

2019  
ANNUAL  
REPORT



## 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 2019

Number of Train Services: **53,727**

Punctuality (defined as arrival within five minutes of scheduled time): **99.88%**

Annual Ridership: **67.41 million passengers**

Annual Revenues: **NT\$47.51 billion**

Loading Factor: **68.03%**

Passenger Kilometers: **11,994 million km**

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:

$$\text{Loading Factor} = \frac{\text{Passenger-kilometers}}{\text{Seat-kilometers}} \times 100\%$$

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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Letter to Shareholders





Chairman

*Y. C. Chiang*

## Business Report and Future Prospects

Taiwan High Speed Rail Corporation (THSRC) has been in commercial operation since 2007. Our passenger volumes have continued to increase year over year and we set new ridership records during the Chinese New Year, Tomb Sweeping Day, and Mid-Autumn Festival consecutive holidays in 2019, as well as a new single-day ridership record of 318 thousand passengers. Over the years, we have brought significant changes to the public's transportation habits and lifestyles, and reduced the distances between urban and rural communities.

We will continue to deliver on our commitment to provide excellent service, customer satisfaction, and corporate responsibility, adhering to our mission "To be the platform for advancement and enjoyment" for every action we take.

### 1. Business Report for 2019

#### (1) Operational Performance

##### 1) Rail Operations

In 2019, THSRC celebrated its 13th year of operations. A total of 53,727 train services were provided during the course of the year, an increase of 1,290 train services compared to 52,437 trains in 2018. Daily maximum train services reached 166 north- and south-bound trains and this number was increased to 204 train services per day during consecutive holidays to successfully fulfill passengers' needs. Our loading factor was 68.03% (up by 1.02% compared to 67.01% in 2018) and passenger volume increased to 67.41 million, up by 3.45 million (5.39%) compared to 63.96 million in the previous year.



President

Our total passenger-kilometers were 11,994 million km, up by 3.76% compared to 2018. Average daily ridership reached 185 thousand passengers, an increase of 10 thousand passengers compared to 175 thousand passengers in 2018.

In terms of operational safety, no accidents or injuries occurred in 2019. Our average punctuality rate (arrival within five minutes of scheduled time) was 99.88%, higher than our target of 99.50%, and our average reliability rate (excluding effects due to natural disasters) was 100%, exceeding our target of 99.60%.

#### Operational Statistics

Indicators	2018	2019	Change
1. Train Services	52,437	53,727	+2.46%
2. Ridership (in millions)	63.96	67.41	+5.39%
3. Seat-Kilometers (in millions)	17,250	17,630	+2.20%
4. Passenger-Kilometers (in millions)	11,559	11,994	+3.76%
5. Punctuality Rate (as % of trains arriving within five minutes of scheduled time)	99.43%	99.88%	+0.45%
6. Loading Factor (Passenger-km/Seat-km)	67.01%	68.03%	+1.02%

#### 2) Marketing and Passenger Services

Products, services, and activities launched in 2019:

A. We continued to recruit TGo members through exclusive member benefits and various activities, as well as a reward



program for designated items in convenient stores, in order to increase membership numbers and contributions.

- B. We continued to launch cumulative rewards activities for corporate members and special discount options for designated off-peak train services to increase ridership during off-peak hours.
- C. We continued to promote a variety of travel packages, and made adjustments to our multi-ride tickets, college student discounts, and business class discounts to increase ridership and revenues.
- D. We collaborated with famous Japanese illustrator Kanahei to launch themed trains and also released a limited and highly popular line of "Piske and Usagi" themed products.
- E. We initiated the second stage of the "Taiwan High Speed Rail Art Program" and released a mobile app as part of our "Taiwan High Speed Rail Opening Year of Arts" event, using mobile and alternate reality technologies to create virtual scenes of Taiwanese culture and landscapes.
- F. We streamlined the ticket purchasing process to provide enhanced convenience for elderly and disabled passengers.
- G. We developed a new generation of automatic ticket vending machines and launched an updated version of our Customer Loyalty Program System to enhance the convenience of ticket purchasing.
- H. We installed CCTV surveillance systems in train compartments to ensure travel safety and quality.
- I. We installed smart bus stop signs and information boards at all HSR stations to improve passenger convenience.
- J. Taoyuan HSR station constructed a roofed corridor and installed elevators to enhance passenger convenience.
- K. Tainan HSR Station constructed a roofed corridor to enhance service quality at pick-up and drop-off zones.

## (2) Budget Implementation

In 2019, our estimated operating revenue was NT\$46.2 billion and actual operating revenue was NT\$47.51 billion. Our budget achievement rate was 102.8% and our actual net income after tax was NT\$8.01 billion.

## (3) Revenue, Expenditure, and Profitability Analysis

In 2019, our revenue was NT\$47.51 billion and income before tax was NT\$7.78 billion, up by 4.6% and 6.3% compared to 2018. Net income reached NT\$8.01 billion due to the recognition of income tax benefits.

These figures highlight the efficiency of our management team. The one-day living circle realized by our services has caused great positive changes in corporate business models and the lives of the general public.

### Financial Data

Unit: NT\$ in billions

Indicators	2018	2019
Operating Revenue	45.42	47.51
Gross Profit	20.33	21.74
Operating Income	19.14	20.51
Income Before Income Tax	7.31	7.78
Income Tax Benefit (Expenses)	3.38	0.23
Net Income	10.70	8.01

## (4) Research and Development

Main research and development activities in 2019 were as follows:

- 1) Facility Construction:

Establishment of artificial intelligence drone service platform for HSR viaduct inspections.

2) Signaling and Communications:

- A. Development of new detection slides for point machines.
- B. Development of intelligent Passenger Information System (PIS).

3) Rolling Stock:

Installation of CCTV surveillance systems in train compartments.

4) Information Technology:

- A. Development of new-generation automatic ticket vending machines.
- B. Development of updated Customer Loyalty Program System.
- C. Development of Smart Maintenance Platform.

5) Localization of Maintenance Materials and Equipment:

In order to expand localization of materials and equipment, and to enhance development of the local railway industry, we established a "Railway Industries Localization Project Team." The following is a brief summary of our localization efforts:

A. Rolling Stock

- (a) Train pantograph components.
- (b) Brake disc bolts and wheel tread cleaners.
- (c) Automatic train painting equipment.
- (d) Paint materials for train bodies.
- (e) Gas dampers for train seats.
- (f) Table trays on train seats.
- (g) Vending machines on 700T trains.
- (h) Honeycomb floor panels on 700T trains.
- (i) Additional luggage placement areas on trains.
- (j) Water taps, toilet seats, and liquid soap dispensers.
- (k) Bellows and gangways for train compartments.

B. Track and Power Systems

- (a) Automatic vibration measurement system for rolling stock.
- (b) Domestic production of OCS maintenance vehicles.

6) Electronic Service Center:

We established an electronic maintenance center in mid-2008 to reduce dependence on original manufacturers and to increase our self-maintenance capabilities. The number of repairs conducted on circuit boards and components from all systems has increased year over year.

7) Industry-Academia Collaboration Projects: We continue to collaborate with major research institutions to develop the following materials and equipment:

- A. Manufacturing of bogie running testers.

- B. Remote surveillance system for traction power station monitoring PCs (MPCs).
- C. Auxiliary low-speed analysis & inspection system for OCS (Overhead Catenary System).
- D. Phase II of Traction Power Equipment Maintenance & Management System (TPMMS) plans.
- E. ACCRP (Air-Conditioning Control Relay Panel) and OMDB (Operation Mode and Display Box) test system.
- F. New-type signaling transponders with read-in & write-in function.

## 2. Business Plan for 2020

### (1) Management Guidelines

We will continue to enhance the efficiency of revenue management, increase ridership during off-peak hours, improve convenience of ticket utilization and payment, expand the scope of cross-industry cooperation, and shape local tourism through rail travel. In addition, we plan to add overseas ticketing channels to increase brand awareness and integrate innovative technology and applications such as digital HSR services to enhance convenience of ticket purchasing. We also plan to promote our membership program, implement precision marketing strategies and big data analysis, and build a membership platform.

### (2) Expected Sales Volumes

Due to steady domestic economic growth, increasing convenience of digital ticket purchase services, and promotion of membership services and travel products, we estimate that the annual ridership volume for 2020 will exceed 68.37 million passengers.

### (3) Major Production and Marketing Initiatives

Major Initiatives for 2020:

- 1) Facilitation of timely train service adjustments to maintain adaptability of seating supply and demand in response to growth in passenger numbers, as well as establishment of appropriate train schedules as necessary to meet market demands for transportation services.
- 2) Development of diversified products, services, and discount programs based on different customer characteristics to satisfy different customer segments, enhance product attractiveness, and achieve sales potential so as to build the HSR tourism brand and ensure that we meet our revenue targets.
- 3) Promotion of the "Journey with THSR, Discover Taiwan." with brand through T Holidays, and combo tickets for hotels, transportation, and events to integrate sales and attract more passengers.
- 4) Enhancement of TGo membership system and related services through analysis of travel frequency and preferences to increase purchase frequency, customer loyalty, and ridership. Additionally, we plan to utilize our TGo membership program and affiliate programs to build a foundation for the TGo membership economy, encourage cross-industry collaborations, and increase ticket and non-ticket revenues.
- 5) THSRC plans to utilize passenger flows to develop affiliated business including shops, parking lots, advertising, and so on. We will also continue to develop retail products and expand sales channels to enrich passenger experiences and increase non-ticket revenues.
- 6) We continue to enhance our ticketing services through our online-offline integration strategy, and work with different industries to increase ticket utilization and enhance ticketing convenience. Additionally, we continue to introduce innovative payment technologies and applications into our ticketing channels and are assessing the feasibility of mobile credit card transactions, travel cards, and cloud-based ticketing systems.

### 3. Future strategies

THSRC's vision is "To be the platform for advancement and enjoyment," and we continue to implement the strategies of our 4T program: Transportation, Technology, Taiwan, and Touch:

#### (1) Transportation: To build professional transportation systems that provide high-quality services and products.

- 1) To implement comprehensive safety and emergency measures.
- 2) To enhance operational equipment at stations, build friendly travel environments, increase customer service equipment, and enhance service quality.
- 3) To improve operational processes and ensure maximum train capabilities.
- 4) To improve revenue management efficiency, provide a variety of products, and increase ridership during off-peak hours.
- 5) To strengthen maintenance equipment (and self-maintenance capabilities), so as to ensure system stability and accountability.

#### (2) Technology: To implement intelligent transportation that improves operational efficiency and quality, and enhances service, safety, and emergency responses.

- 1) To digitalize ticketing channels.
- 2) To utilize big data in the promotion of our membership economy.
- 3) To implement information technology that strengthens operational, maintenance, and service quality to improve efficiency.
- 4) To research and enhance core system capabilities.

#### (3) Taiwan: To combine unique local cultures and landscapes to create a multicultural and progressive platform.

- 1) To enhance local development capabilities and increase the percentage of local equipment and materials.
- 2) To promote localization for the railway industry.
- 3) To develop multiple products that combine local culture and activities and enhance common prosperity.
- 4) To develop affiliated business and optimize quality.
- 5) To integrate technical railway resources and evaluate possibilities for re-investment or technical exportation.

#### (4) Touch: To establish brand culture, enhance talent skills and corporate efficiency, and participate in social caring and environmental protection.

- 1) To build talent development plans.
- 2) To enhance the management capabilities of managers.
- 3) To combine the Corporation's brand with arts and culture, broadening our cultural scope and depth.
- 4) To optimize long term financial structure.
- 5) To build a corporate governance culture that serves as an example to all other businesses, and carry out corporate social responsibilities.
- 6) To promote environmental protection, energy efficiency, and carbon reduction goals.

#### 4. Impacts of External Environment, Legal Environment, and Overall Business Environment

Domestic economic forecasts released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan on November 29, 2019 predict that Taiwan's export capabilities will rise due to advances in global trade volumes, continuing and increasing positive effects on exportation from enhanced capacity due to homecoming Taiwanese entrepreneurs, and continuing development of competitively advantageous advanced manufacturing processes for semiconductors, as well as trends of emerging applications in 5G mobile communication, high-performance computing, AI, and IoT which is expected to contribute to industrial developments. The local market is stable in terms of private consumption and public investment continues to rise. However, aging populations and low birth-rates may have some impact on trade growth momentum. Thus, expected economic growth rate for 2020 is estimated to be 2.72%. Faced with these external economic environmental challenges, THSRC will continue to formulate suitable operational strategies to achieve our business targets.

In terms of the legal environment, 44 laws and regulations relating to our operational activities were amended this year, including several landmark actions such as the formulation of the "Act for Establishment of Railway Technology Research and Certification Center," which established dedicated research and certification units to improve development of railway technologies, verify certification capabilities, and enhance developments in the railway industry; formulation of the "Organic Act of the Taiwan Transportation Safety Board"; major revision of the "Aviation Occurrence Investigation Act," now renamed the "Transportation Occurrence Investigation Act," expanding the scope of independent investigation by dedicated units to include railway, land, and waterway transport incidents for the purpose of providing recommendations and suggestions to ensure transportation safety. These legal amendments, the establishment of the "Railway Bureau, MOTC," and the continued implementation of the 5 main schemes and 38 railway infrastructure plans under the "Forward-Looking Railway Infrastructure Project" all indicate that the government and legislative authorities are responding in a proper and timely manner to the public's deepening reliance on rail transport, and are highly focused on the operational scale, capacity, and safety of rail transportation. Furthermore, promotion of children and youth welfare policies and amendments made to "The Protection of Children and Youth Welfare and Rights Act" and the "Public Breastfeeding Act" have also significantly improved establishment of mother-infant friendly environments in public places and protection of the rights of children and youth.

THSRC regularly identifies applicable laws, organizes law compilations, and complies with relevant regulations where necessary. We have an effective grasp on and appropriate response measures to changes in legal environments, and make timely updates to our operating procedures and station facilities. The aforementioned amendments had no significant impacts to our business operations. In future, as rail transportation networks continue to expand and become more convenient, we anticipate that legal measures will become more comprehensive and relevant laws will continue to be formulated. We will continue to stay abreast of legislative updates, refine our operations, strengthen our corporate governance, integrate legal compliance into our corporate culture, and adhere to the highest safety standards so as to provide high-quality passenger services as we strive for long-term sustainability and generate value for our shareholders.

Looking at overall operational conditions, THSRC is facing challenges from economic depression, decreasing birth rates, and aging populations, which is slowing our passenger growth. In addition, challenges such as abnormal climate changes and aging operation equipment are causing our maintenance costs to increase. However, we will continue to focus on developing smart transportation, increasing safety and efficiencies of emergency responses, establishing local maintenance capabilities, developing localization materials, and formulating other strategic plans. Additionally, we will continue to enhance our strengths through industry cooperation and integrate local cultures to provide our passengers with better transportation quality and establish a foundation for long-term sustainability.



## 2 Company Profile

## 1. Business Strategy and Vision

In order to become a symbol of progress in Taiwan, THSRC has set its vision, mission, and core values to carry out its commitment to society, shareholders, customers, partners, and employees as the highest guiding principles.

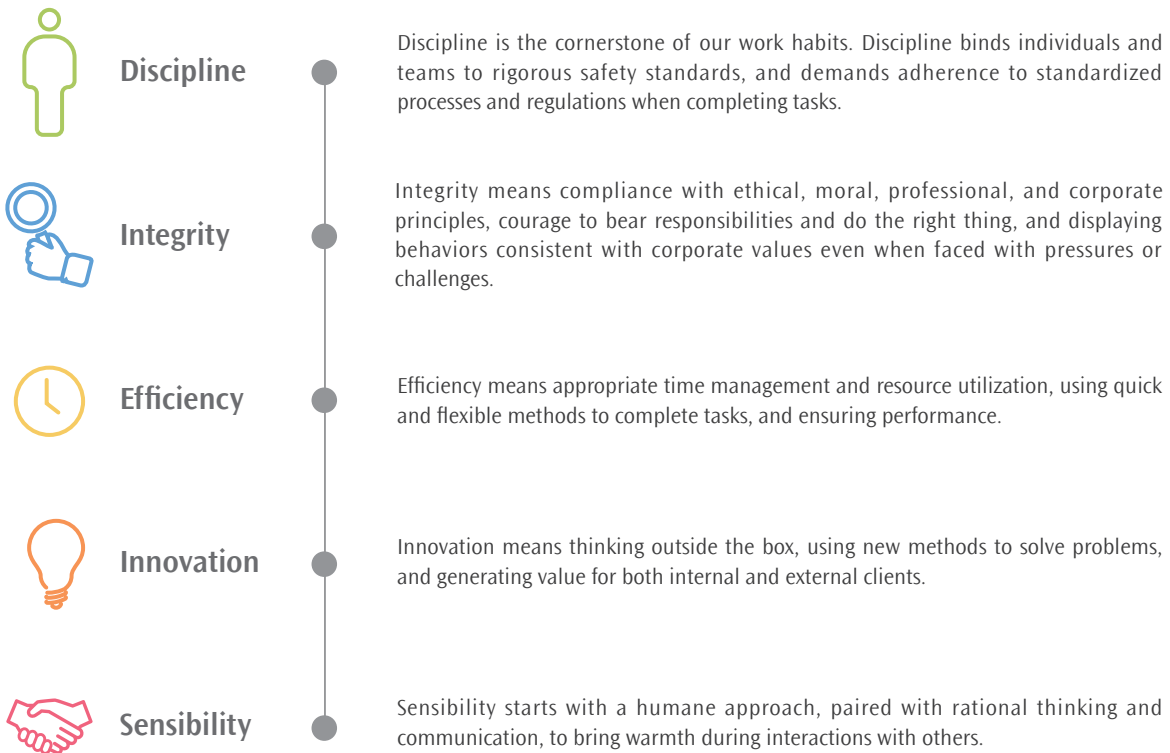
### **Our Vision & Mission-- "To be the platform for advancement and enjoyment"**

THSRC is committed to providing convenient, comfortable, and considerate service during the high speed rail journey, and striving to provide a pleasant customer experience.

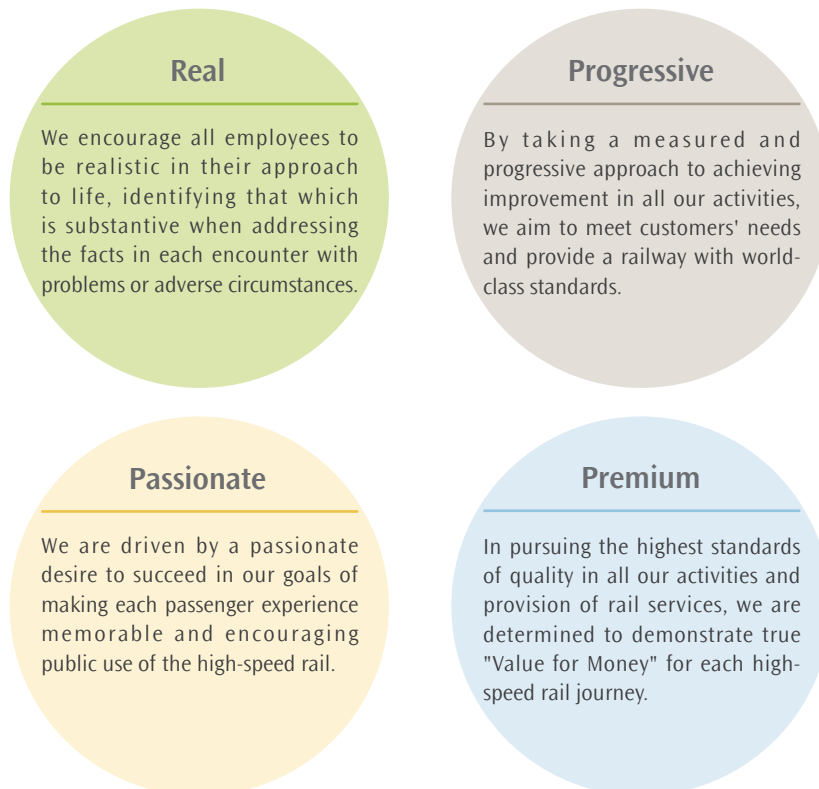
THSRC not only provides passengers with safe, fast, and punctual transportation services, but also cooperates and builds alliances with external industries to enhance our railway capabilities. THSRC also strives to provide passengers with comprehensive, high-quality life experiences through integration of advanced technology, local culture, and environmental protection.



