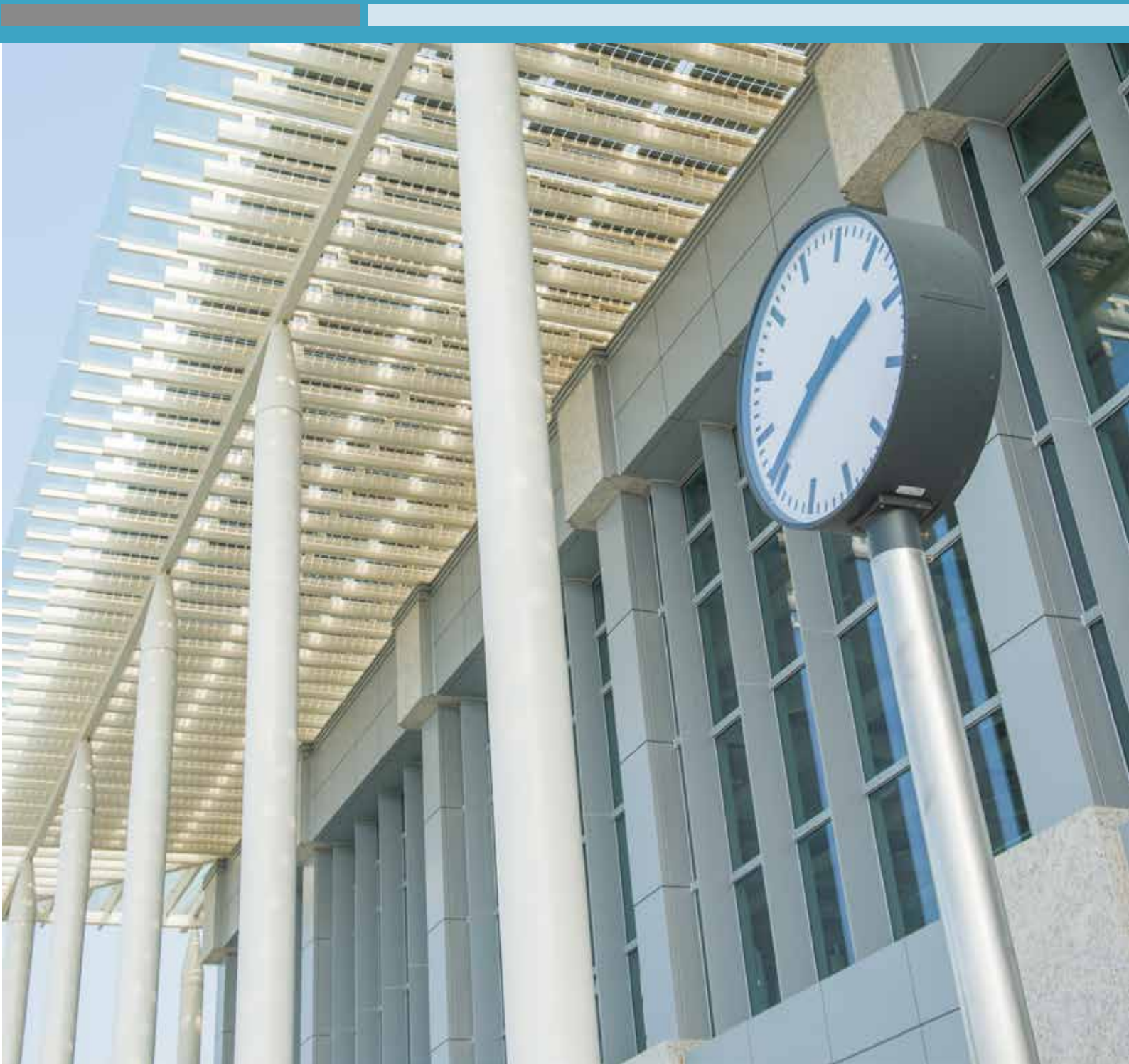
**January 2017** The THSR Museum is inaugurated in the Operation Management Center in Taoyuan City.  
THSRC holds a signing ceremony marking the issuance of NT\$20-billion two-year commercial paper managed by Mega Bills Finance Co. and nine other financial institutions.



THSRC Annual Report 2016

# Our Business

Anticipate Emerging Trends and Breakthroughs



# Five Years in Review



This section is a review of THSRC's operations and performance for the five years ending December 31, 2016.

- THSRC provided a total of 249,646 train services and achieved an average 99.97% reliability. The reliability rate is derived by dividing the total number of operating trains by the total number of scheduled trains over a period of one year.
- THSRC achieved 47.1 billion passenger-kilometers and an average loading factor of 58.52%.
- THSRC achieved 80.6 billion seat-kilometers and an average 99.50% punctuality. The punctuality rate is derived by dividing the total number of trains departing within five minutes of scheduled time by the total number of operating trains.

## Average Service Reliability, 2012 – 2016

# 99.97%

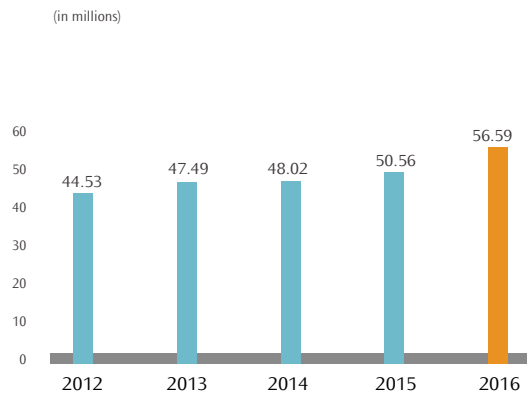
## Average Punctuality, 2012 – 2016

# 99.50%

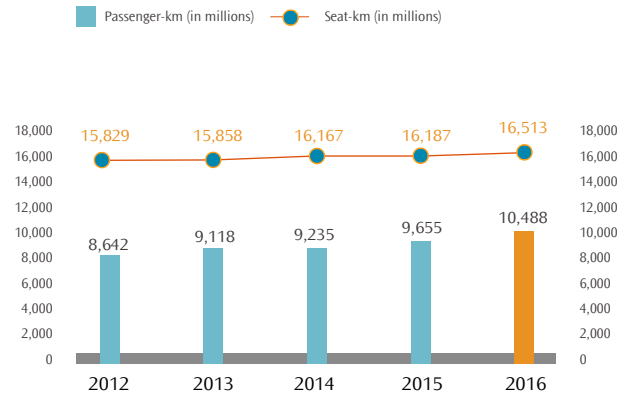
## Key Operating Statistics, 2012 – 2016

Key Performance Indicator	Total ridership (in millions)	Train services per year	Loading factor (passenger-km/seat-km)	Punctuality (as % of trains departing within five minutes of scheduled time)	Passenger-kilometers (in millions)	Seat-kilometers (in millions)
2012	44.53	48,682	54.59%	99.40%	8,642	15,829
2013	47.49	48,859	57.50%	99.38%	9,118	15,858
2014	48.02	50,467	57.12%	99.61%	9,235	16,167
2015	50.56	50,532	59.65%	99.66%	9,655	16,187
2016	56.59	51,106	63.52%	99.43%	10,488	16,513

## Total Ridership, 2012–2016

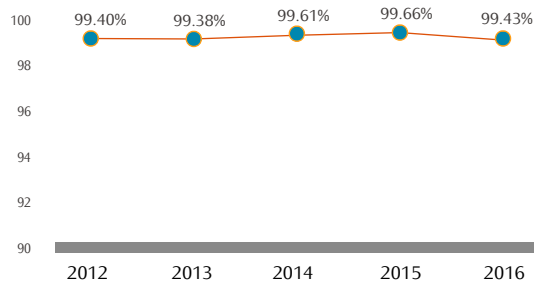


## Passenger-Kilometers and Seat-Kilometers, 2012 – 2016



## Punctuality, 2012 – 2016

(as % of trains departing within five minutes of scheduled time)



## Measures of Transport Performance, 2015-2016

	2015	2016	Change
1. Number of services	50,532	51,106	1.1%
2. Number of passengers (in millions)	50.56	56.59	11.9%
3. Seat-kilometers (in millions)	16,187	16,513	2.0%
4. Passenger-kilometers (in millions)	9,655	10,488	8.6%
5. Punctuality (as % of trains departing within five minutes of scheduled time)	99.66%	99.43%	-0.2%
6. Loading factor (passenger-km/seat-km)	59.65%	63.52%	3.87%



# Results of Operations

## 2016 highlights

In 2016, THSRC carried over 56 million passengers, an increase of 11.9% over the prior year.

- Total passenger-kilometers were 10,488 million.
- Total seat-kilometers were 16,513 million.
- The overall service reliability (excluding force majeure events) and punctuality was 99.06% and 99.43%, respectively.

## Service Reliability in 2016

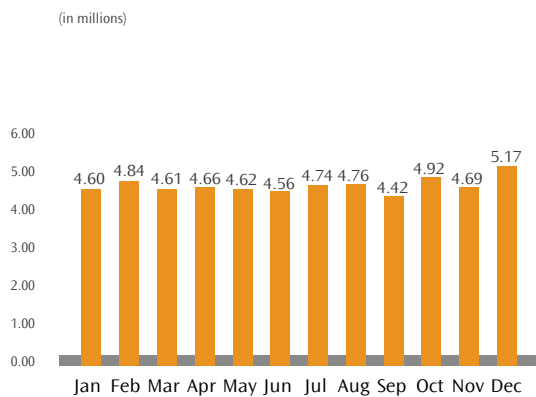
# 99.06%

## Punctuality in 2016

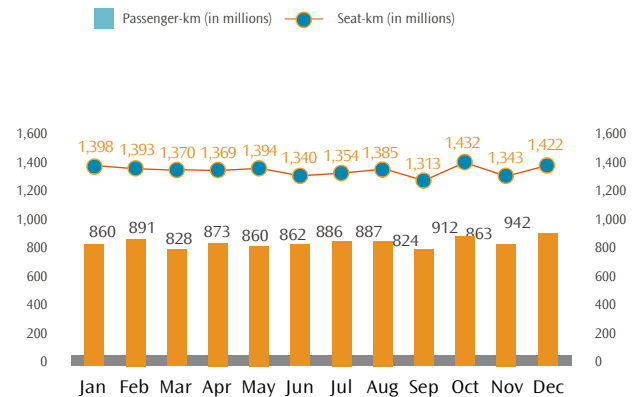
# 99.43%

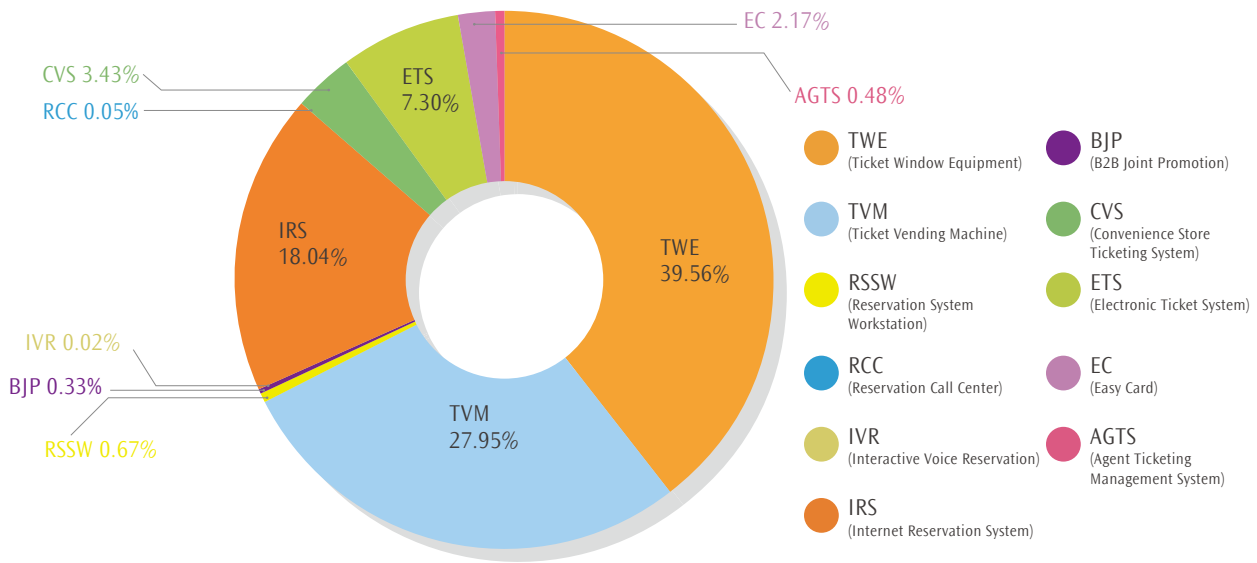


## Ridership in 2016



## Passenger-Kilometers and Seat-Kilometers in 2016





### Multiple booking and ticketing options

We offer a number of channels to make booking and paying for tickets easy and convenient. Passengers can choose to purchase tickets at ticket counters, vending machines and convenience stores, or via an internet reservation system, a smartphone booking system, an interactive voice reservation system, a reservation call center, a group reservation system, a joint ticketing program with airlines and an agent ticketing management system. Passengers also can get through ticket barriers using an Easy Card, a contactless smartcard.



### Station services and facilities

At each of our 12 modern, artfully designed stations, we provide a wide range of services and amenities to ensure ease of travel. These include ticket counters and automated ticket vending machines, passenger information systems, information desks, disabled facilities, nursery rooms, drinking fountains, convenience stores, restaurants and Wi-Fi access in waiting areas.

To provide quick and easy access to and from our 12 stations, each station is equipped with parking lots, car rental services, park-and-ride drop-off sites, taxi stands and interchanges with metro, bus and traditional railway services. In addition, we collaborate with express bus companies to run free shuttle bus services. In 2016, we offered 420,503 free shuttle bus trips to 5,110,200 passengers. Below is a summary of bus routes operated in 2016:

### Free Shuttle Bus Routes

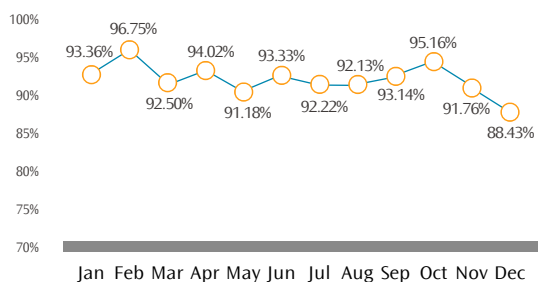
HSR station	Number of bus routes
Taoyuan	2
Hsinchu	1
Miaoli	1
Taichung	3
Changhua	1
Yunlin	1
Chiayi	1
Tainan	2

## Maintenance

In order to provide passengers a safe and comfortable experience, we ensure that all repair and maintenance works are in compliance with a comprehensive Rolling Stock Maintenance Plan. A summary of the bogie inspections conducted in 2016 is as follows: the second bogie inspection (BI-2) for 2 trainsets (a total of 48 bogies) at a running distance of 1.2 million kilometers; the eighth bogie inspection (BI-8) for 16 trainsets (a total of 384 bogies) at a running distance of 4.8 million kilometers; and the ninth bogie inspection (BI-9) for 10 trainsets (a total of 240 bogies) at a running distance of 5.4 million kilometers.

We started the fourth general inspection (GI-4) in October 2014 after the cumulative running distance reached 4.8 million kilometers. Inspections of 13 trainsets were completed in 2016. Our disciplined approach to maintenance ensures that rolling stock is kept in a reliable and safe operating condition.

## Trainset Availability in 2016



The maintenance cycle for rolling stock is as follows:

1. Daily inspection (level 1 inspection): every two days
2. Monthly inspection (level 2 inspection): every 30 days or every 30,000 km
3. Bogie inspection (level 3 inspection): every 18 months or every 600,000 km
4. General inspection (level 4 inspection): every 36 months or every 1,200,000 km

Note: The maintenance frequency is determined by which condition occurs first.



The preventive maintenance works performed in 2016 are as follows:

System	Preventive maintenance (arranged by the order of the work when performed)		
	Planned	Actual	Percent completed
Building Service System	55,562	55,562	100%
Rolling Stock	8,853	8,853	100%
Signaling System	10,504	10,504	100%
Communication System	5,485	5,485	100%
Operation Control Center	6,273	6,273	100%
Power Supply System	2,490	2,490	100%
OCS System	1,708	1,708	100%
Track System	1,519	1,519	100%
Total	92,394	92,394	100%

In 2016, we were granted renewal of ISO 9001 certification after completing a surveillance audit with LRQA from August 3 to September 1.

## Training

We have put in place various training initiatives to ensure that our operations and maintenance staff have the proper competencies and knowledge. The participation of first-time or recurrent training courses in 2016 is as follows: 6,061 attendances for employees and external partners who received general training on High Speed Rail Operations Regulations (HSROR); 28,218 attendances for control, train and station staff; and 9,846 attendances for staff responsible for the maintenance of rolling stock, signaling and communications, power, overhead catenary systems (OCS) and tracks.

## Operational safety

The primary objective of THSRC is to build, manage and maintain rail operations that meet international standards for safety and reliability. To achieve this objective, a structured, risk-focused safety management system has been established in accordance with local and international best practices and standards. We regularly review the system in order to maintain an effective framework for implementing safety policy and improving safety performance. In addition, we require all our staff to be trained in and knowledgeable of the Safety Rules and Procedures and to exercise good judgment and discretion in applying safe work practices to daily activities.

In 2016, we carried out 79 emergency drills to test our skill level at handling the various scenarios presented in the drills. Our goals are to develop a high level of preparedness and minimize impact on our operations in the event of unforeseen circumstances such as rail accidents or large-scale natural disasters.

To date, we have kept an excellent safety record with no deaths or injuries of passengers on board caused by train accidents.

## Our service commitment

We strive to provide passengers with best-in-class experience with high-speed rail and exemplary customer service. We focus on:

### (1) Putting customers first

To fully meet customers' demands and expectations, we review their comments and modify our service policy as appropriate.

### (2) Creating and maintaining a service-oriented culture

We motivate our employees to develop and sustain a passion for service. We make continuous progress on quality and efficiency by providing opportunities for employees to expand their knowledge and skills and engaging them in positive service-oriented behaviors.

## Capability and skill development

We have made it a top priority to deliver safe performance by strengthening our in-house maintenance capabilities and acquiring new maintenance technologies while reducing maintenance costs. The primary goals we set for the maintenance of rolling stock, signaling and communication systems and turnout systems are:

- (1) Enhancement of the alternative solution development for wayside control bay of turnout;
- (2) Cooperation with National Chung-Shan Institute of Science and Technology, National Kaohsiung First University of Science and Technology and the Industrial Technology Research Institute to perform technical studies to find better maintenance solutions for rolling stock in various areas, including the enhancement of electromagnetic compatibility, the reduction of electromagnetic interference and the development of computer-controlled press machines.



# The Way Ahead

Since our inception, we have operated under the guidance of our five core values: Discipline, Integrity, Efficiency, Innovation and Sensibility. Going forward, the following strategic objectives will define our future and ensure our success:

## Accelerate and sustain growth

Despite a challenging operating environment in the years following our launch of rail service, we have still managed to grow passenger volume from a daily average of 43,000 in 2007 to more than 154,600 in 2016. Our pursuit of growth, however, has never compromised our commitment to quality service and safety. Through meticulous planning, we will continue to increase ride comfort of passengers by providing easy and speedy access to railway stations, on-board services, ticket purchases and customer support. We will ensure that at all times we act in the best interest of passengers and staff members.

## Strengthen financial position

We continue to work with the government over financing arrangements to improve our capital and liquidity position. With support from the government, we are confident that our efforts to achieve financial performance objectives will be successful.

## Expand network coverage

Developing new points of access remains one of our top priorities. With the launch of a new station in Nangang District of Taipei City in 2016, we further extend the reach and capacity of our rail network. We are planning to procure new trainsets to meet increased passenger traffic and to improve the frequency of services.

We will continue to transform the areas within and around railway stations into hubs of commercial activity in order to create new streams of revenue. In addition, we will cultivate long-term relationships with our global industry peers, whose strength in railway operation, maintenance and ticketing developments will inspire and catalyze our own continued development.

A key mission for us is to support Taiwan's economic progress. The high-speed railway has closed distances between cities, bringing comfort and speed to tens of millions of travelers a year while making possible new markets and expanding trade. The spirit of "Go Extra Mile" will guide us as we make progress on all of our highest priorities, including enhancing operational efficiency, upgrading technology and infrastructure and improving financial performance.





# Corporate Governance

Promote a Culture of Good Governance



# Overview

## (1) Board and Committees

### Board of Directors

The Board has the overall responsibility for the Company's performance and its main duties include regularly reviewing the Company's strategy, capital expenditure plans, internal restructuring and human resources policy. It also appoints, dismisses and supervises the Company's senior management team, chief auditor and chief accountant. Certain responsibilities are delegated to six Committees, which assist the Board in carrying out its duties. Elected on June 30, 2015 for a term of three years, the current Board consists of the Chairman, eleven Directors and three Independent Directors. Fifteen meetings of the Board were held during 2016. (One of the Independent Directors resigned in December 2016.)

### Corporate Governance & Nomination Committee

The Corporate Governance & Nomination Committee has primary responsibility for nominating Directors, including Independent Directors, for election at the shareholders' meetings; reviewing the Company's compliance with corporate governance regulations, guidelines and principles, and recommending changes, as appropriate, for approval by the Board. The Committee consists of five to seven members and its meetings shall be convened by an Independent Director.

### Audit Committee

The Audit Committee assists the Board in fulfilling its responsibilities for overseeing the Company's financial reporting processes, the audit of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications and independence of the Company's Chief Auditor, the performance of THSRC's internal control function, any conflicts of interest from affiliated parties and the risk management function. The Committee consists of three Independent Directors.

The Audit Committee was established on March 18, 2016 in lieu of Board Supervisors.

### Remuneration Committee

The Remuneration Committee assists the Board in fulfilling

its responsibilities for setting the compensation policies, systems and standards, and evaluating the performance and the compensation of THSRC's Board of Directors and executives. The Committee consists of three to five members and its meetings shall be convened by an Independent Director.

### Finance Committee

The Finance Committee assists the Board in fulfilling its responsibilities for planning and reviewing the Company's capital and debt structure, financial and investment policies and financial risk management. The Committee consists of five to nine members and an Independent Director is responsible for convening committee meetings.

### Procurement Committee

The Procurement Committee assists the Board in fulfilling its responsibilities for overseeing the procurement processes and practices for major projects and construction awards. The Committee consists of five to seven members.

### Special Committee

The Special Committee assists the Board in fulfilling its responsibilities in advising and overseeing the Company's practices relating to significant legal and contract disputes or corporate actions. The Committee consists of five to seven members and an Independent Director is responsible for convening committee meetings.

## (2) Corporate governance guidelines

Approved and ratified by shareholders, THSRC's Guidelines for Corporate Governance is based upon OECD Principles of Corporate Governance, S&P Corporate Governance Scores and Evaluations, NYSE Listed Company Manual Sec303A, Infosys Corporate Governance Report, corporate governance guidelines for international and/or domestic companies, corporate governance-related laws and regulations in Taiwan, and rules published by the Taiwan Stock Exchange. The main objectives for THSRC are to establish the best corporate governance system, to protect shareholders' rights and interests, to strengthen the structure of the Board of directors and to fulfill social obligations.

In addition to Guidelines for Corporate Governance, THSRC has drawn up a number of governance documents and committee charters, including Rules for Proceedings of Board Meetings, Charter of the Corporate Governance & Nomination Committee, Charter of the Audit Committee, Charter of the Remuneration Committee, Charter of the Procurement Committee, Information Disclosure Rules and Code of Conduct & Ethics, among others. These documents provide the basis for decision-making and guide THSRC's corporate governance actions.

The documents that describe THSRC's corporate governance framework are prepared in Chinese language and available on the About Us section of company website at <http://www.thsrc.com.tw>

### (3) Additional important disclosures

In compliance with Guidelines for Corporate Governance, which was approved at the shareholders' meeting on November 1, 2004, THSRC had taken liability insurance to indemnify its directors, supervisors and executive managers against liability while acting for THSRC, and the coverage was US\$10 million per year until 2010. Upon the renewal of the liability insurance on November 1, 2010, the annual coverage was raised to US\$20 million. On November 1, 2014, the annual coverage was adjusted to NT\$600 million. In the subsequent year, upon the renewal of the insurance contract, the annual coverage was increased to NT\$900 million.



### (4) Board of Directors

#### Chiang Yao-Chung

Chairman of the Board (Representative, China Aviation Development Foundation)

#### Other position held:

- Independent Director, Radiant Opto-Electronics Corporation

#### Previous positions:

- Chairman, Kaohsiung Rapid Transit Corporation
- Chairman, China Steel Corporation
- Chairman, China Airlines Ltd.
- Commissioner, Department of Rapid Transit Systems, Taipei City Government

Ph. D. in Engineering Mechanics, University of Wisconsin, Madison

#### Chiang Chin-Shan

Director (Representative, TSRC Corporation)

#### Other positions held:

- Chairman, Metropolis Industry Co., Ltd.
- Chairman, Metropolis Property Management Corporation

#### Previous positions:

- Executive Vice President, China Development Financial Holding Corporation
- Executive Vice President, China Development Industrial Bank Co., Ltd.
- Vice President, Taiwan High Speed Rail Corporation

Master of Public Administration, National Chengchi University

#### Huang Mao-Hsiung

Director (Representative, Teco Electric & Machinery Co., Ltd.)

#### Other positions held:

- Chairman, Century Development Corporation
- Managing Director, Teco Electric & Machinery Co., Ltd.
- Honorary Chairman, Chinese National Association of Industry & Commerce, Taiwan

MBA, The Wharton School, University of Pennsylvania

#### Liu Kuo-Chih

Director (Representative, Taipei Fubon Commercial Bank Co., Ltd.)

#### Other position held:

- Senior Consultant, Fubon Land Development Co., Ltd.

Ph.D. in Physics, Massachusetts Institute of Technology

#### Fong Hsiao-Jung

Director (Representative, Tai Ho Investment Co., Ltd.)

#### Other position held

- Special Assistant to Chairman, Pacific Electric Wire & Cable Co., Ltd.

Bachelor's degree in International Finance, Kent State University

#### Liu Jih-Gang

Director (Representative, China Steel Corporation)

**Other position held:**

- Chairman, China Prosperity Development Corporation

B.A. in Engineering Mechanics, National Taiwan University

#### Ko Lee-Ching

Director (Representative, Evergreen International Corporation)

**Other positions held:**

- Chairman, Evergreen International Corporation
- Director, EVA Airways Corporation
- Supervisor, Evergreen Marine Corp. (Taiwan) Ltd.

#### Kwan Tao-I

Director (Representative, Taiwan Sugar Corporation)

**Other positions held:**

- President, Taiwan Sugar Corporation
- Director, Foundation of Taiwan Sugar Association

M.S. from the Institute of Traffic and Transportation, National Chiao Tung University

#### Tsai Huang-Liang

Director (Representative, China Aviation Development Foundation)

**Other positions held:**

- Chairman, Taiwan Rolling Stock Corporation
- Director, Chung Hwa Railway Industry Development Association

M.S. in Business Administration, University of Wyoming

#### Ho I-Hsi

Director (Representative, National Development Fund, Executive Yuan)

**Other position held:**

- Deputy Comptroller, Department of Accounting, Ministry of Transportation and Communications, R.O.C.

**Previous position:**

- Specialized member of the Ministry of Transportation and Communications, R.O.C.

M.S. in Civil Engineering, Virginia Polytechnic Institute and State University

#### Kao Shien-Quey

Director (Representative, National Development Fund, Executive Yuan)

**Other position held:**

- Deputy Minister, National Development Council

M.S. in Economics, National Taiwan University

#### Ho, Henry Chieh-Teng

Director (Representative, Tung Ho Steel Enterprise Corporation)

**Other position held:**

- Chairman, Tung Ho Steel Enterprise Corporation

B.A. in Economics, Harvard University

#### Lin Chen-Kuo

Independent Director

**Other position held:**

Independent Director, High Tech Computer Corporation

**Previous positions:**

- Chairman, Tunghai University
- Chairman, Taiwan Asset Management Corporation
- Chairman, Taiwan External Trade Development Council
- Minister without Portfolio, Executive Yuan
- Minister, Ministry of Finance, R.O.C.

Research and study in Economics, Oklahoma State University

Research and study in Economics, Harvard University

B.A. in Economics, National Taiwan University

#### Wu Yeong-Chyan

Independent Director

**Other position held:**

- President, Shih Hsin University

**Previous position:**

- Managing Director, Taipei Public Access Channel Association

Ph. D. in Law, University of Washington

## (5) Senior management team

#### James Jeng

Chief Executive Officer

**Previous positions:**

- Chairman, EVA Airways Corporation
- Chairman, UNI Airways Corporation
- Vice Chairman, Italia Marittima S.p.A, a wholly-owned subsidiary of Evergreen Group
- Executive Vice President, Evergreen Marine Corporation

Ph.D. in Transportation Management, National Chiao Tung University

M.S. in Ocean Systems Management, Massachusetts Institute of Technology

M.S. in Transportation Engineering, National Chiao Tung University

B.S. in Naval Architecture and Marine Engineering, National Cheng Kung University

### John Chen

Chief Operation Officer, Railway Operation Division

#### Previous position:

- Director, Muzha Division, Taipei Rapid Transit Corporation

M.S. in Computer Science, Alabama Agricultural and Mechanical University

B.S. in Civil Engineering, National Central University

### Barret Wang

Secretary General, Secretariat Division of Board of Directors

#### Previous position:

- Attorney-at-Law, Chun He Law Firm

Bachelor of Law, National Taiwan University

### Bryan Chou

Vice President, Engineering Technology Division

#### Previous position:

- Assistant Director, EVA Airways Corporation

Diploma in Marine Engineering, China College of Marine Technology and Commerce

### Eleanore New

Vice President, Finance Division

#### Previous positions:

- Vice President, Taishin International Bank Co., Ltd.
- Vice President, UBS AG, Taipei Branch
- Assistant Vice President, Bank of America N.T. & S.A., Taipei Branch

MBA, New York Institute of Technology

### Johnson Sun

Vice President, Business Division

#### Previous position:

- General Manager, Taiwan Airport Service Co., Ltd.

B.A. in Navigation, China College of Marine Technology and Commerce

### Anthony Wu

Vice President, Human Resource Division

#### Previous positions:

- Assistant Vice President, Human Resources Department, Hon Hai/Foxconn Technology Group
- General Director, Office of Human Resources, Industrial Technology Research Institute
- Deputy Director, Human Resources Division, TSMC

Master in Education, Wright State University

### Rae-Fang Chung

Vice President, Corporate Planning Office

#### Previous position:

- Marketing Manager, New Zealand Milk Products (Far East) Ltd., Taiwan Branch

B.A. in Economics, Tamkang University

### Min Chen

Vice President, Information Technology Division

#### Previous position:

- IT Director, Chinatrust Commercial Bank Co., Ltd.

M.S. in Computer Science, Ohio University

### Elaine Tsou

Assistant Vice President, Public Affairs Office

#### Previous position:

- Assistant Vice President, Public Affairs Department, Wei Chuan Foods Corporation

B.A. in Mass Communication, Fu Jen Catholic University

### Tim Fu

Assistant Vice President, Procurement Division

#### Previous positions:

- Instructor, Vocational Training Center, Department of Labor, Taipei City Government
- Manager, Pfizer Inc.
- Assistant Vice President, Corporate Audit Office, Taiwan High Speed Rail Corporation.

B.S. in Computer Science, Tamkang University

### Max Liu

Assistant Vice President, Quality Assurance Office

#### Previous positions:

- Vice President, DJ Auto Components Corporation (an investee company of Germany-based Hella KGaA Hueck & Co.)
- Director, International High-Speed Rail Association

EMBA, National Chengchi University

B.E. in Mechanical Engineering, National Chiao Tung University

### Roger Chu

Manager, Corporate Audit Office

#### Previous position:

- Assistant Vice President, Accounting Department, New Century InfoComm Tech Co., Ltd.

B.A. in Accounting, National Chengchi University



## Board Members

1 **Chiang Yao-Chung**  
Chairman

2 **Huang Mao-Hsiung**  
Director

3 **Tsai Huang-Liang**  
Director

4 **Ho I-Hsi**  
Director

5 **Ko Lee-Ching**  
Director

6 **Lin Chen-Kuo**  
Independent Director



7 **Wu Yeong-Chyan**  
Independent Director

8 **Fong Hsiao-Jung**  
Director

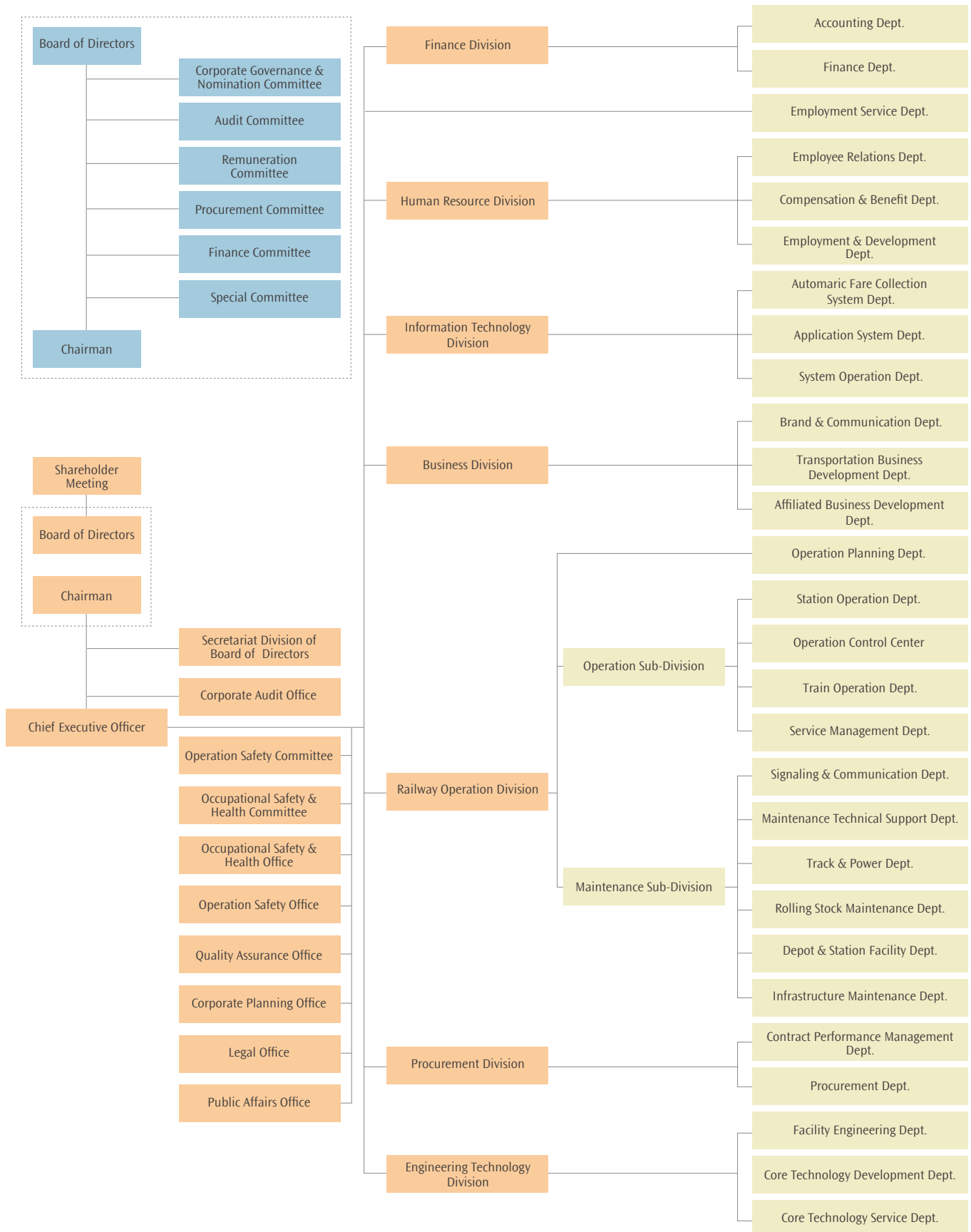
9 **Chiang Chin-Shan**  
Director

10 **Liu Kuo-Chih**  
Director

11 **Kwan Tao-I**  
Director

12 **Liu Jih-Gang**  
Director

## (6) Organizational structure





# Internal Control

## Statement of Internal Control System

Taiwan High Speed Rail Corporation  
Statement of Internal Control System

Date: Mar 21, 2017

Based on the findings of a self-assessment, Taiwan High Speed Rail Corporation (THSRC) states the following with regard to its internal control system during the period from January 1, 2016 to December 31, 2016:

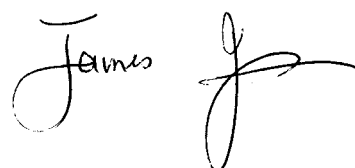
1. THSRC is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. THSRC has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability, timeliness, and transparency of reporting in compliance with the relevant specifications, and (3) compliance with applicable laws and regulations.
2. An internal control system has its inherent limitations. No matter how carefully designed, an effective internal control system can only provide reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes in environment or circumstances. Nevertheless the internal control system of THSRC contains self-monitoring mechanisms, and THSRC takes corrective actions whenever a deficiency is identified or an enhancement is necessary.
3. THSRC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the "Regulations") of the Republic of China. The Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several elements. Please refer to the Regulations for details.
4. THSRC has evaluated the design and operating effectiveness of its internal control system according to the aforementioned criteria.
5. Based on the results of the evaluation mentioned in the preceding paragraph, THSRC believes that during the period from January 1, 2016 to December 31, 2016, the design and operation of its internal control system have reasonably achieved the objectives mentioned in item 1 above, including monitoring of operational effectiveness and efficiency, and reliability, timeliness, and transparency of reporting in compliance with the relevant specifications, and compliance with applicable laws and regulations.
6. This Statement is an integral part of THSRC's Annual Report for the period from January 1, 2016 to December 31, 2016, and Prospectus, and is a public document. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors at the meeting held on Mar 21, 2017, with the contents of this Statement affirmed by all the 14 members present in the meeting.

## Taiwan High Speed Rail Corporation

Chairman of the Board of Directors:



CEO:



### Notice to Readers

For the convenience of readers, the Statement has 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 Statement shall prevail.

## The Disclosure of Relationship among the Top 10 Stockholders who are Related Parties, or a Relative up to the Second Degree of Kinship or a Spouse to One Another

Thousands of shares; % (as of March 26, 2017)

Name (Note 1)	Shareholding		Spouse & minor children		Shareholding by nominee arrangement		The relationship between any of the Company's top ten shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Ministry of Transportation and Communications	2,420,000	43.00	-	-	-	-	-	-	Institutional shareholder of THSRC
China Aviation Development Foundation	260,040	4.62	-	-	-	-	-	-	Director of the Board of THSRC
Chiang Yao-Chung Tsai Huang-Liang	-	-	-	-	-	-	-	-	Representative of China Aviation Development Foundation
China Steel Corporation	242,148	4.30	-	-	-	-	-	-	Director of the Board of THSRC
Liu Jih-Gang	-	-	-	-	-	-	-	-	Representative of China Steel Corporation
Taiwan Sugar Corporation	200,000	3.55	-	-	-	-	-	-	Director of the Board of THSRC
Kwan Tao-I	-	-	-	-	-	-	-	-	Representative of Taiwan Sugar Corporation
Teco Electric & Machinery Co., Ltd.	190,060	3.38	-	-	-	-	-	-	Director of the Board of THSRC
Huang Mao-Hsiung	-	-	-	-	-	-	-	-	Representative of Teco Electric & Machinery Co., Ltd.
Pacific Electric Wire & Cable Co., Ltd.	128,080	2.28	-	-	-	-	-	-	Institutional shareholder of THSRC
Jun-Tang Yuan	-	-	-	-	-	-	-	-	Chairman of Pacific Electric Wire & Cable Co., Ltd.

Name (Note 1)	Shareholding		Spouse & minor children		Shareholding by nominee arrangement		The relationship between any of the Company's top ten shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
National Development Fund of Executive Yuan	120,000	2.13	-	-	-	-	-	-	Director of the Board of THSRC
Ho I-Hsi Kao Shien-Quey	-	-	-	-	-	-	-	-	Representatives of National Development Fund of Executive Yuan
Taiwan Shinkansen Corporation	96,000	1.71	-	-	-	-	-	-	Institutional shareholder of THSRC
Michihiro Nose	-	-	-	-	-	-	-	-	President of Taiwan Shinkansen Corporation
Taiwan Fixed Network Co., Ltd.	90,212	1.60	-	-	-	-	-	-	Institutional shareholder of THSRC
Tsai Ming-Chung	-	-	-	-	-	-	-	-	Chairman of Taiwan Fixed Network Co., Ltd.
Mega International Commercial Bank Co., Ltd.	71,100	1.26	-	-	-	-	-	-	Institutional shareholder of THSRC
Chang Chao-Shun	-	-	-	-	-	-	-	-	Chairman of Mega International Commercial Bank

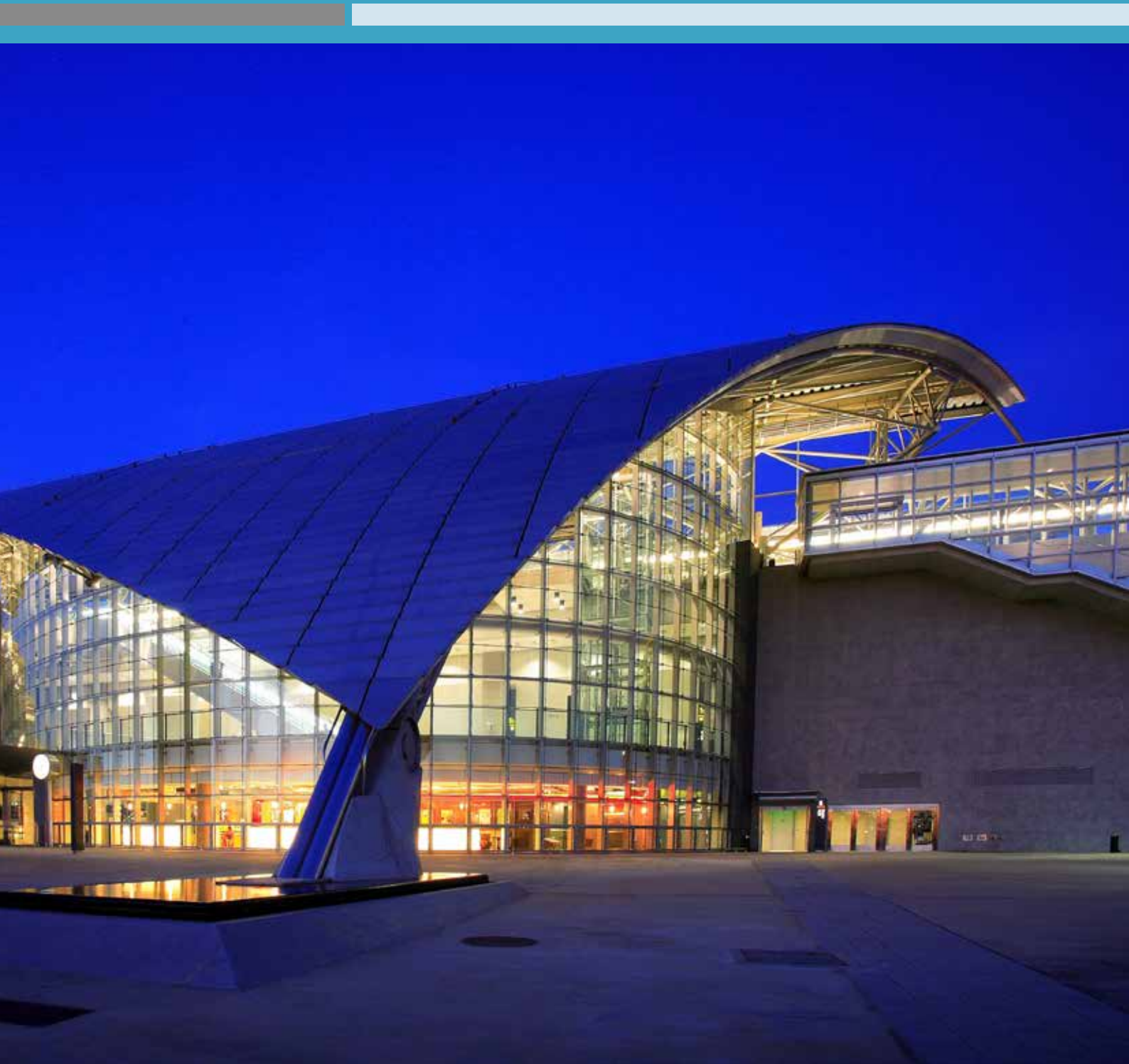
Note 1: Shareholders' names should be separate. (If shares were held by other corporations, the names of corporations and their representatives should be disclosed separately.)

Note 2: The percentage of stockholdings should be calculated based on the total shares held by oneself, spouse, minors and nominee arrangements.

THSRC Annual Report 2016

# Corporate Activities

Provide Support and Stay in Touch with Communities



# Corporate Social Responsibility

Since the inception of THSRC, we have embedded the values of inclusion, respect, collaboration, communication and care into our company culture. Supporting social, environmental and ecological causes in partnership with the government, non-profit organizations and social service agencies is an integral part of our corporate social responsibility. We are committed to earning trust from society through meeting its demands and expectations, and exploring ways to make a meaningful impact on the communities we serve.

## Corporate Philanthropy

### High-Speed Educational Endowment Program

Since 2010, we have been supporting children from disadvantaged backgrounds through the High-Speed Educational Endowment Program. By inviting passengers to donate to this program, we have raised NT\$101.27 million to date with the funds granted to World Vision, the Child Welfare League Foundation, Eden Social Welfare Foundation and other social services agencies to help more than 18,000 children stay in school, especially those with developmental delays, disabilities and/or other special care needs.



In 2016, the program joined in the teacher recruitment and training effort of non-profit organization Teach for Taiwan in order to address shortages of qualified teachers in Taiwan's rural areas. To that end, we provided free train tickets worth NT\$3.5 million so that the recruited teachers could travel to their schools in the fastest possible time. We and Teach for Taiwan share the same belief in academic equity of all students, and we are passionate about the role teachers can play in raising the achievement of disadvantaged children and fulfilling their potential.

Over the past seven years, the High-Speed Educational Endowment Program has enabled us to provide opportunities for disadvantaged children to flourish at school, and we look forward to expanding assistance to more students to advance their prospects for a better future.

### THSRC Smile Program

In cooperation with local governments and various non-profit organizations, the THSRC Smile Program has been in place since 2008, giving children from minority and disadvantaged backgrounds and their families a chance to experience the comfort and convenience of high-speed train rides. As of the end of 2016, 602 groups comprising 37,547 individuals have benefited from the program.

### Free Rides for Students of Yushan Elementary School

Yushan Elementary School is a small school located in Kansai Township, a remote, mountainous area in the northern county of Hsinchu. The school has just over 60 students, who mostly come from single-parent or grandparent-headed families of farmers and low-income families with a foreign spouse. Due to their economic difficulty, students of Yushan Elementary School rarely have the opportunity of travelling, not to mention taking the high speed rail. Last year, we provided free train tickets from Hsinchu to Taipei to help these children go to the places they had been hoping to visit for years, such as the Presidential Palace and the Taipei Botanical Garden. In a ceremony marking the giving of train tickets by the station master of Hsinchu HSR Station, the students danced and gave a flute performance. The school's principal also expressed his appreciation for the effort we put in to make students' dreams come true.

### Sponsored Journey for Integrity Loving Heart Private Residence

Travelling on high-speed trains once was a far-off dream for children with developmental disability, autism and multiple handicaps who live in Integrity Loving Heart Private Residence. According to the staff of the care facility, many children were curious about the nearby Taoyuan HSR Station and what it would be like traveling at high speed along Taiwan's western plain. To help the children improve their social interaction skills and broaden their experience, we provided round-trip tickets from Taoyuan to Taichung so that they could appreciate the unique architecture and design of high-speed railway stations and the comfort and convenience of high-speed rail rides.

The children were brimming with joy with bursts of laughter and excited clapping as they boarded the trains and later on, visited Taichung Science Museum. The energy exuded by them was palpable. "This trip will be remembered well by the children," said one of the staff. The children also took the opportunity of this trip to perform the dance of cloth horses at the concourse of Taoyuan HSR Station.



By putting our care for people with disabilities into supportive action, we helped the children of Integrity Loving Heart Private Residence participate in the community and increase their access to the transport network.

### Visually Impaired Students Sing Praise of Life

National Taichung Special Education School for the Visually Impaired is a special education institution for visually impaired students. To promote social inclusion of people with visual impairment, we invited that school to travel from Taichung to Kaohsiung to perform at our railway stations. By organizing performances and encouraging exchange, we might raise awareness about vision loss and demonstrate that blind people could live with as much independence and joy for life as the sighted.

Huang Yu-siang, a blind musician who rose to fame through movie "Touch of the Light", is an alumnus of National Taichung Special Education School for the Visually Impaired. When he learned about the trip we arranged for his alma mater, he asked participating students of the trip, who had already performed with him on previous occasions, to play his composition to commemorate their journey on high-speed trains.