## Our Values



## Our Attributes





## 2. Historical Milestones

Incorporated on May 11, 1998

### Development Stage

- November 1996 The Taiwan High Speed Rail Consortium was established.
- September 1997 The Ministry of Transportation and Communications (MOTC) awarded the Taiwan High Speed Rail Consortium with a concession to build and operate THSR.
- May 1998 THSRC was incorporated.
- July 1998 THSRC and the MOTC signed 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 entered into a syndicated loan agreement with 25 banks in order to obtain credit facilities of NT\$323.3 billion. A tripartite agreement was signed by THSRC, the syndicate, and the MOTC.

### Construction Stage

- March 2000 THSRC commenced construction of the high-speed rail project.
- December 2000 THSRC entered 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 approved THSRC's re-registration as a public company.
- September 2003 THSRC applied to the Gre Tai Securities Market for permission to trade on the Emerging Stock Market.
- January 2004 THSRC held a ceremony to unveil the THSR 700T trainset at Kawasaki's manufacturing facilities in Kobe, Japan.
- October 2005 A train to be delivered to THSRC achieved a top speed of 315 km/hr on a test run.
- July 2006 THSRC entered into a second syndicated loan agreement with seven banks to secure credit facilities of NT\$40.7 billion.

- October 2006 THSRC launched a new corporate identity system.

### Operation Stage

- January 2007 THSRC began operating the rail line between Banqiao and Zuoying.
- March 2007 THSRC officially commenced operations over its entire line (Taipei to Kaohsiung), and the number of daily train services was increased to 50 north- and south-bound trains.
- May 2007 Lehman Brothers Asia and the parties to the second syndicated loan agreement agreed to raise credit facilities to NT\$65.5 billion.
- September 2007 THSRC launched a 24-hour online reservation system.
- November 2007 THSRC began offering non-reserved seats on its trains.
- January 2010 THSRC entered into another syndicated loan agreement with eight banks to secure NT\$382 billion in credit facilities for refinancing its existing two syndicated loans. THSRC, the syndicate, and the MOTC also renewed their tripartite agreement.
- February 2010 THSRC began allowing passengers to book, pay for, and collect train tickets at partnering convenience stores.
- May 2010 THSRC drew 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.
- August 2010 The Taiwan North-South High Speed Rail Project received the Outstanding Civil Engineering Project Award from the Asian Civil Engineering Coordination Council.  
THSRC carried its 100 millionth passenger.
- February 2011 THSRC topped an online poll conducted by the Public Construction Commission, Executive Yuan, which allowed the public to select Taiwan's most important 100 public works.
- October 2011 THSRC launched T Express, a new ticketing system that enabled customers to book and purchase tickets using their smartphones.

November 2011	THSRC's entrepreneurship achievements received recognition from the Gre Tai Securities Market at the 1st Golden Laurel Awards.	May 2014	THSRC and the UIC jointly organized a series of conferences that included 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.
April 2012	THSRC and the International Union of Railways (UIC) held the 2nd UIC World High Speed Interaction Workshop to offer a global platform for exchanges between experts and institutions in the area of high-speed rail system maintenance.	January 2015	THSRC received a carbon footprint certificate for high-speed rail service from the Environmental Protection Administration, Executive Yuan.
July 2012	THSRC became an overall winner across all categories at the 2012 Golden Service Awards hosted by Commonwealth Magazine.	July 2015	THSRC and the MOTC entered into two agreements: 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.
November 2012	THSRC participated in the 14th UIC Regional Assembly for Asia and Oceania and the 11th Asian Management Committee (AMC) in Moscow, and was recognized as a member of the AMC effective from 2013.  Lloyd's Register Quality Assurance issued an ISO 9001 compliance certificate for THSRC's rail operation, maintenance, and passenger service. All audited items conformed with ISO 9001 Quality Management System standards. National Geographic editors selected one of THSRC's T Holiday packages as the Best Winter Trip for 2013.	September 2015	THSRC established a Muslim prayer room at Taichung HSR Station in order to better cater to the needs of Muslim passengers.
January 2013	THSRC held groundbreaking ceremonies for new stations in Yunlin, Miaoli, and Changhua.	December 2015	Three new HSR stations in Miaoli, Changhua, and Yunlin opened for traffic. THSRC also announced schedule adjustments in the same month. Train fares were rolled back to the level they were before a hike was implemented.
October 2013	THSRC raised passenger fares using a formula approved by the MOTC.	March 2016	Shareholders, at an extraordinary general meeting, approved plans formulated by the THSRC Board for an initial public offering (IPO).
November 2013	THSRC received the R.O.C. Enterprise Environmental Protection Award from the Environmental Protection Administration for the third consecutive year.	April 2016	Changhua HSR Station was named a Popular Choice Winner by the Architizer A+ Awards in the Bus & Train Station category. THSRC won a Gold Award in the Transportation category from Commonwealth Magazine's 2016 Golden Service Awards.
December 2013	THSRC and the JR Kyushu Railway Company hosted a work practices exchange for train attendants to observe and learn different service cultures.	May 2016	THSRC and the International High-Speed Railway Association (IHRA) held their 5th annual meeting in Taipei.
April 2014	THSRC won first place in the Ground Transportation category of Commonwealth Magazine's Golden Service Awards.	July 2016	A new HSR station was opened in Nangang District of Taipei City. The new Yunlin HSR station was awarded the Gold Level Green Building Certificate by the MOI and received a green building placard.

August 2016	The new Miaoli HSR station was awarded the Diamond Level Green Building Certificate by the MOI and received a green building placard. The new Changhua HSR station was awarded the Gold Level Green Building Certificate by the MOI and received a green building placard.	June 2018	THSRC participated in the Taiwan Corporate Governance Association's corporate governance evaluations and received a CG6011 (2017) Corporate Governance System Assessment Certificate with an "Excellent" ranking.
October 2016	THSRC received an ITS World Congress Hall of Fame Award at the 2016 ITS World Congress in Melbourne, Australia. THSRC became the first listed rail operator in Taiwan to debut on the stock market of the Taiwan Stock Exchange.	July 2018	THSRC carried its 500 millionth passenger.
November 2016	THSRC received a Silver Award from the 2016 Enterprise Project Management Benchmarking Awards for its three new stations.	August 2018	THSRC was listed in the MSCI Taiwan index, the FTSE TWSE Taiwan 50 Index, the FTSE Emerging Markets Index, the TWSE CG 100 Index, and the FTSE4Good Emerging Index. THSRC was awarded the 2018 "Corporate Social Responsibility Excellence Award" by CommonWealth Magazine.
January 2017	The THSR Museum was inaugurated at the Operation Management Center in Taoyuan City. THSRC hosted a signing ceremony marking the issuance of a NT\$20-billion two-year commercial paper managed by Mega Bills Finance Co. and nine other financial institutions.	September 2018	THSRC received the German "Red Dot Award: Communication Design 2018" for its T Express mobile ticket purchasing app.
April 2017	An E-Ticket Reader was established for multiple ticket types.	November 2018	THSRC obtained twAA+ and AA+ excellent credit rating from Taiwan Ratings and Fitch Ratings for the third consecutive year. THSRC tickets were redesigned for the first time. THSRC won three major awards at the "Taiwan Corporate Sustainability Awards," namely the Corporate Sustainability Report Transportation Industry Top 50 Platinum Award, Creativity in Communication Award, and Growth through Innovation Award. THSRC's rolling stock locomotive path confirmation system obtained international IEC61508 certification.
July 2017	Lloyd's Register Quality Assurance issued a TOSHMS and OHSAS 18001 dual compliance certificate to THSRC; the certificate verified THSR stations, depots, facilities along the line, and office environments.	December 2018	THSRC won the "Critical Infrastructure and Security Protection Practice Award" given by the British Standards Institution (BSI) InfoSec Standards.
August 2017	The iTaiwan free Wi-Fi network was made available along HSR line. THSRC hosted the "Business Opportunity Seminar for Taiwan Track Industry Localization" at Yanchao Main Workshop.	March 2019	THSRC launched ticket pick-up services for senior/disabled concession tickets on the mobile ticketing app and from automatic ticketing machines. THSRC launched smart online ticketing services on Facebook Messenger.
October 2017	THSRC won the first Transportation Award of Service hosted by Next Magazine. THSRC launched the "TGo" and THSRC App.		
November 2017	THSRC won Global Views Magazine's 15th Five-Star Service Award.		
December 2017	THSRC won the Ministry of Culture's 13th Art & Business Award.		
May 2018	THSRC participated in the Corporate Governance Evaluation for the first time and received a "Top 5% of the 4th Corporate Governance Evaluation Award."		

April 2019 THSRC participated in the 5th (2018) Corporate Governance Evaluations and again ranked among top 5% of listed companies.  
THSRC won the exclusive “FTSE4Good TIP Taiwan ESG Index” badge certification for financial indicators.

October 2019 THSRC participated in National Day Parade Float for the first time with the theme of “Journey with THSR, Discover Taiwan.”  
THSRC launched automatic inspection mechanism services for senior/disabled concession tickets, allowing passengers to purchase tickets without documentation at convenience stores.

November 2019 THSRC won the “Technology Management Award 2019” from the Chinese Society for Management of Technology.  
THSRC won the “14th Arts and Business Awards (Permanent Awards Category)” from the Ministry of Culture.  
THSRC participated in the “2019 TCSA Awards” and won the Gold “Corporate Sustainability Report Award” and the “Top 50 Corporate Sustainability Award” from the Taiwan Institute for Sustainable Energy.

January 2020 THSRC carried its 600 millionth passenger.

2020



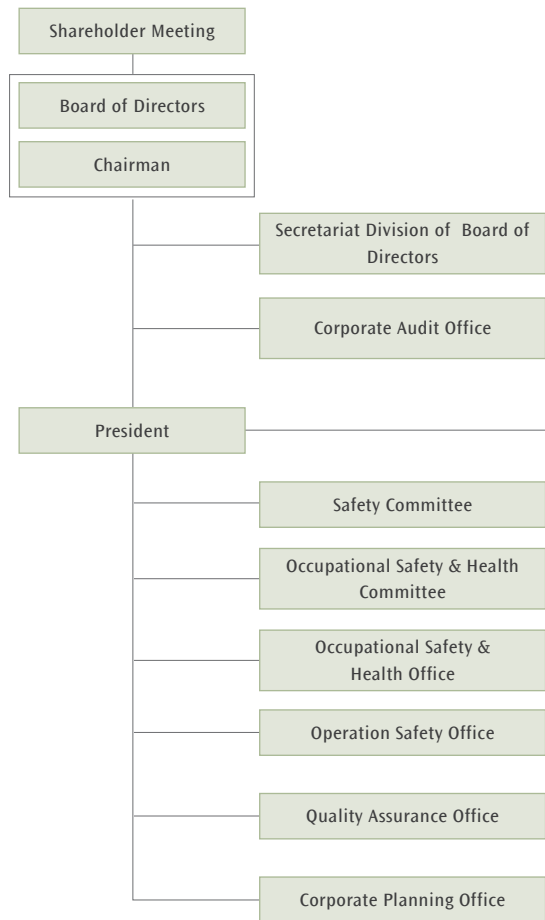
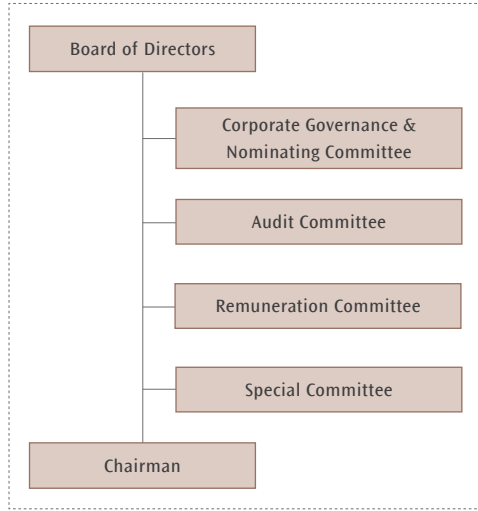
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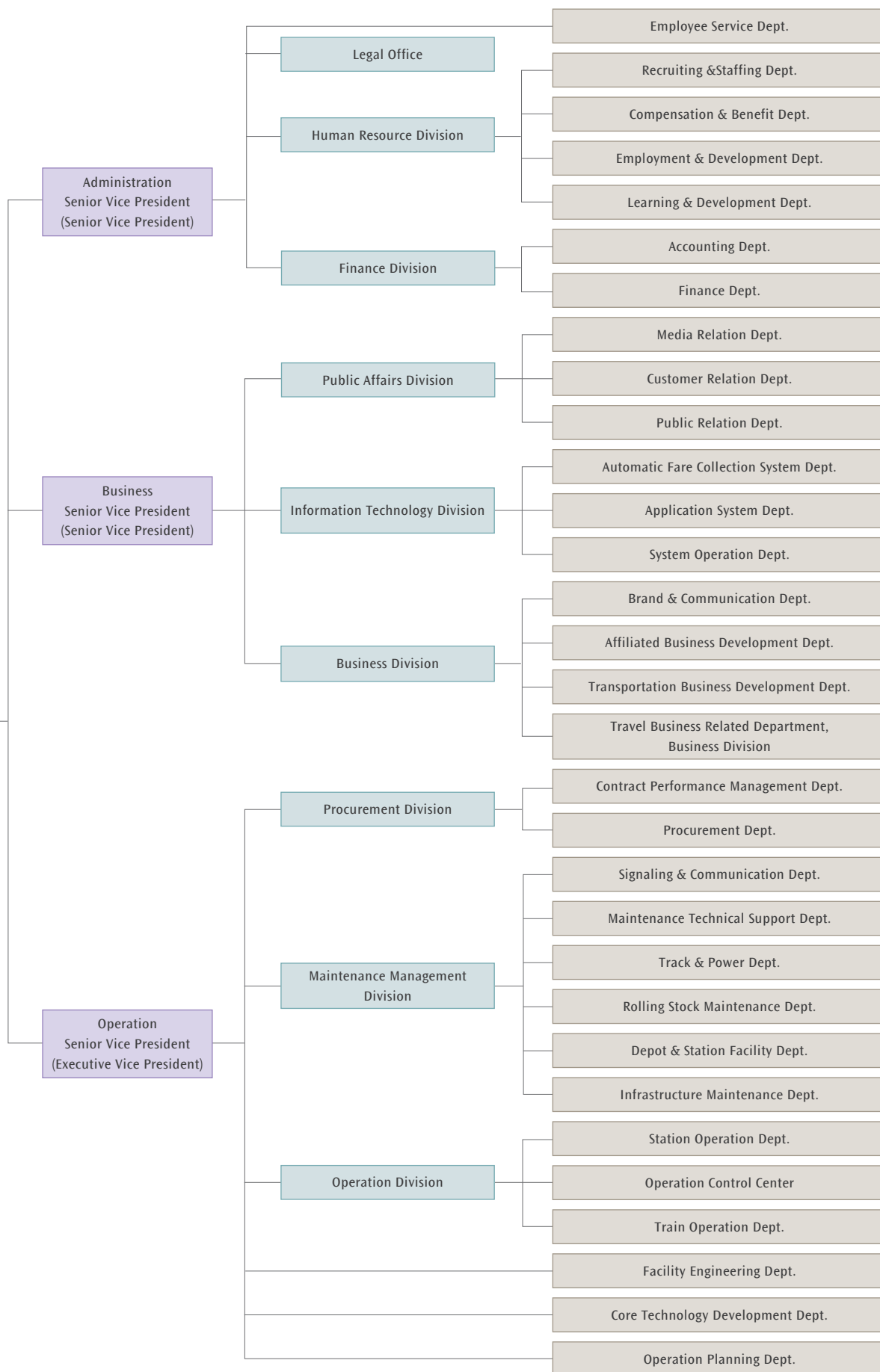
## Corporate Structure



# 1. Organizational Structure

## (1) Corporation Organizational Structure







## (2) Business Operations of Major Departments

Main duties of functional committees overseen by the Board of Directors

### 1) Corporate Governance & Nomination Committee

- A. Review the diversified backgrounds of independent directors, non-independent directors, and managerial officers in terms of professional and technical knowledge, past experiences, and gender as well as standards of impartiality, and use these criteria to seek out, assess, and nominate candidates to serve as directors, independent directors, and managerial officers.
- B. Plan composition of the Board and its functional committees, and assess performance of the Board, committees, all directors, and managerial officers. This Committee shall explore the willingness of potential candidates to serve on committees and consider candidate backgrounds and the duties of the respective committees before presenting its plans and suggestions regarding the composition of the committees to the Board.
- C. Responsible for nominations of independent directors and non-independent directors.
- D. Identify and evaluate potential candidates for independent and non-independent directors.
- E. Review succession plans for directors and managerial officers.
- F. Plan and review implementation performance of the Board and its committees.
- G. Devise and review liability insurance plans for directors and managerial officers.
- H. Review status of information disclosures.
- I. Analyze, implement, and provide recommendations relating to the Corporation's corporate governance system and review the Corporation's Guidelines for Corporate Governance and relevant bylaws.
- J. Review implementation performance of the corporate governance system, including execution of corporate social responsibilities, ethical management, and stakeholder communication.
- K. Other duties as required by the Corporation's Articles of Incorporation, Guidelines for Corporate Governance, or resolutions passed by the Board.

### 2) Audit Committee

- A. Adopt or amend the internal control systems pursuant to Article 14-1 of the Securities and Exchange Act.
- B. Evaluate the effectiveness of the Corporation's internal control system.
- C. Adopt or amend the procedures for material financial or operational acts such as acquisition or disposal of assets, derivatives trading, monetary loans to others, or providing endorsements or guarantees for others, pursuant to Article 36-1 of the Securities and Exchange Act.
- D. Review matters that may involve the personal interest of directors.
- E. Review material asset and derivatives transactions.
- F. Review material monetary loans or endorsement, or provision of guarantees.
- G. Review the public offering, issuance, or private placement of equity-type securities.
- H. Evaluate the appointment, dismissal, or compensation of attesting CPAs.
- I. Evaluate the appointment and dismissal of the Corporation's chief financial officer, chief accountant, or chief internal auditor.
- J. Review annual and semi-annual financial reports.
- K. Review financial reports for the first and third quarters.

- L. Review the Corporation's accounting system and financial condition.
- M. Evaluate the Corporation's risk management policies and risk measurement standards.
- N. Review the procedures for material financial and operational acts.
- O. Evaluate, examine, and monitor any existing or potential risks to the Corporation.
- P. Examine the Corporation's compliance with laws, regulations and rules.
- Q. Review the Corporation's capital, financing, and credit plans.
- R. Assess the Corporation's tax planning and compliance with tax laws and regulations.
- S. Other major matters as required by the competent authority.
- T. Other duties as required by the Corporation's Articles of Incorporation, Guidelines for Corporate Governance, or resolutions passed by the Board.

### 3) Remuneration Committee

- A. Formulate and regularly review policies, systems, standards, and composition of performance evaluations and remuneration of directors and managerial officers.
- B. Regularly evaluate and formulate the remuneration of directors and managerial officers.

### 4) Special Committee

- A. Provide counsel and suggestions in accordance with Board resolutions on major legal or contractual disputes and important institutional changes of the Corporation, and assist the Board in supervising the implementation of said resolutions by managerial departments.
- B. Review proposals relating to procurement matters that should be submitted to the Board by managerial departments according to Corporation bylaws.
- C. Other duties as required by the Corporation's Articles of Incorporation, Guidelines for Corporate Governance, or resolutions passed by the Board.

## Main operational scope and duties of each department/unit

### 1) Secretariat Division of the Board of Directors

Established under the Board of Directors, the Secretariat Division provides relevant resources or assistance for the Board of Directors and its committees to perform their duties in order to facilitate the smooth operation of the Corporation's corporate governance system.

### 2) Corporate Audit Office

Plans and implements annual audit plans and issues audit reports in accordance with the "Internal Audit Procedures" and related laws and regulations, and executes project audits according to the instructions of the Board of Directors or Board-authorized personnel.

### 3) Corporate Planning Office

Formulates THSRC business model and analyzes integration and comprehensive procedures for internal management matters under the three major aspects of business planning management, operation planning management, and project affairs coordination and control.

### 4) Legal Office

Provides legal advice and legal counseling for all types of Corporation business; records, classifies, stores, disseminates, and updates relevant legal documents; assists in the planning, promotion, and execution of corporate governance systems

and corporate governance evaluations; handles application, maintenance, protection, and authorized use of intellectual property rights; reviews formulation and revision of Corporation contracts and contract templates; establishes and promotes legal compliance system; plans and coordinates the handling of engineering, operation, and asset insurance, claims, or third-party claims cases; provides counseling on matters relating to Corporation insurance; and reviews insurance contract clauses and insurance policies.

5) Quality Assurance Office

Responsible for planning and management of the Corporation's quality management system in accordance with the requirements of international quality management system ISO 9001 and European railway application EN50126, as well as full implementation and continuous improvement to ensure the Corporation's quality policies and objectives. Main duties include: quality management, coordination with government audits, form management, system assurance, and internal control.