### Timeless Talent

A group of 30 seniors put on a fun and lively jazz musical entitled "Lively Seniors, Silver Memories" in Chiayi HSR Station. Beaming with confidence, the seniors sang and danced to the cheers and applause of passers-by.

Beating more than 2,000 contestants, the senior participants of Chiayi Christian Hospital's adult day care program won the once-in-a-lifetime chance to perform in the Taipei Arena. After we learned about this rare opportunity to let the seniors' talents shine,

we decided to offer free train rides from Chiayi to Taipei so that the seniors could travel in the fastest possible time and the most comfortable way.

Providing the elderly people with concrete support was part of our larger effort to contribute to people's quality of life and wellness. It also reflected our belief that social engagement is critical to keeping seniors vital and making them feel young and active.

#### Complimentary Train Tickets for Chulai Elementary School

Due to their geographical location, many Aboriginal communities have limited access to public transportation, and high-speed rail is an option they don't often have. In 2016, we invited students of Chulai Elementary School in Tatum County, who are mainly from the indigenous tribe of Bunun, to take high-speed trains to Taipei. We hoped that such trips would make these children more engaged and intellectually curious, and give them an opportunity to experience things outside home and classroom such as a fast ride in high-speed train cars.

#### Disadvantaged Families Treated to One-Day Excursion

In 2016, we offered 40 free round-trip tickets from Miaoli to Zuoying to the families supported by the Miaoli Branch of Taiwan Fund for Children and Families. The trips allowed the families to take some time out and called to attention the challenges faced by society's most vulnerable members.

#### Complimentary Train Tickets for Gang-Yuan Elementary School

Throughout the years, we have helped numerous school children in rural and remote areas fulfill their dreams of travelling on high-speed trains. Last year, we expanded our free ticket campaign to Gang-Yuan Elementary School, a school located in a primarily Hakka community in Nantou County.

Just weeks before the Christmas holiday, the students and teachers of Gang-Yuan Elementary School took high-speed trains to Taipei and so experienced first-hand the comfort, speed and safety provided by high-speed rail travel. The students, who are part of a school club dedicated to the preservation of Hakka music, gave a performance of traditional Hakka music in Taichung HSR Station in a gesture of appreciation to the effort that made their trip an enjoyable and memorable experience.



### Free Train Tickets for Zong-Pu Institutional Care Center

Accessibility is a key element of the public transport system. Over the past few years, we have been offering free train rides to people with special needs who are unable to afford a ticket or access transport services. Last year, during a ceremony marking the giving of free tickets to Zong-Pu Institutional Care Center held in conjunction with the institution's anniversary celebration, the residents sang songs to express their thanks.



### Free Train Tickets for Chao Hsing Special Needs Center

We offered the students and staff of Chao Hsing free round-trip tickets to Taipei so that they could experience the comfort and convenience of high-speed rail rides. The children reciprocated with a spectacular performance of traditional Japanese Taiko drumming at Tainan HSR Station, which attracted a sizeable crowd of passers-by.

### Free Train Rides for Cerebral Palsy Foundation

We are committed to making public transport an easy and enjoyable experience for people with disabilities. On July 12, 2016, we sponsored 45 children supported by the Cerebral Palsy Foundation from Zuoying to travel to Taipei. The trip made the children's dreams of taking high-speed trains come true, while their family members got a chance to take valuable time out from daily routines. The Flying Angel Band made up of children with cerebral palsy played drums, sang and danced at the concourse of Zuoying HSR Station before they set out from Kaohsiung. Wang Rei-yu, spokesperson of the foundation as well as a famous folk singer, performed four songs to commemorate this meaningful occasion. With the performance greeted by cheers and applause from passers-by, we energized the train station with vibrant notes and provided the children with social inclusion opportunities to rebuild their self-confidence.





### Annual Blood Drive

Since 2012, we have organized blood donation campaigns in conjunction with our anniversary celebrations every year to raise awareness on the life-saving importance of donating blood. During our Warm Hearts Winter Campaign, held in our Taipei headquarters and HSR stations throughout Taiwan, our employees and passengers donate blood to contribute to filling the needs of blood banks and emergency situations. In 2016, we expanded the campaign by organizing 12 blood drives, and a total of 3,271 pints of blood have been collected over the past five years to help maintain Taiwan's collective blood supply at an adequate level. This annual campaign is one of the many community causes advocated by THSRC.

## Environmental Protection

### Celebration of Arbor Day with Sapling Giveaway

The land of Taiwan was once blessed with beautiful nature, but economic growth has been the cause of accelerating environmental degradation. In celebration of Arbor Day 2016, we handed out 5,000 saplings of Orchid, Lanyu Podocarp and Lanyu Pittosporum to passengers in our Taoyuan, Hsinchu and Taichung stations. In addition, experts were on site to answer questions and give advice on planting and maintaining the saplings. The annual tree sapling giveaway, sponsored jointly by the Taiwan Forestry Research Institute, the Council of Agriculture and Wutong Foundation, is one of our ways of promoting awareness of environmental conservation, encouraging people to value trees and making Taiwan a greener place to live. The seedlings in our Arbor Day event are a symbol of hope that the action we take will lead to a sustainable future.

### Beach Clean-up Event

The Employee Welfare Committee, THSRC's employee-led body that oversees matters concerning staff benefits and welfare, organized beach cleanups in December 2016, one month before the 10th anniversary of THSRC. This voluntary initiative, supported by THSRC employees and in cooperation with the Society of Wilderness, involved three events at Jhongyun Beach in Kaohsiung and Songbo Fishing Harbor in Taichung. Our chairman, CEO and COO each led more than one hundred employees to remove trash from beaches and waterways.

After hearing a safety briefing given by the Society of Wilderness, THSRC colleagues rolled up their sleeves, donned gloves, picked up tools and set to work. The scorching sun in no way discouraged them as they toiled for hours to pick up the trash. The three cleanup activities were extremely successful with volunteers removing 1.2 tons of waste.



Oceans support the greatest variety of life on earth. The loss of marine biodiversity caused by impacts of climate change and pollution is however weakening the ocean ecosystem. The employees engaged in beach cleanups have worked together to raise awareness of the need to examine our lifestyles and make an immediate positive impact on the environment.

### Pheasant-Tailed Jacana Preservation

For more than 10 years, we have been devoted to the preservation of the pheasant-tailed jacana, a type of bird that is considered endangered in Taiwan. With over NT\$50 million invested to date and in collaboration with the local government and business community, our artificial habitat recovery project has increased the pheasant-tailed jacana population in Tainan City to 1,272 in 2016 from nine in 2000. In 2007, we renamed the recovered habitat Jacana Park and opened the park to the public, with more than 200,000 visitors recorded to date. We have created tour devices, galleries and interactive displays to present the results of our native species restoration efforts.

To educate students in matters concerning environmental protection, we have arranged for visits to Jacana Park by elementary and junior high school students, where they are able to learn about the beauty of Taiwan’s natural habitats as well as our conservation efforts.

### The Old Camphor Tree of Hsinchu and the Land God Temple

During the construction period, an old camphor tree in the city of Hsinchu and the Land God Temple both faced removal, as they were located on the main route of the THSR right-of-way. Under a joint effort involving our management team and local residents, our construction team managed to preserve the old camphor tree in its original place through an adjustment in the construction design. Afterwards, together with the government, the Environment and Resources Protection Committee, and cultural and historical authorities, we drafted the Hsinchu Old Camphor Tree Medical Plan, which called for the repair of decayed branches as well as measures designed to maintain the long-term growth and health of the tree.

Phase	Time	Work Description
Preservation and incubation	1996~1999	Transplantation was the original concept of the government. Driven by our emphasis on protecting cultural relics, we ultimately decided to preserve the tree.
Design alteration	1999~2000	Engineering design was changed to accommodate the Land God Temple and the old tree, increasing engineering costs and subsequent maintenance expenses.
Emergency rescue	2001~2002	The old tree suffered from severe infestation and parts of its trunk were decayed. The service of Mr. Yang Gan-lin, a tree surgeon qualified in Japan, was engaged to restore life to the old tree.
Relocation and changing orientation	2003~2004	After the completion of THSR, the followers recommended changing the orientation of the Land God Temple to face the south for a broader field of vision. After several negotiations, the orientation of the Land God Temple was successfully changed and the expenses were covered by THSRC and our contractor.
Management and maintenance	2006~present	The branches of the old tree gradually grew closer to the THSR track. In order to maintain the tree’s appearance and consider the healing of its wounds, the old camphor tree is regularly trimmed and the surrounding trees are also sprayed with pesticides for protection.

# Exchange and Events

## THSR Camp

Since we started railway service, a series of THSR camps have been planned together with the Railway Cultural Society of Taiwan, the National Chiao Tung University Railway Research Society and the China Youth Corps. In 2016, 12 camps were organized and attended by 360 students. Held in summer and winter breaks, the camps are divided into a wide range of levels, including college/university, senior high school/vocational high school, junior high school, and elementary school.

Courses and activities are tailored for students that are similar in age and knowledge. For instance, the college-level camps teach about daily rail operations. The camps for senior high school/vocational school focus on the unique history and culture of THSRC. The camps targeting younger students from junior high and elementary schools provides basic introduction to THSRC along with visits to the Jacana Park so that students can learn about the importance of biodiversity and species conservation. By giving students a glimpse behind the scenes of high-speed rail lines, we hope THSR camps will motivate students to explore the opportunities in transportation and act as ambassadors for THSRC.

## THSR ART Together Program

Founded in May 2015, the THSR Art Together Program has brought Taiwan's rich artistic heritage to passengers with shows, concerts and dances in the concourse of HSR stations. In 2015 and 2016, more than 200 groups comprising 5,688 artists, musicians and performers each gave a 30-minute performance in nine HSR stations (Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan and Zuoying). By hosting the performances, we hope to enrich the experience of travelers, tourists, and locals alike, energize the space of train stations, and create a welcoming environment that invites interactions and allows people to experience art at first hand.

## Journey of the Heart – Musical Performance by Musou Band

In 2016, Changhua HSR Station was named a winner of the Architizer A+Awards, the largest awards program recognizing the year's best architecture. To celebrate this prestigious honor and to promote tourism in Changhua County, we held an event jointly with Changhua County Government named "Changhua





– Your Ultimate Destination” on May 31, 2016. Musou Band, a classical crossover music band founded by composer Liu Shueh-shuan, was invited to perform a musical play “Musou High School – Journey of the Heart” at Changhua HSR Station. The audience was captivated and moved to applaud by the band’s lively rendition of popular songs such as “Descendants of the Sun,” “Springtime Hills” and “Girls Are Flowers” with Chinese musical instruments.

To celebrate this special occasion, we also announced a one-day tour package for two featuring high-speed train journeys, shuttle service to and from Changhua HSR Station and a guided tour of Changhua County’s Lukang Old Street, one of the county’s most beloved sightseeing places rich in historical treasures and cultural heritage.

#### Mother’s Day Celebration

In celebration of Mother’s Day, we in 2016 organized an event named “Mother’s Day Appreciation” in cooperation with Eden Social Welfare Foundation, which provides training for its blind beneficiaries in professional massage. We asked passengers to bring their mothers out and enjoy a relaxing day at HSR stations featuring complimentary 10-minute massage, blood pressure checks, light refreshments, carnation give-away and much more.



#### Visits and Tours

In order to give the public better understanding of THSR, we provide station tour guides who educate visitors about THSR’s operations and services. In addition, professional organizations are permitted to visit the depots and Operational Management Center to gain hands-on knowledge about THSR. In 2016, we received 35 groups, or a total of 844 visitors.



During the year, we continued to exchange experience and ideas with fellow railway operators from Canada, the U.S., Japan, India and other countries. In April 2016, Wang Kwo-tsai, Political Deputy Minister of Transportation and Communications, who also served as chair of the Intelligent Transportation Society of Taiwan, hosted representatives from the international rail industry during a visit of the Operation Control Center next to Taoyuan HSR Station. As part of the tour, the delegation heard a presentation on how THSRC has taken advantage of technologies to support innovation for a resilient, efficient, customer-focused rail service.

#### Grand Opening of Nangang HSR Station

The grand opening of Nangang HSR Station, which marked the 12th station on our HSR system, was held on July 1, 2016. Vice President Chen Chien-jen, Vice Premier Lin Hsi-yao, Political Deputy Minister of Transportation and Communications Wang Kwo-tsai, Deputy Taipei Mayor Charles Lin and other dignitaries and officials gathered to witness this milestone moment. The ceremony kicked off with employees from the 12 HSR stations, attired in different uniforms, entering the stage and playing on drums to roars of cheers.

Nangang HSR Station is the northernmost station of our rail line. It is part of a larger inter-modal transportation hub that combines traditional rail, high-speed rail and mass rapid transit. The traditional and high-speed rail systems share the same entrance on the ground level. The station consists of three platforms and six tracks for passenger traffic in basement level 1, thereby achieving utmost flexibility in track operations. The concourse and dining area is on basement level 2, which connect to the MRT Blue Line, bus terminals and a shopping mall. The shortest travel time from Nangang to Zuoying – the farthest north and south stations – is 105 minutes. Nangang HSR Station's strategic location has opened up a new option for travelers and commuters to and from Neihu, Nangang, Keelung, Xizhi, and Yilan while offering them a modern and convenient passenger rail experience.





#### [Driftwood Sculpture Exhibition in Miaoli, Changhua and Yunlin HSR Stations](#)

For the first and the only time, calligraphy master Tong Yang-tze used sculpture to develop and share her idea of the virtue of integrity. Tong spent three years working on a driftwood sculpture entitled “Integrity” with hand-selected pieces of Taiwan incense cedar and yew artfully arranged to create a flowing pattern that resembles Chinese calligraphy. When the sculpture was on display in Taichung HSR Station in 2010, it received a warm reception from the public.

In 2016, to celebrate the opening of three new HSR stations in Miaoli, Changhua and Yunlin, Tong Yang-tze was again invited to display her driftwood sculpture on a touring exhibition, this time blended with local settings of these stations. In Miaoli HSR Station, the sculpture was placed atop a platform wrapped in Hakka-style floral fabrics in order to convey the spirit of hospitality the Hakka people in Miaoli are known for. In Changhua HSR Station, the sculpture was set against an exuberant floral display to represent the blooming and growth of Changhua, Taiwan’s largest producer of flowers. In Yunlin HSR Station, the sculpture was displayed alongside hand puppets, a reference to the unique history of Yunlin where traditional Taiwanese hand puppetry originated. This travelling exhibition not only allowed people to appreciate the unique beauty of driftwood, but also highlighted the important value of integrity that we uphold as a company.

#### [ITS World Congress Hall of Fame Industry Award](#)

In October 2016, THSRC was named an ITS World Congress Hall of Fame winner from Asia Pacific region in Melbourne, Australia. More than 3,000 participants at the ITS World Congress Awards Ceremony witnessed the moment when CEO James Jeng and Political Deputy Minister of Transportation and Communications Wang Kwo-tsay were presented with an Industry Award in recognition of our innovative ways to deliver enhanced passenger services and operational efficiencies.

During the ITS World Congress, we presented to rail experts from around the world our industry-leading ITS Smart Railway Services System, complete with its components of Smart Train Operation, Smart Safety & Emergency Management, Smart Ticketing System, Smart Passenger Service and Integrated i-Traveling Information.

Through our proprietary online platforms, Passenger Service Cloud and Operations Management Cloud, we have applied big data analytics and the Internet of Things to passenger rail operations to deliver a superior travel experience across all contact points, whether it is ticket booking, accessibility to HSR stations, or online shopping.

### 10th Anniversary Exhibition

Construction on the THSR project began in March 1994, and the launch of passenger rail service on January 5, 2007 opened a new page in Taiwan's transport history. The new Nangang HSR Station launched in July 2016 further strengthens our rail network in Taiwan, where we now own a total of 12 railway stations and carry an average 15,300 passengers daily. As we celebrated our 10th year of operations last year, we debuted a historical exhibit on December 20 exploring our unique history and the social, economic and environmental impact on the communities we serve. The exhibit was open to the public through March 2, 2017.

The 10th Anniversary Exhibition is organized around four themes: Starting, Speeding, Sustaining and Connecting. In addition to the milestones chronicled over the last decade, the displays tell the stories of how THSRC, as a premier high-speed rail operator, brings forth changes and provides transport services that enable growth and economic prosperity. Then-and-now photos of HSR stations show dramatic changes on the landscape, and the comparison from the past with the present gives people a glimpse into the development around HSR stations and along the railway routes.

### 10th Anniversary of THSRC and Opening Ceremony for THSR Museum

The THSR Museum was inaugurated in the Operation Management Center on January 5, 2017, in conjunction with our 10th anniversary celebration. Premier Lin Chuan, Secretary-General of Executive Yuan Chen Mei-ling, Minister of Transportation and Communications Ho Chen-tan, Taoyuan City Mayor Cheng Wen-tsan, legislators and foreign dignitaries gathered to witness a ceremony marking our anniversary.

A film titled "A Decade" was shown during the ceremony. The film showcased the journey and achievements for the past decade, as well as saluting the many unsung heroes whose dedication and hard work has made THSR possible.

Throughout our entire rail project, from planning to construction to operation, we strived to protect our rich transport heritage by preserving valuable rail assets and a wealth of photos, films, sound recordings and documents. The archive became available to review at the THSR Museum, giving the public an extraordinary opportunity to learn about THSR's history of innovation, its tremendous economic and environmental benefits, and its influence on the communities through improved infrastructure and services. The museum displays its collection through 19 themes – the history of rail transport in Taiwan, the inception of THSR, the arrival of the 700T trainsets and daily living sphere enabled by HSR, among others – that allow visitors to explore and connect with the past, present and future of THSRC.



THSRC Annual Report 2016

# Financial Report

Create Value for our Shareholders





# Financial Highlights

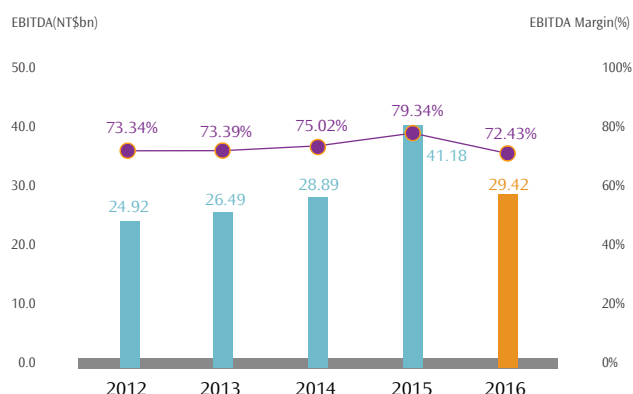
The launch of Nangang HSR Station in July 2016 further strengthened our rail network while increasing the productivity of our operations. We delivered strong performance across all key financial metrics in 2016. Revenues decreased by 11.8% to NT\$40.61 billion in 2016. Without the one-off reimbursement of statutory discount tickets received in 2015, revenues would have hit a record high in 2016.

Gross profit, income from operations, and EBITDA was at NT\$14.6 billion, NT\$13.7 billion and NT\$29.4 billion, respectively.

A summary of financial results from 2012 to 2016 is set out below:

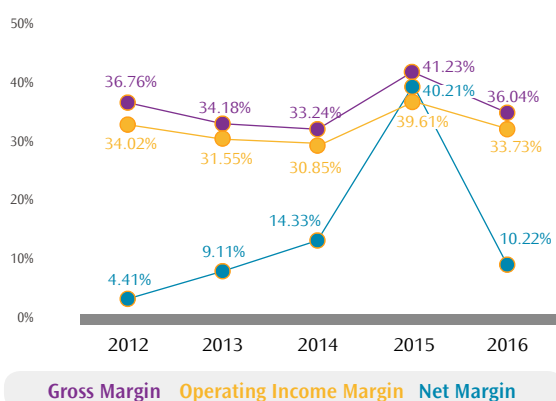
(NT\$bn)	2012	2013	2014	2015	2016
Operating revenues	33.98	36.10	38.51	51.90	40.61
Gross profit	12.49	12.34	12.80	21.40	14.64
Income from operation	11.56	11.39	11.88	20.56	13.70
Income before tax	1.87	2.71	2.66	18.83	5.00
Net income	1.50	3.29	5.52	20.87	4.15

Note: The year of 2016 recorded the second-highest operating revenues in company history. Excluding NT\$12.1 billion of reimbursement of statutory discount tickets, revenues would have been \$39.8 billion for 2015.



Note: In October 2015, the method used to account for depreciation costs for certain properties was changed from the unit-of-throughput method to the straight-line method.

The strength of our 2016 results demonstrates the successful execution of our strategy and the effects of high-quality management. We look forward to the coming year, during which we will align our business with changes in the marketplace, capitalize on growth opportunities and reiterate our commitment to delivering sustainable value to our shareholders. We are also renewing our vision of THSRC as a safe, reliable and environmentally responsible rail operator. THSRC will continue to be a key catalyst for growth, improving connectivity between cities and regions and boosting prosperity for the communities.



## Financial Status

Amounts in thousands of NT dollars

Item	Year	2016	2015	Difference	%
Current Assets		28,728,282	60,148,335	(31,420,053)	(52.24)
Property, Plant and Equipment		65,305	70,928	(5,623)	(7.93)
Operating Concession Assets		426,020,379	439,626,852	(13,606,473)	(3.10)
Other Assets		6,393,406	6,758,101	(364,695)	(5.40)
Total Assets		461,207,372	506,604,216	(45,396,844)	(8.96)
Current Liabilities		19,815,494	36,153,835	(16,338,341)	(45.19)
Non-current Liabilities		380,328,197	410,247,659	(29,919,462)	(7.29)
Total Liabilities		400,143,691	446,401,494	(46,257,803)	(10.36)
Capital Stock		56,282,930	56,052,930	230,000	0.41
Capital Surplus		172,981	-	172,981	100.00
Retained Earnings		4,607,077	4,149,237	457,840	11.03
Other Equity		693	555	138	24.86
Total Equity		61,063,681	60,202,722	860,959	1.43

Analysis of differences over 20%.

- 1.The decrease in current assets was mainly due to the decrease of time deposits and repurchase agreement collateralized by government bonds to repay long-term debt.
- 2.The decrease in current liabilities was mainly due to the payment of preferred stock compensation in 2016.
- 3.The increase in capital surplus was mainly due to the share premium from issuance of common stock in 2016.
- 4.The increase in other equity was mainly due to the gain from revaluation of available-for-sale financial assets.

## Operating Results

Amounts in thousands of NT dollars

Item	Year	2016	2015	Difference	%
Operating Revenues		40,610,906	51,901,392	(11,290,486)	(21.75)
Operating Costs		25,973,173	30,499,460	(4,526,287)	(14.84)
Gross Profit		14,637,733	21,401,932	(6,764,199)	(31.61)
Operating Expenses		938,237	845,436	92,801	10.98
Income from Operations		13,699,496	20,556,496	(6,857,000)	(33.36)
Non-operating Income and Expenses		(8,701,921)	(1,722,661)	(6,979,260)	(405.14)
Income before Income Tax		4,997,575	18,833,835	(13,836,260)	(73.46)
Income Tax Benefit (Expense)		(848,477)	2,038,795	(2,887,272)	(141.62)
Net Income		4,149,098	20,872,630	(16,723,532)	(80.12)
Other Comprehensive Income		(47,679)	(49,309)	1,630	3.31
Total Comprehensive Income for the year		4,101,419	20,823,321	(16,721,902)	(80.30)

Analysis of differences over 20%.

1. The decrease in operating revenues, gross profit, and income from operations were mainly due to recognition of shortfall charge revenue from statutory concession tickets regarding to the Financial Resolution Plan in 2015.
2. The decrease in non-operating income and expenses was mainly due to the gain from returning superficies to offset profit sharing payable and recognition of the preferred stock compensation expense regarding to the Financial Resolution Plan in 2015.
3. The increase in income tax expense was mainly due to recognition of deferred tax benefit for most of previous years' loss carryforwards in 2015.
4. The decrease in income before income tax, net income and total comprehensive income for the year were mainly due to the benefits from executing the Financial Resolution Plan designating to cover accumulated losses and improve financial condition in 2015.

## Capital

In thousands of shares

Type of stock	Authorized share capital			Remarks
	Issued shares	Unissued shares	Total	
Common stock	2,628,293	6,371,707	12,000,000	Public offering
	3,000,000			Private placement

1. Listing on the GreTai Securities Market on September 5, 2003
2. Unissued Shares can be issued as both common and preferred shares.

## Composition of Shareholders

### Common Stock

In thousands of shares (as of March 26, 2017)

Type of shareholders	Government agencies	Government-owned institutions	Financial institutions	Other corporate investors	Individuals	Foreign institutions and individuals	Total
Number of shareholders	2	1	14	216	91,820	90	92,143
Shareholding	2,540,000	200,000	481,669	1,426,845	798,084	181,695	5,628,293
Percentage (%)	45.13	3.55	8.56	25.35	14.18	3.23	100.00

Note: According to Article 47 of the Audit Act, the following public enterprises and institutions should be audited by an auditing agency:

1. Sole government ownership;
2. Joint government and private ownership with the government holding over 50 percent of the stock;
3. Reinvestment by the enterprises described in 1 and 2, which accounts for over 50 percent of the total capital of the reinvested enterprise.

# Taiwan High Speed Rail Corporation

**Financial Statements for the  
Years Ended December 31, 2016 and 2015 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Taiwan High Speed Rail Corporation

### **Opinion**

We have audited the accompanying financial statements of Taiwan High Speed Rail Corporation, which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Rule No. 10000322083 issued by the Financial Supervisory Commission ("FSC") and International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations of IFRS ("IFRIC"), and Interpretations of IAS ("SIC") endorsed by the FSC of the Republic of China.

### **Basis of Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

The specific details and status of execution of the Financial Resolution Plan which is being implemented by the Corporation are provided in Note 31, c. and d.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of 2016 financial statements are as follows:

#### The Provision for Controversial Overtime and Provision for Stabilization Reserve

Refer to Note 4, n. for further information on accounting policy of provisions; Note 5, b. and c. for further information on the accounting uncertainty associated with the judgements, and estimates and assumptions about provision for controversial overtime and stabilization reserve. Please refer to Note 16 for the detail of provision.

For the discrepancies between the Corporation and Taiwan High Speed Rail Corporation Labor Union for the calculation of overtime pay related to employees working in shifts worked on national holidays and overtime hours within every two consecutive weeks, the Corporation recognized the aforementioned provision for the controversial overtime and a related expense in an amount of NT\$596,542 thousand in accordance with the initial agreement in 2015. After the further searches and discussion in July 2016, the formula of the calculation was confirmed. As of December 31, 2016, the Corporation recognized a provision for the controversial overtime in an amount of NT\$293,566 thousand after the deduction of incentive bonus.

The above-mentioned controversial overtime expenses were calculated by both parties after the discussion and the related provision was recognized based on the adjusted working hours individual employee's annual salary level, and overtime expenses after recalculation of overtime hours; thus, the provision may differ from the results of the amount decided through administrative judgment or the agreements signed by the employees. Since the provision for the controversial overtime is subject to the significant judgment of the management, it is considered as one of the key audit matters.

According to the Financial Resolution Plan, the financial stabilization mechanism was established by the Corporation in 2016 in order to serve the purpose to return main benefit of excess earnings to the country. Starting from 2017, the Corporation shall report the execution status to the Ministry of Transportation and Communications ("MOTC"), including provision, contribution, and accumulated balance of the stabilization reserve. Because the provision of the stabilization reserve is related to the profitability of the remaining of the concession period of the contract, and the amount varies depending on the expiration or termination of the contract, the management's judgment on the recognition of the provision is material and is deemed to be a key audit matter.

Since the profitability for the remaining concession period which ends in the year 2068 or for early termination is not predictable, the amount of stabilization reserve was NT\$280,289 thousand as of December 31, 2016, which was estimated based on the profitability in 2016 in accordance with Taiwan North-South High Speed Rail Construction and Operation Agreement.

We evaluated whether the method of measurement used by the management to make the accounting estimate related to the above-mentioned provisions was reasonable. Moreover, we performed the following audit procedures on a sample basis: (1) inspected contracts related to the addition to, or usage and reversal of provisions, (2) recalculated the amount of provisions to ensure the accuracy of the balance, and (3) inspected the movement of provisions subsequent to the balance sheet date to the report date to evaluate whether the balance of provisions at the balance sheet date was appropriate.

### Railroad Transportation Revenue

Refer to Note 4, o. for revenue recognition policies and Note 20 for detail of revenues.

The railroad transportation revenue is the main sources of revenue for the Corporation, and related revenue amounted to NT\$39,433,807 thousand, representing 97% of total operating revenues in 2016. The calculation of railroad transportation revenue is complex and highly relies on ticketing systems; thus, railroad transportation revenue recognition is considered as one of the key audit matters.

We tested the information environment relevant to the Automatic Fare Collection System, Operating Revenue Management System and related internal control system. Moreover, we investigated information transfer process among above-mentioned systems to ensure that the operating revenue and the cash flow were processed normally, obtained the understanding of how the reports of ticketing related systems were generated, and recalculated the accuracy of revenue recognition amount and the balance of unearned revenue.

### Income Tax Estimate

Refer to Note 4, r. for accounting policies. For significant accounting judgments and the uncertainty of estimates and assumption regarding the income taxes, please refer to Note 5, f., and for the detail of income taxes, refer to Note 22.

The taxable income increased since the Corporation implemented the Financial Resolution Plan in 2015; thus, parts of unrecognized deductible temporary differences and unused loss carryforwards were utilized or recognized as deferred tax assets, resulting in an income tax benefit amounting to NT\$2,038,795 thousand in 2015. In comparison with that of 2015, the income tax expense was NT\$848,477 thousand in 2016, and the effective income tax rate of 16.98% after divided by the income before income tax of NT\$4,997,575 thousand was almost equal to the statutory income tax rate of 17%. The income tax estimate pertains to the amount of differences of all assets and liabilities and their tax basis, the usage of loss carryforwards, and the planning of tax incentives, which involve the significant judgment of the management and affect the realizability of the deferred tax asset assessment; thus, the income tax estimate was considered a key audit matter.

We obtained the documents for the income tax calculation made by the management; evaluated the reasonableness of its judgment and assumption to ensure that the calculation meets the tax law requirements; recalculated the income tax related amounts for accuracy; evaluated the reasonableness of the movement of the deferred tax assets from the balance sheet date to the report date; and evaluated whether the realizability of the deferred tax assets as of the balance sheet date was appropriate.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Rule No. 10000322083 issued by the FSC and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Jui-Hsuan Ho and Kwan-Chung Lai.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 22, 2017

#### Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance 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.

# TAIWAN HIGH SPEED RAIL CORPORATION

## BALANCE SHEETS

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

ASSETS	December 31			
	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 237,457	-	\$ 2,146,396	-
Available-for-sale financial assets (Note 7)	311,693	-	602,555	-
Hedging derivative assets (Note 8)	225	-	-	-
Notes and accounts receivable	550,033	-	210,188	-
Inventories (Note 9)	2,005,154	1	2,154,760	1
Other financial assets (Notes 10 and 27)	24,714,305	5	54,473,519	11
Prepayments and other current assets (Note 13)	909,415	-	560,917	-
Total current assets	<u>28,728,282</u>	<u>6</u>	<u>60,148,335</u>	<u>12</u>
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Note 11)	65,305	-	70,928	-
Operating concession asset (Note 12)	426,020,379	92	439,626,852	87
Computer software, net (Note 12)	34,994	-	41,238	-
Deferred tax assets (Note 22)	4,285,765	1	4,641,768	1
Other financial assets (Notes 10 and 27)	2,060,388	1	2,070,863	-
Other non-current assets (Note 13)	12,259	-	4,232	-
Total non-current assets	<u>432,479,090</u>	<u>94</u>	<u>446,455,881</u>	<u>88</u>
<b>TOTAL</b>	<u>\$ 461,207,372</u>	<u>100</u>	<u>\$ 506,604,216</u>	<u>100</u>

	December 31			
	2016		2015	
	Amount	%	Amount	%
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 60,130	-	\$ 43,460	-
Accounts payable	247,519	-	442,218	-
Operating concession liability (Note 15)	3,180,612	1	1,883,383	-
Other payables (Notes 14 and 17)	2,755,992	1	15,294,592	3
Payable for construction	889,292	-	1,466,212	-
Provisions (Notes 16 and 26)	301,701	-	2,746,756	1
Current portion of long-term debt (Note 14)	10,944,843	2	13,508,778	3
Other current liabilities (Notes 17 and 22)	1,435,405	-	768,436	-
Total current liabilities	19,815,494	4	36,153,835	7
<b>NON-CURRENT LIABILITIES</b>				
Long-term debt (Note 14)	316,279,751	69	345,647,453	68
Provisions (Note 16)	280,289	-	-	-
Long-term interest payable (Note 14)	9,582,166	2	8,472,455	2
Operating concession liabilities (Note 15)	53,990,329	12	55,994,730	11
Other non-current liabilities (Notes 17 and 22)	195,662	-	133,021	-
Total non-current liabilities	380,328,197	83	410,247,659	81
Total liabilities	400,143,691	87	446,401,494	88
<b>EQUITY (Note 19)</b>				
Capital stock - \$10 par value, authorized 12,000,000 thousand shares				
Common stock - issued 5,628,293 thousand shares in 2016 and issued 5,605,293 thousand shares in 2015	56,282,930	12	56,052,930	11
Capital surplus	172,981	-	-	-
Retained earnings				
Legal reserve	451,180	-	40,285	-
Unappropriated earnings	4,155,897	1	4,108,952	1
Total retained earnings	4,607,077	1	4,149,237	1
Unrealized gain on available-for-sale financial assets	693	-	555	-
Total equity	61,063,681	13	60,202,722	12
TOTAL	\$ 461,207,372	100	\$ 506,604,216	100

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche auditors' report dated February 22, 2017)

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Year Ended December 31			
	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 20 and 26)	\$ 40,610,906	100	\$ 51,901,392	100
OPERATING COSTS (Notes 21 and 26)	(25,973,173)	(64)	(30,499,460)	(59)
GROSS PROFIT	14,637,733	36	21,401,932	41
OPERATING EXPENSES (Note 21)	(938,237)	(2)	(845,436)	(2)
INCOME FROM OPERATIONS	13,699,496	34	20,556,496	39
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 21)	115,448	-	234,488	1
Interest expense (Notes 21 and 26)	(8,375,559)	(21)	(9,256,852)	(18)
Other gains and losses (Notes 21 and 26)	(441,810)	(1)	7,299,703	14
Total non-operating income and expenses	(8,701,921)	(22)	(1,722,661)	(3)
INCOME BEFORE INCOME TAX	4,997,575	12	18,833,835	36
INCOME TAX BENEFIT (EXPENSE) (Note 22)	(848,477)	(2)	2,038,795	4
NET INCOME	4,149,098	10	20,872,630	40
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(57,611)	-	(58,198)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	9,794	-	9,894	-
	(47,817)	-	(48,304)	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale financial assets	138	-	(1,005)	-
Other comprehensive income (loss) for the year, net of income tax	(47,679)	-	(49,309)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 4,101,419	10	\$ 20,823,321	40

**For the Year Ended December 31**

**2016**

**2015**

**Amount**

**%**

**Amount**

**%**

**EARNINGS PER SHARE (Note 23)**

Basic earnings per share

\$ 0.74

\$ 7.19

Diluted earnings per share

\$ 0.74

\$ 6.31

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche auditors' report dated February 22, 2017)

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF CHANGES IN EQUITY

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

	Capital Stock		
	Common Stock	Preferred Stock	Capital Surplus
BALANCE AT JANUARY 1, 2016	\$ 56,052,930	\$ -	\$ -
Appropriation of prior year's earnings			
Legal reserve	-	-	-
Cash dividends to shareholders - NT\$0.65 per share	-	-	-
	-	-	-
Net income for the year ended December 31, 2016	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-
Total comprehensive income for the year ended December 31, 2016	-	-	-
Issue of common shares for cash (including employee share options)	230,000	-	172,981
BALANCE AT DECEMBER 31, 2016	\$ 56,282,930	\$ -	\$ 172,981
BALANCE AT JANUARY 1, 2015	\$ 65,132,326	\$ 40,189,917	\$ -
Net income for the year ended December 31, 2015	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-
Total comprehensive income for the year ended December 31, 2015	-	-	-
Issue of ordinary shares for cash	30,000,000	-	-
Capital reduction to cover accumulated losses	(39,079,396)	-	-
Preferred stock redeemed and deficit adjustments	-	(40,189,917)	-
The adjustments of lawsuits in regard to preferred stock	-	-	-
BALANCE AT DECEMBER 31, 2015	\$ 56,052,930	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche auditors' report dated February 22, 2017)

Retained Earnings (Accumulated Losses)			Unrealized Gain/ Loss on Available-for- sale Financial Assets	Prepaid Preferred Stock Dividends	Other Equity	Total Equity
Legal Reserve	Unappropriated Earnings (Deficit)	Total				
\$ 40,285	\$ 4,108,952	\$ 4,149,237	\$ 555	\$ -	\$ -	\$ 60,202,722
410,895	(410,895)	-	-	-	-	-
-	(3,643,441)	(3,643,441)	-	-	-	(3,643,441)
410,895	(4,054,336)	(3,643,441)	-	-	-	(3,643,441)
-	4,149,098	4,149,098	-	-	-	4,149,098
-	(47,817)	(47,817)	138	-	-	(47,679)
-	4,101,281	4,101,281	138	-	-	4,101,419
-	-	-	-	-	-	402,981
<u>\$ 451,180</u>	<u>\$ 4,155,897</u>	<u>\$ 4,607,077</u>	<u>\$ 693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,063,681</u>
\$ 40,285	\$ (46,699,030)	\$ (46,658,745)	\$ 1,560	\$ (10,064,499)	\$ (3,609,357)	\$ 44,991,202
-	20,872,630	20,872,630	-	-	-	20,872,630
-	(48,304)	(48,304)	(1,005)	-	-	(49,309)
-	20,824,326	20,824,326	(1,005)	-	-	20,823,321
-	-	-	-	-	-	30,000,000
-	39,079,396	39,079,396	-	-	-	-
-	(9,095,740)	(9,095,740)	-	10,064,499	-	(39,221,158)
-	-	-	-	-	3,609,357	3,609,357
<u>\$ 40,285</u>	<u>\$ 4,108,952</u>	<u>\$ 4,149,237</u>	<u>\$ 555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,202,722</u>

# TAIWAN HIGH SPEED RAIL CORPORATION

## STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	For the Year Ended December 31	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 4,997,575	\$ 18,833,835
Adjustments for:		
Depreciation	33,202	32,506
Amortization	15,683,785	20,590,168
Loss on inventories valuation and obsolescence	73,585	531,204
Interest expense	8,375,559	9,256,852
Interest income	(115,448)	(234,488)
Loss on foreign currency exchange, net	27,430	26,814
Stabilization reserve expenses	280,289	-
Shortfall charge revenue from statutory concession tickets	-	(12,096,971)
Gain on value of returned superficies for offset of profit sharing payable	-	(22,613,234)
Preferred stock compensation expenditure	-	15,161,065
Others	423	575,640
Changes in operating assets and liabilities		
Derivative financial assets for hedging	(225)	551
Notes and accounts receivable	(339,845)	17,045
Inventories	77,341	114,700
Prepayments and other current assets	(382,943)	21,063
Other non-current assets	(9,818)	(58,680)
Accounts payable	(193,077)	155,027
Other payable	556,079	(546,708)
Payment for provisions - controversial overtime	(221,965)	-
Payment for provisions - preferred stock compensation	(15,155,212)	-
Other current liabilities	192,246	222,261
Other non-current liabilities	4,331	-
Cash generated from operations	13,883,312	29,988,650
Interest received	125,879	248,429
Interest paid	(6,206,724)	(6,992,540)
Payment for the interest of operating concession liabilities	(1,883,383)	(265,849)
Income tax refund (paid)	11,342	(25,138)
Net cash generated from operating activities	5,930,426	22,953,552
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(235,000)	(852,300)
Proceeds from disposal of available-for-sale financial assets	527,426	946,049
Decrease (increase) in other financial assets	29,736,684	(3,583,003)
Acquisition of property, plant and equipment	(27,759)	(23,170)
Proceeds from disposal of property, plant and equipment	457	-



	For the Year Ended December 31	
	2016	2015
Acquisition of intangible assets	\$ (2,662,900)	\$ (6,787,085)
Proceeds from disposal of intangible assets	1,610	311
Net cash generated from (used in) investing activities	27,340,518	(10,299,198)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in short-term borrowings	16,811	(90,884)
Repayment of long-term debt	(31,946,529)	(2,565,141)
Increase in other non-current liabilities	5,323	27,027
Cash dividends	(3,643,433)	-
Issue of common shares for cash	390,801	30,000,000
Preferred stock redeemed	-	(39,221,158)
Net cash used in financing activities	(35,177,027)	(11,850,156)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(2,856)	10,047
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,908,939)	814,245
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,146,396	1,332,151
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 237,457	\$ 2,146,396

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche auditors' report dated February 22, 2017)

**TAIWAN HIGH SPEED RAIL CORPORATION**  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

## 1. GENERAL

Taiwan High Speed Rail Corporation (the “Corporation”) was incorporated in Taipei City on May 11, 1998. Under the Taiwan North-South High Speed Rail Construction and Operation Agreement (“C&O Agreement”) and the Taiwan North-South High Speed Rail Station Zone Development Agreement (“SZD Agreement”) entered into with the Ministry of Transportation and Communications (“MOTC”) on July 23, 1998, the Corporation was granted authority to construct and operate the high speed rail (“HSR”) and relevant ancillary facilities. Under the Fourth Amendment of the C&O Agreement and the Taiwan North-South High Speed Rail Station Zone Development Termination Agreement (“SZD Termination Agreement”) entered into by the Corporation with the MOTC on July 27, 2015, effective on October 30, 2015, the construction and operation concession period of the HSR was extended from 35 years to 70 years until the year 2068.

On January 5, 2007, the Corporation started its commercial operations from the Banqiao Station to the Zuoying Station. On March 2, 2007, the Corporation started operating its railway service at the Taipei Station. On December 1, 2015, the Corporation started operating its railway service at the Miaoli, Changhua and Yunlin stations. On July 1, 2016, the Corporation started operating its railway service at the Nangang station.

The Corporation’s stock has been traded on the Taiwan Stock Exchange since October 27, 2016.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized by the board of directors on February 22, 2017.

## 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

### a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the Financial Supervisory Commission (“FSC”) for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Corporation should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the International Accounting Standards Board (IASB) and endorsed by the FSC for application starting from 2017.

Effective Date Announced by IASB	New IFRSs
January 1, 2014	Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”
January 1, 2014	Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”
January 1, 2014	IFRIC 21 “Levies”
July 1, 2014	Annual Improvements to IFRSs 2010-2012 Cycle
July 1, 2014	Annual Improvements to IFRSs 2011-2013 Cycle
July 1, 2014	Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”

Effective Date Announced by IASB	New IFRSs
January 1, 2016	Annual Improvements to IFRSs 2012-2014 Cycle
January 1, 2016	Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”
January 1, 2016	Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”
January 1, 2016	IFRS 14 “Regulatory Deferral Accounts”
January 1, 2016	Amendment to IAS 1 “Disclosure Initiative”
January 1, 2016	Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”
January 1, 2016	Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”
January 1, 2016	Amendment to IAS 27 “Equity Method in Separate Financial Statements”

The Regulations Governing the Preparation of Financial Reports by Securities Issuers were amended by the FSC on December 19, 2016. The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

Except for the following, the initial application in 2017 of the above IFRSs and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, whenever applied, would not have any material impact on the Corporation’s accounting policies:

1) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period.

2) Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”

The amendments stipulate that an entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity. Except for certain limited circumstances with respect to an intangible asset, the property, plant, and equipment cannot be depreciated, and the intangible asset cannot be amortized based on revenue that is generated by an activity that includes the use of an asset. The amortization expense of the Corporation’s operating concession asset calculated by units of throughput method based on ridership was based on revenue that is generated by an activity that includes the use of the asset. In order to use an amortization method which can be more systematical and reliable to reflect the expected consumable pattern of future economic benefits of the asset, the Corporation changed its amortization method from units of throughput method based on ridership to straight-line basis method to amortize its operating concession asset since October 2015, when the Fourth Amendment of C&O Agreement was effective.

## b. New IFRSs in issue but not yet endorsed by the FSC

The Corporation has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

Effective Date Announced by IASB	New IFRSs
January 1, 2017	Amendment to IAS 7 “Disclosure Initiative”
January 1, 2017	Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”
January 1, 2017	Annual Improvements to IFRSs 2014-2016 Cycle : Amendment to IFRS 12 “Disclosure of Interests in Other Entities”
January 1, 2018	Annual Improvements to IFRSs 2014-2016 Cycle : Amendment to IAS 28 “Investments in Associates and Joint Ventures”
January 1, 2018	Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”
January 1, 2018	Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”
January 1, 2018	IFRS 9 “Financial Instruments”
January 1, 2018	Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosure”
January 1, 2018	IFRS 15 “Revenue from Contracts with Customers”
January 1, 2018	Amendment to IFRS 15 “Clarifications to IFRS 15”
January 1, 2018	Amendments to IAS 40 “Transfers of investment property”
January 1, 2018	IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
January 1, 2019	IFRS 16 “Leases”
Effective date to be determined by IASB	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The impact on the Corporation’s financial position and financial performance that would result from the initial adoption of the above standards or interpretations, whenever adopted, will be disclosed when the Corporation completes the evaluation, in addition to the following:

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations. Under IFRS 16, if the Corporation is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Corporation may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statement of comprehensive income, the Corporation should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using the effective interest method. On the statement of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities. The application of IFRS 16 is not expected to have a material impact on the accounting treatment of the Corporation as a lessor.

When IFRS 16 becomes effective, the Corporation may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **a. Statement of compliance**

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, Rule No. 10000322083 issued by the FSC and IFRSs as endorsed by the FSC.

##### **b. Basis of preparation**

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

##### **c. Classification of current and non-current assets and liabilities**

Current assets include cash, cash equivalents, assets held for trading purposes and assets that are expected to be converted into cash or consumed within 12 months from the balance sheet date; assets other than current assets are non-current assets. Current liabilities include liabilities incurred for trading purposes and obligations that are expected to be settled within 12 months from the balance sheet date; liabilities other than current liabilities are non-current liabilities.

##### **d. Foreign currencies**

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from application of different exchange rates when foreign-currency assets and liabilities are converted or settled are recognized in profit or loss in the year of conversion or settlement. At year-end, balances of monetary foreign-currency assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

##### **e. Cash equivalents**

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### **f. Available-for-sale financial assets**

Upon initial recognition, open-end money market funds are measured at fair value, with transaction costs expensed as incurred. The changes in fair value from subsequent remeasurement are reported as other comprehensive income. The corresponding accumulated gains or losses are recognized in profit or loss when the financial asset is derecognized from the balance sheet. An impairment loss is recognized when there is objective evidence that the financial asset is impaired.

The fair values of open-end money market funds are determined using net asset values at balance sheet date.

#### **g. Impairment of accounts receivable**

Receivables are mainly generated by customers purchasing tickets and merchandise through credit cards. Allowance for doubtful accounts is provided based on an evaluation of the collectibility of individual account balances. Receivables are assessed for impairment 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.

#### **h. Inventories**

Inventories, consisting of consumptive and non-consumptive spare parts and supplies for internal operation and merchandise for sale, are stated at the lower of weighted-average cost or net realizable value.

#### **i. Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives: machinery and equipment - 4 to 5 years; transportation equipment - 4 years; office equipment - 3 to 10 years; leasehold improvements - 2 to 5 years; other equipment - 3 to 35 years.

Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

#### **j. Intangible assets**

##### **1) Operating concession asset**

The Corporation was granted authority to construct and operate the HSR and relevant ancillary facilities under the C&O Agreement and therefore the Corporation's operation is under the scope of IFRIC 12 "Service Concession Arrangements". According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities, thus profit sharing payments are considered as an acquisition cost of the concession. The minimum commitment to profit sharing payments was discounted and recognized as intangible assets - operating concession asset with corresponding operating concession liability.

The Fourth Amendment of the C&O Agreement was effective on October 30, 2015. The construction and operation concession period of the HSR was extended from 35 years to 70 years until the year 2068. Shortfall charge receivable from statutory concession tickets is considered as cost of the extension of concession period and recognized as operating concession asset - period extension cost.

The cost less residual value of the operating concession asset is amortized on a straight-line basis over the estimated useful lives which range as follows: land improvements - 15 to 61.5 years; buildings - 50 to 61.5 years; machinery and equipment - 3 to 35 years; transportation equipment - 3 to 35 years; other equipment - 5 years; profit sharing payments - 61.5 years; period extension cost (shortfall charge from statutory concession tickets) - 52.75 years (the remaining concession period started from October 2015).

Operating concession asset is measured initially at cost model and then amortized during the concession period. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently. On derecognition of the operating concession asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

2) Computer software

Computer software is amortized on a straight-line basis over 5 years.