6) Operation Safety Committee

Ensures the safety of passengers and high-speed railway systems, information security, and protection of personal information. Responsible for keeping pace with internal and external issues and risks relating to operations, planning and promoting policies and strategies relating to safety procedures, obtaining and coordinating relevant operational resources, supervising safety performance and achievement of targets, reviewing responses to and investigations into abnormal events, and following up on corrective measures and improvements to "personnel, procedures, and equipment."

7) Occupational Safety and Health Committee

Provides recommendations for occupational safety and health policies and self-management plans; safety and health management plans, measures, and reports; and occupational hazard investigation reports. Convenes at least once every three months and compiles records in accordance with relevant laws and regulations.

8) Occupational Safety and Health Office

Formulates and promotes safety and health management procedures, and guides relevant departments in implementation of said procedures. Performs identification, statistical analysis, and management of occupational hazards. Plans and implements health checks, health management, health promotion, and occupational disease prevention activities. Establishes occupational safety audit procedures and implements occupational safety and health audits to ensure the effective operation and continuous improvement of various operating procedures.

9) Operation Safety Office

Responsible for formulating the Corporation's safety management system, management policies and management systems for personal information, safety policies, and safety objectives, and assessing the effectiveness of safety management procedures based on the "Railway Act," the "Disaster Prevention and Protection Act," the "All-out Defense Mobilization Readiness Act" and related laws and regulations. Main duties include three main aspects: investigation, operation maintenance, and disaster prevention.

10) Finance Division

Responsible for the Corporation's financial planning and execution, securing of long-term and short-term funds, capital utilization and management, financial risk management, land and share management, general accounting, management accounting, tax accounting and revenue checking, as well as formulation, revision, and implementation of financial procedures; preparation of reports relating to corporate budgets, accounting, taxation, revenues, and business performance; and research on accounting related matters.

11) Human Resource Division

Responsible for integrated management and planning of human resources, and establishment of related systems.

#### 12) Information Technology Division

The Information Division is responsible for the planning, development, operation and maintenance of the Corporation's overall information system, including formulation of information development strategies, planning of information system architecture, evaluation and introduction of application systems, maintenance and management of automatic fare collection system, maintenance and operation of computer room host equipment, education and training for information promotion, management of information security, and execution of various information management procedures.

#### 13) Business Division

Mainly responsible for market research and analysis, planning of transportation business products and services, development and promotion of tourism products, planning and management of affiliated businesses, corporate brand management, communication management, and promotion of other businesses to maximize Corporation revenues.

#### 14) Public Affairs Division

Builds internal and external stakeholders communication channels to communicate accurate corporate messages; plans and implements corporate image projects, major milestones, ceremonies, and charity events.

#### 15) Operation Division

Responsible for the planning and execution of train maintenance, train operations, traffic monitoring, station management, passenger services, ticketing operations, and trolley sales.

#### 16) Maintenance Management Division

Responsible for maintenance of core electromechanical systems for rolling stock, track, power, signaling, and communication systems, and maintenance of infrastructure, depot facilities, and station facilities.

#### 17) Procurement Division

Establishes fair and open procurement procedures to improve procurement efficiency and functionality and ensure procurement quality; establishes procurement policies and strategies; establishes/maintains/manages procurement procedures that are most efficient for Corporation operations and management; develops business sources, suppliers, and management for materials contracts; reduces costs and ensures stable supply of materials; strengthens inventory management for materials; provides contract management and claims management assistance and advice to contract management units; and ensures Corporation interests.

#### 18) Employee Service Department

Responsible for operation planning, resource integration, and management system formulation for general logistics affairs; coordination and supervision of execution of general logistics affairs at each station; planning and control of Corporation by-laws; and management of official stamps, archives, and documents.

#### 19) Core Technology Development Department

Responsible for the planning and design of core electromechanical systems for new high-speed railway projects, and discussions for system renewal and improvement.

#### 20) Facility Engineering Department

Responsible for planning and design of subsequent station sites and civil construction works; technical support for environmental assessments; and budget management.

#### 21) Operation Planning Department

Responsible for the strategic evaluation of transportation, maintenance, engineering, and technology related departments; formulation of operational plans; cost and asset management; maintenance management; and planning and management for professional training.

## 2. Board of Directors

### (1) Directors

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding	
							Shares	%	Shares	%
Chairman	R.O.C.	China Aviation Development Foundation	—	2017/05/ 24	2020/05/23	2006/01/20	260,040	4.62	260,040	4.62
	R.O.C.	Representative: Yao-Chung Chiang	Male	2017/05/24	2020/05/23	2016/10/18	0	0	0	0
Director	R.O.C.	Representative: Huang-Liang Tsai	Male	2017/05/ 24	2020/05/23	2017/01/19	0	0	0	0
Director	R.O.C.	Ministry of Transportation and Communications, R.O.C.	—	2017/05/24	2020/05/23	2017/05/24	2,420,000	43.00	2,420,000	43.00
	R.O.C.	Representative: Min-Ching Liu	Female	2017/09/21	2020/05/23	2017/09/21	0	0	0	0

Thousands of shares; % (as of 2020/03/23)

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship			Remarks
Shares	%	Shares	%			Title	Name	Relation	
0	0	0	0			—	—	None	
0	0	0	0	Ph. D. in Engineering Mechanics, University of Wisconsin, Madison, WI, USA M.S. in Mechanical Engineering, National Cheng Kung University. •Independent Director, TYNSOLAR Corporation. •Chairman, China Steel Chemical Corporation. •Chairman, Kaohsiung Rapid Transit Corporation. •Chairman, China Steel Corporation. •Chairman, China Airlines. •Deputy Minister, Public Construction Committee, Executive Yuan. •Director-General, Department of Rapid Transit System, Taipei City Government. •Technical Supervisor, Researcher, National Chung-Shan Institute of Science and Technology.	•Director, China Aviation Development Foundation. •Independent Director, Radiant Opto-Electronics Corporation. •Independent Director, TYNTEK Corporation. •Independent Director, Chin Fong Machine Industrial Co., Ltd.	None	None	None	
0	0	0	0	M.S. in EMBA, National Taiwan University, USA. Public Administration, National Chengchi University. •3rd~8th Legislator. •Convener of Budget and Transportation Committees of Legislative Yuan. •Secretary General of Democratic Progressive Party Caucus Legislative Yuan. •Deputy Secretary General and Chief of Public Relations Department of Democratic Progressive Party. •Deputy Minister of Physical Education Committee, Executive Yuan.	•Chairman, Taiwan Rolling Stock Corporation. •Chairman, Chung Hwa Railway Industry Development Association.	None	None	None	
0	0	0	0	—	—	None	None	None	
0	0	0	0	MBA Emporia State University, USA. •Deputy Director, Department of Accounting, Ministry of Transportation and Communications, R.O.C. •Deputy Director, Department of Accounting, Ministry of Health and Welfare. •Director, Comptroller Office of Ministry of National Defense, R.O.C. •Director of Accounting, Public Construction Commission, Executive Yuan. •Senior Specialist, Directorate General of Budget, Accounting and Statistics, Executive Yuan. •Accounting Director, Freeway Bureau of MOTC. •Section Chief, Department of Accounting, Ministry of Transportation and Communications, R.O.C.	•Deputy Director, Department of Accounting, Ministry of Transportation and Communications, R.O.C.	None	None	None	

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding	
							Shares	%	Shares	%
Director	R.O.C.	TECO Electric & Machinery Co., Ltd.	—	2017/05/24	2020/05/23	1998/04/13	190,060	3.38	190,060	3.38
	R.O.C.	Representative: Mao-Hsiung Huang	Male	2017/05/24	2020/05/23	2011/03/14	0	0	0	0

Director	R.O.C.	Taipei Fubon Commercial Bank Co., Ltd.	—	2017/05/24	2020/05/23	1998/04/13	20,277	0.36	20,277	0.36
	R.O.C.	Representative: Kuo-Chih Liu	Male	2017/05/24	2020/05/23	2010/05/24	45	0.00	45	0.00

Director	R.O.C.	China Steel Corporation	—	2017/05/24	2020/05/23	2009/11/10	242,148	4.30	242,148	4.30
	R.O.C.	Representative: Shyi-Chin Wang	Male	2019/01/03	2020/05/23	2019/01/03	0	0	0	0

Director	R.O.C.	Taiwan Sugar Corporation	—	2017/05/24	2020/05/23	2000/06/27	200,000	3.55	200,000	3.55
	R.O.C.	Representative: Tao-I Kwan (Note 1)	Male	2020/02/14	2020/05/23	2016/09/01	0	0	0	0
	R.O.C.	Former Representative: Chao-Yih Chen (Note 1)	Male	2019/07/15	2020/02/14	2013/05/30	0	0	0	0

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship			Remarks
Shares	%	Shares	%			Title	Name	Relation	
0	0	0	0	—	—	None	None	None	
0	0	0	0	MBA, The Wharton School, University of Pennsylvania. Bachelor of Economics, Keio University.	<ul style="list-style-type: none"> <li>•Chairman, Century Development Corporation.</li> <li>•Director, TECO Electric &amp; Machinery Co., Ltd.</li> <li>•Supervisor, An-Shin Food Services Co., Ltd.</li> <li>•Honorary Chairman, Chinese National Association of Industry &amp; Commerce, Taiwan.</li> </ul>	None	None	None	
0	0	0	0	—	—	None	None	None	
0	0	0	0	Ph.D. in Physics, Massachusetts Institute of Technology. •Chairman, Fubon Land. •Chairman, Fubon Real Estate Management. •President, Taiwan High Speed Rail Corporation. •President, Taiwan Aerospace Corp.	Director, Wealth Media Co., Ltd.	None	None	None	
0	0	0	0	—	—	None	None	None	
0	0	0	0	Ph. D., Materials and Optoelectronic Science, National Sun Yat-Sen University. •Executive Vice President, Vice President, Technical Department, China Steel Corporation.	<ul style="list-style-type: none"> <li>•President, China Steel Corporation.</li> <li>•Chairman, Dragon Steel Corporation.</li> <li>•Director, China Steel Chemical Corporation.</li> <li>•Director, China Ecotek Corporation.</li> </ul>	None	None	None	
0	0	0	0	—	—	None	None	None	
0	0	0	0	M.S. from the Institute of Traffic and Transportation, National Chiao Tung University. •Section Chief, AM, Deputy Division Chief, CEO, Division Chief, VP, Taiwan Sugar Association.	<ul style="list-style-type: none"> <li>•President, Taiwan Sugar Corporation.</li> <li>•Director, Foundation of Taiwan Sugar Association.</li> </ul>	None	None	None	
0	0	0	0	Ph. D., Institute of Agricultural Chemistry, National Taiwan University. •Chairman, Automotive Research & Testing Center. •Professor Emeritus, China University of Science and Technology. •Chairman, Taiwan Sugar Corporation. •Chief Executive Officer of the Sinotech Engineering Consultants, Inc. •Director, Technical Department, MOEA. •Executive Secretary, Energy Commission, MOEA. •Director General of the Department of Investment Services (DOIS), MOEA. •Director General of the Industrial Development Bureau (IBD), MOEA. •Vice Chairperson of the State-owned Enterprise Commission, MOEA. •Deputy Director, Department of Sectoral Planning, Council for Economic Planning and Development, Executive Yuan.	<ul style="list-style-type: none"> <li>•Chairman, Taiwan Sugar Corporation.</li> <li>•Director, Industrial Technology Research Institute.</li> <li>•Director, Central Bank of the Republic of China (Taiwan).</li> </ul>	None	None	None	



Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding	
							Shares	%	Shares	%
Director	R.O.C.	Management Committee of National Development Fund, Executive Yuan	—	2017/05/24	2020/05/23	2009/11/10	120,000	2.13	120,000	2.13
	R.O.C.	Representative: Shien-Quey Kao	Female	2017/05/24	2020/05/23	2016/10/14	0	0	0	0

Director	R.O.C.	Evergreen Steel Corporation	—	2017/05/24	2020/05/23	2017/05/24	16,000	0.28	16,000	0.28
	R.O.C.	Representative: Lee-Ching Ko	Female	2017/05/24	2020/05/23	2001/07/13	0	0	0	0
Independent Director	R.O.C.	Kung-Wha Ding	Male	2017/05/24	2020/05/23	2017/05/24	0	0	0	0

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship			Remarks
Shares	%	Shares	%			Title	Name	Relation	
0	0	0	0	—	—	None	None	None	
0	0	0	0	M.S. in Economics, National Taiwan University. Bachelor's Degree in Economics, National Taiwan University. •Secretary General, National Development Council, Executive Yuan. •Secretary General, Council for Economic Planning and Development, Executive Yuan. •Director, Department of Economics Research, CEPD. •Deputy Director, Department of Overall Planning, CEPD.	•Deputy Minister, National Development Council, Executive Yuan.	None	None	None	
0	0	0	0	—	—	None	None	None	
0	0	0	0	•Second Vice Group Chairman of Evergreen Group.	•Chairman, Evergreen International Corporation. •Director, Evergreen Marine Corp. (Taiwan) Ltd. •Director, EVA Airways Corporation. •Director, Evergreen International Storage & Transport Corporation. •Director, Evergreen Steel Corporation. •Director, Evergreen Security Corporation. •Director, Shun An Enterprise Corporation. •Director, Charng Yang Development Co., Ltd. •Supervisor, Ever Reward Logistics Corporation. •Supervisor, Evergreen Air Cargo Services Corporation. •Supervisor, Evergreen Airline Services Corporation. •Supervisor, Hsin Yung Enterprise Corporation. •Supervisor, Ever Ecove Corporation.	None	None	None	
0	0	0	0	M.S. in Public Finance, National Chengchi University. •Minister, Financial Supervisory Commission, R.O.C. •Chairman, Taipei Exchange. •Chairman, Taiwan Depository & Clearing Corporation. •Chairman, Securities & Futures Institute. •Minister, Securities & Futures Commission.	•Independent Director, WT Microelectronics Co., Ltd. •Independent Director, Energenesis Biomedical Co., Ltd. •Director, Hotung Investment Holdings Limited. •Director, Hotung International Company Ltd.	None	None	None	

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding	
							Shares	%	Shares	%
Independent Director	R.O.C.	Kenneth Huang- Chuan Chiu	Male	2017/05/24	2020/05/23	2017/05/24	0	0	0	0
Independent Director	R.O.C.	David Da-Wei Poo	Male	2017/05/24	2020/05/23	2017/05/24	0	0	0	0

Note 1: Representative of institutional director Taiwan Sugar Corporation, Mr. Tao-I Kwan, was elected on 2017/05/24; the representative was changed to Mr. Chao-Yih Chen on 2019/07/15, and Mr. Tao-I Kwan was relieved of office on the same day; the representative was changed to Mr. Tao-I Kwan on 2020/02/14, and Mr. Chao-Yih Chen was relieved of office on the same day.

Note 2: Institutional director TSRC Corporation transferred more than half the number of shares held at director election during its term in office (2019/8/12), and therefore has been discharged ipso facto.

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship			Remarks
Shares	%	Shares	%			Title	Name	Relation	
0	0	0	0	LL.M, University of Cambridge. LL.B, National Taiwan University. •Managing Partner, Kew & Lord. •Partner, Taiwan Commercial Law Offices. •Attorney, Baker & McKenzie. •Attorney, Huang & Associates.	•Independent Director, ShunSin Technology Holdings Limited. •Director, Ju-Kao Engineering Co., Ltd. •Independent Director, Chunghwa Precision Test Tech. Co., Ltd. •Director, Waterland Securities Co., Ltd.	None	None	None	
0	0	0	0	Master's Degree in Public Administration, Harvard University. M.S. in Civil Engineering (Transportation), University of Illinois at Urbana-Champaign. B.S. in Civil Engineering, University of Hawaii. •Advisor, Taipei Rapid Transit Corporation. •Advisor, Kaohsiung Rapid Transit Corporation. •Exclusive Director, THI Consultants International Inc. •Chairman, Taiwan Taxi Corporation. •Vice President, Parsons Transportation Group. •President, China Engineering Consultants Inc. •Director-General, Department of Transportation, Taipei City Government. •Director of Planning Division, Department of Rapid Transit Systems, Taipei City Government.	—	None	None	None	

## (2) Major Shareholders of Institutional Shareholders

List of major shareholders of institutional shareholders

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)
China Aviation Development Foundation	Non-corporate organization
Ministry of Transportation and Communications, R.O.C.	Government Institute
TECO Electric & Machinery Co., Ltd.	PJ Asset Management Co., Ltd. (9.87%), Jia Yuan Investment Co., Ltd. (6.46%), Silchester International Investors International Value Equity Trust (3.96%), WGI Emerging Markets Smaller Companies Fund, LLC (2.02%), Silchester International Investors International Value Equity Group Trust (1.99%), Tong Kuang Investment Co., Ltd. (1.63%), JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.61%), Chunghwa Post Co., Ltd. (1.60%), Norges Bank Investment Management under the custody of Citibank (Taiwan) Limited (1.43%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.38%)
Taipei Fubon Commercial Bank Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
China Steel Corporation	Ministry of Economic Affairs (20.00%), Employee's Stock Trust of China Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd. (4.19%), Transglory Investment Corporation (1.62%), Vanguard Total International Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.25%), Vanguard Emerging Markets Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.21%), Norges Bank Investment Management under the custody of Citibank (Taiwan) Limited (1.14%), Winning Investment Corporation (1.02%), Public Service Pension Fund Management Board (0.90%), Dimensional Emerging Markets Value Fund under the custody of Citibank (0.89%), Labor Insurance Fund (0.87%)
Taiwan Sugar Corporation	Ministry of Economic Affairs (86.15%), Northern Region Branch, National Property Administration, MOF (9.92%), First Commercial Bank (0.75%), Chang Hwa Commercial Bank (0.41%), Bank of Taiwan (0.36%), Taiwan Business Bank Co., Ltd. (0.30%), Hua Nan Commercial Bank (0.14%), Central Investment Co. (0.14%), Mega International Commercial Bank Co., Ltd. (0.13%), Land Bank of Taiwan (0.08%), Taiwan Cooperative Commercial Bank (0.08%)
Management Committee of National Development Fund, Executive Yuan	Governmental institute
Evergreen Steel Corporation	Evergreen International Corporation (22.81%), EVA Airways Corporation (9.56%), Continental Engineering Corporation (6.42%), Chang Kuo-Hwa (6.26%), Chang Kuo-Ming (6.26%), Chang Kuo-Cheng (6.26%), Chang Yung-Fa Foundation (6.26%), Cathay Life Insurance Co., Ltd. (3.76%), Wei-Dar Development Co., Ltd. (3.21%), TSRC Corporation (3.04%)

Note 1: Names of institutional shareholders with representatives serving on the Board of Directors should be listed here.

Note 2: The major (top ten) shareholders of said institutional shareholders should be listed here. If the major shareholders are institutional shareholders, they should be listed in the table below.

Note 3: The aforementioned disclosures of shareholder names and shareholding should be replaced by investor or donor names and ratio of investments or donations for institutional directors which are not enterprises.

Note 4: Data is mostly sourced from information provided by institutional shareholders in March 2020, while some is sourced from the Commerce Industrial Services Portal or shareholder websites.

## Major shareholders of the Corporation's major institutional shareholders

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)	
PJ Asset Management Co., Ltd.	Ho Yang Management Consulting Co. (94.95%)	
TECO Electric & Machinery Co., Ltd.	Jia Yuan Investment Co., Ltd.	He Yuan International Investment Co., Ltd. (100%)
	Tong Kuang Investment Co., Ltd.	Kuang Yuan Industrial Co., Ltd. (39.28%), Huo-Huei Lin Huang (35.01%), Bright Lane Investments, Ltd. (12.73%), Tong Ho Global Investment Co., Ltd (6.00%), Other (6.98%)
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications, R.O.C. (100%)	
Taipei Fubon Commercial Bank Co., Ltd.	Fubon Financial Holding Co., Ltd.	Taipei City Government (13.11%), Ming Dong Co., Ltd. (8.45%), Dao Ying Co., Ltd. (7.73%), Richard M. Tsai (3.20%), Daniel M. Tsai (3.01%), Hung Fu Investment Co., Ltd. (2.57%), New Labor Pension Fund (1.48%), Citibank (Taiwan) in its capacity as Master Custodian for Investment Account of GIC Pte Ltd. (Singapore) (1.46%), Chung Shing Development Co., Ltd. (1.42%), Shin Kong Life Insurance Co., Ltd. (1.39%)
Ministry of Economic Affairs	Governmental institute	
China Steel Corporation	Transglory Investment Corporation	China Steel Express Corporation (49.89%), Chung Hung Steel Corporation (40.91%), China Steel Chemical Corporation (9.20%)
	Winning Investment Corporation	Gains Investment Corporation (49.00%), Maruichi Steel Tube Ltd. (42.00%), Transglory Investment Corporation (9.00%)

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)
Ministry of Economic Affairs	Governmental institute
Northern Region Branch, National Property Administration, MOF	Governmental institute
First Commercial Bank	First Financial Holding Co. Ltd. (100%)
Chang Hwa Commercial Bank	Taishin Financial Holding Co., Ltd (22.55%), Ministry of Finance (12.19%), Lungyen Life Service Corporation, Ltd. (3.92%), First Commercial Bank (2.87%), Excel Chemical Corporation (2.78%), Management Committee of National Development Fund, Executive Yuan (2.75%), Cheng Chang Investment Co., Ltd. (1.84%), Chunghua Post Co., Ltd. (1.73%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.02%), Lee Investment Co., Ltd. (0.99%)
Bank of Taiwan	Taiwan Financial Holdings Co., Ltd (100%)
Taiwan Sugar Corporation Taiwan Business Bank Co., Ltd.	Bank of Taiwan (16.21%), Management Committee of National Development Fund, Executive Yuan(5.87%), Land Bank of Taiwan (2.29%), Ministry of Finance (2.08%), Morgan Stanley & Co. International Plc (1.09%), JPMorgan Chase Bank N.A. Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.06 %), Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.00%), Norges Bank (0.95%), BES Engineering Corporation (0.87%), Kin Ming Investment Co., Ltd. (0.84%)
Hua Nan Commercial Bank	Hua Nan Financial Holding Co Ltd. (100%)
Central Investment Co.	Kuomintang (100%)
Mega International Commercial Bank Co., Ltd.	Mega Financial Holding Co Ltd. (100%)
Land Bank of Taiwan	Ministry of Finance (100%)
Taiwan Cooperative Commercial Bank	Taiwan Cooperative Financial Holding Co., Ltd. (100%)

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)
Evergreen International Corporation	Chang Yung-Fa Foundation (28.86%), Chang Kuo-Cheng (16.67%), Chang Kuo-Hwa (12.9%), Chang Kuo-Ming (12.17%), Lee Yu-Mei (7.14%), Chen Hui-Chu (5.81%), Yang Mei-Chen (5.1%), Chang Yung-Fa Charity Foundation (5%), Chang Yung-Fa (5%), Tseng Chiung-Hui (1.33%)
EVA Airways Corporation	Evergreen Marine Corporation (Taiwan) Ltd. (16%), Evergreen International Corporation (11.32%), Falcon Investment Services Ltd. (10.65%), Evergreen Steel Corporation (4.96%), Chang Yung-Fa (2.72%), Chang Kuo-Cheng (1.9%), New Labor Person Fund (1.55%), Chang Kuo-Ming (1.15%), Evergreen International Storage & Transport Corporation (1.01%), Chang Kuo-Hwa (0.82%)
Continental Engineering Corporation	Continental Holdings Corp. (100%)
Evergreen Steel Corporation (Note 5)	Evergreen International Corporation (57.16%), personal donation (12.02%), personal donation (9.24%), personal donation (6.93%), MPI Corporation (3.7%), Evergreen International Storage & Transport Corporation (3.49%), Valtec Industrial Co., Ltd. (2.77%), Inox-Tek Industrial Co Ltd. (2.31%), Cathay Century Insurance Co., Ltd. (0.92%), King Freight International Corp. (0.92%) (Note 5)
Cathay Life Insurance Co., Ltd	Cathay Financial Holding Co., Ltd.(100%)
Wei Dah Development Co., Ltd.	Mau Shi Co. Ltd. (99.8%)
TSRC Corporation	Panama Banco Industrial Company (8.4%), Hao Ran Foundation (7.3%), Wei Dah Development Co., Ltd. (6.5%), Formosa Plastics Marine Corporation (5%), Cathay Life Insurance Co., Ltd. (4.9%), Citibank Taiwan Branch in custody for Government of Singapore Investment Fund (4.4%), Tameton Group Limited (4.2%), Fubon Life Insurance Co., Ltd. (3.8%), Metacity Development Corporation (3.8%), HSBC as trustee of Fidelity International Korea (2%)

Note 1: Names of institutional shareholders with representatives serving on the Board of Directors should be listed here.

Note 2: The major (top ten) shareholders of said institutional shareholders should be listed here.

Note 3: The aforementioned disclosures of shareholder names and shareholding should be replaced by investor or donor names and ratio of investments or donations for institutional directors which are not enterprises.

Note 4: Data is mostly sourced from information provided by institutional shareholders in March 2020, while some is sourced from the Commerce Industrial Services Portal or shareholder websites.

Note 5: (1) Lists the top ten donors for 2019.

(2) Evergreen International Corporation and Evergreen International Storage & Transport Corporation sponsored promotional materials and lightbox ads instead of providing cash donations.

(3) According to Subparagraph 2, Paragraph 3, Article 25 of the Foundations Act, the list of the names of the donors may not be disclosed if the disclosure is opposed by the donors in writing.



### (3) Independence Analysis of Directors

#### Director qualifications

Name	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience		
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company
Yao-Chung Chiang				V
Min-Ching Liu				V
Mao-Hsiung Huang				V
Kuo-Chih Liu				V
Huang-Liang Tsai				V
Shyi-Chin Wang				V
Tao-I Kwan				V
Shien-Quey Kao				V
Lee-Ching Ko				V
Kung-Wha Ding		V		V
Kenneth Huang-Chuan Chiu			V	V
David Da-Wei Poo				V

Note: A check mark is placed in the box for directors who fulfill the following conditions during and two years prior to their time in office.

- (1) Is not hired by the Corporation or any of its affiliates.
- (2) Is not a director or supervisor of the Corporation or any of its affiliates. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (3) Is not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Corporation or ranking in the top ten in shareholdings.
- (4) Is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of managers not conforming to subparagraph (1) above, or of any persons not conforming to subparagraphs (2) and (3) above.
- (5) Is not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of total number of issued shares or ranks among the top five in shareholdings, or a director, supervisor, or employee of an institutional shareholder who has been appointed as a director or supervisor representative at the Corporation under paragraphs 1 and 2, Article 27 of the Company Act. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (6) Is not a director, supervisor, or employee of other companies controlled by Corporation directors or persons with more than half of voting rights at the Corporation. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (7) Is not a director, supervisor, or employee of other companies or institutions of the Corporation's chairperson, president, or persons with equivalent duties, or spouses thereof. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (8) Is not a director, supervisor, manager, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Corporation. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (9) Is not a professional individual, or an owner, partner, director, supervisor, or manager, or spouses thereof, of a sole proprietorship, partnership, company, or institution which provides audit services to the Corporation or its affiliates; or has in the past two years provided commercial, legal, financial, accounting, or related services not exceeding total compensation of NT\$ 500,000 to the Corporation or its affiliates. The same does not apply, however, for members of remuneration committees, public tender offer review committees, or special committees for mergers/consolidations and acquisitions exercising their duties in accordance with the laws and regulations of the Securities and Exchange Act and the Business Mergers and Acquisitions Act.
- (10) Has no spousal relationship and are not relatives within the second degree of kinship of other Corporation directors.
- (11) Has not violated any regulations in Article 30 of the Company Act.
- (12) Has not been elected as a government, juristic person, or their representatives in accordance with Article 27 of the Company Act.

Independent Criteria (Note 1)												Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	
1	2	3	4	5	6	7	8	9	10	11	12		
V	V	V	V		V	V	V	V	V	V	V		3
V	V	V	V		V	V	V	V	V	V	V		
V	V	V	V		V	V	V		V	V			
V	V	V	V	V	V	V	V		V	V			
V	V	V	V		V	V	V	V	V	V	V		
V	V	V	V		V	V	V	V	V	V	V		
V	V	V	V	V	V	V	V	V	V	V	V		
V	V	V	V	V	V	V	V	V	V	V	V	V	2
V	V	V	V	V	V	V	V	V	V	V	V	V	2
V	V	V	V	V	V	V	V	V	V	V	V	V	

### 3. Management Team

Information on President, Vice Presidents, Assistant Vice Presidents, and all Department heads

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
President	R.O.C.	James Jeng	Male	2014/03/14	21	0	0	0	0	0
Operation Senior Vice President/ Executive Vice President	R.O.C.	John Chen	Male	2007/03/12	21	0	0	0	0	0
Administration Senior Vice President	R.O.C.	Barret Wang	Male	2006/12/01	12	0	3	0	0	0
Business Senior Vice President	R.O.C.	Johnson Sun	Male	2017/02/15	0	0	0	0	0	0
Vice President, Finance Division	R.O.C.	Allen Wang	Male	2020/01/15	0	0	0	0	0	0
Vice President, Corporate Planning Office	R.O.C.	Rae Chung	Female	2005/06/06	0	0	0	0	0	0
Vice President, Operation Division	R.O.C.	Andy Lu	Male	2006/12/01	0	0	0	0	0	0
Vice President, Maintenance Management Division	R.O.C.	James Shi	Male	2007/01/02	21	0	0	0	0	0
Vice President, Procurement Division	R.O.C.	Tim Fu	Male	2014/01/01	25	0	0	0	0	0
Assistant Vice President, Employee Service Department	R.O.C.	Shirley Lai	Female	2003/09/16	0	0	0	0	0	0
Assistant Vice President, Quality Assurance Office	R.O.C.	Max Liu	Male	2008/06/16	12	0	0	0	0	0
Assistant Vice President, Accounting department of Finance Division	R.O.C.	Griffin Huang	Male	2017/10/19	0	0	0	0	0	0
Assistant Vice President, Public Affairs Division	R.O.C.	Elaine Tsou	Female	2016/07/15	14	0	0	0	0	0

Unit: Thousands of shares; % (as of 2020/03/23)

Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
		Title	Name	Relation	
Ph.D. in Transportation Management, National Chiao Tung University. M.S. in Ocean Systems Management, Massachusetts Institute of Technology, USA. •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.	None	None	None	None	
M.S. in Computer Science, Alabama Agricultural and Mechanical University. B.S. in Civil Engineering, National Central University. •Director, Muzha Division, Taipei Rapid Transit Corporation.	None	None	None	None	
Bachelor of Law, National Taiwan University. Attorney-at-Law, Chun He Law Firm.	None	None	None	None	
B.A. in Navigation, China College of Marine Technology and Commerce. •General Manager, Taiwan Airport Service Co., Ltd. •General Manager, Osaka Branch, China Airlines Co., Ltd.	None	None	None	None	
EMBA, National Taiwan University. EMBA, National Chengchi University. •MSc International Banking and Financial Studies, University of Southampton, UK. •CFO, IME Group Beijing. •Vice President, IBF Securities Co., Ltd. •Associate Director, Standard Chartered Bank Beijing Branch.	None	None	None	None	
B.A. in Economics, Tamkang University. •Marketing Manager, New Zealand Milk Products (Far East) Ltd., Taiwan Branch.	None	None	None	None	
Executive MBA, College of Management, National Sun-Yat-Sen University. Executive MBA (Asia-Pacific), the Chinese University of Hong Kong. •Assistant Manager, EVA Airways Corporation. •Assistant Vice President, Operation Sub-Division, Taiwan High Speed Rail Corporation. •Assistant Vice President, Head of Maintenance Management Division, Taiwan High Speed Rail Corporation.	None	None	None	None	
M.S. in Electrical Engineering, Northeastern University, Boston Massachusetts, USA. •Director of Affiliated Business Development Department, Taipei Rapid Transit Corp. •Deputy Director of Maintenance Department, Taipei Rapid Transit Corp. •Assistant Vice President, Head of Maintenance Division, Taiwan High Speed Rail Corporation. •Assistant Vice President, Head of Operation Division, Taiwan High Speed Rail Corporation.	None	None	None	None	
B.S. in Computer Science, Tamkang University. •Manager, Pfizer Inc. •Assistant Vice President, Corporate Audit Office, Taiwan High Speed Rail Corporation. •Assistant Vice President, Procurement Division, Taiwan High Speed Rail Corporation.	None	None	None	None	
Master of Management, University of Southern Queensland, Australia. •Supervisor, Independent Director, Excelsior Medical Co., Ltd. •Certified Public Accountant, Deloitte Taiwan.	None	None	None	None	
B.E. in Mechanical Engineering, National Chiao Tung University. EMBA, National Chengchi University. •Special Assistant to the Chairman, DJ Auto Components Corporation (an investee company of Germany-based Hella KGaA Hueck & Co.) •Director, International High-Speed Rail Association (IHRA).	None	None	None	None	
Master of Business Administration, National Taipei University. •Senior Manager, Deloitte Taiwan.	None	None	None	None	
B.A. in Mass Communication, Fu Jen Catholic University. •Assistant Vice President, Public Affairs Department, Wei Chuan Foods Corporation. •Manager, Public Affairs Department, KFC of Yum Brands Inc.	None	None	None	None	

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
Assistant Vice President, Human Resources Division	R.O.C.	Felix Hsu	Male	2019/12/02	0	0	0	0	0	0
Assistant Vice President, Transportation Business Development Department of Business Division	R.O.C.	Simon Chen	Male	2008/09/01	15	0	0	0	0	0
Assistant Vice President, Affiliated Business Development Department of Business Division	R.O.C.	Wilson Ting	Male	2008/02/25	0	0	0	0	0	0
Assistant Vice President, Train Operation Department of Operation Division	R.O.C.	Paul Hwang	Male	2006/11/06	0	0	0	0	0	0
Assistant Vice President, Operation Control Center of Operation Division	R.O.C.	Alpha Lin	Male	2006/11/06	0	0	0	0	0	0
Assistant Vice President, Station Operation Department of Operation Division	R.O.C.	Paul Yang	Male	2016/04/01	14	0	0	0	0	0
Assistant Vice President, Signaling & Communication Department of Maintenance Management Division	R.O.C.	Eric Cheng	Male	2006/11/06	11	0	0	0	0	0
Assistant Vice President, Depot & Station Facility Department of Maintenance Management Division	R.O.C.	Bob Chen	Male	2014/01/01	0	0	0	0	0	0
Assistant Vice President, Rolling Stock Maintenance Department of Maintenance Management Division	R.O.C.	Vincent Huang	Male	2016/04/01	42	0	0	0	0	0
Assistant Vice President, Core Technology Development Department	R.O.C.	Sheng-Hsin Yu	Male	2015/01/01	6	0	0	0	0	0
Assistant Vice President, Facility Engineering Department	R.O.C.	Tom Tsai	Male	2016/04/01	61	0	40	0	0	0
Assistant Vice President, Information Technology Division	R.O.C.	Calvin Yen	Male	2016/04/01	7	0	0	0	0	0
Senior Manager, Corporate Audit Office	R.O.C.	Roger Chu	Male	2017/02/15	1	0	0	0	0	0

Experience ( Education )	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
		Title	Name	Relation	
EMBA Master of Biotechnology, School of Management, Taipei Medical University. •Executive Assistant Vice President, Kingmaker (Vietnam) Footwear Co., Ltd. •Assistant Vice President, Wei Chuan Foods Corp. •Senior Manager, HongDa International Electronics Co., Ltd.	None	None	None	None	
Ph.D., Transportation Group, Institute of Civil Engineering, National Taiwan University.	None	None	None	None	
Master of Science Finance, Golden Gate University. •Sales / Channel Management Director, Far EasTone Telecommunications Co., Ltd.	None	None	None	None	
M.S. Transportation and Communication Management Science, National Chen Kung University. •Vice President of Figaro Philippine Holdings Inc. •Director of Training Center, Deputy Director of OCC, Taipei Rapid Transit Corp. •Engineer/Junior Engineer, Department of Rapid Transit Systems, Taipei City Government, R.O.C.	None	None	None	None	
Master of Systems Analysis Group, Institute of Management Science, Tamkang University. •Director of OCC and Director of Train Operation Center, Taipei Rapid Transit Corp.	None	None	None	None	
Electronic Computer Science, Tamkang University. •Programmer of Panasonic Taiwan. •Deputy Engineer of Chang-Lung Information. •Engineer of EVA Air. •Senior Manager, Station Operation Department, Taiwan High Speed Rail Corporation.	None	None	None	None	
Master's Degree in Department of Electrical Engineering, National Taiwan University of Science and Technology. •Electrical Engineering Plant Director & Power Supply Plant Director, Taipei Rapid Transit Corp.	None	None	None	None	
Executive MBA, National Sun-Yat-Sen University. •Section Chief, EVA Air.	None	None	None	None	
MBA, National Sun Yat-Sen University. Mechanical Department, St. John's and St. Mary's Institute of Technology. •Deputy Section Chief, Evergreen Steel Corp. •Section Chief, Evergreen Steel Corp. (Malaysia). •Section Chief, Evergreen Steel Corp. •Assistant Manager, Manager, Senior Manager, Taiwan High Speed Rail Corp.	None	None	None	None	
Master of Electrical Engineering, University of Memphis, USA. •Electronics Engineering Plant Director, Taipei Rapid Transit Corp.	None	None	None	None	
Master of Culture Planning Institute, Chinese Culture University. Department of Architecture, Tamkang University. •Manager, Kangshe Construction Corp.	None	None	None	None	
B.S. in Computer Science, Tamkang University. •Project Engineer, EVA Air. •Manager of Information Office, Ever Rich Group Corp. •Manager of Warehouse Management Department, Ever Rich Group Corp. •Project Manager, NCR Corp. •Senior Manager, Information Technology Division, Taiwan High Speed Rail Corporation.	None	None	None	None	
B.A. in Accounting, National Chengchi University. •Audit Manager, Deloitte Taiwan. •Assistant Vice President, Accounting Department, New Century InfoComm Tech Co., Ltd. •Assistant Vice President, Worldwide Semiconductor Manufacturing Co., Ltd. (WSMC).	None	None	None	None	

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
Senior Manager, Occupational Safety & Health Office	R.O.C.	Chris Lee	Male	2016/02/15	1	0	0	0	0	0

Senior Manager, Operation Safety Office	R.O.C.	Paul Hsu	Male	2019/01/13	0	0	0	0	0	0
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Experience ( Education )	Other Position	Managers who are Spouses or Within Two Degrees of Kinship			Remarks
		Title	Name	Relation	
Ph.D., Program of Technology Management, Chung Hua University M. Sc. in Construction Management at USC, USA. M. Sc. in Environmental Engineering at National Taiwan University R.O.C. •Engineer Director, Senior Engineer, and Director Engineer, Taiwan High Speed Rail Corporation. •Commissioner, Fubon Land Inc. •Engineer, Kajima Eng. & Construction Inc. in USA. •Deputy Engineer, Taiwan Building and Urban Developing Bureau.	None	None	None	None	
MD, Department of Civil Engineering, National Chung Hsing University. •Assistant Researcher, National Disaster Prevention and Technology Center. •Disaster Response Team Head of the Taipei City Government. •MRT Planner, Taipei Rapid Transit Corporation.	None	None	None	None	



## 4. Remuneration to Directors and Department Heads

### (1) Remuneration to Directors (Including Independent Directors), President, Vice Presidents, and Others in the Most Recent Year

1) Remuneration to directors and independent directors (names and method of payment disclosed)

Title	Name	Remuneration							
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D) (Note3)	
		The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements
China Aviation Development Foundation		0	0	0	0	8,317	8,317	0	0
Chairman Representative: Yao-Chung Chiang		8,347	8,347	0	0	0	0	699	699
Director Representative: Huang-Liang Tsai		0	0	0	0	0	0	184	184
Ministry of Transportation and Communications, R.O.C.		0	0	0	0	4,158	4,158	90	90
Director Representative: Min-Ching Liu		0	0	0	0	0	0	102	102
Taipei Fubon Commercial Bank Co., Ltd.		0	0	0	0	4,158	4,158	0	0
Director Representative: Kuo-Chih Liu		0	0	0	0	0	0	184	184
TECO Electric & Machinery Co., Ltd.		0	0	0	0	4,158	4,158	0	0
Director Representative: Mao-Hsiung Huang		0	0	0	0	0	0	152	152
Evergreen Steel Corporation		0	0	0	0	4,158	4,158	0	0
Director Representative: Lee-Ching Ko		0	0	0	0	0	0	56	56
China Steel Corporation		0	0	0	0	4,158	4,158	120	120
Director Representative: Shyi-Chin Wang		0	0	0	0	0	0	0	0
Taiwan Sugar Corporation		0	0	0	0	4,158	4,158	144	144
Director Representative: Tao-I Kwan		0	0	0	0	0	0	0	0

Unit: NT\$ thousands (as of 2019/12/31)

Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than a Corporation Subsidiary or from Parent Company
		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation		All companies included in financial statements		The Corporation	All companies included in financial statements	
						Cash	Stock	Cash	Stock			
0.10	0.10	0	0	0	0	0	0	0	0	0.10	0.10	None
0.11	0.11	0	0	0	0	0	0	0	0	0.11	0.11	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None

Title	Name	Remuneration							
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D) (Note3)	
		The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements
Director Former Representative: Chao-Yih Chen		0	0	0	0	0	0	0	0
Management Committee of National Development Fund, Executive Yuan		0	0	0	0	4,158	4,158	60	60
Director Representative: Shien-Quey Kao		0	0	0	0	0	0	100	100
TSRC Corporation (Note 1)		0	0	0	0	2,447	2,447	0	0
Director Former Representative: Chin-Shan Chiang		0	0	0	0	0	0	64	64
Independent Director Kung-Wha Ding		990	990	0	0	0	0	360	360
Independent Director Kenneth Huang-Chuan Chiu		990	990	0	0	0	0	360	360
Independent Director David Da-Wei Poo		990	990	0	0	0	0	456	456

1. Please describe policies, systems, standards, and structures for independent director remuneration, and connection between remuneration amounts and borne duties, risks, time invested, and other factors:

According to Article 2-07 of the Corporation's "Guidelines for Corporate Governance," the remuneration paid to Directors for their services as Directors, including Board meeting attendance fees, salary and pay, and profit-sharing compensation paid to Directors as set out in the Articles of Incorporation, shall be discussed and determined by the Board separately for each Director, in accordance with laws and regulations, the Articles of Incorporation, and these Guidelines, with consideration to the level of involvement and value of the contribution of each Director, and taking into reference the usual pay level in the industry domestically and abroad. Remuneration for independent directors is determined according to the Corporation's "Regulation of Self-Evaluation of the Board of Directors" and reasonable compensation is provided in consideration of the Corporation's overall business performance, future industrial risks, and development trends. Relevant performance evaluations and rationality of compensation are reviewed by the Remuneration Committee and the Board of Directors; our compensation system is adjusted according to business operations and related laws and regulations when appropriate, and also considers current corporate governance trends so as to balance sustainable operations and risk management.