**k. Operating concession liability**

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities; thus, profit sharing payments are considered as an acquisition cost of the concession. The acquisition cost is recognized as operating concession asset (an intangible asset described in item j.1) above) with corresponding operating concession liability. The liability was measured at the discounted amount of the profit sharing payments at the date of HSR commercial operation. Subsequent interest is computed by using the effective interest method.

The Fourth Amendment of the C&O Agreement and the SZD Termination Agreement were effective on October 30, 2015. As the value of returned superficies is allowed to offset profit sharing payable each year, it is recognized as a deduction of the operating concession liability (value of returned superficies for offset of profit sharing payable).

**l. Impairment of assets**

The Corporation estimates the recoverable amount of an asset (mainly intangible assets - operating concession asset) at the balance sheet date if there was an indication that it might be impaired.

Recoverable amount is the higher of value in use and fair value less costs to sell. When the carrying amount of an asset exceeds its value in use, the Corporation further estimates its fair value less costs to sell. If the carrying amount of an asset exceeds its fair value less costs to sell, an impairment loss will be recognized as the excess of the carrying amount over the higher of value in use or fair value less costs to sell.

When an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years.

**m. Hedging derivatives**

Hedging derivatives are measured at fair value. Changes in fair value of hedging derivatives are recognized in profit or loss.

**n. Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**o. Revenue recognition**

Passenger fares received or receivable are recognized as revenue when transport services are provided. Amounts received for passenger tickets sold but not yet used are recorded as receipts in advance.

Sales of tickets that grant award credits to customers under the Corporation's award scheme are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the tickets sold and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the award, which is the amount the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction but is deferred and recognized as revenue when the award credits are redeemed and the Corporation's obligations have been fulfilled.

The Fourth Amendment of the C&O Agreement, effective on October 30, 2015, extended the concession period granted to construct and operate the HSR from 35 years to 70 years until the year 2068. Services rendered related to statutory concession tickets as of October 29, 2015 were recognized as shortfall charge revenue from statutory concession tickets. Shortfall charge from statutory concession tickets generated after October 30, 2015 shall be taken into consideration by the Corporation in evaluating and deciding rates and fare adjustment, and shall be an adjustment factor of future revenue.

According to the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement, the value of returned superficies is allowed to offset profit sharing payable each year within the concession period. After both agreements became effective on October 30, 2015, the Corporation recognized a gain on value of returned superficies for offset of profit sharing payable and uses the effective interest method to calculate interest income (a deduction of interest expense) in the remaining concession period.

**p. Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other than the borrowing costs described above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**q. Retirement benefit costs**

Payments of contributions to a defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Defined benefit costs under a defined benefit plan are recognized based on actuarial calculations.



#### **r. Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### 1) Current tax

Current tax payable depends on the current taxable income. Taxable income is different from the net income before tax on the statement of comprehensive income for the reason that certain revenue and expenses are taxable or deductible items in other period, or not taxable or deductible items pursuant to related Income Tax Law. The Corporation's current tax liabilities are calculated by the legislated tax rate on the balance sheet date.

Pursuant to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders resolve to retain the earnings.

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

##### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carryforwards and personnel training expenditures to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

#### **s. Preferred stock**

Pursuant to Rule No. 10000322083 issued by the FSC on July 7, 2011, the preferred stock issued before January 1, 2006, regarded as equity in the legal form but as liabilities in the economic substance, may be recognized as equity under IFRSs, and separate identification of the liability and equity components of the preferred stock is not required.

After all of the preferred stock was redeemed on August 7, 2015, Rule No. 10000322083 was no longer applicable. As the proposal to settle the accumulated unpaid preferred stock dividends was resolved in the special shareholders' meeting on September 10, 2015, and the Fourth Amendment of the C&O Agreement became effective on October 30, 2015, the Corporation recognized a provision for preferred stock compensation and preferred stock compensation expenditure on October 30, 2015.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Corporation's accounting policies which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**a. Lawsuits in regard to preferred stock**

The Corporation managed its preferred stock in accordance with the Company Act, the regulations released by the FSC and the Corporation's Articles of Incorporation. However, some preferred stock shareholders of the Corporation requested the Court to intervene and require the Corporation to redeem the preferred stock and pay preferred stock dividends and related interest on delayed payments. The related requests for court action that arose from the different interpretations of the legal compliance were still in court for mediation or under review. However, the Corporation had already redeemed all of the preferred stock on August 7, 2015. According to the Financial Resolution Plan, the Corporation compensated all preferred stock shareholders and settled all related rights and obligations. As of December 31, 2016, the preferred stock compensation paid amounted to \$15,155,212 thousand; the remaining provision for preferred stock compensation amounted to \$5,853 thousand. Please refer to Note 16 for further information.

**b. Controversial overtime**

As of December 31, 2016, the Corporation recognized a provision for controversial overtime in the amount of \$ 293,566 thousand. The estimated provision could differ from the actual amount payable which is subject to the result of the administrative judgement or the agreement to be signed with the employees. Please refer to Note 16 for further information.

**c. Stabilization reserve**

As of December 31, 2016, the Corporation recognized a provision for stabilization reserve in an amount of \$280,289 thousand in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability for the remaining concession period which ends in the year 2068 or for early termination. Refer to Note 16 and Note 28, a., 3) for further information.

**d. Amortization of intangible assets - operating concession asset**

Starting from October 2015, the cost less residual value of the operating concession asset is amortized on a straight-line basis over its estimated useful lives. The useful lives are subject to the changes in the estimates of concession period, economic environment, the asset retirement plan or other factors.

Prior to October 2015, the Corporation's operating concession asset is amortized using the units of throughput method based on ridership; the amortization rate is calculated by the proportion of the higher of estimated number of passengers or actual number of passengers to the total estimated number of passengers of the remaining concession period. When there is a significant gap between the estimated number of passengers and the actual number of passengers, the amortization rate is updated based on a revised transport volume research issued by external experts and used over the remaining concession period.

There was a significant gap between estimated number of passengers and actual number of passengers starting from 2014. The Corporation engaged an external expert to do research on ridership again and the external expert issued an updated transport volume report in March 2015. The transport volume report researched and analyzed social, ecological and transportation inputs gathered which were deemed relevant, suitable and reasonable. Starting from January 1, 2015, the Corporation adjusted the amortization of operating concession asset, based on the estimated number of passengers as provided in the updated transport volume report, through the remaining concession period. The updated estimated number of passengers resulted in an increase of \$2,353,445 thousand in amortization expense for the period from January 1, 2015 to September 30, 2015.

According to the transport volume report prepared by the external expert, the estimated number of passengers for 2015 was 49 million. The actual number of passengers in 2015 was 51 million.

In order to use an amortization method which may be more systematic and reliable to reflect the expected consumption pattern of the future economic benefits of its assets, and make the amortization period for its assets conform to the economic substance and expected future economic benefits, the Corporation changed the amortization method of the operating concession asset from units of throughput method based on ridership to straight-line method since October 2015, when the Fourth Amendment of the C&O Agreement became effective. Furthermore, after considering the concession period extension to 70 years, internal and external economic environment changes, the asset retirement plan and other factors, the Corporation adjusted the useful lives of part of the operating concession asset. The changes in the amortization method and the useful lives of part of the operating concession asset resulted in a decrease of \$1,982,980 thousand in amortization expense for the period from October 1, 2015 to December 31, 2015.

**e. Impairment evaluation of intangible assets - operating concession asset**

The impairment evaluation of intangible assets - operating concession asset was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any estimate change arising from the changes in the economic situation or the Corporation's policies may affect the recoverable amount of those assets and lead to significant impairment losses.

**f. Income taxes**

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets includes consideration of future revenue growth, amount of tax credits that can be utilized and feasible tax planning strategies.

As of December 31, 2016 and 2015, the carrying amounts of deferred tax assets in relation to deductible temporary differences, unused tax losses and investment tax credits were \$4,285,765 thousand and \$4,641,768 thousand, respectively. As of December 31, 2016 and 2015, \$995 thousand and \$10,110 thousand thereof, respectively, was not recognized as deferred tax assets due to future income fluctuation.

According to the Article 28 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, a private company qualified under this Statute may be exempted from the income tax for a maximum period of five years from the year in which taxable income is generated after the commencement of operation of the transportation infrastructure project concerned. In addition, within four years from the year the taxable income is generated, the private company can choose to defer its income tax exemption period, and the deferral is no longer than three years. The Corporation is qualified under the Statute, and the application of the income tax exemption is under planning. The eligibility for the income tax exemption depends on the result of the review of the authorized regulator.

## 6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	\$ 179,701	\$ 64,931
Demand deposits	49,729	715,806
Time deposits	8,008	1,365,646
Checking accounts	19	13
	<u>\$ 237,457</u>	<u>\$ 2,146,396</u>

The market rate intervals of cash in bank at the end of the reporting period were as follows:

	December 31	
	2016	2015
Demand deposits	0.001%-0.14%	0.001%-0.13%
Time deposits	0.62%	0.45%-0.86%

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Open-end money market funds	<u>\$ 311,693</u>	<u>\$ 602,555</u>

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2016	2015
<u>Hedging derivative assets</u>		
Fair value hedges-forward exchange contracts	<u>\$ 225</u>	<u>\$ -</u>

The Corporation entered into forward exchange contracts mainly to hedge the risk of exchange rate fluctuations of foreign-currency accounts payable and payables for construction. As of the balance sheet date, outstanding forward exchange contracts were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)	
<u>December 31, 2016</u>				
Buy	US\$/JPY	January 2017	JPY	173,140
Buy	NT\$/US\$	January 2017	US\$	1,689

## 9. INVENTORIES

	December 31	
	2016	2015
Spare parts and supplies	\$ 1,995,508	\$ 2,147,153
Merchandise	9,646	7,607
	<u>\$ 2,005,154</u>	<u>\$ 2,154,760</u>

As of December 31, 2016 and 2015, allowance for loss on inventories amounted to \$605,963 thousand and \$532,378 thousand, respectively.

## 10. OTHER FINANCIAL ASSETS

	December 31	
	2016	2015
Repurchase agreement collateralized by government bonds	\$ 21,682,200	\$ 45,973,200
Time deposits	2,945,641	8,244,722
Performance guarantee for the C&O Agreement	2,000,000	2,000,000
Demand deposits	130,463	316,800
Performance guarantee for customs duties and others	16,389	9,660
	<u>\$ 26,774,693</u>	<u>\$ 56,544,382</u>
Current	\$ 24,714,305	\$ 54,473,519
Non-current	2,060,388	2,070,863
	<u>\$ 26,774,693</u>	<u>\$ 56,544,382</u>

a. The market rate intervals of other financial assets at the end of the reporting period were as follows:

	December 31	
	2016	2015
Repurchase agreement collateralized by government bonds	0.30%-0.51%	0.29%-0.48%
Time deposits	0.15%-1.21%	0.22%-1.37%
Demand deposits	0.08%	0.001%-0.13%

b. Please refer to Note 27 for the information of other financial assets pledged as collateral.

## 11. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2016	2015
Land	\$ 28	\$ 28
Machinery and equipment	42,691	39,743
Transportation equipment	-	-
Office equipment	6,695	5,918
Leasehold improvements	1,114	2,113
Other equipment	14,777	23,126
	<u>\$ 65,305</u>	<u>\$ 70,928</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2016	\$ 28	\$ 260,124	\$ 344	\$ 115,931	\$ 79,324	\$ 214,322	\$ 670,073
Additions	-	21,298	-	3,436	46	2,979	27,759
Disposals	-	(39,950)	(34)	(603)	-	(13,211)	(53,798)
Transfer	-	-	-	318	-	-	318
Balance at December 31, 2016	<u>28</u>	<u>241,472</u>	<u>310</u>	<u>119,082</u>	<u>79,370</u>	<u>204,090</u>	<u>644,352</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2016	-	220,381	344	110,013	77,211	191,196	599,145
Depreciation	-	18,349	-	2,956	1,045	10,920	33,270
Disposals	-	(39,949)	(34)	(582)	-	(12,803)	(53,368)
Balance at December 31, 2016	<u>-</u>	<u>198,781</u>	<u>310</u>	<u>112,387</u>	<u>78,256</u>	<u>189,313</u>	<u>579,047</u>
	<u>\$ 28</u>	<u>\$ 42,691</u>	<u>\$ -</u>	<u>\$ 6,695</u>	<u>\$ 1,114</u>	<u>\$ 14,777</u>	<u>\$ 65,305</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2015	\$ 28	\$ 260,085	\$ 523	\$ 115,678	\$ 76,616	\$ 226,341	\$ 679,271
Additions	-	12,573	-	1,662	2,708	6,227	23,170
Disposals	-	(10,681)	(179)	(1,409)	-	(20,573)	(32,842)
Transfer	-	(1,853)	-	-	-	2,327	474
Balance at December 31, 2015	<u>28</u>	<u>260,124</u>	<u>344</u>	<u>115,931</u>	<u>79,324</u>	<u>214,322</u>	<u>670,073</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2015	-	217,797	523	106,967	76,482	202,190	603,959
Depreciation	-	18,629	-	4,455	729	9,277	33,090
Disposals	-	(10,681)	(179)	(1,409)	-	(20,573)	(32,842)
Transfer	-	(5,364)	-	-	-	302	(5,062)
Balance at December 31, 2015	<u>-</u>	<u>220,381</u>	<u>344</u>	<u>110,013</u>	<u>77,211</u>	<u>191,196</u>	<u>599,145</u>
	<u>\$ 28</u>	<u>\$ 39,743</u>	<u>\$ -</u>	<u>\$ 5,918</u>	<u>\$ 2,113</u>	<u>\$ 23,126</u>	<u>\$ 70,928</u>

## 12. INTANGIBLE ASSETS

	December 31	
	2016	2015
Operating concession asset	\$ 426,020,379	\$ 439,626,852
Computer software, net	<u>34,994</u>	<u>41,238</u>
	<u>\$ 426,055,373</u>	<u>\$ 439,668,090</u>

### a. Movements of the intangible assets

	Operating Concession Asset					Computer Software, Net	Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction In Progress	Total		
<u>Cost</u>							
Balance at January 1, 2016	\$ 464,442,873	\$ 69,972,043	\$ 12,701,819	\$ 5,958,958	\$ 553,075,693	\$ 364,623	\$ 553,440,316
Additions	231,015	-	-	1,893,522	2,124,537	12,082	2,136,619
Disposals	(370,620)	-	-	-	(370,620)	-	(370,620)
Transfer	7,668,129	-	-	(7,689,260)	(21,131)	900	(20,231)
Balance at December 31, 2016	<u>471,971,397</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>163,220</u>	<u>554,808,479</u>	<u>377,605</u>	<u>555,186,084</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2016	101,041,001	12,347,640	60,200	-	113,448,841	323,385	113,772,226
Amortization	14,324,422	1,097,608	240,793	-	15,662,823	19,226	15,682,049
Disposals	(307,219)	-	-	-	(307,219)	-	(307,219)
Transfer	(16,345)	-	-	-	(16,345)	-	(16,345)
Balance at December 31, 2016	<u>115,041,859</u>	<u>13,445,248</u>	<u>300,993</u>	<u>-</u>	<u>128,788,100</u>	<u>342,611</u>	<u>129,130,711</u>
	<u>\$ 356,929,538</u>	<u>\$ 56,526,795</u>	<u>\$ 12,400,826</u>	<u>\$ 163,220</u>	<u>\$ 426,020,379</u>	<u>\$ 34,994</u>	<u>\$ 426,055,373</u>
<u>Cost</u>							
Balance at January 1, 2015	\$ 456,302,181	\$ 69,972,043	\$ -	\$ 7,078,716	\$ 533,352,940	\$ 367,434	\$ 533,720,374
Additions	178,516	-	12,701,819	7,005,894	19,886,229	1,855	19,888,084
Disposals	(165,833)	-	-	-	(165,833)	(4,666)	(170,499)
Transfer	8,128,009	-	-	(8,125,652)	2,357	-	2,357
Balance at December 31, 2015	<u>464,442,873</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>5,958,958</u>	<u>553,075,693</u>	<u>364,623</u>	<u>553,440,316</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2015	82,833,591	10,188,690	-	-	93,022,281	308,991	93,331,272
Amortization	18,351,453	2,158,950	60,200	-	20,570,603	19,060	20,589,663
Disposals	(149,104)	-	-	-	(149,104)	(4,666)	(153,770)
Transfer	5,061	-	-	-	5,061	-	5,061
Balance at December 31, 2015	<u>101,041,001</u>	<u>12,347,640</u>	<u>60,200</u>	<u>-</u>	<u>113,448,841</u>	<u>323,385</u>	<u>113,772,226</u>
	<u>\$ 363,401,872</u>	<u>\$ 57,624,403</u>	<u>\$ 12,641,619</u>	<u>\$ 5,958,958</u>	<u>\$ 439,626,852</u>	<u>\$ 41,238</u>	<u>\$ 439,668,090</u>



**b. Operating assets and construction in progress are as follows:**

	December 31	
	2016	2015
<u>Operating assets, net</u>		
Land improvements	\$ 175,355,929	\$ 178,813,061
Buildings	29,323,517	29,533,526
Machinery and equipment	34,120,242	36,305,938
Transportation equipment	118,113,532	118,738,459
Other equipment	16,318	10,888
	<u>\$ 356,929,538</u>	<u>\$ 363,401,872</u>
<u>Construction in progress</u>		
Construction related to core system	\$ -	\$ 4,321,436
Construction related to Nangang station	-	716,298
Construction related to auto-payment system	-	46,851
Other construction	-	61,588
Capitalized expenditure	-	487,205
Capitalized interest	-	210,251
Prepayments for equipment	163,220	115,329
	<u>\$ 163,220</u>	<u>\$ 5,958,958</u>

**c. The estimated amortization expense of the operating concession asset using the straight-line method during the remaining operation concession period is summarized as follows:**

Year	Amortization Expense of Operating Assets	Amortization Expense of Profit Sharing Payments	Amortization Expense of Period Extension Cost	Total
2017 (estimate)	\$ 12,167,839	\$ 1,097,608	\$ 240,793	\$ 13,506,240
2018 (estimate)	12,116,582	1,097,608	240,793	13,454,983
2019 (estimate)	10,930,063	1,097,608	240,793	12,268,464
2020 (estimate)	10,904,840	1,097,608	240,793	12,243,241
2021 (estimate)	10,843,590	1,097,608	240,793	12,181,991
2022-2068 (estimate)	299,966,624	51,038,755	11,196,861	362,202,240
	<u>\$ 356,929,538</u>	<u>\$ 56,526,795</u>	<u>\$ 12,400,826</u>	<u>\$ 425,857,159</u>

### 13. OTHER ASSETS

	December 31	
	2016	2015
<u>Prepayments and other current assets</u>		
Prepayments	\$ 853,011	\$ 421,346
Other receivable	39,180	119,142
Others	17,224	20,429
	<u>\$ 909,415</u>	<u>\$ 560,917</u>
<u>Other non-current assets</u>		
Others	\$ 12,259	\$ 4,232

### 14. BORROWINGS

#### a. Short-term debt

	December 31	
	2016	2015
JPY letters of credit	\$ 53,250	\$ 43,460
USD letters of credit	6,880	-
	<u>\$ 60,130</u>	<u>\$ 43,460</u>

The range of interest rates on short-term debt at the end of the reporting period was as follows:

	December 31	
	2016	2015
JPY letters of credit	0.7%-0.79%	0.86%
USD letters of credit	2.6%	-

#### b. Long-term debt

	December 31	
	2016	2015
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 130,000,000	\$ 130,000,000
Tranche A2 Facility	176,205,117	176,205,117
Tranche C Facility	21,160,563	49,259,381
Tranche D Facility	-	3,847,711
	<u>327,365,680</u>	<u>359,312,209</u>
Less: Unamortized cost of long-term debt	(141,086)	(155,978)
	<u>327,224,594</u>	<u>359,156,231</u>

	December 31	
	2016	2015
Less: Current portion (including unamortized cost of long-term debt)		
Tranche C Facility	\$ (10,946,529)	\$ (10,946,529)
Tranche D Facility	-	(2,565,141)
Unamortized cost of long-term debt	1,686	2,892
	<u>(10,944,843)</u>	<u>(13,508,778)</u>
	<u>\$ 316,279,751</u>	<u>\$ 345,647,453</u>

The Corporation has entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (“Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the Taiwan North-South High Speed Rail Construction and Operation Project NT\$382 billion Syndicated Loan Agreement (“Syndicated Loan Agreement”) with a bank syndicate consisting of eight (8) banks. The Corporation has entered into a First Amendment of Tripartite Agreement with the MOTC and Bank of Taiwan, and a Second Amendment of Syndicated Loan Agreement with a bank syndicate consisting of eight (8) banks on August 3, 2015. The syndicate of banks of the Syndicated Loan Agreement consists of Bank of Taiwan, Mega International Commercial Bank, Taiwan Cooperative Bank, Land Bank of Taiwan, First Commercial Bank, Taiwan Business Bank, Chang Hwa Commercial Bank, and Hua Nan Commercial Bank. The significant terms are as follows:

- 1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. The main purposes of the agreement are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements of operations.
- 2) The Corporation provided assets (refer to assets to be transferred to the MOTC under the C&O Agreement) and a portion of the superficies as collateral for the syndicated loan (the Corporation’s assets need not be registered by the bank syndicate to create a right attached to the Corporation’s assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with the Bank of Taiwan and the MOTC. However, if an agreement is not reached within 45 days after the date of the negotiation notice issued by Bank of Taiwan, the Corporation should redeem the difference immediately.
- 3) According to the Syndicated Loan Agreement, the Corporation opened accounts at Bank of Taiwan for deposits and financial instruments, which are designated for loan repayments, acquisitions, and replacement of assets. Please refer to Notes 10 and 27 for further information on financial instruments pledged as collateral to Bank of Taiwan. The pledged financial instruments were recognized as other financial assets.

4) The syndicated period, repayment method and interest rates of the Syndicated Loan Agreement are as follows:

a) Term of loan and repayment method

	Term of Loan	Number of Semi- annual Installment Repayment	Ratio of Repayment
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment
Tranche C Facility	May 4, 2016-May 4, 2020 (after early repayment made on July 4, 2016, the last installment repayment is on November 4, 2018)	Installments 01-09	Fixed payment per installment
Tranche D Facility	May 4, 2013-May 4, 2017 (repaid on April 13, 2016 before its maturity)	Installments 01-09	Fixed payment per installment

The Corporation made early repayment in the amount of \$19 billion on April 13, 2016, including Tranche C Facility in the amount of \$15,152,289 thousand and Tranche D Facility in the amount of \$3,847,711 thousand. In addition, the Corporation made early repayment of the Tranche C Facility in the amount of \$2 billion on July 4, 2016.

b) Starting from May 4, 2010, the first drawdown date, the interest rates (nominal interest rates) on the Tranche A1 Facility and Tranche A2 Facility are determined based on the one-year time deposit floating rate from the Chunghwa Post Co., Ltd. plus markup interest rates as shown below. The additional business tax of 5% therefrom is to be paid by the Corporation. As of December 31, 2016 and 2015, the nominal interest rates were 1.06%, and 1.2%, respectively.