2. Remuneration paid to Corporation directors by all companies included in financial statements for services (such as non-employee consultants and others) other than disclosed in the table above: None.

Note 1: Institutional director TSRC Corporation transferred more than half the number of shares held at director election during its term in office (2019/8/12), and therefore has been discharged.

Note 2: Includes expenses for company cars, but not include driver remuneration of NT\$ 616 thousand.

Note 3: The remuneration disclosed in this table uses a different concept to that of the Income Tax Act, and therefore the purpose of this table is merely to disclose the information. This information should not be used for tax purposes.

Note 4: The Corporation has no subsidiaries and therefore does not disclose any consolidated financial reports.

Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than a Corporation Subsidiary or from Parent Company
		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation		All companies included in financial statements		The Corporation	All companies included in financial statements	
						Cash	Stock	Cash	Stock			
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.05	0.05	0	0	0	0	0	0	0	0	0.05	0.05	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.03	0.03	0	0	0	0	0	0	0	0	0.03	0.03	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	None
0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	None
0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	None

2) Remuneration of President and vice presidents

Title	Name	Base Compensation (A) (Note 2)		Severance Pay (B) (Note 3)		Bonuses and Allowances (C) (Note 4)	
		The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements	The Corporation	All companies included in financial statements
President	James Jeng						
Executive Vice President	John Chen						
Senior Vice President	Barret Wang						
Senior Vice President	Johnson Sun						
Vice President	Eleanore New	Total amount 28,860	Total amount 28,860	Total amount 878	Total amount 878	Total amount 15,938	Total amount 15,938
Vice President	Rae Chung						
Vice President	Andy Lu						
Vice President	James Shi						
Vice President	Tim Fu						

Note 1: The number of people with decision-making management authority and people who were appointed to ranks of vice president and above following Board approval was 9; of these, Assistant Vice President Tim Fu was promoted to Vice President and took office on 2019/06/01, and Vice President Eleanore New retired on 2020/01/15.

Note 2: Remuneration (A) includes basic salaries and food allowances. The amount of employee compensation and bonuses for 2019 are disclosed as estimated figures.

Note 3: Actual amounts of retirement pay for 2019 came to a total of NT\$ 0 and retirement pensions expenses came to NT\$ 878 thousand, making a total of NT\$ 878 thousand.

Note 4: The remuneration, retirement pay, bonuses and special disbursements in this table are disclosed in accordance with regulations regarding information to be disclosed in annual reports. Special leave liability and non-business travel of NT\$ 2,716 thousand is not included. Includes expenses for company cars, but not relevant remuneration paid to the drivers of NT\$1,441 thousand.

Note 5: Article 35-1 of the Articles of Incorporation states that "If the final annual accounts of the Corporation show a net profit for a given year, it shall allocate not less than 1 percent of the net profit as profit-sharing compensation to employees and not more than 1 percent as profit-sharing compensation to Directors; provided, however, that if the Corporation still has any accumulated loss, it shall first set aside the amount to offset the loss before such allocation." Employee compensation for 2019 was calculated based on profits for the year (pre-tax profits minus profits prior to distribution of employee and director compensation), and were estimated to be 2% of NT\$ 7,974,469 thousand (no accumulated losses to be offset). This proposal will be carried out in accordance with regulations following approval from the 2020 shareholders' meeting.

Unit: NT\$ thousands (as of 2019/12/31)

Employee Compensation (D) (Note 5)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation Paid to President and vice presidents from an Invested Company Other than a Corporation Subsidiary or from Parent Company
The Corporation		All companies included in financial statements		The Corporation	All companies included in financial statements	
Cash	Stock	Cash	Stock			

Total amount 2,450	0	Total amount 2,450	0	0.60	0.60	None
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### 3) Remuneration range table

Unit: NT\$

Range of Remuneration	Names of President and Vice Presidents	
	The Corporation	All companies included in financial statements
Lower than 1,000,000	-	-
1,000,000 (Included) ~ 2,000,000 (Not included)	-	-
2,000,000 (Included) ~ 3,500,000 (Not included)	-	-
3,500,000 (Included) ~ 5,000,000 (Not included)	Rae Chung, Andy Lu, James Shi, Tim Fu	Rae Chung, Andy Lu, James Shi, Tim Fu
5,000,000 (Included) ~ 10,000,000 (Not included)	James Jeng, John Chen, Barret Wang, Johnson Sun, Eleanore New	James Jeng, John Chen, Barret Wang, Johnson Sun, Eleanore New
10,000,000 (Included) ~ 15,000,000 (Not included)	-	-
15,000,000 (Included) ~ 30,000,000 (Not included)	-	-
30,000,000 (Included) ~ 50,000,000 (Not included)	-	-
50,000,000 (Included) ~ 100,000,000 (Not included)	-	-
Above 100,000,000	-	-
<b>Total</b>	<b>9</b>	<b>9</b>

Note: The remuneration disclosed in this table uses a different concept to that of the Income Tax Act, and therefore the purpose of this table is merely to disclose the information. This information should not be used for tax purposes.

### 4) Names of managers who received employee compensation and status of distribution

Unit: NT\$ thousands

	Title	Name	Employee Compensation - in Stock	Employee Compensation - in Cash	Total	Ratio of Total Amount to Net Income (%)
	President	James Jeng				
	Executive Vice President	John Chen				
	Senior Vice President	Barret Wang				
	Senior Vice President	Johnson Sun				
	Vice President	Eleanore New				
	Vice President	Rae Chung				
	Vice President	Andy Lu				
	Vice President	James Shi				
	Vice President	Tim Fu				
	Assistant Vice President	Hsin-Hsiung Chen				
	Assistant Vice President	Tom Tsai				
	Assistant Vice President	Bob Chen				
Managers	Assistant Vice President	Vincent Huang	0	Total amount 5,363	Total amount 5,363	0.07
	Assistant Vice President	Paul Yang				
	Assistant Vice President	Calvin Yen				
	Assistant Vice President	Shirley Lai				
	Assistant Vice President	Alpha Lin				
	Assistant Vice President	Paul Hwang				
	Assistant Vice President	Eric Cheng				
	Assistant Vice President	Sheng-Hsin Yu				
	Assistant Vice President	Wilson Ting				
	Assistant Vice President	Max Liu				
	Assistant Vice President	Elaine Tsou				
	Assistant Vice President	Griffin Huang				
	Assistant Vice President	Felix Hsu				
	Principal Specialist	Gavin Tsou				

Note: The aforementioned employee compensation for 2019 are estimated figures.

(2) The ratio of total-remuneration-to-net-income for remuneration paid to Corporation directors, president, and vice presidents for the most recent two fiscal years, remuneration policy, standards, combinations, manner of determining remuneration, and relationship between operational performance and future risks

- 1) The ratio of total-remuneration-to-net-income for remuneration paid to directors and managers ranked above vice presidents:

Unit: NT\$ thousands

Item	2018	2019
Total remuneration paid to directors	53,701	54,321
Ratio of total remuneration paid to directors (Note 1)	0.50%	0.68%
Total remuneration paid to managers ranked above vice president (Note 2)	44,197	48,126
Ratio of total remuneration paid to managers ranked above vice president (Note 1)	0.41%	0.60%

Note 1: Information for 2018 was calculated based on after-tax profits of NT\$ 10,696,381 thousand, and information for 2019 was calculated based on after-tax profits of NT\$ 8,007,033 thousand.

Note 2: Remuneration for managers ranked above vice presidents represents the total remuneration for the president, executive vice presidents, senior vice presidents, and vice presidents.

- 2) Remuneration policies, standards, and packages

According to Article 27-1 of the Articles of Incorporation, remuneration for individual board directors should be determined by the Board based on the level of participation, value contributed, and remuneration levels of similar companies. Additionally, if the Corporation is profitable in a given year, it shall allocate not more than 1% of the net profit as profitsharing compensation to Directors according to Article 35-1 of the Articles of Incorporation. Independent directors receive fixed monthly compensation as determined by the Board and are not entitled to profit shares.

The Corporation's employee remuneration levels are set according to individual work experience, positions and job duties, work skills and work performance, and the Corporation's financial and operational status, and have a positive correlation with operational performance. Additionally, if the Corporation is profitable in a given year, it shall allocate not less than 1% of the net profit as profit-sharing compensation to employees according to Article 35-1 of the Articles of Incorporation. Remuneration levels for Corporation managers are determined by the Board based on individual performance, contribution to Corporation operations, relevant regulations, and market standards. The Corporation's "Salary Payment Regulation" stipulates salary allowances and bonuses to reward employees for their hard work. Bonus levels are based on the Corporation's annual business performance, financial status, operating conditions, and individual work performance.

Remuneration as defined by the Charter of Remuneration Committee includes cash remuneration, stock options, dividends, retirement or redundancy benefits, allowances, and other substantial incentives; the scope of remuneration is consistent with that set out for director and manager remuneration in our publicly issued annual report.

- 3) Procedures for determining remuneration

Performance evaluations of Corporation directors and managers refer to our "Regulation of Self-Evaluation of the Board of Directors" and our "Performance Appraisal Regulation" (applicable to managers and employees). Evaluation items for director performance include: understanding of corporate goals and tasks, recognition of director responsibilities, participation in corporate operations, internal relations engagement and communication, director knowledge and continued training, and internal control. Evaluation items for annual performance of managers and employees adhere to performance indicators for their main work duties and include evaluations of management capabilities and core capabilities the supervisor assessment items include: the knowledge, techniques and behavioral items required for supervisors, planning and organizational capabilities, mentoring abilities, customer-oriented improvement capabilities, continuous improvement capabilities, performance improvement capabilities and safety awareness, etc., the employee assessment items include: the knowledge, techniques and behavioral items required by employees, problem analysis and resolution capabilities, work management capabilities, proactive and adaptive capabilities and the pursuit of excellence



capabilities, etc. Additionally, the remuneration of the Corporation's Chairman and President are also determined by results of annual business performance indicators, including financial indicators (growth of operating income, EPS, net income before tax and stabilization expense, productivity per person, and credit ratings or Taiwan ratings) and non-financial indicators (customer satisfaction and corporate governance evaluations). Relevant performance evaluations and rationality of compensation are reviewed by the Remuneration Committee and the Board of Directors, and takes into account the Corporation's overall business performance, future industrial risks, and development trends, as well as individual performance achievement rates and level of contribution to the Corporation. Our compensation system is adjusted according to business operations and related laws and regulations when appropriate, and also considers current corporate governance trends so as to balance sustainable operations and risk management.

Results of performance self-assessments for the Corporation's Board of Directors, Board members, and functional committees in 2019 all significantly exceeded standards. Additionally, results of performance assessments for managers in 2019 showed that all managers either met or exceeded set targets, indicating that our evaluation results for annual business performance indicators have reached the highest standards. Compensation for the Corporation's directors and managers fully consider the professional capabilities of these individuals and Corporation operations and finances, and are linked to overall Corporation operational performance, individual performance targets, and evaluation results.

#### 4) Linkage to operating performance and future risk exposure

Assessments of remuneration standards and systems consider the Corporation's overall operational status, individual performance achievement rates, and contribution levels to enhance overall organizational efficiency of the Board and managerial departments. Additionally, we reference industrial remuneration standards to ensure that the remuneration of managers is competitive within the industry and can help to retain talent.

Establishing linkages between remuneration levels and the Corporation's operational results and managerial performance have had positive effects on the Corporation's overall performance and are helping to maximize shareholder interests.

Manager performance targets are all integrated with "risk management" to ensure that possible risks within the scope of job duties can be managed and prevented, and results of actual performance evaluations are linked to relevant human resources and remuneration policies. Corporation management undertake major decisions after careful consideration of all risk factors, and results of relevant decisions are reflected in Corporation profitability, which are in turn linked to remuneration and risk management performance of managers.

## 5. Human Resources

### (1) Human Resources Structure: An Overview of Employee Numbers, Seniority, Age, and Education Qualifications for the Past Two Years and up to the Publication Date of the Annual Report

Year		2018 (Until 2018/12/31)	2019 (Until 2019/12/31)	2020 As of 2020/03/31
Employee Numbers	General Staff	4,406	4,515	4,541
	Compulsory Employment	53	78	97
	Expats	3	3	3
	Total	4,462	4,596	4,641
Average Age		37.3	37.7	37.7
Average Seniority		8.5	9.0	9.1
Education Distribution Ratios (%)	Doctorate	0.3	0.3	0.3
	Master	12.8	12.8	12.8
	Undergraduate	82.0	80.7	80.5
	High School	4.5	5.8	6.0
	Below High School	0.4	0.4	0.4

## (2) Employee Benefits and Rights

### 1) Employee benefits

Friendly environment and establishing a win-win solution

Apart from employee labor and health insurance, vacation days, retirement, injury compensation, health checks, and other benefits stipulated by law, we believe that only happy employees can provide quality passenger services, and therefore we are committed to establishing a friendly work environment and competitive salaries and benefits. Employees who have childcare needs, major disaster needs, and personal turmoil can also apply for leave without pay to take care of their personal and family care needs.

We are attentive to the work-life balance of employees and encourage our employees to participate in activities that enhance their mental and physical health in their free time. Our "HSR tournament" has a series of softball, basketball, badminton competitions, and is an important annual event for THSRC. In 2019, a total of 101 clubs were registered with the employee welfare committee, including the archery club, the fishing club, and the diving club. Exercise-type clubs made up 63% of all clubs, and in 2019 the Corporation once again received the Corporate Exercise certificate given out by the Sports Department of the Ministry of Education.

Additionally, we provide dorms, shuttle buses, exercise equipment at specific locations, and also provide registered childcare facilities, special promotions, uniform cleaning services, and catering including providing dinner and breakfast for night workers.

#### THSRC Employee Benefits & Work Support

<b>Work-Life Balance</b>	Club activity subsidies, travel activity subsidies, annual promotional tickets, sports events, movie appreciation events
<b>Childcare Support</b>	Childcare leave without pay, registered contract childcare facilities, lactation room facilities
<b>Daily Support</b>	Group insurance, funeral subsidies and bereavement support, wedding couplets and funeral scrolls, wedding subsidies, annual holiday bonuses, birthday bonuses, major disaster assistance, illness subsidies and care, hospitalization subsidies
<b>Work Assistance</b>	Counseling, healthcare assistance, relocation subsidies, travel insurance, catering
<b>Others</b>	Spring party activities; commendation of senior staff; parent days; gym and entertainment facilities; library services; quality merchant discount deals with entertainment, dining, travel, lodging, and bulk purchasing of consumer products businesses

Note: The benefits mentioned above include benefits and facilities provided by both the Corporation and the employee welfare committee.

2) Education, training, and retirement systems:

A. Education and training:

- (a) To develop, cultivate, and evaluate talent, we have optimized management and core competencies and professional training for technical and service employees of all levels and all departments.
- (b) Safety, service, and quality are the core competencies of all employees. Through routine promotion and implementation of safe driving procedures and physical and mental health, the Corporation has built up a corporate culture which believes that "a focus on personal safety is the best safeguard of passenger safety and peace of mind."
- (c) We planned training programs for management and maintenance of regulated professional certifications and licenses to achieve various functional and strategic operational goals and cultivate and explore potential talent.
- (d) We established mobile learning services to enhance employee learning motivations and effectiveness, allowing employees to complete training through personal mobile devices, shortening training schedules and strengthening timeliness and convenience of personnel training.

B. Implementation of retirement plan system:

To provide stable lifestyles for employees after retirement, the Corporation has set retirement procedures in accordance with law, and has established a Pension Reserves Supervisory Committee which convenes every quarter to discuss distribution of pensions and other matters.

The Corporation has established a retirement benefits plan according to the Labor Standards Act and the Labor Pension Act:

- (a) Defined benefit plan: Includes pension plans under the Labor Standards Act and the Labor Pension Act, as well as prior pension plans where tenure of services rendered was retained. The Corporation places 2% of employee monthly salaries into pension funds, and these are turned over to the Pension Reserves Supervisory Committee and deposited in a special savings account at the Bank of Taiwan in the Committee's name. Qualified actuaries review pension reserves every year and the Pension Reserves Supervisory Committee convenes periodically in accordance with relevant laws to protect the pensions and rights of our employees.
- (b) Defined contribution plan: Includes pension plans under the Labor Pension Act. The Corporation places 6% of employee monthly salaries in individual labor insurance accounts to serve as pension reserves.

Retirement conditions:

- (a) Voluntary retirement: An employee may apply for voluntary retirement under any of the following conditions:

- I. Has reached the age of fifty-five and has worked for fifteen years.
- II. Has worked for more than twenty-five years.
- III. Has reached the age of sixty and has worked for ten years.

- (b) Forced retirement:

- I. Has reached the age of sixty-five, except in the case of the Corporation President.
- II. Is unable to perform his/her duties due to disability.

- (c) Pension payments and standards:

- I. Defined benefit plan: Employers shall pay employee pensions within 30 days from the day of retirement. According to Article 55 of the Labor Standards Act, pensions are calculated according to bases of tenure of services rendered and the six-month average salary amount following approval of retirement application. Two bases are

given for each full year of service rendered. But for the rest of the years over 15 years, one base is given for each full year of service rendered. The total number of bases shall be no more than 45. An additional 20% on top of the amount calculated according to the preceding subparagraph shall be given to workers forced to retire due to disability incurred from the execution of their duties.

- II. Defined contribution plan: According to the Labor Pension Act and relevant regulations, employees under the new pension system can collect pensions from their pension reserve accounts directly from the Bureau of Labor Insurance.

### (3) Labor-Management Negotiations

#### 1) Labor-management negotiations:

- A. In order to enhance labor relations, the Corporation management holds monthly discussions with labor unions and works with various departments to handle and respond to issues.
- B. The Corporation and the THSRC Labor Union have held six collective agreement and negotiations meetings since June 3, 2019. The two parties negotiated the general terms of the collective agreement as well as the organization, operation, and facilities of the union. The Corporation will continue to seek consensus and balance the interests of both parties under principles of fairness and reasonableness, and in consideration of the interests of all stakeholders.

#### 2) Legal compliance:

##### A. Convening of labor-management conferences:

Our first labor-management conference was held on December 24, 2003, and our first labor-management conference at headquarters was held on July 1, 2016, after which labor-management conferences were held quarterly and changes in labor representative were reported to relevant authorities according to law.

##### B. Establishment of the grievance appeals system:

We established and implemented our "Grievance Regulation" on December 13, 2005 and revised these procedures on November 19, 2018 in order to effectively implement policies and maintain employee relations.