Syndicated Period	Markup Interest Rates
May 4, 2010-May 3, 2012	0.10%
May 4, 2012-May 3, 2013	0.20%
May 4, 2013-May 3, 2014	0.30%
May 4, 2014-May 3, 2015	0.40%
May 4, 2015-May 3, 2016	0.50%
May 4, 2016-May 3, 2017	0.60%
May 4, 2017-May 3, 2018	0.70%
May 4, 2018-May 3, 2032	1.08%
May 4, 2032-May 4, 2050	1.08%

5) The interest of Tranche A1 and A2 Facilities was calculated based on the Syndicated Loan Agreement. The Corporation computes the interest expense based on the effective interest method. Interest payment that is due longer than one year is recognized as long-term interest payable according to the agreements. The effective interest rates, accrued interest expense, and interest expense were summarized as follows:

a) Effective interest rates

	December 31	
	2016	2015
Tranche A1 Facility	2.07%	2.21%
Tranche A2 Facility	2.08%	2.23%
Tranche C Facility	1.96%	2.11%
Tranche D Facility	-	2.11%

b) Accrued interest expense (included in other payables)

	December 31	
	2016	2015
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 192,932	\$ 203,355
Tranche A2 Facility	261,505	275,633
Tranche C Facility	35,187	90,264
Tranche D Facility	-	7,051
	<u>\$ 489,624</u>	<u>\$ 576,303</u>

c) Long-term interest payable

	December 31	
	2016	2015
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 4,268,856	\$ 3,807,039
Tranche A2 Facility	5,313,310	4,665,416
	<u>\$ 9,582,166</u>	<u>\$ 8,472,455</u>

d) Interest expense

	December 31	
	2016	2015
<u>Syndicated loan</u>		
Interest expense	\$ 7,186,595	\$ 7,776,383
Capitalized interest	\$ 42,272	\$ 180,777

## 15. OPERATING CONCESSION LIABILITY

	December 31	
	2016	2015
Operating concession liabilities	\$ 80,314,799	\$ 80,568,170
Value of returned superficies for offset of profit sharing payable	<u>(23,143,858)</u>	<u>(22,690,057)</u>
	<u>\$ 57,170,941</u>	<u>\$ 57,878,113</u>
Current	\$ 3,180,612	\$ 1,883,383
Non-current	<u>53,990,329</u>	<u>55,994,730</u>
	<u>\$ 57,170,941</u>	<u>\$ 57,878,113</u>

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities. Please refer to Note 28, a., 2) for further information. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as operating concession asset and operating concession liability, and related amortization expense and interest expense, respectively, is recognized during the concession period. For the years ended December 31, 2016 and 2015, the profit sharing payment was \$1,883,383 thousand and \$265,849 thousand, respectively. As of December 31, 2016, the Corporation's accumulated profit sharing payments amounted to \$4,815,866 thousand. The information about the amortization expense of operating concession asset and the interest expense of operating concession liability during the concession period is summarized as follows:

Year	Amortization Expense	Interest Expense	Total
As of December 31, 2016	\$ 13,445,248	\$ 15,158,623	\$ 28,603,871
2017 (estimate)	1,097,608	1,662,613	2,760,221
2018 (estimate)	1,097,608	1,535,866	2,633,474
2019 (estimate)	1,097,608	1,566,583	2,664,191
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021-2033 (estimate)	14,268,904	16,506,357	30,775,261
2034-2068 (estimate)	<u>37,867,459</u>	<u>-</u>	<u>37,867,459</u>
	<u>\$ 69,972,043</u>	<u>\$ 38,027,957</u>	<u>\$ 108,000,000</u>

According to the Financial Resolution Plan, the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement became effective on October 30, 2015, the Corporation used the appraised fair value of returned superficies of \$22,613,234 thousand to proportionally offset the operating concession liability (profit sharing payable), which is payable to the MOTC at the end of every five years. The estimated deductible amount is \$29,784,855 thousand. Please refer to Note 28, a., 2), Note 31, a. and d. for further details. The information of actual and estimated profit or loss recognized for the value of returned superficies for offset of profit sharing payable within the concession period is summarized as follows:

Year	Other Gain	Deduction of Interest Expense	Total
2015	\$ 22,613,234	\$ 76,823	\$ 22,690,057
2016	-	453,801	453,801
	22,613,234	530,624	23,143,858
2017 (estimate)	-	462,877	462,877
2018 (estimate)	-	432,064	432,064
2019 (estimate)	-	440,706	440,706
2020 (estimate)	-	449,520	449,520
2021-2033 (estimate)	-	4,855,830	4,855,830
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

## 16. PROVISIONS

	December 31	
	2016	2015
<u>Current</u>		
Controversial overtime	\$ 293,566	\$ 596,542
Preferred stock compensation	5,853	2,148,652
Other provisions	2,282	1,562
	<u>\$ 301,701</u>	<u>\$ 2,746,756</u>
<u>Non-current</u>		
Stabilization reserve	\$ 280,289	\$ -

Movements in provisions were as follows:

	Balance at January 1, 2016	Addition	Usage	Reversal	Balance at December 31, 2016
<u>Current</u>					
Controversial overtime	\$ 596,542	\$ -	\$ (226,854)	\$ (76,122)	\$ 293,566
Preferred stock compensation	2,148,652	-	(2,142,799)	-	5,853
Other provisions	1,562	720	-	-	2,282
	<u>\$ 2,746,756</u>	<u>\$ 720</u>	<u>\$ (2,369,653)</u>	<u>\$ (76,122)</u>	<u>\$ 301,701</u>
<u>Non-current</u>					
Stabilization reserve	\$ -	\$ 280,289	\$ -	\$ -	\$ 280,289

	Balance at January 1, 2015	Addition	Usage	Reversal	Balance at December 31, 2015
<u>Current</u>					
Controversial overtime	\$ -	\$ 596,542	\$ -	\$ -	\$ 596,542
Preferred stock compensation	-	15,161,065	(13,012,413)	-	2,148,652
Preferred stock	3,609,357	4,554,865	-	(8,164,222)	-
Interest expense on delayed payments of preferred stock litigations	60,586	344,940	-	(405,526)	-
Court costs for preferred stock litigations	25,285	40,515	-	(65,800)	-
Other provisions	-	1,562	-	-	1,562
	<u>\$ 3,695,228</u>	<u>\$ 20,699,489</u>	<u>\$ (13,012,413)</u>	<u>\$ (8,635,548)</u>	<u>\$ 2,746,756</u>

#### a. Preferred stock compensation

In order to implement the Financial Resolution Plan, the Corporation has redeemed all of the preferred stock on August 7, 2015. Please refer to Note 19, a. for further information. The provisions for redemption of preferred stock previously recognized were adjusted to zero. The proposal to pay the accumulated unpaid preferred stock dividends was resolved by the shareholders in the special shareholders' meeting on September 10, 2015. According to the Financial Resolution Plan, the Corporation recognized a provision for preferred stock compensation and a related expenditure each in the amount of \$15,161,065 thousand on October 30, 2015 as the Fourth Amendment of C&O Agreement became effective. The provisions for interest expense on delayed payments and court costs with respect to preferred stock litigations previously recognized were adjusted to zero accordingly. Before the payment of preferred stock compensation, the preferred stock shareholders should waive the claims to the interest expense on delayed payments, court costs and other expenses arising from the litigations, and should reach agreements with the Corporation to settle all of the rights and obligations between them and the Corporation. As of December 31, 2016, the Corporation had entered into agreements with preferred stock shareholders and paid preferred stock compensation in the amount of \$15,155,212 thousand. The details of remaining provision of \$5,853 thousand that one of the preferred stock shareholders has not in agreement with the Corporation's proposal are as follows:



Preferred Stock Shareholder	Type of Preferred Stock	Claimed Amount	Status
Bank of Panhsin	A	To redeem preferred stock of \$10,000 thousand plus interest on delayed payment	The Corporation lost in the second trial. However, the Corporation has redeemed the preferred stock according to the Financial Resolution Plan.

#### b. Controversial overtime

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. In regard to the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts shall cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the above-mentioned adjusted national holidays and working hours of two consecutive weeks within six months, and within a month after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the above-mentioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the above-mentioned incentive bonus shall remain its nature as incentive bonus and does not need to be returned to the Corporation.

In July 2016, the Corporation and the THSRC Labor Union reached the agreement regarding the above-mentioned calculation of controversial overtime related to employees working in shifts worked on national holidays and overtime hours in every two consecutive weeks. Therefore, \$76,122 thousand of the original provision of \$596,542 thousand was reversed. As of December 31, 2016, the employees have signed agreements and the usage of the provision included payments of the incentive bonus of \$221,965 thousand and incentive bonus payable of \$4,889 thousand (recorded as accrued expenses). The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of December 31, 2016, the provision for controversial overtime in an amount of 293,566 thousand had been recognized.

#### c. Stabilization reserve

According to the Fourth Amendment of the C&O Agreement, the Corporation established a financial stabilization mechanism effective on 2016, under which the stabilization reserve expense is recognized or part of the accumulated stabilization reserve is reversed if the Corporation's net income meets certain criteria during the concession period. As of December 31, 2016, the Corporation recognized a provision for stabilization reserve in an amount of \$280,289 thousand. Refer to Note 28, a., 3) for further information.

## 17. OTHER LIABILITIES

	December 31	
	2016	2015
<u>Other payables</u>		
Accrued expenses	\$ 2,001,271	\$ 1,448,584
Accrued interest expense	489,642	576,306
Business tax payable	236,871	236,547
Payable for preferred stock compensation	-	13,012,413
Others	28,208	20,742
	<u>\$ 2,755,992</u>	<u>\$ 15,294,592</u>
<u>Other current liabilities</u>		
Unearned receipts	\$ 803,576	\$ 585,284
Current tax liabilities	474,723	-
Deferred revenue	35,760	64,238
Receipts under custody	21,621	18,495
Others	99,725	100,419
	<u>\$ 1,435,405</u>	<u>\$ 768,436</u>
<u>Other non-current liabilities</u>		
Net defined benefit liability	\$ 104,740	\$ 51,969
Guaranteed deposits received	80,643	75,319
Deferred revenue	9,171	-
Deferred tax liabilities	1,108	5,733
	<u>\$ 195,662</u>	<u>\$ 133,021</u>

## 18. RETIREMENT BENEFIT PLANS

### a. Defined contribution plan

The Corporation adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

## b. Defined benefit plan

The Corporation also adopted a defined benefit plan under the Labor Standards Law (the “LSL”). Under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committees’ name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in a one-time appropriation that shall be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Corporation has no right to influence the investment policy and strategy.

Through the defined benefit plan under the LSL, the Corporation is exposed to the following risks:

### 1) Investment risk

The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be lower than the interest rate for a 2-year time deposit with local banks.

### 2) Interest risk

A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the value on the plan’s debt investments.

### 3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The amounts included in the balance sheets in respect of the Corporation’s obligations under its defined benefit plan are as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ (650,217)	\$ (612,392)
Fair value of plan assets	545,477	560,423
Net defined benefit liability	<u>\$ (104,740)</u>	<u>\$ (51,969)</u>

Movements in net defined benefit asset (liability) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Asset (Liability)
Balance at January 1, 2015	\$ (534,317)	\$ 536,129	\$ 1,812
Current service cost	(13,426)	-	(13,426)
Net interest income (expense)	(11,658)	11,920	262
Recognized in profit or loss	(25,084)	11,920	(13,164)
Remeasurement			
Return on plan assets	-	2,464	2,464
Actuarial loss - experience adjustments	(25,137)	-	(25,137)
Actuarial loss - changes in financial assumptions	(35,525)	-	(35,525)
Recognized in other comprehensive income	(60,662)	2,464	(58,198)
Contributions from the employer	-	17,581	17,581
Benefits paid	7,671	(7,671)	-
Balance at December 31, 2015	(612,392)	560,423	(51,969)
Current service cost	(13,623)	-	(13,623)
Net interest income (expense)	(10,340)	9,587	(753)
Recognized in profit or loss	(23,963)	9,587	(14,376)
Remeasurement			
Return on plan assets	-	(5,719)	(5,719)
Actuarial loss - experience adjustments	(32,274)	-	(32,274)
Actuarial loss - changes in financial assumptions	(19,618)	-	(19,618)
Recognized in other comprehensive income	(51,892)	(5,719)	(57,611)
Contributions from the employer	-	19,216	19,216
Benefits paid	38,030	(38,030)	-
Balance at December 31, 2016	\$ (650,217)	\$ 545,477	\$ (104,740)

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries.

The significant assumptions used for the purposes of the actuarial valuations were as follows:

	Measurement Date	
	December 31	
	2016	2015
Discount rate	1.50%	1.75%
Expected salary growth rate	2.00%	2.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as shown on the table below. The sensitivity analysis may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	2015
Discount rate		
Increase 0.5%	\$ (38,419)	\$ (35,525)
Decrease 0.5%	\$ 41,860	\$ 38,776
Expected salary growth rate		
Increase 0.5%	\$ 41,440	\$ 38,485
Decrease 0.5%	\$ (38,423)	\$ (35,613)

An analysis of the average duration of the defined benefit obligation was as follows:

	December 31	
	2016	2015
The expected contributions to the plan for the next year	\$ 22,160	\$ 43,081
The average duration of the defined benefit obligation	12.4 years	12.2 years

**c. For the years ended December 31, 2016 and 2015, the defined benefit costs of \$111 thousand and \$757 thousand, respectively, were capitalized as operating concession asset - construction in progress. The remaining expenses of the defined contribution plan and the defined benefit plan were recorded as pension costs in comprehensive income. Please refer to Note 21, a. for further details.**

## 19. EQUITY

### a. Capital stock

As of December 31, 2016, the Corporation's total paid-in capital amounted to \$56,282,930 thousand divided into 5,628,293 thousand issued and outstanding shares. Capital increase and decrease during the years ended December 31, 2016 and 2015 are as follows:

- 1) Pursuant to the Corporation's Articles of Incorporation and preferred stock offering and conversion policy, on August 7, 2015, the Corporation redeemed a total of 4,018,992 thousand shares of issued preferred stock at the original issuing price of \$39,221,158 thousand.
- 2) On October 20, 2015, the Corporation reduced common stock capital of \$39,079,396 thousand to make up for accumulated losses.

- 3) On November 26, 2015, the Corporation conducted capital injection of 3,000,000 thousand shares of common stock through a private placement at par value of \$10, or a total of \$30,000,000 thousand. The rights and obligations of the privately placed common stock are subject to the restrictions prescribed under the Securities and Exchange Act. In addition, the common shares issued through a private placement cannot be traded on the Taiwan Stock Exchange until the application for listing is approved by the authority in charge. The application for listing can only be lodged three years after the delivery of the shares. Except for the above-mentioned restrictions, there are no other differences between privately placed common stock and other common stock issued.
- 4) To initially trade in public, the Corporation conducted capital injection of 23,000 thousand share of common stock, at par value of \$10, in an amount of \$230,000 thousand, and share premium in an amount of \$160,801 thousand on October 25, 2016. The actual proceeds amounted to \$390,801 thousand. In accordance with Article 267 of the Company Act, the Corporation reserved 3,000 thousand shares of common stock for employees to subscribe. The fair value of \$12,180 thousand determined at the grant date of the employee share options was recognized as payroll expense, with a corresponding adjustment in capital surplus - employee share options. For the reserved shares the employees subscribed, related capital surplus - employee share options of \$11,084 thousand was transferred to capital surplus - issuance of common shares. For the forfeited employee share options, related capital surplus - employee share options of \$1,096 thousand was transferred to capital surplus - forfeited employee share options.

#### b. Capital surplus

	December 31	
	2016	2015
Issuance of common shares	\$ 171,885	\$ -
Forfeited employee share options	1,096	-
	\$ 172,981	\$ -

The capital surplus generated from shares issued in excess of par may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be transferred to share capital or distributed in cash. Capitalization of such capital surplus is limited to once a year and a certain prescribed percentage of the Corporation's paid-in capital. The capital surplus generated from forfeited employee share options may not be used for any purpose except for offsetting a deficit.

#### c. Legal reserve and appropriation of earnings

Under the Corporation's Articles of Incorporation as amended on March 18, 2016, if there is any profit at the end of the year, the Corporation shall distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively. However, any accumulated losses should be made up first. After the resolution of the board of directors to distribute employees' compensation and remuneration to directors, and payments for all taxes and duties, 10% of the remaining profit is set aside as legal reserve. However, when the legal reserve equals the Corporation's paid-in capital, further appropriation of earnings to legal reserve will no longer be required. Furthermore, after reversal or appropriation of special reserve according to related regulations, the remainder together with any accumulated unappropriated earnings may be distributed to shareholders as proposed by the board of directors and ultimately resolved by the shareholders.

The Corporation's dividend policy takes into account current and future development projects, consideration of investment environment, demand for funds and situations of domestic and international competitions, and consideration of shareholders' benefits and other relevant factors to determine earnings distribution. The Corporation adopts a stable and balanced dividend policy. Distributable earnings shall be appropriated at the rate no less than 60% to shareholders as dividends; however, when accumulated unappropriated earnings are lower than 0.5% of paid-in capital, no appropriation shall be made. Dividends to be distributed shall be paid either in cash or in share, and cash dividends shall be no less than 50% of total dividends.

Please refer to Note 21, a. for the information of the accrual basis of the employees' compensation and the remuneration to directors as of December 31, 2016, and the actual distributions of the employees' compensation and the remuneration to directors for the year ended December 31, 2015.

The appropriations of earnings for 2015 were approved in the shareholders' meetings on June 24, 2016, and are as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 410,895	
Cash dividends	<u>3,643,441</u>	\$ 0.65
	<u>\$ 4,054,336</u>	

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

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

#### d. Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance, beginning of year	\$ 555	\$ 1,560
Unrealized gain arising on revaluation of available-for-sale financial assets	1,564	1,944
Cumulative gain (loss) transferred to profit or loss on sale of available-for-sale financial assets	<u>(1,426)</u>	<u>(2,949)</u>
Balance, end of year	<u>\$ 693</u>	<u>\$ 555</u>

#### e. Preferred stock dividends

Pursuant to Article 234 of the Company Act, Rule No. 09100514570 and Rule No. 10002011720 issued by the Ministry of Economic Affairs on September 24, 2002 and March 7, 2011, respectively, the Corporation was permitted to distribute preferred stock dividends before commencement of operations and is not subject to the restrictions with respect to appropriations of earnings. Such preferred stock dividends shall be recognized as prepaid preferred stock dividends under the shareholders' equity in its balance sheet. The Corporation had redeemed all of the preferred stock on August 7, 2015, and the prepaid preferred stock dividends had been transferred to accumulated losses.

## 20. REVENUES

	For the Year Ended December 31	
	2016	2015
Railroad transportation revenue	\$ 39,433,807	\$ 38,831,049
Shortfall charge revenue from statutory concession tickets	-	12,096,971
Other operating revenue	1,177,099	973,372
	<u>\$ 40,610,906</u>	<u>\$ 51,901,392</u>

## 21. INCOME BEFORE INCOME TAX

Income before income tax was as follows:

#### a. Employee benefit expense

	For the Year Ended December 31	
	2016	2015
Post-employment benefits		
Defined contribution plan	\$ 151,757	\$ 123,923
Defined benefit plan	14,265	12,407
	<u>166,022</u>	<u>136,330</u>
Short-term benefits		
Payroll	3,430,984	3,327,938
Insurance	285,193	240,650
Professional service	40,265	38,616
Others	174,936	149,714
	<u>3,931,378</u>	<u>3,756,918</u>
	<u>\$ 4,097,400</u>	<u>\$ 3,893,248</u>
An analysis of employee benefit expense by function		
Operating costs	\$ 3,491,052	\$ 3,391,858
Operating expenses	606,348	501,390
	<u>\$ 4,097,400</u>	<u>\$ 3,893,248</u>



As of December 31, 2016 and 2015, the number of employees of the Corporation was 4,334 and 3,756, respectively; the number of professional service employees was 17 and 23, respectively.

The payroll expenses include the employees' compensation and the remuneration to directors which were both calculated at 1% of income before income tax (net of the employees' compensation and the remuneration to directors) according to the Corporation's Articles of Incorporation. For the years ended December 31, 2016 and 2015, the estimated employees' compensation in cash was \$50,996 thousand and \$21,124 thousand, and the estimated remuneration to directors in cash was \$50,996 thousand and \$21,124 thousand, respectively.

Material differences between estimated amounts and the amounts resolved by the board of directors on or before the date the annual financial statements are approved are adjusted in the year the compensation and remuneration were recognized. If there is a change in the resolved amounts after the annual financial statements were approved, the differences are recorded as a change in accounting estimate and adjusted in the following year.

For the year ended December 31, 2015, the employees' compensation and the remuneration to directors was \$21,124 thousand and \$21,124 thousand, respectively, and had been resolved by the board of directors on March 29, 2016 and reported in the shareholders' meeting on June 24, 2016. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration to directors resolved by the board of directors and reported in the shareholders' meeting is available at the Market Observation Post System website of the Taiwan Stock Exchange.

#### b. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
An analysis of depreciation and amortization by asset		
Property, plant and equipment	\$ 33,202	\$ 32,506
Intangible assets	15,681,995	20,589,223
Other non-current assets	1,790	945
	<u>\$ 15,716,987</u>	<u>\$ 20,622,674</u>
An analysis of depreciation by function		
Operating costs	\$ 26,978	\$ 26,445
Operating expenses	6,224	6,061
	<u>\$ 33,202</u>	<u>\$ 32,506</u>

(Continued)

	For the Year Ended December 31	
	2016	2015
An analysis of amortization by function		
Operating costs	\$ 15,681,460	\$ 20,587,606
Operating expenses	2,325	2,562
	<u>\$ 15,683,785</u>	<u>\$ 20,590,168</u>

(Concluded)

### c. Interest income

	For the Year Ended December 31	
	2016	2015
Interest income on repurchase agreements collateralized by government bonds	\$ 98,148	\$ 204,465
Interest income on bank deposits	17,300	30,016
Other interest	-	7
	<u>\$ 115,448</u>	<u>\$ 234,488</u>

### d. Interest expense

	For the Year Ended December 31	
	2016	2015
Interest on bank loans	\$ 7,198,567	\$ 7,796,209
Interest on operating concession liability	1,630,013	1,598,052
Interest on value of returned superficies for offset of profit sharing payable	(453,801)	(76,823)
Others	780	(60,586)
	<u>\$ 8,375,559</u>	<u>\$ 9,256,852</u>

The information of capitalized interest was as follows:

	For the Year Ended December 31	
	2016	2015
Capitalized interest	\$ 44,248	\$ 186,824
Capitalization rates	2.10%-2.25%	2.03%-2.30%

### e. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Stabilization reserve expense	\$ (280,289)	\$ -
Foreign exchange gain (loss), net	(68,810)	44,839
Loss on disposal of intangible assets, net	(61,792)	(16,418)
Compensation loss	(29,052)	-

	For the Year Ended December 31	
	2016	2015
Handling charge for early repayment of long-term debt and amortization of cost of long-term debt	\$ (13,325)	\$ -
Arbitration and court costs	(1,116)	(191,906)
Gain on value of returned superficies for offset of profit sharing payable	-	22,613,234
Preferred stock compensation expenditure	-	(15,161,065)
Gain on disposal of available-for-sale financial assets	1,426	2,949
Others	11,148	8,070
	<u>\$ (441,810)</u>	<u>\$ 7,299,703</u>

## 22. INCOME TAXES

### a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2016	2015
Current tax	\$ (487,305)	\$ (294)
Deferred tax	(361,172)	2,039,089
Income tax benefit (expense)	<u>\$ (848,477)</u>	<u>\$ 2,038,795</u>

A reconciliation of income before income tax and income tax benefit (expense) was as follows:

	For the Year Ended December 31	
	2016	2015
Income tax expense calculated at the statutory rate (17%)	\$ (849,588)	\$ (3,201,752)
Nondeductible expenses in determining taxable income	(17,738)	(89,633)
Change in unrecognized loss carryforwards	-	4,505,568
Change in unrecognized investment tax credits	9,381	(1,643)
Change in unrecognized deductible temporary differences	(265)	838,474
Others	9,733	(12,219)
Income tax benefit (expense) recognized in profit or loss	<u>\$ (848,477)</u>	<u>\$ 2,038,795</u>

### b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Remeasurement of defined benefit plan	<u>\$ 9,794</u>	<u>\$ 9,894</u>

### c. Deferred tax assets and liabilities

For the year ended December 31, 2016

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 4,008,144	\$ 137,365	\$ -	\$ 4,145,509
Provisions	466,219	(368,276)	-	97,943
Compensated absences	19,977	2,900	-	22,877
Deferred revenue	10,920	(4,841)	-	6,079
Defined benefit obligation	3,059	-	9,794	12,853
Others	914	(410)	-	504
	4,509,233	(233,262)	9,794	4,285,765
Loss carryforwards	130,643	(130,643)	-	-
Investment tax credits	1,892	(1,892)	-	-
	<u>\$ 4,641,768</u>	<u>\$ (365,797)</u>	<u>\$ 9,794</u>	<u>\$ 4,285,765</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Others	\$ 5,733	\$ (4,625)	\$ -	\$ 1,108

For the year ended December 31, 2015

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 2,604,272	\$ 1,403,872	\$ -	\$ 4,008,144
Provisions	-	466,219	-	466,219
Compensated absences	-	19,977	-	19,977
Deferred revenue	-	10,920	-	10,920
Defined benefit obligation	-	-	3,059	3,059
Others	-	914	-	914
	2,604,272	1,901,902	3,059	4,509,233
Loss carryforwards	-	130,643	-	130,643
Investment tax credits	-	1,892	-	1,892
	<u>\$ 2,604,272</u>	<u>\$ 2,034,437</u>	<u>\$ 3,059</u>	<u>\$ 4,641,768</u>

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax liabilities</u>				
Temporary differences				
Defined benefit obligation	\$ 6,835	\$ -	\$ (6,835)	\$ -
Others	10,385	(4,652)	-	5,733
	<u>\$ 17,220</u>	<u>\$ (4,652)</u>	<u>\$ (6,835)</u>	<u>\$ 5,733</u>

**d. Items for which no deferred tax assets have been recognized**

	December 31	
	2016	2015
Investment tax credits	\$ -	\$ 9,381
Deductible temporary differences	995	729
	<u>\$ 995</u>	<u>\$ 10,110</u>

**e. Integrated income tax**

	December 31	
	2016	2015
Imputation credit account	<u>\$ 13,657</u>	<u>\$ 74,097</u>

All of the Corporation's unappropriated earnings were generated after January 1, 1998. The actual creditable ratio for distribution of earnings for the year ended December 31, 2015 is 1.8%. The estimated creditable ratio for distribution of earnings for the year ended December 31, 2016 is 11.75%.