##### C. Sexual harassment prevention and appeals system:

We established and implemented our "Sexual Harassment Prevention and Handling Regulation" on May 14, 2015 in accordance with the Act of Gender Equality in Employment and Regulations for Establishing Measures of Prevention, Correction, Complaint and Punishment of Sexual Harassment at Workplace to ensure physical and mental safety of all employees in the workplace, strengthen prevention of sexual harassment incidents, and disseminate related information. Revisions were made to our "Sexual Harassment Prevention and Handling Regulation" on December 16, 2019. We promote relevant information through the training program for new employees and the E-learning platform and also display our appeals hotline and fax number on our corporate website, stations, and workplaces to effectively prevent external and internal incidences of sexual harassment.

##### D. Promotion of work equality:

Starting from June 2005, the Corporation established lactation rooms for passengers and staffs to encourage and support breastfeeding policies.

##### E. Healthcare management:

Infirmaries have been established at corporate headquarters, the OMC building, and all maintenance bases in accordance with the Labor Health Protection Regulations, and health stations of higher quality than stipulated by

law have been established at all HSR stations and are equipped with nursing staffs that provide emergency medical assistance to passengers and employees to enhance and manage employee health.

F. The Corporation has formulated "Mental Health Protection Regulation" in accordance with government labor laws to ensure the physical and mental health of employees and workplace safety through measures that protect the psychological health of employees.

3) Losses sustained as a result of labor disputes (including results of labor inspections found to be in violation of provisions in the Labor Standards Act, specifying the disposition date, disposition reference number, provisions of the regulations breached, description of the violation, and the disposition) in the most recent fiscal year and up to publication date of this annual report, disclosure of estimated losses incurred to date or likely to be incurred in the future, and indication of mitigation measures being or to be taken. If the loss cannot be reasonably estimated, make a statement to that effect:

A. The Taoyuan City Government Office of Labor Inspection conducted labor inspections on employees in the information technology division of our Taoyuan Operation Center on August 27, 2019 and discovered that some employees not on official business remained in our offices and clocked out later than the regulated time. These employees were found to be in violation of Paragraph 6, Article 30 of the Labor Standards Act, and THSRC incurred a penalty of NTD\$ 20,000.

To improve upon these issues, THSRC has instructed our information technology division to implement a reminder mechanism, and has requested that all managers promote compliance requirements to reduce the chances of similar events from happening again.

B. The Corporation reached an agreement with the THSRC Labor Union on January 21, 2016 on overtime payments and confirmed calculation of payments in July 2016. Appropriate measures were implemented based on the content of this agreement and the decision of the administrative court. As of December 31, 2018, the Corporation has placed NT\$ 283,279 thousand in debt reserves. The aforementioned decision of the administrative court refers to the appeal filed in November 2015 by the Corporation against the Taipei City Government's claim of failure to provide overtime payments and vacation days according to law. The Taipei High Administrative Court dismissed the Corporation's case on June 7, 2018, and the Corporation filed an additional appeal on July 6, 2018. The Supreme Administrative Court issued a judgment on October 17, 2019, abolished the original judgment, and sent it back to the Taipei High Administrative Court for trial.



# 4

## Corporate Governance

## 1. Corporate Governance Status

### (1) Operational Status of Board of Directors

The 8th Board of Directors convened 12 times in 2019. Attendance records are as follows:

Title	Name	Actual Attendances	By Proxy	Required Attendances	Actual Attendance Rate (%)	Remarks
Chairman	Representative: Yao-Chung Chiang China Aviation Development Foundation	12	0	12	100	
Director	Representative: Min-Ching Liu Ministry of Transportation and Communications, R.O.C.	12	0	12	100	
Director	Representative: Mao-Hsiung Huang TECO Electric & Machinery Co., Ltd.	10	2	12	83	
Director	Representative: Kuo-Chih Liu Taipei Fubon Commercial Bank Co., Ltd.	12	0	12	100	
Director	Representative: Huang-Liang Tsai China Aviation Development Foundation	11	1	12	92	
Director	Representative: Shyi-Chin Wang China Steel Corporation	10	2	12	83	Took office on 2019/1/3
Former Director	Representative: Chao-Tung Wong China Steel Corporation	0	0	0	-	Left office on 2019/1/3
Director	Representative: Tao-I Kwan Taiwan Sugar Corporation	4	2	6	67	Left office on 2019/7/15; resumed office on 2020/2/14
Former Director	Representative: Chao-Yih Chen Taiwan Sugar Corporation	6	0	6	100	Took office on 2019/7/15; left office on 2020/2/14
Director	Representative: Shien-Quey Kao Management Committee of National Development Fund, Executive Yuan	12	0	12	100	
Director	Representative: Lee-Ching Ko Evergreen Steel Corporation	7	5	12	58	
Former Director	Representative: Chin-Shan Chiang TSRC Corporation	8	0	8	100	Left office on 2019/8/12
Independent Director	Kung-Wha Ding	12	0	12	100	
Independent Director	Kenneth Huang-Chuan Chiu	12	0	12	100	
Independent Director	David Da-Wei Poo	12	0	12	100	
Average actual director attendance rates in 2019 (%) (Total actual attendances/ Total required attendances)					92	

## Attendances of Independent Directors at Board Meetings of the 8th Board of Directors in 2019:

(◎ : Attended in person; ☆ : Proxy attendance; △ : did not attend)

Name/Date Session (Term- Sitting)	2019/1/23 (8-22)	2019/2/20 (8-23)	2019/3/20 (8-24)	2019/4/17 (8-25)	2019/5/8 (8-26)	2019/6/19 (8-27)	2019/7/17 (8-28)	2019/8/7 (8-29)	2019/9/18 (8-30)	2019/10/16 (8-31)	2019/11/6 (8-32)	2019/12/18 (8-33)
Kung-Wha Ding	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎
Kenneth Huang- Chuan Chiu	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎
David Da- Wei Poo	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎

## Other matters required to be recorded:

1. If any of the following circumstances occur during board meetings, the date of said meeting, session number, proposal content, all independent director opinions, and the Corporation's responses to said independent director opinions should be recorded:

(1) Items listed according to Article 14-3 of the Securities and Exchange Act:

Date	Session (Term- Sitting)	Agenda Content	Independent Director Opinions	The Corporation's Responses to Independent Director Opinions	Resolutions
2019/1/23	8-22	Procurement and bid selection suggestions for "Installation of HSR station automatic teller machines and coin & banknote exchange machines from 2020 to 2025" contract (Contract number: F1-18-001)	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/1/23	8-22	Procurement and bid selection suggestions for "Rail grinding services from 2019 to 2024" contract (Contract number: S1-19-002)	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/2/20	8-23	Formulation of proposal regarding "Revisions to the Corporation's 'Procedures for the Acquisition or Disposal of Assets'" for submission and discussion at shareholders' general meeting on May 30, 2019	Approved	Not applicable	Approved by all directors in attendance.
2019/2/20	8-23	Formulation of proposal regarding "Revisions to the Corporation's 'Procedures for the Handling of Derivative Transactions'" for submission and discussion at shareholders' general meeting on May 30, 2019	Approved	Not applicable	Approved by all directors in attendance.
2019/2/20	8-23	Procurement and bid selection suggestions for Yanchao Main Workshop Bogie Running Tester Equipment manufacturing and supply contract (Contract number: L1-18-039)	Approved	Not applicable	Approved by all directors in attendance.



Date	Session (Term-Sitting)	Agenda Content	Independent Director Opinions	The Corporation's Responses to Independent Director Opinions	Resolutions
2019/3/20	8-24	Procurement strategy and bid selection suggestions for HSR meal boxes (Contract number: PCDD-18-2353)	Approved	Not applicable	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/3/20	8-24	Suggestions regarding remuneration adjustments for independent directors of the 8th Board of Directors	Approved	Not applicable	Apart from independent directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/4/17	8-25	Procurement and bid selection suggestions for upgrading of mainframe for Traffic Control System (TCS) Package 3 Fault-Tolerant Computer (FTC) (Contract number: E231)	Approved	Not applicable	Approved by all directors in attendance.
2019/5/8	8-26	Suggestions regarding distribution of fees for repairing ceiling glass at Banqiao Station	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/5/8	8-26	Suggestions regarding construction fees and maintenance responsibilities for shuttle bus drive at plaza in front of HSR Tainan Station	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/6/19	8-27	Procurement and bid selection suggestions for Diesel Shunter Locomotive manufacturing and supply contract (Contract number: E2-18-022)	Approved and suggested that managerial departments should strengthen requirements relating to locomotive equipment quality and design, to ensure that the supplier understands the needs of the Corporation.	Handled in accordance with the suggestions put forward by attending independent directors.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/6/19	8-27	Extension of quota for derivative assets that expired during the latter half of 2019	Approved	Not applicable	Approved by all directors in attendance.
2019/6/19	8-27	Extension or transfer of letters of credit that expired during the latter half of 2019	Approved	Not applicable	Approved by all directors in attendance.
2019/7/17	8-28	Procurement and bid selection suggestions for 700T train 7GI (general inspection) turnover equipment and reparable parts	Approved	Not applicable	Approved by all directors in attendance.

Date	Session (Term-Sitting)	Agenda Content	Independent Director Opinions	The Corporation's Responses to Independent Director Opinions	Resolutions
2019/8/7	8-29	Revision of the Corporation's "Internal Control System" and "General-Rules of Internal Control Self-Assessments"	Approved	Not applicable	Approved by all directors in attendance.
2019/9/18	8-30	Formulation of plans for issuance of unsecured corporate bonds	Approved	Not applicable	Approved by all directors in attendance.
2019/10/16	8-31	Procurement strategy suggestions for contract from 2022 to 2027 regarding HSR passenger credit card ticketing payment acquisition services	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/10/16	8-31	THSRC sponsorship of Taiwan Railways Tourism Association	Approved	Not applicable	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/11/6	8-32	Procurement and bid selection suggestions for new L-shaped monitors under third (Contract number: E4-19-005) and fourth (Contract number: E4-19-006) tender bids for Passenger Information System (PIS) replacement project	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18	8-33	Appointment of vice president for the Corporation's Finance Division and to serve as the acting head for the division	Approved	Not applicable	Approved by all directors in attendance.
2019/12/18	8-33	Procurement strategy suggestions for HSR meal boxes from 2020 to 2022	Approved	Not applicable	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18	8-33	Procurement and bid selection suggestions for "CPA Appointment Contract for 2020 to 2022" (Contract number: S1-19-046)	Approved	Not applicable	Approved by all directors in attendance.
2019/12/18	8-33	Extension of quota for derivative assets that expired during the first half of 2020	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18	8-33	Extension or transfer of letters of credit that expired during the first half of 2020	Approved	Not applicable	Approved by all directors in attendance.
2019/12/18	8-33	Application of quota for foreign letters of credit	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Independent Director Opinions	The Corporation's Responses to Independent Director Opinions	Resolutions
2019/12/18	8-33	Formulated applications for import duty guarantees to be submitted to the Ministry of Finance Customs Administration Keelung Customs and Taipei Customs due to the Corporation's need for post-release duty payments when handling imported cargo	Approved	Not applicable	Approved by all directors in attendance.

(2) Other instances where an independent director expressed objections or reservations on record or through written opinions regarding board meeting proposals, apart from the aforementioned matters: None.

2. Implementation of director recusals on proposals due to conflicts of interest, including director names, proposal content, reasons for recusal, and participation in voting procedures:

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with Potential Conflicts of Interest	Reasons for Recusal and Participation in Voting Procedures	Resolutions
2019/1/23	8-22	Procurement and bid selection suggestions for "Installation of HSR station automatic teller machines and coin & banknote exchange machines from 2020 to 2025" contract (Contract number: F1-18-001)	Director Kuo-Chih Liu	THSRC Director Kuo-Chih Liu serves as a representative of Taipei Fubon Commercial Bank, the company which was awarded this contract. This proposal involved transactions with related parties, necessitating recusal of voting rights to avoid conflicts of interest. Director Kuo-Chih Liu absented from the proceedings and was recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/1/23	8-22	Procurement and bid selection suggestions for "Rail grinding services from 2019 to 2024" contract (Contract number: S1-19-002)	Directors Shyi-Chin Wang, Shien-Quey Kao, and Huang-Liang Tsai	Kaohsiung Rapid Transit Corporation, the company that was awarded this contract, is a reinvested company of China Steel Corporation and the Management Committee of National Development Fund (Executive Yuan). THSRC directors Shyi-Chin Wang and Shien-Quey Kao serve as representatives of China Steel Corporation and the Management Committee of National Development Fund (Executive Yuan). Additionally, Taiwan Rolling Stock Co., Ltd. is a reinvested company of China Steel Corporation, and Taiwan Rolling Stock chairman Mr. Huang-Liang Tsai also serves as a director of THSRC, representing the China Aviation Development Foundation. This proposal involved transactions with related parties, necessitating recusal of voting rights to avoid conflicts of interest. Directors Shyi-Chin Wang, Shien-Quey Kao, and Huang-Liang Tsai absented from the proceedings and were recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with Potential Conflicts of Interest	Reasons for Recusal and Participation in Voting Procedures	Resolutions
2019/3/20	8-24	Procurement strategy and bid selection suggestions for HSR meal boxes (Contract number: PCDD-18-2353)	Chairman Yao-Chung Chiang and directors Huang-Liang Tsai, Lee-Ching Ko, and Min-Ching Liu	More than 50% of company shares at Kaohsiung Airport Catering Services, the company that was awarded this contract, are held by China Airlines. Many directors at China Airlines are representatives of the China Aviation Development Foundation, and THSRC Chairman Yao-Chung Chiang and Director Huang-Liang Tsai also serve as representatives of the China Aviation Development Foundation, making this proposal a transaction with related parties. Additionally, THSRC Director Min-Ching Liu serves as a representative of the Ministry of Transportation and Communications, the government entity which donated to the establishment of the China Aviation Development Foundation. Furthermore, some directors and supervisors at Kaohsiung Airport Catering Services are representatives of Uni Air and Evergreen International Corporation, belonging to the same corporate group as THSRC Director Lee-Ching Ko, who serves as a representative of Evergreen Steel, necessitating recusal of voting rights to avoid conflicts of interest. Chairman Yao-Chung Chiang and directors Huang-Liang Tsai and Min-Ching Liu absented from the proceedings and were recused during the reading and review of this proposal, and Chairman Chiang appointed Independent Director Kung-Wha Ding to serve as deputy chair for the meeting. Additionally, Director Lee-Ching Ko did not attend this board meeting and did not appoint another director to serve as proxy for discussion and voting of this proposal.	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/3/20	8-24	Suggestions regarding remuneration adjustments for independent directors of the 8th Board of Directors	Independent directors Kung-Wha Ding, Kenneth Huang-Chuan Chiu, and David Da-Wei Poo	As this proposal for remuneration adjustments involved personal conflicts of interest, the three independent directors absented from the proceedings and were recused during the reading and review of this proposal.	Apart from the independent directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/5/8	8-26	Suggestions regarding distribution of fees for repairing ceiling glass at Banqiao Station	Director Min-Ching Liu	The Taiwan Railways Administration of the Ministry of Transportation and Communications, the counterparty to the transactions in this proposal, is a government-related entity overseen by the Ministry of Transportation and Communications. As the Ministry of Transportation and Communications has appointed a director to serve as a representative at THSRC, this proposal necessitated recusal of voting rights to avoid conflicts of interest. Director Min-Ching Liu absented from the proceedings and was recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with Potential Conflicts of Interest	Reasons for Recusal and Participation in Voting Procedures	Resolutions
2019/5/8	8-26	Suggestions regarding construction fees and maintenance responsibilities for shuttle bus drive at plaza in front of HSR Tainan Station	Director Min-Ching Liu	The Railway Bureau of the Ministry of Transportation and Communications, the counterparty to the transactions in this proposal, is a government-related entity overseen by the Ministry of Transportation and Communications. As the Ministry of Transportation and Communications has appointed a director to serve as a representative at THSRC, this proposal necessitated recusal of voting rights to avoid conflicts of interest. Director Min-Ching Liu absented from the proceedings and was recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/6/19	8-27	Procurement and bid selection suggestions for HSR station cleaning and greenery maintenance services contract from 2019 to 2021 (Contract numbers: S1-18-084~S1-18-095)	Directors Chin-Shan Chiang and Lee-Ching Ko	THSRC Director Lee-Ching Ko is a supervisor at Hsin Yung Enterprise Corporation, the waste treatment company for HSR Taoyuan Station under this proposal, and THSRC Director Chin-Shan Chiang serves as a representative of Wei-Dar Development on the board of Hsin Yung Enterprise Corporation, necessitating recusal of voting rights to avoid conflicts of interest. Director Chin-Shan Chiang absented from the proceedings and was recused during the reading and review of this proposal. Additionally, Director Lee-Ching Ko did not attend this board meeting and did not appoint another director to serve as proxy for discussion and voting of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/6/19	8-27	Procurement and bid selection suggestions for Diesel Shunter Locomotive manufacturing and supply contract (Contract number: E2-18-022)	Directors Huang-Liang Tsai and Shyi-Chin Wang	THSRC Director Huang-Liang Tsai serves as the chairman of Taiwan Rolling Stock, the company that was awarded this contract, and Taiwan Rolling Stock is also a reinvested company of China Steel Corporation, a company represented by THSRC Director Shyi-Chin Wang. This proposal involved transactions with related parties, necessitating recusal of voting rights to avoid conflicts of interest. Director Huang-Liang Tsai absented from the proceedings and was recused during the reading and review of this proposal. Additionally, Director Shyi-Chin Wang did not attend this board meeting and did not appoint another director to serve as proxy for discussion and voting of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/10/16	8-31	Procurement strategy suggestions for contract from 2022 to 2027 regarding HSR passenger credit card ticketing payment acquisition services	Director Kuo-Chih Liu and Independent Director Kung-Wha Ding	THSRC Director Kuo-Chih Liu serves as a representative of Taipei Fubon Commercial Bank, a company that THSRC was planning to invite bids from for this proposal, and the spouse of THSRC Independent Director Kung-Wha Ding is the general manager of Hua Nan Financial Holdings, the parent company of Hua Nan Commercial Bank, necessitating recusal of voting rights to avoid conflicts of interest. Director Kuo-Chih Liu and Independent Director Kung-Wha Ding absented from the proceedings and were recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with Potential Conflicts of Interest	Reasons for Recusal and Participation in Voting Procedures	Resolutions
2019/10/16	8-31	THSRC sponsorship of Taiwan Railways Tourism Association	Chairman Yao-Chung Chiang and Director Min-Ching Liu	The THSRC Chairman also serves as the chairman for the Taiwan Railways Tourism Association, and therefore this proposal involves a donation to a related party. Additionally, the director-general and deputy director-general of the Tourism Bureau of the Ministry of Transportation and Communications respectively serve as a director and a supervisor of the Taiwan Railways Tourism Association, and THSRC Director Min-Ching Liu serves as a representative of the Ministry of Transportation and Communications, necessitating recusal of voting rights to avoid conflicts of interest. Chairman Yao-Chung Chiang and Director Min-Ching Liu absented from the proceedings and were recused during the reading and review of this proposal, and Chairman Chiang appointed Independent Director Kung-Wha Ding to serve as deputy chair for the meeting.	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/11/6	8-32	Procurement and bid selection suggestions for new L-shaped monitors under third (Contract number: E4-19-005) and fourth (Contract number: E4-19-006) tender bids for Passenger Information System (PIS) replacement project	Directors Shyi-Chin Wang and Huang-Liang Tsai	InfoChamp Systems Corporation, the company that was awarded this contract during the fourth round of bids, is a 100% reinvested company of China Steel Corporation, which is represented by THSRC Director Shyi-Chin Wang, and therefore this proposal involved transactions with related parties. Additionally, Taiwan Rolling Stock is a reinvested company of China Steel Corporation, and Taiwan Rolling Stock Chairman Huang-Liang Tsai also serves as a director of THSRC, representing the China Aviation Development Foundation. This proposal involved transactions with related parties, necessitating recusal of voting rights to avoid conflicts of interest. Directors Shyi-Chin Wang and Huang-Liang Tsai absented from the proceedings and were recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18	8-33	Procurement strategy suggestions for HSR meal boxes from 2020 to 2022	Chairman Yao-Chung Chiang and directors Huang-Liang Tsai, Shien-Quey Kao, Min-Ching Liu, and Lee-Ching Ko	More than 50% of company shares at Kaohsiung Airport Catering Services, the company that was awarded this contract, are held by China Airlines. Many directors at China Airlines are representatives of the China Aviation Development Foundation, and THSRC Chairman Yao-Chung Chiang and Director Huang-Liang Tsai also serve as representatives of the China Aviation Development Foundation, making this proposal a transaction with related parties. Additionally, THSRC Director Shien-Quey Kao is a representative of the Management Committee of National Development Fund (Executive Yuan), which holds 9.5% of China Airlines shares. Furthermore, THSRC Director Min-Ching Liu serves as a representative of the Ministry of Transportation and Communications, the government entity which donated to the establishment of the China Aviation Development Foundation, and some directors and supervisors at Kaohsiung Airport Catering Services are representatives of Uni Air and Evergreen International Corporation, belonging to the same corporate group as THSRC Director Lee-Ching Ko, who serves as a representative of Evergreen Steel, necessitating recusal of voting rights to avoid conflicts of interest. Chairman Yao-Chung Chiang and directors Shien-Quey Kao and Min-Ching Liu absented from the proceedings and were recused during the reading and review of this proposal, and Chairman Chiang appointed Independent Director Kung-Wha Ding to serve as deputy chair for the meeting. Additionally, directors Huang-Liang Tsai and Lee-Ching Ko did not attend this board meeting and did not appoint other directors to serve as proxies for discussion and voting of this proposal.	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with Potential Conflicts of Interest	Reasons for Recusal and Participation in Voting Procedures	Resolutions
2019/12/18	8-33	Extension of quota for derivative assets that expired during the first half of 2020	Director Shien-Quey Kao	Mega International Commercial Bank (hereinafter referred to as Mega Bank), the counterparty to the transactions under this proposal, is listed as a government-related entity overseen by the Executive Yuan in THSRC financial reports. As THSRC and Mega Bank are related parties, and THSRC Director Shien-Quey Kao is a representative of the Management Committee of National Development Fund (Executive Yuan), which has a director representative serving on the board of Mega Bank parent company Mega Financial Holding, this proposal necessitated recusal of voting rights to avoid conflicts of interest. Director Shien-Quey Kao absented from the proceedings and was recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18	8-33	Application of quota for foreign letters of credit	Director Shien-Quey Kao	Mega International Commercial Bank (hereinafter referred to as Mega Bank), the counterparty to the transactions under this proposal, is listed as a government-related entity overseen by the Executive Yuan in THSRC financial reports. As THSRC and Mega Bank are related parties, and THSRC Director Shien-Quey Kao is a representative of the Management Committee of National Development Fund (Executive Yuan), which has a director representative serving on the board of Mega Bank parent company Mega Financial Holding, this proposal necessitated recusal of voting rights to avoid conflicts of interest. Director Shien-Quey Kao absented from the proceedings and was recused during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

3. Disclosures of exchange-listed or OTC-listed company self-evaluations (or peer evaluations) of the Board, including information on evaluation cycles and duration, scope of evaluation, method of evaluation, and content of evaluation, as well as implementation status of board evaluations:

(1) Implementation Status of Board Evaluations

Implemented in accordance with the "Regulation of Self-Evaluation of the Board of Directors" approved by the 27th meeting of the 7th Board held on March 21, 2017. For more information regarding results of external evaluations on board performance, please refer to section (6) Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies" of this annual report. The information has also been disclosed on our corporate website.