**f. Income tax assessments**

The tax returns through 2014 have been assessed by the tax authorities.

## 23. EARNINGS PER SHARE

The net income and weighted average number of common shares outstanding that were used in the computation of earnings per share were as follows:

	Amount	Number of Shares (In Thousands)	Earnings Per Share (NT\$)
<u>For the year ended December 31, 2016</u>			
Basic and Diluted earnings per share			
Earnings attributable to common shareholders	\$ 4,149,098	5,609,566	\$ 0.74
<u>For the year ended December 31, 2015</u>			
Basic earnings per share			
Earnings attributable to common shareholders	\$ 20,872,630	2,901,183	\$ 7.19
Diluted earnings per share			
Effect of dilutive potential convertible preferred stock	12,583,684	2,400,384	
Earnings attributable to common shareholders plus dilutive effect of potential convertible preferred stock	\$ 33,456,314	5,301,567	\$ 6.31

## 24. CAPITAL MANAGEMENT

The Corporation manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its needs, including working capital needs within 12 months, capital expenditure during the concession period, profit sharing payments, repayments of long-term and short-term debt, and other operating needs.

## 25. FINANCIAL INSTRUMENTS

### a. Financial instruments

	December 31	
	2016	2015
<u>Financial assets</u>		
Available-for-sale financial assets	\$ 311,693	\$ 602,555
Hedging derivative assets	225	-
Loans and receivables		
Other financial assets	26,774,693	56,544,382
Others (Note 1)	802,123	2,427,255
<u>Financial liabilities</u>		
Financial liabilities carried at amortized cost (Note 2)	396,719,474	441,798,665

Note 1: The balances included loans and receivables measured at amortized cost, which comprised cash and cash equivalents, notes and accounts receivable, and other receivables. However, tax refund receivable was not included.

Note 2: The balances included financial liabilities measured at amortized cost, which comprised short-term debt, accounts payable, operating concession liability, other payables, payable for construction, long-term debt (including current portion) and long-term interest payable. However, short-term employee benefits payable and business tax payable were not included.

## b. Fair value of financial instruments

### 1) Fair value of financial instruments that are not measured at fair value

Management believes the carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

### 2) Fair value of financial instruments that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable, and are as follows:

a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3 inputs are unobservable inputs for the asset or liability.

December 31, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Open-end money market funds	\$ 311,693	\$ -	\$ -	\$ 311,693
Hedging derivative assets				
Forward exchange contracts	\$ -	\$ 225	\$ -	\$ 225

December 31, 2015

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Open-end money market funds	\$ 602,555	\$ -	\$ -	\$ 602,555

There were no transfers between Levels 1 and Level 2 for the years ended December 31, 2016 and 2015.

### 3) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.

b) The fair values of derivative financial instruments are determined using valuation techniques because no market prices are available. Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

### c. Financial risk management objectives and policies

The Corporation's major financial risk management goal is to manage risks that relate to operating activities. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. In order to lower relevant financial risks, the Corporation identifies and assesses the risks and takes actions to manage uncertainty of the market.

The Corporation's important financial activities are reviewed by the board of directors in accordance with related regulations and internal controls. The Corporation also established related financial transaction procedures in accordance with the Corporation's overall financial risk management and segregation of duties.

#### 1) Market risk

##### a) Foreign currency risk

The Corporation's deposits, accounts payable and payable for construction denominated in foreign currencies exposed the Corporation to foreign currency risk. To prevent the decline in value or fluctuations in future cash flows due to changes in exchange rates, the Corporation enters into forward exchange contracts to hedge foreign exchange risk. Derivative financial instruments can partially, but not entirely, reduce the impact arising from changes in foreign exchange rates.

The Corporation's foreign-currency financial assets and liabilities were as follows (in thousands of respective foreign currencies or New Taiwan dollars):

	December 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 20,947	32.279	\$ 676,136
JPY	3	0.2757	1
<u>Financial liabilities</u>			
Monetary items			
USD	1,092	32.279	35,249
JPY	1,206,188	0.2757	332,546
	December 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 20,737	33.066	\$ 685,691
JPY	32,529	0.2746	8,932



	December 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 2,606	33.066	\$ 86,161
JPY	2,750,412	0.2746	755,263

The Corporation was mainly exposed to USD and JPY. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by \$6,408 thousand and \$5,995 thousand, respectively, for the years ended December 31, 2016 and 2015. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$3,325 thousand and \$7,463 thousand, respectively, for the years ended December 31, 2016 and 2015.

The significant unrealized exchange gain and loss were as follows:

Foreign Currency	December 31			
	2016		2015	
	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	32.279	\$ (31,870)	33.066	\$ 3,629
JPY	0.2757	4,386	0.2746	(29,138)

b) Interest rate risk

As of December 31, 2016 and 2015, the Corporation's syndicated loan with floating interest rates amounted to \$327,365,680 thousand and \$359,312,209 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by \$3,273,657 thousand and \$3,593,122 thousand, respectively, for the years ended December 31, 2016 and 2015.

c) Other price risk

The investments in open-end money market funds (recorded as available-for-sale financial assets) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, other comprehensive income before income tax would have decreased by \$3,117 thousand and \$6,026 thousand, respectively, for the years ended December 31, 2016 and 2015.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation. Financial assets with positive fair values at the balance sheet date are evaluated for credit risk. At the end of the reporting period, the Corporation's maximum exposure to credit risk which will cause a financial loss to the Corporation due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Corporation only transacts with financial institutions and companies with good credit ratings. Therefore, no significant credit risk is anticipated.

### 3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank facilities and ensures compliance with loan covenants.

According to the Financial Resolution Plan, related agreements were amended by the Corporation, the MOTC and Bank of Taiwan (please refer to Note 31, d.). Please refer to Note 14, b. for the details of repayment amounts, term of loan, estimated interest rates, and other factors under the Syndicated Loan Agreement. The following table details the Corporation's remaining contractual maturity for its long-term debt, interest on long-term debt, and operating concession liability based on the undiscounted cash flows (excluding the derivative financial instruments and non-derivative financial liabilities that are to be settled within one year from the balance sheet date).

#### December 31, 2016

	<b>Long-term Debt (Including Current Portion)</b>	<b>Interest on Long-term Debt</b>	<b>Operating Concession Liability</b>	<b>Payable for Preferred Stock Compensation</b>	<b>Total</b>
Three months ended March 31, 2017	\$ -	\$ 1,529,000	\$ -	\$ -	\$ 1,529,000
Nine months ended December 31, 2017	10,946,529	4,587,000	3,180,612	5,853	18,719,994
2018	10,214,034	9,986,162	56,972	-	20,257,168
2019	-	10,032,596	-	-	10,032,596
2020	-	10,006,629	147,511	-	10,154,140
2021	9,186,154	10,390,325	161,106	-	19,737,585
2022-2033	110,233,842	107,387,171	69,853,078	-	287,474,091
2034-2050	186,785,121	68,698,542	-	-	255,483,663
	<u>\$ 327,365,680</u>	<u>\$ 222,617,425</u>	<u>\$ 73,399,279</u>	<u>\$ 5,853</u>	<u>\$ 623,388,237</u>

#### December 31, 2015

	<b>Long-term Debt (Including Current Portion)</b>	<b>Interest on Long-term Debt</b>	<b>Operating Concession Liability</b>	<b>Payable for Preferred Stock Compensation</b>	<b>Total</b>
Three months ended March 31, 2016	\$ -	\$ 2,072,905	\$ -	\$ 15,155,212	\$ 17,228,117
Nine months ended December 31, 2016	13,511,670	6,218,714	1,939,460	5,853	21,675,697
2017	12,229,100	9,411,171	2,805,958	-	24,446,229
2018	10,946,529	10,481,791	8,220	-	21,436,540
2019	10,946,529	10,355,806	-	-	21,302,335
2020	5,473,265	10,087,431	115,142	-	15,675,838
2021-2033	119,419,995	117,777,496	70,413,882	-	307,611,373
2034-2050	186,785,121	68,698,542	-	-	255,483,663
	<u>\$ 359,312,209</u>	<u>\$ 235,103,856</u>	<u>\$ 75,282,662</u>	<u>\$ 15,161,065</u>	<u>\$ 684,859,792</u>

## 26. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interest in the Corporation's outstanding common shares. Under IAS 24, the Corporation is a government-related entity which is significantly influenced by the central government. The Corporation and other government-related entities (e.g., government-owned businesses) which are controlled by the Executive Yuan are related parties. However, the Corporation is not a related party with those government-related entities which are only significantly influenced but not controlled by the Executive Yuan.

The Corporation is not required to disclose transactions and outstanding balances with the government-related entities. In addition to the C&O Agreement entered into with MOTC as stated in Note 28, the names of related parties, relationships, and the nature and amounts of the significant transactions were summarized as follows:

### a. Name of related party and relationship

Related Party	Relationship with the Corporation
MOTC	An investor that has significant influence over the Corporation
Bank of Taiwan	A government-related entity controlled by the central government

### b. The Corporation's financial resolution plan

According to the Financial Resolution Plan, the Corporation has entered into the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement with the MOTC on July 27, 2015. On August 3, 2015, the Corporation has entered into the First Amendment of Tripartite Agreement with the MOTC and Bank of Taiwan, and the Second Amendment of the Syndicated Loan Agreement with a bank syndicate consisting of eight (8) banks which were effective on October 2015. Please refer to Note 31, d. for further details.

### c. Operating revenues

The Corporation is mainly engaged in the operation of the North-South High Speed Railway. According to the fare rate standard, timing and procedures of fare adjustment as prescribed in the C&O Agreement and regulated by the MOTC, the Corporation's ticket price setting and adjustment shall be reported to the MOTC before they are announced and implemented. The transportation services and ticket prices provided to related parties were the same as those provided to passengers.

### d. Operating costs

#### 1) Profit sharing payments

According to the C&O Agreement, during the operating period, the Corporation shall make profit sharing payments at 10% of the operating profit before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as intangible assets - operating concession asset and operating concession liability, and related amortization expense and interest expense, respectively, is recognized during the concession period. Please refer to Note 15 and Note 28, a., 2) for further information.

## 2) Rental

The Corporation has entered into the C&O Agreement, the SZD Agreement and the Protocol of Taipei Main Station and Tunnel with the MOTC. The MOTC leased land, Taipei Main Station and tunnel to the Corporation for HSR use. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in future price of public-owned land and usage and other factors. The Corporation prepays the rental for the following year by the end of each year. Please refer to Note 28, b. for further details.

### **e. Non-operating income and expenses**

#### 1) Interest expense

Please refer to Note 15 for the interest expense recognized on the operating concession liability, and the deduction of interest expense recognized on the value of returned superficities for offset of profit sharing payable using the effective interest method due to termination of the SZD Agreement.

#### 2) Other gain - gain on value of returned superficities for offset of profit sharing payable due to termination of SZD Agreement

According to the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement, the Corporation and MOTC engaged impartial and professional appraisal firms to appraise the fair value of the superficities returned to the MOTC in the amount of \$22,613,234 thousand. Please refer to Note 15 and Note 28, a., 2) for further details.

#### 3) Other loss - preferred stock compensation expenditure

According to the Financial Resolution Plan, the Corporation entered into preferred stock compensation agreements with preferred stock shareholders in 2015. Several preferred stock shareholders were government-owned businesses or were the companies significantly influenced by the Executive Yuan. The Corporation had limited information to determine whether the Executive Yuan had control or significant influence over such preferred stock shareholders; therefore, no related party transactions were disclosed. However, the terms of the preferred stock compensation agreements with related parties are the same as those with non-related parties (normal preferred stock shareholders). The preferred stock compensation expenditure amounted to \$15,161,065 thousand in 2015. Please refer to Note 16 for further details.

### **f. Acquisition of assets - operating concession asset**

According to the Fourth Amendment of the C&O Agreement, the concession period has been extended from 35 years to 70 years until the year 2068. Shortfall charge receivable from statutory concession tickets in the amount of \$12,701,819 thousand as of October 29, 2015 was considered as cost of the extension of concession period. Please refer to Note 4, j., Note 4, o., Note 12 and Note 28, a., 1) for further details.

### **g. Long-term debt**

The Corporation has entered into the Tripartite Agreement and the Syndicated Loan Agreement with the MOTC and Bank of Taiwan. If an early termination of the C&O Agreement occurs, the MOTC shall assume the remaining obligations under Tranche A Facility of the Syndicated Loan Agreement. Please refer to Note 14, b. for further information of the major terms, the term of loan, repayment method, interest rates, and early repayment of loan with respect to the Syndicated Loan Agreement.

#### h. Compensation of key management personnel:

Compensation of key management personnel was as follows:

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	\$ 126,187	\$ 87,689
Post-employment benefits	944	909
	<u>\$ 127,131</u>	<u>\$ 88,598</u>

#### 27. RESTRICTED ASSETS

Pledged Assets	Pledged to Secure	December 31	
		2016	2015
Other financial assets - current:			
Repurchase agreements collateralized by government bonds	Syndicated loan	\$ 21,682,200	\$ 45,973,200
Time deposits	Trust deposit of unearned revenue	28,500	56,500
Time deposits	Guarantee for office lease	17,232	-
Time deposits	Syndicated loan	4,749	7,606,810
Time deposits	Guarantee for credit limit	-	516,360
Time deposits	Guarantee for station land lease	-	2,909
Time deposits	Guarantee for commodity sale	-	940
Demand deposits	Syndicated loan	82,758	299,515
Demand deposits	Trust deposit of unearned revenue	47,705	17,285
		<u>21,863,144</u>	<u>54,473,519</u>
Other financial assets - non-current:			
Time deposits	Guarantee for customs duties	42,239	42,651
Time deposits	Guarantee for oil purchase	1,320	1,320
Time deposits	Guarantee for office lease	-	17,232
		<u>43,559</u>	<u>61,203</u>
		<u>\$ 21,906,703</u>	<u>\$ 54,534,722</u>

According to the Syndicated Loan Agreement, the affiliated land superfices of the Corporation's five stations were mortgaged to the joint creditors of the syndicated loan. According to the Financial Resolution Plan, the Corporation has canceled the superfices mortgage and returned the superfices to the MOTC on October 20, 2015. For further information, please refer to Note 31, a., c. and d.

## 28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

### a. C&O Agreement and SZD Agreement

According to the Corporation's Financial Resolution Plan, the Corporation has entered into the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement with the MOTC on July 27, 2015. For further information, please refer to Note 31, d. As of December 31, 2016, significant provisions of the C&O Agreement were as follows:

- 1) The concession period, including the construction period and operating period, for the construction and operation of HSR is 70 years from the date of agreement, and can be extended pursuant to the C&O Agreement.
- 2) During the operating period, the Corporation shall make profit sharing payments at 10% of the operating profit before income tax (representing the profit after deduction of all costs and expenses necessary for operations from revenues) to the MOTC each year for the development and construction of HSR infrastructure and facilities. However, if the accumulated amount of the profit sharing payments is less than the amount listed in the table below, the latter shall prevail.

As of the end of the fifth year of full operation	\$	2 billion
As of the end of the tenth year of full operation		10 billion
As of the end of the fifteenth year of full operation		25 billion
As of the end of the twentieth year of full operation		48 billion
As of the end of the twenty-fifth year of full operation		75 billion
As of July 23, 2033		108 billion

According to the SZD Termination Agreement, the Corporation and MOTC engaged impartial and professional appraisal firms to appraise the fair value of the superficies returned to the MOTC in the amount of \$22,613,234 thousand. The value of the returned superficies is allowed by the MOTC to offset the profit sharing payments in the amount of \$29,784,855 thousand at the end of every five years as follows:

As of the end of the tenth year of full operation	\$	2,003,521 thousand
As of the end of the fifteenth year of full operation		4,252,245 thousand
As of the end of the twentieth year of full operation		6,520,109 thousand
As of the end of the twenty-fifth year of full operation		7,654,041 thousand
As of July 23, 2033		9,354,939 thousand

Starting from 2013, the Corporation prepares its financial statements in accordance with IFRSs endorsed by the FSC. Please refer to Note 15 for the recognition of profit sharing payments as operating concession liability.

- 3) The Corporation should establish a financial stabilization mechanism starting from 2016.
  - a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments resulted from the change in accounting policies exceed \$3.5 billion, the stabilization reserve should be provided as described below:
    - i. If the Corporation's EBT in the current year is higher than A1 but less than A2, the EBT is regarded as operation incentive and no stabilization reserve should be provided (please refer to the note below for the definitions of EBT, A1, A2 and A3).

- ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:  
 $(EBT - A2) \times 50\%$
  - iii. If the Corporation's EBT in the current year is higher than A3, the stabilization reserve should be provided in the current year as follows:  
 $(A3 - A2) \times 50\% + (EBT - A3) \times 70\%$   
 EBT = Income (loss) before income tax, net of the stabilization reserve and the compensation and remuneration set out in Article 235-1 of the Company Act.  
 A1 = Net income of \$3.5 billion  $\div$  (1 - the statutory tax rate)  
 A2 = Net income of \$4.0 billion  $\div$  (1 - the statutory tax rate)  
 A3 = Net income of \$4.5 billion  $\div$  (1 - the statutory tax rate)
- b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent the accumulated stabilization reserve equals zero.
- c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") in Bank of Taiwan.
- i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.
  - ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:
    - i) Fare discount or fare reduction;
    - ii) Construction of HSR infrastructure and facilities; and
    - iii) In compliance with the government's policies.
  - iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.
  - iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.
- d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period
- i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.

- ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.
- iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.
- iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.

e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.

4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.

5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.

6) The Corporation provided a \$5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, \$0.5 billion of the performance bond can be returned each year. However, the total returned amount cannot exceed \$3 billion.

As of December 31, 2016 and 2015, the aforementioned performance bond both amounted to \$2 billion (recognized as other financial assets).

b. According to the C&O Agreement, SZD Agreement and the Protocol of Taipei Main Station and Tunnel, the MOTC leased land, Taipei Main Station and tunnel to the Corporation for HSR use. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in future price of public-owned land and usage and other factors. The Corporation prepays the rental for the following year by the end of each year. The rental expense amounted to



\$704,739 thousand and \$432,594 thousand, respectively, for the years ended December 31, 2016 and 2015. As of December 31, 2016 and 2015, prepaid rentals amounted to \$788,548 thousand and \$396,898 thousand, respectively, and were recognized as prepayments and other current assets. As of December 31, 2016, rentals payable amounted to \$39,530 thousand and were recognized as other payables.

c. As of December 31, 2016, unused letters of credit amounted to JPY1,880,791 thousand and US\$782 thousand.

d. In May 2012, the Corporation entered into a purchase agreement for type 700T rolling stock. As of December 31, 2016, the Corporation has acquired four sets of type 700T rolling stock. Furthermore, the Corporation can choose to purchase additional type 700T rolling stock up to four sets at the unit price ranging from JPY4,328,424 thousand to JPY4,500,000 thousand (net of customs duties and business tax) by March 2017.

e. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long term period, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation shall compensate the residents of \$8,338 thousand. The Corporation disagreed the ruling and filed an appeal to Miaoli District Court. As of December 31, 2016, the lawsuit is still under the review of the court.

## 29. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

a. On January 24, 2017, the Corporation signed a joint underwriting agreement with an underwriting syndicate consisted of ten financial institutions, including the arranger, International Bills Finance Corporation. Within the two-year period, the Corporation could issue unsecured commercial paper with maturity period ranging from 90 days to one year. The total amount of the revolving underwriting facility is \$20 billion.

b. The Corporation has entered into the Third Amendment of the Syndicated Loan Agreement with the Bank of Taiwan (the agent bank of the bank syndicate) on February 15, 2017. The amendments to the terms include modifications of designated accounts and evaluation mechanism of the guaranteed value, and loosening of restrictions on additions to other debt.

## 30. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

For the information on the Corporation's significant financial assets and liabilities denominated in foreign currencies, please refer to Note 25, c.

## 31. OTHERS

### a. Superficies

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure, including routes, maintenance bases, and stations. As of December 31, 2016, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 0837-0000 of Kuanghua Section, Hsinchuang District, New Taipei City located on the north to Land Lot No. 0421-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

According to the SZD Agreement, the Corporation previously acquired from the MOTC the superficies on the land of ancillary business of station zones located on the designated areas of Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations. Pursuant to the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement that became effective on October 30, 2015, the Corporation returned the land of ancillary business while retained the superficies on the land of stations.

- b. In order to protect shareholders' equity and maintain stable operations, the Corporation applied to the HSR Conciliation Committee for the coordination of the following cases: (1) the excluded event that the government had not compensated the Corporation for the shortfall charge from statutory concession tickets; (2) the force majeure and excluded event that actual ridership and revenues were lower than expected due to significant changes in domestic and overseas economy, and the performance of the C&O Agreement was significantly impacted; and (3) the nine force majeure and excluded events that the performance of the C&O Agreement was significantly impacted, including the 921 earthquake happened during the HSR construction period (hereinafter referred to as "Three Cases under Coordination").

As the determination of whether the Three Cases under Coordination were qualified as the force majeure and excluded events was complicated, the HSR Conciliation Committee concluded that the Corporation should discuss with the MOTC to seek a remedy to improve the Corporation's financial status; furthermore, both parties should conciliate the controversies over the C&O Agreement to solve the Corporation's financial difficulties. As of February 16, 2015 to which the MOTC and the Corporation both agreed to extend the conciliation period, because the Financial Improvement Plan had not been completed, in the interest of time, the Corporation submitted the Three Cases under Coordination to arbitration on February 17, 2015 to request the MOTC to reasonably compensate for the Corporation's loss (hereinafter referred to as "Three Cases under Arbitration"), and paid for the arbitration fee.

- 1) The excluded event that the government had not compensated the Corporation for the shortfall charge from statutory concession tickets

The Corporation requested the MOTC to pay \$10,990,041 thousand plus 5% of interest thereon. As of October 29, 2015, the shortfall charge from statutory concession tickets amounted to \$12.7 billion.

- 2) The force majeure and excluded event that actual ridership and revenues were lower than expected due to significant changes in domestic and overseas economy, and the performance of the C&O Agreement was significantly impacted

As of December 31, 2014, the loss incurred due to the actual ridership far below the expected ridership approximated \$227.1 billion. The Corporation partially requested the MOTC to pay \$30,590,000 thousand plus 5% of interest thereon accumulated from February 17, 2015 to the payment date, or to extend the concession period of the C&O Agreement equivalent to the loss, or to compensate for the Corporation's loss by other means.

- 3) The nine force majeure and excluded events that the performance of the C&O Agreement was significantly impacted, including the 921 earthquake happened during the HSR construction period

The additional construction costs and operating loss amounted to \$71.9 billion. The Corporation partially requested the MOTC to pay \$16,041,591 thousand plus 5% of interest thereon accumulated from February 9, 2013 to the payment date.

According to the Financial Resolution Plan, the Fourth Amendment of C&O Agreement was effective on October 30, 2015. The construction and operation concession period of the HSR was extended from 35 years to 70 years until the year 2068. The Corporation withdrew the Three Cases under Arbitration on November 13, 2015.

c. The Corporation's financial structure was unstable as some preferred shareholders filed lawsuits to request the Corporation to redeem preferred stock and to distribute dividends. If the final judgments on the lawsuits are unfavorable to the Corporation, the bank syndicate might take preventive measures, or even deem it a substantial breach of agreement according to the Tripartite Agreement and the Syndicated Loan Agreement, and the C&O Agreement might be terminated. Furthermore, based on the conclusion made by the HSR Conciliation Committee on the Three Cases under Coordination, the board of directors approved the Financial Improvement Plan on October 23, 2014. However, on January 7, 2015, the Legislative Yuan decided not to handle the plan at that stage. On March 26, 2015, the board of directors approved the National Stock Subscription Project to be submitted to the MOTC. After the MOTC modified the investors qualified for subscription of shares in the capital injection and the planned amount to be injected, the project was renamed to "the Financial Resolution Plan of Taiwan High Speed Rail Corporation" (the "Financial Resolution Plan"). The suggested Financial Resolution Plan A and Financial Resolution Plan B were submitted simultaneously to the Legislative Yuan for review. On May 21, 2015, the Transportation Committee of the Legislative Yuan resolved to adopt Financial Resolution Plan B (including four attached resolutions). After the Financial Resolution Plan B was filed to the Legislative Yuan for reference on June 5, 2015, the MOTC requested the Corporation to agree with the Financial Resolution Plan B. The details of Financial Resolution Plan B, which was approved by the board of directors on June 25, 2015, are summarized as follows:

1) Redemption of all issued preferred stock and reduction of capital

The Corporation proposed to redeem all of the issued preferred stock in a total of 4,018,992 thousand shares pursuant to the Corporation's Articles of Incorporation and preferred stock offering and conversion policy. Payable for redemption of the preferred stock amounted to \$39,221,157 thousand.