Evaluation Cycle	Evaluation Duration	Scope of Evaluation	Method of Evaluation	Content of Evaluation
1. Internal Board performance evaluations: implemented every year.	January 1, 2019 to December 31, 2019.	Included performance evaluations of the Board, individual directors, and functional committees.	Internal self-evaluations were conducted on the Board, Board directors, and functional committees.	Assessment items for Board performance evaluations included five main aspects: participation in corporate operations, enhancement of Board decision-making quality, Board composition and structure, director elections and continued training, and internal control. Assessment items for Board director performance evaluations included six main aspects: understanding of corporate goals and tasks, recognition of director responsibilities, participation in corporate operations, internal relations and communication, director knowledge and continued training, and internal control. Assessment items for functional committee performance evaluations included five main aspects: participation in corporate operations, recognition of functional committee responsibilities, enhancement of functional committee decision-making quality, composition of functional committees and election of committee members, and internal control.

Evaluation Cycle	Evaluation Duration	Scope of Evaluation	Method of Evaluation	Content of Evaluation
2. External Board performance evaluations: an evaluation is conducted every three years by independent external professional institutes or external teams composed of experts and scholars.	March 1, 2018 to February 28, 2019.	Included performance evaluations of the Board, individual directors, and functional committees.	The evaluations for 2019 were conducted by the Taiwan Corporate Governance Association, which conducted reviews of the relevant documents submitted by THSRC for evaluations, and also commissioned experts to conduct on-site evaluations and interviews with the Corporation's Chairman, President, independent directors, corporate governance managers, planning office managers, and accountants.	External Board performance evaluations included eight main aspects: Board composition, Board guidance, Board authority, Board supervision, Board communication, internal control and management, self-discipline of the Board, and others (Board meetings, support systems, and so on). Experts conducting the evaluations referenced information provided by THSRC and publicly available information regarding implementation for each indicator and carried out on-site interviews before submitting evaluations reports.

4. Strengthening of functional goals (for example establishment of audit committee and enhancement of information transparency) for the Board for the current year and in the most recent year, and assessment of implementation:

- (1) In consideration of appropriate Board scale, representation of shareholder interests, business nature of BOT projects, and corporate development, as well as implementation of Board diversification policies, shareholder structure, and meeting efficiency, the number of directors serving on the 8th Board were elected at the shareholders' general meeting held on May 24, 2017, and the number of Board directors were reduced to 13 from the previous 15 serving on the 7th Board. Board members included three independent directors and ten non-independent directors. The 8th Board of Directors assessed corporate governance matters and consolidated the committees under the previous Board to establish functional committees, including the Corporate Governance & Nomination Committee, Audit Committee, Remuneration Committee, and Special Committee. The Audit Committee, Remuneration Committee, and Special Committee are convened by respective independent directors, while more than half of the members in the Corporate Governance & Nomination Committee are independent directors. The composition of these committees, their duties, and implementation status are disclosed in this annual report and on the Corporation website. All functional committees have a duty of pre-assessment and help to enhance meeting efficiency and quality. Independent directors exercise their independence and professionalism by sharing their professional opinions during meetings.
- (2) The Corporation has taken out a total of NT\$ 0.9 billion in D&O liability insurance for directors and important managerial officers to help reduce risk of legal liability and to enhance corporate governance capabilities.
- (3) In 2019, in order to strengthen our corporate governance system, the functional committees of the Corporation pre-assessed proposals to establish or revise basic and management bylaws relating to corporate governance, and submitted these to the Board for approval; the corporate bylaws concerned included the "Guidelines for Corporate Governance," "Rules of Procedure for Shareholders' Meetings," "Rules of Procedure for Board of Directors Meetings," "Standardized Operating Procedure for Handling Directors' Requests," "Risk Management Regulation," "Regulation of Self-Evaluation of the Board of Directors," "Internal Control System," "General-Rules of Internal Control Self-Assessments," "Charter of the Corporate Governance & Nominating Committee," and "Regulations for Nominating and Reviewing of Director Candidates" (which has since been renamed "Regulation for Nominating of Director Candidates").



- (4) Our corporate governance information is disclosed on the Market Observation Post System (<http://mops.twse.com.tw>) in accordance with relevant regulations, and we have also established corporate social responsibility, investor relations, and corporate governance sections on our corporate website to provide detailed and timely disclosures of information that are of concern to our stakeholders. Additionally, we regularly review our "Regulations of Disclosure Information," "Guidelines for Disclosure of Material Information and Major News Submitted to Directors," "Regulation for Posting Information on 'Market Observation Post System,'" and "Media Management Procedure" and other regulations relating to information disclosures, and make timely adjustments based on the latest laws and regulations and our actual operations.
- (5) Since going public, THSRC has participated in the 4th and 5th TWSE Corporate Governance Evaluations (for 2017 and 2018) and was ranked among the top 5% of publicly listed companies for two consecutive years. Additionally, we were awarded an "Excellent" certification by the Taiwan Corporate Governance Association under their CG6011 (2017) Corporate Governance System Assessment on June 26, 2018, the certification period being from June 12, 2018 to June 11, 2020.

## (2) Operational Status of Audit Committee

- 1) The Corporation's Audit Committee was established on March 18, 2016 to replace our supervisor system, and the committee is composed of the independent directors on our Board of Directors. The number of committee members cannot be fewer than three, and at least one of them has to have professional expertise in accounting or finance. Following election of Board members by the shareholders' general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. There are three members on the committee, and Independent Director Kung-Wha Ding was elected as convener. The committee operates according to the "Charter of the Audit Committee" and convenes at least once every quarter.
- 2) The main duties and annual tasks of the committee include review and supervision of financial reports, risk management items, and financial proposals, as well as the auditing of: financial reports; accounting and internal control systems; transactions of major assets or derivatives; offering and issuance of securities; appointment, dismissal, or compensation of Certified Public Accountants (CPAs); matters involving director conflicts of interest; and appointment, dismissal and performance of financial, accounting, or internal audit directors. (Please refer to Chapter Three of this report for details regarding the main duties of the Audit Committee).
  - A. Review financial reports: The Corporation's business reports, annual financial reports, and surplus distribution proposals all have to be reviewed by the Audit Committee before submission to the Board for approval and the shareholders' general meeting for recognition. Additionally, all quarterly financial reports also have to be discussed and approved by the Audit Committee before submission to the Board.
  - B. Assess efficiency of internal control system: The self-assessment results for the Corporation's internal control system are completed by all units through cyclical procedures and submitted to the Audit Committee for confirmation of internal control systems, which includes understanding of operational performance, efficiency, and goal attainment rates; and understanding of reliability, timeliness, transparency, and legal compliance of reporting measures; and efficient implementation to ensure that relevant goals are met.
  - C. Appoint and evaluate CPAs: The Audit Committee periodically assesses the professionalism, independence, and audit fees of CPAs at the end of each year. CPA assessment results for 2019 were approved by the 8th Board at the 33th Audit Committee meeting held on February 17, 2020 and at the 35th meeting of the 8th Board held on February 19, 2020, confirming that accountants Mei-Yen Chiang and Kwan-Chung Lai of Deloitte & Touche both fulfilled assessment standards for independence and competency.

3) The 8th Audit Committee convened 12 times in 2019, and the operational status of the committee is as follows:

Title	Name	Actual Attendances	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Independent Director (Convener)	Kung-Wha Ding	12	0	12	100	
Independent Director	Kenneth Huang-Chuan Chiu	12	0	12	100	
Independent Director	David Da-Wei Poo	12	0	12	100	
Average actual attendances of Audit Committee members in 2019 (%) (Total actual attendances/Total required attendances)					100	

Other matters required to be recorded:

1. If any of the following circumstances occur during Audit Committee meetings, the date of said meeting, session number, proposal content, Audit Committee resolutions, and the Corporation's responses to Audit Committee opinions should be recorded:

(1) Items listed according to Article 14-5 of the Securities and Exchange Act:

Board Meeting Date Session (Term-Sitting)	Agenda Content	Audit Committee Meeting Date Session (Term-Sitting)	Audit Committee Resolutions	The Corporation's responses to Audit Committee opinions	Board Resolutions
2019/1/23 (8-22)	Procurement and bid selection suggestions for "Installation of HSR station automatic teller machines and coin & banknote exchange machines from 2020 to 2025" contract(Contract number: F1-18-001)	2019/1/22 (8-20)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/1/23 (8-22)	Procurement and bid selection suggestions for "Rail grinding services from 2019 to 2024" contract (Contract number: S1-19-002)	2019/1/22 (8-20)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/2/20 (8-23)	Formulation of 2018 financial report	2019/2/19 (8-21)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/2/20 (8-23)	Formulation of proposal regarding "Revisions to the Corporation's 'Procedures for the Acquisition or Disposal of Assets'" for submission and discussion at shareholders' general meeting on May 30, 2019	2019/2/19 (8-21)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/2/20 (8-23)	Formulation of proposal regarding "Revisions to the Corporation's 'Procedures for the Handling of Derivative Transactions'" for submission and discussion at shareholders' general meeting on May 30, 2019	2019/2/19 (8-21)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.

Board Meeting Date Session (Term-Sitting)	Agenda Content	Audit Committee Meeting Date Session (Term-Sitting)	Audit Committee Resolutions	The Corporation's responses to Audit Committee opinions	Board Resolutions
2019/2/20 (8-23)	Self-assessment results of internal control system for 2018	2019/2/19 (8-21)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/2/20 (8-23)	Procurement and bid selection suggestions for Yanchao Main Workshop Bogie Running Tester Equipment manufacturing and supply contract (Contract number: L1-18-039)	2019/2/19 (8-21)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/3/20 (8-24)	Procurement strategy and bid selection suggestions for HSR meal boxes (Contract number: PCDD-18-2353)	2019/3/19 (8-22)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/4/17 (8-25)	Procurement and bid selection suggestions for upgrading of mainframe for Traffic Control System (TCS) Package 3 Fault-Tolerant Computer (FTC) (Contract number: E231)	2019/4/15 (8-23)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/6/19 (8-27)	Procurement and bid selection suggestions for Diesel Shunter Locomotive manufacturing and supply contract (Contract number: E2-18-022)	2019/6/18 (8-25)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/6/19 (8-27)	Extension of quota for derivative assets that expired during the latter half of 2019	2019/6/18 (8-25)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/6/19 (8-27)	Extension or transfer of letters of credit that expired during the latter half of 2019	2019/6/18 (8-25)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/7/17 (8-28)	Procurement and bid selection suggestions for 700T train 7GI (general inspection) turnover equipment and reparable parts	2019/7/17 (8-26)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/8/7 (8-29)	Revision of the Corporation's "Internal Control System" and "General-Rules of Internal Control Self-Assessments"	2019/8/6 (8-27)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/9/18 (8-30)	Formulation of plans for issuance of unsecured corporate bonds	2019/9/16 (8-28)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.

Board Meeting Date Session (Term-Sitting)	Agenda Content	Audit Committee Meeting Date Session (Term-Sitting)	Audit Committee Resolutions	The Corporation's responses to Audit Committee opinions	Board Resolutions
2019/10/16 (8-31)	Procurement strategy suggestions for contract from 2022 to 2027 regarding HSR passenger credit card ticketing payment acquisition services	2019/10/14 (8-29)	Apart from committee members who recused themselves from participating in discussions and voting according to legal requirements, the remaining committee members in attendance approved the proposal.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/10/16 (8-31)	THSRC sponsorship of Taiwan Railways Tourism Association	2019/10/14 (8-29)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/11/6 (8-32)	Procurement and bid selection suggestions for new L-shaped monitors under third (Contract number: E4-19-005) and fourth (Contract number: E4-19-006) tender bids for Passenger Information System (PIS) replacement project	2019/11/4 (8-30)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18 (8-33)	Appointment of vice president for the Corporation's Finance Division and to serve as the acting head for the division	2019/12/16 (8-31)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/12/18 (8-33)	Procurement strategy suggestions for HSR meal boxes from 2020 to 2022	2019/12/16 (8-31)	All Audit Committee members in attendance agreed to change the tendering method of this proposal to open tendering based on the suggestions of the Special Committee following preliminary review.	Handled in accordance with the resolutions of the Special Committee and the Audit Committee.	Apart from the Chairman and directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18 (8-33)	Procurement and bid selection suggestions for "CPA Appointment Contract for 2020 to 2022" (Contract number: S1-19-046)	2019/12/16 (8-31)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/12/18 (8-33)	Extension of quota for derivative assets that expired during the first half of 2020	2019/12/16 (8-31)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18 (8-33)	Extension or transfer of letters of credit that expired during the first half of 2020	2019/12/16 (8-31)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.

Board Meeting Date Session (Term-Sitting)	Agenda Content	Audit Committee Meeting Date Session (Term-Sitting)	Audit Committee Resolutions	The Corporation's responses to Audit Committee opinions	Board Resolutions
2019/12/18 (8-33)	Application of quota for foreign letters of credit	2019/12/16 (8-31)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/12/18 (8-33)	Formulated applications for import duty guarantees to be submitted to the Ministry of Finance Customs Administration Keelung Customs and Taipei Customs due to the Corporation's need for post-release duty payments when handling imported cargo	2019/12/16 (8-31)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.

(2) Other instances apart from the aforementioned matters where the Audit Committee did not approve a proposal, but more than two-thirds of directors approved said proposal: None.

2. Implementation of independent director recusals on proposals due to conflicts of interest, including independent director names, proposal content, reasons for recusal, and participation in voting procedures:

Board Meeting Date Session (Term-Sitting)	Agenda Content	Audit Committee Meeting Date Session (Term-Sitting)	Independent Director Name	Reasons for Recusal and Participation in Voting Procedures	Audit Committee and Board Resolutions
2019/10/16 (8-31)	Procurement strategy suggestions for contract from 2022 to 2027 regarding HSR passenger credit card ticketing payment acquisition services	2019/10/14 (8-29)	Independent Director Kung-Wha Ding	THSRC was planning to invite bids from Hua Nan Commercial Bank for this proposal. The spouse of THSRC Independent Director Kung-Wha Ding is the general manager of Hua Nan Financial Holdings, the parent company of Hua Nan Commercial Bank, necessitating recusal of voting rights to avoid conflicts of interest. Independent Director Kung-Wha Ding absented from the proceedings and was recused during the reading and review of this proposal.	1. Audit Committee: Apart from committee members who recused themselves from participating in discussions and voting according to legal requirements, the remaining committee members in attendance approved the proposal. 2. Board: Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

3. Communication status between independent directors, internal audit managers, and accountants (including communication items, methods, and results relating to corporate finance and business affairs):

- (1) THSRC's internal audit managers periodically present internal audit reports to the Audit Committee and fully communicate status of audit implementation, follow-up of improvements to errors, and implementation results. Internal audit managers not only periodically provide independent directors with written audit reports, but also present business reports based on suggestions from independent directors.
- (2) CPAs periodically present annual and quarterly audits of financial reports and audit reports to the Audit Committee, and also communicate other matters according to relevant laws.
- (3) Additionally, the internal audit managers and CPAs periodically make independent reports to the independent directors each year regarding audit items, annual audit plans, and annual reviews of financial reports.

(4) The aforementioned internal audit managers and CPAs directly communicate with independent directors via email, phone, or face-to-face meetings as necessary; periodically review the Corporation's financial and business conditions according to regulations; and directly communicate with management and governance units.

1) The independent directors communicated well with internal audit managers; a list of reported items for 2019 is summarized below:

Date	Communication Method (Audit Committee Term-Sitting)	Report Highlight	Communication Results	The Corporation's Responses to Independent Director Opinions
2019/2/19	Audit Committee (8-21)	2018 Q4 audit office project implementation report	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2019/5/7	Audit Committee (8-24)	2019 Q1 audit office project implementation report	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2019/8/6	Audit Committee (8-27)	2019 Q2 audit office project implementation report	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2019/10/14	Audit report (Independent report made by internal audit managers to independent directors)	Audit plans for 2020	Acknowledged by independent directors.	No objections from independent directors.
2019/10/14	Audit Committee (8-29)	Formulation of 2020 audit report for auditing office	Approved after discussion by all Audit Committee members in attendance.	The independent directors asked audit managers to provide additional explanations of the reasons for changing audit plan items and risk assessment results to the Board. Audit managers provided additional explanation to the Board, and the proposal was approved following full discussion by the directors in attendance.
2019/11/4	Audit Committee (8-30)	2019 Q3 audit office project implementation report	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.

2) The independent directors communicated well with CPAs; a list of reported items for 2019 is summarized below:

Date	Communication Method (Audit Committee Term-Sitting)	Report Highlight	Communication Results	The Corporation's Responses to Independent Director Opinions
2019/2/19	Audit Committee (8-21)	1. 2018 financial report 2. Important communications with governance units 3. Key audit items 4. Impacts of new IFRS standards 5. Explanation of principles for disclosing related parties 6. Revisions made to "Regulations Governing the Acquisition and Disposal of Assets by Public Companies"	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.
2019/5/7	Audit Committee (8-24)	1. 2019 Q1 financial report highlights 2. Explanation of new disclosures in 2019 Q1 financial report 3. Communication on Audit Committee member queries	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.
2019/8/6	Audit Committee (8-27)	1. 2019 Q2 financial report highlights 2. Explanation of revisions made to Statute for Industrial Innovation 3. Communication on Audit Committee member queries	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.

Date	Communication Method (Audit Committee Term-Sitting)	Report Highlight	Communication Results	The Corporation's Responses to Independent Director Opinions
2019/11/4	Audit Committee (8-30)	1. 2019 Q3 financial report 2. Audit plans and key audit items for 2019 financial reports 3. Communication on Audit Committee member queries	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.
2019/11/4	CPA audit report (Independent report made by CPAs to independent directors)	Report of audits on financial statements and audit plans	Acknowledged by independent directors.	No objections from independent directors.