2) Extension of concession period to 70 years

In order to maintain reasonable returns and operate stably based on the reasonable useful lives over which the operating assets were amortized, the Corporation planned to enter into an amendment to the C&O Agreement with the MOTC to extend the concession period from 35 years to 70 years until the year 2068.

3) Capital reduction plan to make up for losses

After all of the preferred stock was redeemed, the paid-in capital only comprised common stock in the amount of \$65,132,326 thousand. The Corporation proposed to use common stock to make up for the accumulated losses with a capital reduction rate of 60%, which is subject to actual conditions.

4) Capital injection of \$30 billion

The prerequisite that the MOTC will agree to extend the concession period under the Financial Resolution Plan is for government-owned or government-related entities to increase their equity interest in the Corporation. To meet the prerequisite, the Corporation proposed to conduct capital injection of \$30 billion, of which \$24.2 billion was invested by a government fund (the fund for HSR construction), and \$5.8 billion was invested by other government-owned and government-related entities. After completion of the capital injection, the government-owned and government-related entities own 63.9% equity interest in the Corporation.

5) Termination of SZD Agreement with the MOTC

The Corporation proposed to terminate the SZD Agreement with the MOTC. Hence, the superficies on the land of ancillary business of station zones as defined in the SZD Agreement were returned to the MOTC. The appraised fair value of the returned superficies was used to offset the profit sharing payments to the MOTC under the C&O Agreement. The superficies on the land of stations were retained, and the rights and obligations of the retained superficies are subject to the amendment to the C&O Agreement.

6) Amendment of Syndicated Loan Agreement

a) Release of restrictions on the designated accounts and the use of funds

The Corporation proposed to negotiate with the bank syndicate for them to agree to amend the Syndicated Loan Agreement, and release the restrictions on the designated accounts and the use of funds to redeem preferred stock as a first priority.

b) Release of liens on superficies

The Corporation proposed to negotiate with the bank syndicate to release the liens held by the bank syndicate on the superficies on the land of station zones, for the Corporation to return the superficies to the MOTC.

c) Extension of repayment term of Syndicated Loan Agreement

For the extension of concession period to 70 years and the implementation of the Financial Resolution Plan, the Corporation proposed to negotiate with the bank syndicate the extension of the repayment term of Syndicated Loan Agreement, together with other revolving credit facility, as the solutions to redemption of preferred stock, return on equity of the capital injection, etc. under Financial Resolution Plan.

7) Withdrawal of Three Cases under Arbitration

The Corporation planned to withdraw the ongoing Three Cases under Arbitration after the Fourth Amendment of the C&O Agreement became effective.

8) Adjustment of fare rate and fare

The Corporation planned to amend the fare rate standard, timing and procedures of fare adjustment as prescribed in the C&O Agreement with the MOTC, to use the shortfall charge from statutory concession tickets as a cross subsidy to decide the self-determined basic fare rate. The amendments also require that the factors to adjust the Corporation's self-determined fare shall actually reflect all of the marketing and promotion discounts.

9) Establishment of a financial stabilization mechanism and a designated account

The Corporation planned to establish a financial stabilization mechanism and a designated account which will take effect starting January 1 of the next year after the Fourth Amendment of the C&O Agreement becomes effective.

- a) The financial stabilization mechanism stipulates that if the Corporation's profit exceeds prescribed criteria, the Corporation shall provide a reserve and recognize an expense; if the profit is lower than the prescribed criteria, part of the reserve shall be reversed and recognized as a deduction of expense, but only to the extent the balance of reserve equals zero. When the reserve exceeds \$10 billion, the Corporation shall contribute the excess amount to the Stabilization Mechanism Account. The funds of the account can be used only for specified purposes. The remaining balance of the account shall be transferred to the MOTC upon expiration of the concession period.
- b) If the average annual net income of the Corporation is higher than \$4 billion but less than \$4.5 billion, a reserve shall be provided at 50% of the amount in excess of \$4 billion. If the average annual net income exceeds \$4.5 billion, an additional reserve shall be provided at 70% of the amount in excess of \$4.5 billion. To simplify the calculation, the net income is converted to income before income tax using the statutory tax rate for provision of a reserve.

**d. The status of execution of the Financial Resolution Plan**

- 1) The proposals resolved in the special shareholders' meeting held on September 10, 2015 include:
  - a) Proposal for the extension of the concession period in order to implement the Financial Resolution Plan;
  - b) Proposal for compensation for accumulated unpaid preferred stock dividends;
  - c) Proposal for capital reduction to offset accumulated losses;
  - d) Proposal for issuance of common stock through a private placement;
  - e) Proposal for amendment to the Corporation's Articles of Incorporation;
  - f) Proposal for the termination of the SZD Agreement, and the value on return of the superficies on the land of ancillary business to offset the profit sharing payments;
  - g) Proposal for the withdrawal of Three Cases under Arbitration from the Arbitration Association.
  - h) Proposal for establishment of a financial stabilization mechanism; and
  - i) Proposal for the adjustment of fare rate and fare.

2) On July 27, 2015, the Corporation and the MOTC entered into the Fourth Amendment of the C&O Agreement which was effective on October 30, 2015. The main contents of the agreement are summarized as follows:

- a) The concession period is extended from 35 years to 70 years until the year 2068;
- b) The MOTC promises that when the Corporation conducts capital injection of \$30 billion within six months from the effective date of the Fourth Amendment of the C&O Agreement, the fund for HSR construction will invest in \$24.2 billion, and other government-owned and government-related entities will invest in the remaining \$5.8 billion;
- c) The Corporation shall conduct capital injection of \$30 billion within six months from the effective date of the Fourth Amendment of the C&O Agreement, and reduce the ticket price, at earliest possible time, to the level prior to the increase in ticket price on October 8, 2013;
- d) The MOTC and the Corporation establish the method and amounts for offset of profit sharing payments by the value of the returned superficies appraised by impartial and professional appraisal firms;
- e) The Corporation establishes a financial stabilization mechanism to leverage net income of different years for the purpose to distribute stable dividends;
- f) Establishment of the related factors on markup of within 20% range on the Corporation's self-determined basic fare rate, and related details; and
- g) The Corporation confirms the timing on which the Corporation shall withdraw the Three Cases under Arbitration after the Fourth Amendment of the C&O Agreement becomes effective, and after the withdrawal, the Corporation shall not claim for any compensation from the MOTC.

3) On July 27, 2015, the Corporation and the MOTC entered into the SZD Termination Agreement which was effective on October 30, 2015. The main contents of the agreement comprise:

- a) The Corporation shall be responsible for release of the liens on the superficies on the land of ancillary business;
- b) Return of the vacated land of ancillary business to the MOTC within ten days from the release of the liens on the superficies, except for the facilities the MOTC agrees the Corporation could retain; and
- c) The responsibilities of the Corporation to maintain the land for transportation facility use.

4) On August 3, 2015, the Corporation, the MOTC and Bank of Taiwan entered into the First Amendment of the Tripartite Agreement, which was effective on October 20, 2015. If the guaranteed value is insufficient, the Corporation may pledge its deposits to the Bank of Taiwan and the amount of pledged deposits shall be included in the guaranteed value. For further information, please refer to Note 14, b.

- 5) On August 3, 2015, the Corporation and the bank syndicate, including Bank of Taiwan, entered into the Second Amendment of Syndicated Loan Agreement, which was effective on October 30, 2015. Please refer to Note 14, b. for the details of extension of term for the Tranche A Facility, and the adjustment of repayment amounts each year.
- 6) On October 20, 2015, the Corporation reduced common stock capital of \$39,079,396 thousand to make up for accumulated losses.
- 7) The Corporation withdrew the Three Cases under Arbitration on November 13, 2015.
- 8) On November 26, 2015, the Corporation conducted capital injection of 3,000,000 thousand shares of common stock through a private placement at par value of \$10, or a total of \$30,000,000 thousand.
- 9) According to the preferred stock compensation agreements, the Corporation paid compensation in the amount of \$15,146,737 thousand and \$8,475 thousand, respectively, on January 20, 2016 and February 3, 2016.

### 32. SEPARATELY DISCLOSED ITEMS

Except for Notes 8 and 25 regarding the information of derivative financial instrument transactions and Tables 1 and 2 as attached, there were no other significant transactions, information of investees and investments in mainland China required for disclosure.

### 33. SEGMENT INFORMATION

The Corporation is engaged only in the operation of HSR and related facilities. Consequently, there is no other reportable segment.

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item
The Corporation	Allianz TWD Money Market Fund	-	Available-for-sale financial assets - current
	FSITC Taiwan Money Market Fund	-	"
	Mega Diamond Money Market Fund	-	"
	Franklin Templeton Sinoam Money Market Fund	-	"
	Prudential Financial Money Market Fund	-	"
	Central Government Bonds 2016-8	-	Other financial assets - current
	Central Government Bonds 2016-12	-	"
	Central Government Bonds 2015-3	-	"
	Central Government Bonds 2015-6	-	"
	Central Government Bonds 2014-2	-	"
	Central Government Bonds 2014-6	-	"
	Central Government Bonds 2014-9	-	"
	Central Government Bonds 2014-15	-	"
	Central Government Bonds 2013-6	-	"
	Central Government Bonds 2013-10	-	"
	Central Government Bonds 2013-11	-	"
	Central Government Bonds 2012-2	-	"
	Central Government Bonds 2012-5	-	"
	Central Government Bonds 2012-6	-	"
	Central Government Bonds 2012-7	-	"
	Central Government Bonds 2012-9	-	"
	Central Government Bonds 2011-5	-	"
	Central Government Bonds 2011-7	-	"
	Central Government Bonds 2011-9	-	"
	Central Government Bonds 2010-4	-	"
	Central Government Bonds 2010-7	-	"
	Central Government Bonds 2008-5	-	"
	Central Government Bonds 2008-6	-	"
	Central Government Bonds 2006-7	-	"
	Central Government Bonds 2004-3	-	"
	Central Government Bonds 2003-3	-	"
	Central Government Bonds 2002-7	-	"
	Central Government Bonds 2001-2	-	"
	Central Government Bonds 2001-4	-	"
Central Government Bonds 2001 B 1st	-	"	
Central Government Bonds 2000-13	-	"	
Central Government Bonds 2000 B 1st	-	"	
Central Government Bonds 1999-3	-	"	
Central Government Bonds 1999 B 1st	-	"	



December 31, 2016				Note
Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
5,319	\$ 66,014	-	\$ 66,014	
6,631	100,442	-	100,442	
2,826	35,092	-	35,092	
4,899	50,133	-	50,133	
3,832	60,012	-	60,012	
\$ 409,500	455,000	-	455,000	
311,400	346,000	-	346,000	
37,800	42,000	-	42,000	
830,000	900,500	-	900,500	
72,900	81,000	-	81,000	
300,000	333,000	-	333,000	
353,800	393,100	-	393,100	
2,677,000	2,920,000	-	2,920,000	
300,300	333,000	-	333,000	
838,400	931,400	-	931,400	
144,000	160,000	-	160,000	
63,000	70,000	-	70,000	
129,000	140,000	-	140,000	
346,000	384,000	-	384,000	
100,000	108,000	-	108,000	
177,300	197,000	-	197,000	
416,000	460,000	-	460,000	
165,000	179,000	-	179,000	
1,270,300	1,411,400	-	1,411,400	
667,700	741,800	-	741,800	
92,000	100,000	-	100,000	
212,000	229,000	-	229,000	
757,400	840,600	-	840,600	
252,000	273,000	-	273,000	
23,400	26,000	-	26,000	
40,500	45,000	-	45,000	
894,500	993,800	-	993,800	
354,200	393,000	-	393,000	
965,100	1,071,000	-	1,071,000	
1,187,200	1,314,000	-	1,314,000	
3,384,800	3,641,800	-	3,641,800	
467,700	519,000	-	519,000	
844,600	938,000	-	938,000	
640,900	711,800	-	711,800	

**MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$300 MILLION**
**OR 20% OF THE PAID-IN CAPITAL**

FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
The Corporation	Central Government Bonds 2016-5	Other financial assets - current	-	-	\$ -	\$ -
	Central Government Bonds 2016-8	"	-	-	-	-
	Central Government Bonds 2016-12	"	-	-	-	-
	Central Government Bonds 2015-1	"	-	-	190,000	200,000
	Central Government Bonds 2015-3	"	-	-	4,202,500	4,669,444
	Central Government Bonds 2015-4	"	-	-	-	-
	Central Government Bonds 2015-5	"	-	-	376,000	415,000
	Central Government Bonds 2015-6	"	-	-	78,000	85,000
	Central Government Bonds 2015-10	"	-	-	1,883,100	2,092,111
	Central Government Bonds 2015-12	"	-	-	1,489,500	1,655,000
	Central Government Bonds 2014-4	"	-	-	-	-
	Central Government Bonds 2014-6	"	-	-	-	-
	Central Government Bonds 2014-9	"	-	-	956,700	1,063,000
	Central Government Bonds 2014-10	"	-	-	5,092,700	5,547,589
	Central Government Bonds 2014-13	"	-	-	-	-
	Central Government Bonds 2014-15	"	-	-	1,141,800	1,257,500
	Central Government Bonds 2013-2	"	-	-	141,300	157,000
	Central Government Bonds 2013-6	"	-	-	-	-
	Central Government Bonds 2013-8	"	-	-	242,500	269,344
	Central Government Bonds 2013-10	"	-	-	77,000	85,000
	Central Government Bonds 2013-11	"	-	-	900,000	1,000,000
	Central Government Bonds 2012-1	"	-	-	-	-
	Central Government Bonds 2012-2	"	-	-	-	-
	Central Government Bonds 2012-5	"	-	-	-	-
	Central Government Bonds 2012-6	"	-	-	1,341,600	1,488,778
	Central Government Bonds 2012-7	"	-	-	-	-
	Central Government Bonds 2012-8	"	-	-	85,500	95,000
	Central Government Bonds 2012-9	"	-	-	180,000	200,000
	Central Government Bonds 2012 B 1st	"	-	-	-	-
	Central Government Bonds 2012 B 2	"	-	-	-	-
	Central Government Bonds 2011-5	"	-	-	-	-
	Central Government Bonds 2011-6	"	-	-	6,457,600	7,149,900
	Central Government Bonds 2011-7	"	-	-	220,500	245,000
	Central Government Bonds 2011-9	"	-	-	205,200	228,000
	Central Government Bonds 2010-4	"	-	-	-	-
	Central Government Bonds 2010-5	"	-	-	-	-
	Central Government Bonds 2010-8	"	-	-	-	-
	Central Government Bonds 2009-2	"	-	-	-	-
	Central Government Bonds 2009-3	"	-	-	534,300	590,300

Acquisition		Disposal				Gain (Loss) on Valuation	Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain (Loss) on Disposal		Face Value	Carrying Amount
\$ 900,000	\$ 1,000,000	\$ 900,000	\$ 1,000,696	\$ 1,000,000	\$ 696	\$ -	\$ -	\$ -
598,500	665,000	189,000	210,118	210,000	118	-	409,500	455,000
311,400	346,000	-	-	-	-	-	311,400	346,000
271,000	300,000	461,000	500,205	500,000	205	-	-	-
5,803,500	6,448,244	9,968,200	11,078,037	11,075,688	2,349	-	37,800	42,000
792,000	880,000	792,000	880,076	880,000	76	-	-	-
376,000	415,000	752,000	830,138	830,000	138	-	-	-
2,100,000	2,277,000	1,348,000	1,462,561	1,461,500	1,061	-	830,000	900,500
1,641,900	1,824,111	3,525,000	3,918,621	3,916,222	2,399	-	-	-
1,830,800	2,034,200	3,320,300	3,691,002	3,689,200	1,802	-	-	-
3,038,900	3,374,184	3,038,900	3,376,137	3,374,184	1,953	-	-	-
1,793,800	1,991,000	1,493,800	1,658,934	1,658,000	934	-	300,000	333,000
3,463,400	3,845,458	4,066,300	4,518,011	4,515,358	2,653	-	353,800	393,100
6,656,400	7,257,979	11,749,100	12,815,352	12,805,568	9,784	-	-	-
962,500	1,069,400	962,500	1,069,998	1,069,400	598	-	-	-
5,388,800	5,882,000	3,853,600	4,221,550	4,219,500	2,050	-	2,677,000	2,920,000
9,600,500	10,427,933	9,741,800	10,592,246	10,584,933	7,313	-	-	-
1,815,900	2,017,000	1,515,600	1,685,347	1,684,000	1,347	-	300,300	333,000
545,800	606,344	788,300	876,379	875,688	691	-	-	-
1,156,600	1,284,400	395,200	438,237	438,000	237	-	838,400	931,400
228,600	254,000	984,600	1,094,283	1,094,000	283	-	144,000	160,000
1,810,000	2,000,000	1,810,000	2,000,276	2,000,000	276	-	-	-
887,400	986,000	824,400	916,505	916,000	505	-	63,000	70,000
1,485,000	1,644,000	1,356,000	1,504,820	1,504,000	820	-	129,000	140,000
3,303,900	3,660,722	4,299,500	4,768,286	4,765,500	2,786	-	346,000	384,000
1,447,000	1,598,000	1,347,000	1,490,813	1,490,000	813	-	100,000	108,000
292,500	325,000	378,000	420,097	420,000	97	-	-	-
2,479,500	2,755,000	2,482,200	2,758,873	2,758,000	873	-	177,300	197,000
464,700	516,300	464,700	516,621	516,300	321	-	-	-
1,399,700	1,555,178	1,399,700	1,556,447	1,555,178	1,269	-	-	-
920,000	1,020,000	504,000	560,397	560,000	397	-	416,000	460,000
973,000	1,076,922	7,430,600	8,233,358	8,226,822	6,536	-	-	-
811,200	897,000	866,700	963,718	963,000	718	-	165,000	179,000
1,923,700	2,137,400	858,600	954,663	954,000	663	-	1,270,300	1,411,400
1,767,100	1,963,267	1,099,400	1,222,267	1,221,467	800	-	667,700	741,800
1,067,400	1,184,000	1,067,400	1,184,352	1,184,000	352	-	-	-
591,500	657,111	591,500	657,439	657,111	328	-	-	-
300,000	332,220	300,000	332,294	332,220	74	-	-	-
446,100	491,000	980,400	1,082,204	1,081,300	904	-	-	-

(Continued)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
The Corporation	Central Government Bonds 2009-5	Other financial assets - current	-	-	\$ 142,200	\$ 158,000
	Central Government Bonds 2008-3	"	-	-	274,100	303,000
	Central Government Bonds 2008-5	"	-	-	243,000	270,000
	Central Government Bonds 2008-6	"	-	-	900,000	1,000,000
	Central Government Bonds 2007-3	"	-	-	81,000	90,000
	Central Government Bonds 2006-6	"	-	-	1,994,000	2,215,556
	Central Government Bonds 2005-3	"	-	-	-	-
	Central Government Bonds 2005-8	"	-	-	-	-
	Central Government Bonds 2004-6	"	-	-	-	-
	Central Government Bonds 2003-3	"	-	-	-	-
	Central Government Bonds 2002-3	"	-	-	720,800	800,778
	Central Government Bonds 2002-7	"	-	-	630,000	700,000
	Central Government Bonds 2001-2	"	-	-	562,300	624,778
	Central Government Bonds 2001-3	"	-	-	778,500	865,000
	Central Government Bonds 2001-4	"	-	-	192,300	210,222
	Central Government Bonds 2001-6	"	-	-	1,704,400	1,890,300
	Central Government Bonds 2001-7	"	-	-	1,193,800	1,320,100
	Central Government Bonds 2001-8	"	-	-	2,473,100	2,747,889
	Central Government Bonds 2001 B 1st	"	-	-	1,030,100	1,143,000
	Central Government Bonds 2000-13	"	-	-	610,800	678,600
	Central Government Bonds 2000 B 1st	"	-	-	100,000	101,800
	Central Government Bonds 1999-2	"	-	-	483,900	535,000
	Central Government Bonds 1999-3	"	-	-	181,000	201,100
	Central Government Bonds 1999 B 1st	"	-	-	1,243,300	1,381,111

Acquisition		Disposal				Gain (Loss) on Valuation	Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain (Loss) on Disposal		Face Value	Carrying Amount
\$ 322,200	\$ 358,000	\$ 464,400	\$ 516,177	\$ 516,000	\$ 177	\$ -	\$ -	\$ -
491,800	545,178	765,900	848,743	848,178	565	-	-	-
1,849,700	2,044,000	1,880,700	2,085,780	2,085,000	780	-	212,000	229,000
2,557,400	2,840,600	2,700,000	3,002,404	3,000,000	2,404	-	757,400	840,600
1,199,100	1,332,300	1,280,100	1,423,476	1,422,300	1,176	-	-	-
1,400,000	1,555,556	3,394,000	3,774,615	3,771,112	3,503	-	-	-
1,350,000	1,500,000	1,350,000	1,500,976	1,500,000	976	-	-	-
813,200	903,330	813,200	904,075	903,330	745	-	-	-
605,700	673,000	605,700	673,368	673,000	368	-	-	-
944,100	1,049,000	903,600	1,004,507	1,004,000	507	-	40,500	45,000
1,051,800	1,166,778	1,772,600	1,967,904	1,967,556	348	-	-	-
3,571,200	3,967,822	3,306,700	3,676,573	3,674,022	2,551	-	894,500	993,800
6,856,600	7,601,678	7,064,700	7,836,090	7,833,456	2,634	-	354,200	393,000
900,000	1,000,000	1,678,500	1,865,835	1,865,000	835	-	-	-
1,836,000	2,038,212	1,063,200	1,178,003	1,177,434	569	-	965,100	1,071,000
2,540,000	2,820,300	4,244,400	4,713,573	4,710,600	2,973	-	-	-
1,521,400	1,685,200	2,715,200	3,007,534	3,005,300	2,234	-	-	-
5,392,600	5,991,667	7,865,700	8,746,042	8,739,556	6,486	-	-	-
2,709,600	3,004,000	2,552,500	2,834,742	2,833,000	1,742	-	1,187,200	1,314,000
7,592,600	8,083,820	4,818,600	5,122,364	5,120,620	1,744	-	3,384,800	3,641,800
942,700	1,036,390	575,000	619,559	619,190	369	-	467,700	519,000
1,839,800	2,036,710	2,323,700	2,573,051	2,571,710	1,341	-	-	-
4,116,300	4,570,729	3,452,700	3,835,873	3,833,829	2,044	-	844,600	938,000
2,282,400	2,533,290	2,884,800	3,204,294	3,202,601	1,693	-	640,900	711,800

(Concluded)

## Headquarters

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Address: 13F., No. 66, Jingmao 2nd Rd., Nangang District, Taipei 11568,  
Taiwan, R.O.C.

Website: [www.thsrc.com.tw](http://www.thsrc.com.tw)

Tel: +886-2-8789-2000

### **THSRC Spokesperson: Max Liu**

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Title: Assistant Vice President of Quality Assurance Office

Tel: +886-2-8789-2000 Ext. 72710

Email: [Spokesman\\_MBOX@thsrc.com.tw](mailto:Spokesman_MBOX@thsrc.com.tw)

### **THSRC Deputy Spokesperson: Kenneth Wang**

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Title: Assistant Manager

Tel: +886-2-8789-2000 Ext. 72710

Email: [Spokesman\\_MBOX@thsrc.com.tw](mailto:Spokesman_MBOX@thsrc.com.tw)

### **Share Transfer Agent and Registrar**

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Company: Transfer Agency Department, Fubon Securities

Address : 2F., No. 17, Shu Chung Street, Chungchen  
District, Taipei City, Taiwan, R.O.C.

Website : [www.fubon.com.tw](http://www.fubon.com.tw)

Tel: +886-2-2361-1300

### **Auditors**

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Auditors : Jui-Hsuan Ho, Kwan-Chung Lai

Company: Deloitte & Touche

Address : 12F., Hung Tai Financial Plaza 156 Min Sheng  
East Road, Sec. 3, Taipei 10596, Taiwan, R.O.C.

Website : [www.deloitte.com.tw](http://www.deloitte.com.tw)

Tel: +886-2-2545-9988



Taiwan High Speed Rail Corporation  
13F., No. 66, Jingmao 2nd Rd., Nangang District,  
Taipei 11568, Taiwan, R.O.C.  
Website <http://www.thsrc.com.tw>  
TEL : +886-2-8789-2000