### (3) Composition, Duties, and Operational Status of Remuneration Committee

#### Remuneration Committee Members

Title	Name	Criteria	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independent Criteria (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks	
			An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10			
Independent Director (Convener)	Kenneth Huang-Chuan Chiu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Independent Director	Kung-Wha Ding	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	David Da-Wei Poo			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note: A check mark is placed in the box for those directors who fulfill the following conditions during and up to two years prior to their time in office.

- (1) Is not hired by the Corporation or its affiliates.
- (2) Is not a director or supervisor of the Corporation or any of its affiliates. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (3) Is not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Corporation or ranking in the top ten in shareholdings.
- (4) Is not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of managers not conforming to subparagraph (1) above, or of any persons not conforming to subparagraphs (2) and (3) above.
- (5) Is not a director, supervisor, or employee of an institutional shareholder that directly holds 5% or more of total number of issued shares or ranks among the top five in shareholdings, or a director, supervisor, or employee of an institutional shareholder who has been appointed as a director or supervisor representative at the Corporation under paragraphs 1 and 2, Article 27 of the Company Act. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)

- (6) Is not a director, supervisor, or employee of other companies controlled by Corporation directors or persons with more than half of voting rights at the Corporation. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (7) Is not a director, supervisor, or employee of other companies or institutions of the Corporation's chairperson, president, or persons with equivalent duties, or spouses thereof. (The same does not apply, however, in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (8) Is not a director, supervisor, manager, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Corporation. (The same does not apply, however, for specific companies or institutions that hold more than 20% and less than 50% of issued Corporation shares, or in cases where the person is a concurrent independent director of the Corporation and its parent company, subsidiaries, or subsidiaries of the same parent company, as appointed in accordance with the Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies or local laws and regulations.)
- (9) Is not a professional individual, or an owner, partner, director, supervisor, or manager, or spouses thereof, of a sole proprietorship, partnership, company, or institution which provides audit services to the Corporation or its affiliates; or has in the past two years provided commercial, legal, financial, accounting, or related services not exceeding total compensation of NT\$ 500,000 to the Corporation or its affiliates. The same does not apply, however, for members of remuneration committees, public tender offer review committees, or special committees for mergers/consolidations and acquisitions exercising their duties in accordance with the laws and regulations of the Securities and Exchange Act and the Business Mergers and Acquisitions Act.
- (10) Has not violated any regulations in Article 30 of the Company Act.

## 2) Operational status of Remuneration Committee

A. The Corporation's Remuneration Committee is composed of three to five people, and committee members are appointed in accordance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter." Following election of Board members by the shareholders' general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. The three members of the committee are all independent directors, and Independent Director Kenneth Huang-Chuan Chiu was elected as convener by all committee members. The committee operates according to the "Charter of the Remuneration Committee" and convenes at least twice every year.

B. The main duties and annual tasks of the committee include formulating and regularly reviewing policies, systems, standards, and structure of evaluations on director and manager performance, salaries, and compensation, as well as regular assessment and formulation of director and manager salaries and compensation. (Please refer to Chapter Three of this report for details regarding the main duties of the Remuneration Committee).

C. The 8th Remuneration Committee convened 11 times in 2019, and the operational status of the committee is as follows:

Title	Name	Actual Attendances	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Independent Director (Convener)	Kenneth Huang-Chuan Chiu	11	0	11	100	
Independent Director	Kung-Wha Ding	11	0	11	100	
Independent Director	David Da-Wei Poo	11	0	11	100	
Average actual attendances of Remuneration Committee members in 2019 (%) (Total actual attendances/Total required attendances)					100	



Other matters required to be recorded:

1. Matters discussed and resolved during Remuneration Committee meetings in 2019 and up to March 2020, and the Corporation's responses to Remuneration Committee opinions:

Board Meeting Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Meeting Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's Responses to Remuneration Committee Opinions	Board Resolution
2019/1/23 (8-22)	Changes of assistant vice presidents	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/1/23 (8-22)	Suggestions regarding additional year-end bonuses for 2018	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/1/23 (8-22)	Distribution suggestions for 2018 employee compensation and bonuses (Note 1)	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/1/23 (8-22)	Distribution suggestions for 2018 director remuneration (Note 1)	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/1/23 (8-22)	Implementation status of Remuneration Committee in 2018	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/2/20 (8-23)	Changes of assistant vice president (and above rank)	2019/2/19 (8-19)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/2/20 (8-23)	Revision of position rank table	2019/2/19 (8-19)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/3/20 (8-24)	Appointment of corporate governance officer	2019/3/19 (8-20)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/3/20 (8-24)	Suggestions regarding remuneration adjustments for independent directors of the 8th Board of Directors	2019/3/19 (8-20)	The proposal was submitted to the Board for review as all Remuneration Committee members had conflicts of interest.	None	Apart from independent directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2019/4/17 (8-25)	Promotion of procurement office manager and permanent position granted to acting information office manager	2019/4/15 (8-21)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/5/8 (8-26)	Distribution suggestions for 2018 performance bonuses and manager bonuses	2019/5/3 (8-22)	Approved by all Remuneration Committee members in attendance.	None	The managerial office was asked to review and assess the legality and reasonableness regarding retrospective distribution of 2015-2017 bonuses for retired personnel.
2019/5/8 (8-26)	Suggestions regarding adjustment of Corporation catering expenses	2019/5/3 (8-22)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.

Board Meeting Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Meeting Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's Responses to Remuneration Committee Opinions	Board Resolution
2019/6/19 (8-27)	Suggestions regarding revision of employee bonus standards for working during consecutive holidays on traditional holidays	2019/6/19 (8-23)	Following full discussion by attending Remuneration Committee members, the term "overtime pay for long shifts on national holidays" in this proposal was revised to "in-work pay for long shifts on national holidays."	Handled in accordance with the resolutions of the Remuneration Committee.	Approved by all directors in attendance.
2019/6/19 (8-27)	Revisions to the Corporation's "Regulation of Self-Evaluation of the Board of Directors"	2019/6/19 (8-23)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/8/7 (8-29)	Changes to personnel ranking above assistant vice president	2019/8/6 (8-24)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/8/7 (8-29)	Renewal of President's Office consultant contract	2019/8/6 (8-24)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/8/7 (8-29)	Appointment of consultant for the Corporation's Finance Division	2019/8/6 (8-24)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/9/18 (8-30)	Appointment of Human Resource Division manager	2019/9/16 (8-25)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/9/18 (8-30)	Revisions to scope of the Corporation's "Subsidies for Environmental Hardships" and suggestions for renaming to "Working in Special Environment Allowance"	2019/9/16 (8-25)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/10/16 (8-31)	Report reviewing the Corporation's compensation competitiveness and salary positioning strategies (Note 1)	2019/10/14 (8-26)	Following full discussion by attending Remuneration Committee members, this proposal was renamed "Review report of compensation competitiveness and suggestions of salary positioning strategies" and submitted to the Board for review.	Handled in accordance with the resolutions of the Remuneration Committee.	Approved by all directors in attendance.
2019/10/16 (8-31)	Suggestions regarding adjustments to the Corporation's salary grade table and salary adjustments for 2020	2019/10/14 (8-26)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/10/16 (8-31)	Recommendation that overtime pay rates for "national holidays" in 2020 should continue to comply with overtime pay rates for "rest days"	2019/10/14 (8-26)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/10/16 (8-31)	Suggestions regarding distribution of Chinese New Year subsidies for 2020	2019/10/14 (8-26)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.

Board Meeting Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Meeting Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's Responses to Remuneration Committee Opinions	Board Resolution
2019/10/16 (8-31)	Formulation of Remuneration Committee work plans for 2020	2019/10/14 (8-26)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/11/6 (8-32)	Suggestions regarding performance goals for managers in 2020 (Note 1)	2019/11/4 (8-27)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/12/18 (8-33)	Suggestions regarding additional year-end bonuses for 2019	2019/12/16 (8-28)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/12/18 (8-33)	Appointment of vice president for the Corporation's Finance Division and to serve as the acting head for the division	2019/12/16 (8-28)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/12/18 (8-33)	Retirement of Finance Division manager and appointment as President's Office consultant	2019/12/16 (8-28)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2019/12/18 (8-33)	Continued appointment of Corporation Core Technology Development Department consultant	2019/12/16 (8-28)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2020/1/15 (8-34)	Distribution suggestions for 2019 employee compensation and bonuses (Note 1)	2020/1/14 (8-29)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2020/1/15 (8-34)	Distribution suggestions for 2019 director remuneration (Note 1)	2020/1/14 (8-29)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2020/1/15 (8-34)	Implementation status of Remuneration Committee in 2019	2020/1/14 (8-29)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2020/2/19 (8-35)	Results of manager performance evaluations for 2019 (Note 1)	2020/2/17 (8-30)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.
2020/2/19 (8-35)	Suggestions regarding performance targets for new managers in 2020.	2020/2/17 (8-30)	Approved by all Remuneration Committee members in attendance.	None	Approved by all directors in attendance.

Note 1: Proposals that are periodic reviews of performance evaluations or remuneration.

2. If the Board rejects or revises the recommendations of the Remuneration Committee, the date of said Board meeting, session number, proposal content, Board resolutions, and the Corporation's responses to Remuneration Committee opinions should be recorded (if the Board approves remuneration higher than that suggested by the Remuneration Committee, the disparities and reasons for said disparity should be given):

Board Meeting Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Meeting Date Session (Term-Sitting)	Disparities Between Board Resolutions and Remuneration Committee Suggestions and Reasons for Said Disparity	The Corporation's Responses to Remuneration Committee Opinions
2019/5/8 (8-26)	Distribution suggestions for 2018 performance bonuses and manager bonuses	2019/5/3 (8-22)	<p>1. Disparities: The Remuneration Committee passed the original proposal, but the Board resolved to amend the proposal and suggested rigorous assessments of the legality and reasonableness regarding retrospective distribution of performance bonuses for retired personnel.</p> <p>2. Reasons for said disparity: The Board raised doubts regarding the legality of withdrawing retrospective performance bonuses for 2015 to 2017 from performance bonuses for 2018, and instructed the managerial office to re-evaluate the suggestions. This resolution did not exceed the suggestions made by the Remuneration Committee.</p>	Handled in accordance with the resolutions of the Board.

3. Other instances where committee members expressed objections or reservations on record or through written opinions regarding Remuneration Committee proposals, and date of said Remuneration Committee meeting, session, proposal content, opinions of all committee members, and response to committee member opinions: None.

#### (4) Operational Status of Corporate Governance & Nomination Committee

- 1) The Corporation's Corporate Governance & Nomination Committee is composed of five to seven committee members, at least one of whom must be an independent director. Following election of Board members by the shareholders' general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. There are five committee members, three of which are independent directors, and the Corporation Chairman was elected as convener by all committee members. The committee operates according to the "Charter of the Corporate Governance & Nominating Committee" and convenes at least four times every year.
- 2) More than half of Corporate Governance & Nominating Committee members are independent directors. Of the five committee members, excepting the three independent directors who respectively possess expertise in finance and accounting, legal affairs, industrial knowledge, and operational insights, Chairman Yao-Chung Chiang and Director Kuo-Chih Liu both have significant management experience as a chairperson or president of publicly listed companies, and possess the professional corporate governance and management capabilities necessary for this committee.
- 3) The main duties and annual tasks of the committee include: review diverse background and independent standards including professional knowhow, technical knowledge, expertise, and gender of independent directors, non-independent directors, and managers; plan composition of the Board and functional committees; review succession plans for directors and managers; conduct performance evaluations of the Board, committees, directors, and managers; nominate independent directors and non-independent directors; research and analyze corporate governance systems; and review effectiveness of corporate governance systems and implementation of information disclosures. (Please refer to Chapter Three of this report for details regarding the main duties of the Corporate Governance & Nomination Committee).

- 4) The 8th Corporate Governance & Nomination Committee convened 10 times in 2019, and the operational status of the committee is as follows:

Title	Name	Actual Attendances	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Chairman (Convener)	Yao-Chung Chiang	10	0	10	100	
Independent Director	Kung-Wha Ding	10	0	10	100	
Independent Director	Kenneth Huang-Chuan Chiu	10	0	10	100	
Independent Director	David Da-Wei Poo	10	0	10	100	
Director	Kuo-Chih Liu	10	0	10	100	
Average actual attendances of Corporate Governance & Nomination Committee members in 2019 (%) (Total actual attendances/Total required attendances)					100	

Other matters required to be recorded:

1. If the Board rejects or revises the recommendations of the Corporate Governance & Nominating Committee, the date of said Board meeting, session number, proposal content, Board resolutions, and the Corporation's responses to Corporate Governance & Nominating Committee opinions should be recorded: None.
2. Other instances where committee members expressed objections or reservations on record or through written opinions regarding Corporate Governance & Nominating Committee proposals: None.

## (5) Operational Status of Special Committee

- 1) The Corporation's Special Committee is composed of five to seven members, at least one of whom must be an independent director. Following election of Board members by the shareholders' general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020, and all committee members elected Independent Director David Da-Wei Poo as convener. The committee operates according to the "Charter of the Special Committee."
- 2) The main duties and annual tasks of the committee include providing advice on the Corporation's major legal or contractual disputes and important system reforms; assisting the Board in supervising implementation of decisions by managers; and reviewing the Corporation's procurement-related proposals to be submitted to the Board as required by Corporation bylaws. (Please refer to Chapter Three of this report for details regarding the main duties of the Special Committee).
- 3) The 8th Special Committee convened 12 times in 2019, and the operational status of the committee is as follows:

Title	Name	Actual Attendances	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Independent Director (Convener)	David Da-Wei Poo	12	0	12	100	
Director	Min-Ching Liu	12	0	12	100	
Director	Mao-Hsiung Huang	9	3	12	75	
Director	Huang-Liang Tsai	12	0	12	100	
Director	Shyi-Chin Wang	5	6	11	45	Took office on 2019/1/23
Former Director	Chao-Tung Wong	0	0	0	-	Left office on 2019/1/3
Director	Tao-I Kwan	4	3	7	57	Left office on 2019/7/15; resumed office on 2020/2/17
Former Director	Chao-Yih Chen	4	1	5	80	Took office on 2019/7/17; left office on 2020/2/14
Director	Shien-Quey Kao	8	4	12	67	
Average actual attendances of Special Committee members in 2019 (%) (Total actual attendances/Total required attendances)					80	

Other matters required to be recorded:

1. If the Board rejects or revises the recommendations of the Special Committee, the date of said Board meeting, session number, proposal content, Board resolutions, and the Corporation's responses to Special Committee opinions should be recorded: None.
2. Other instances where committee members expressed objections or reservations on record or through written opinions regarding Special Committee proposals: None.

#### (6) Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies":

Evaluation Item	Implementation Status		Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons	
	Yes	No		Abstract Illustration
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies"?	✓		<p>■ The Corporation has established "Guidelines for Corporate Governance" which are disclosed on the "Investor Relations" and the "Corporate Governance" sections of our corporate website, as well as on the Market Observation Post System. Revisions to our "Guidelines for Corporate Governance" were approved at the 23rd meeting of the 8th Board (convened on February 20, 2019) and a shareholders' general meeting (convened on May 30, 2019).</p>	None.
2. Shareholding structure & shareholders' rights (1) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		<p>■ The Corporation has a shareholder services unit that is responsible for providing shareholder services, handling shareholder recommendations, and responding to shareholder queries, while our legal unit handles shareholder disputes and litigation matters. All related matters are handled according to our operating procedures.</p>	None.
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	✓		<p>■ The Corporation regularly maintains a list of its major shareholders as well as the ultimate owners of those shares. At present, most of our major shareholders are board members or financial institutions, and the list of major shareholders and ultimate owners can be viewed at any time to ensure the stability of the Corporation's operating policies.</p>	None.
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	✓		<p>■ The Corporation currently has no affiliated businesses. Additionally, to avoid conflicts of interest, the Corporation has established "Regulation of Related Party Transaction" and our Audit Committee is responsible for auditing transactions of related parties and other avoidances of conflicts of interest.</p>	None.
(4) Does the company establish internal rules against insiders trading with undisclosed information?	✓		<p>■ The Corporation has established "Regulations for Management of the Prevention of Insider Trading" which stipulate that corporate insiders, quasi-insider and tippee must abide by the provisions of the Securities and Exchange Act, and any trade of securities conducted using undisclosed information is prohibited. Additionally, Article 11 of our "Code of Ethical Conduct" and Subparagraph (d), Paragraph 3, Article 6.1.2 of our "Code of Conduct" also contains stipulations inhibiting insider trading.</p>	None.

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members?	✓		<p>■ The 31st meeting of the 8th Board approved revisions to our "Charter of the Corporate Governance &amp; Nominating Committee" on October 16, 2019. Article 14 of the second chapter of the Charter (Structural Composition of the Board and its Committees and Performance Assessments) stipulates a diversification policy for board member composition and overall capabilities of board members. Article 17 of the Charter also stipulates succession plans for directors.</p> <p>■ The Corporation's diversification policy for board member composition states that appropriate diversification standards for the Board should be set according to operations, mode of operation, and development needs, including but not limited to the following:</p> <ol style="list-style-type: none"> <li>1. Basic qualifications and values: gender, age, nationality, and culture.</li> <li>2. Level of contribution to businesses or in other professional areas.</li> <li>3. Personality, professional expertise and skills. Professional expertise and skills include professional backgrounds (such as in finance, accounting, legal practice, marketing, technology, business management, and so on), as well as professional skills and industry experience.</li> <li>4. Willingness and time to participate in corporate affairs.</li> <li>5. Concurrent director and manager positions held at other companies.</li> </ol> <p>■ Overall, the Board as a whole should possess the following capabilities:</p> <ol style="list-style-type: none"> <li>1. Operational insight capabilities.</li> <li>2. Accounting and financial analysis capabilities.</li> <li>3. Management capabilities.</li> <li>4. Crisis management capabilities.</li> <li>5. Industry knowledge.</li> <li>6. International outlook.</li> <li>7. Leadership and decision-making ability.</li> </ol> <p>■ Composition of the Corporation's 8th Board complies with our "Articles of Incorporation," nominated candidates are selected, nominated, and elected through the rigorous processes stipulated in the Corporation's "Charter of the Corporate Governance &amp; Nominating Committee" and "Rules for the Election of Directors," thus ensuring diversification and independence of board members.</p> <p>■ Our current directors are all industrial or academic experts, with management experience in listed companies or in government institutes. Apart from possessing leadership and decision-making capabilities, crisis management capabilities, and an international outlook, our three independent directors also have expertise in finance and accounting, legal practice, industrial knowledge, and operational insights: Independent Director Kung-Wha Ding is a former FSC minister, Independent Director Kenneth Huang-Chuan Chiu is a partner at Taiwan Commercial Law Offices, and Independent Director David Da-Wei Poo was formerly Director-General of the Department of Transportation, Taipei City Government and President of China Engineering Consultants Inc. Additionally, of the other nine non-independent directors, directors Min-Ching Liu and Shien-Quey Kao both have finance and accounting expertise, and Chairman Yao-Chung Chiang and directors Mao-Hsiung Huang, Kuo-Chih Liu, Huang-Liang Tsai, Shyi-Chin Wang, Tao-I Kwan, and Lee-Ching Ko all have significant management experience as a chairperson or president of listed companies in industries spanning from technology, construction, automobiles, steel, airlines, manufacturing, and services; they therefore possess capabilities relating to marketing, technology, management, industrial knowledge, and operational insight.</p> <p>■ The Corporation sets the 4Ts (Transport, Technology, Taiwan, and Taiwan) as our main developmental goal and selects directors based on their management experience and expertise. Our current directors possess knowledge on corporate governance, the latest industrial insights, and expertise in business, finance, accounting, and corporate matters, fulfilling the goals set out by our 4Ts.</p>	None.

Evaluation Item	Implementation Status		Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	
			<p>■ Additionally, the Corporation strives to maintain gender equality in the composition of Board members. Our goal is to increase our ratio of female directors to 1/3 (33%). Currently, we have 75% (9) male directors and 25% (3) female directors. In future, we hope to add other female directors to achieve our goal.</p> <p>■ Currently, our three independent directors have all served for less than three years. We currently have 12 Board members, of which 42% (5) are less than 65 years old, and 58% (7) are older than 65 years old.</p> <p>■ Board members are all active in attending Board meetings, with average attendance rates for 2018 reaching 89% and average attendance rates for 2019 reaching 92%, showing that our Board is indeed exercising its supervisory duties.</p> <p>■ Overall, our Board possesses capabilities aligned with the Corporation's future development, and our policy of board diversification has been well implemented. (See Note 1 for details on the implementation status of our board diversification policy.) Additionally, the "Implementation of Corporate Governance" sub-section under the "Corporate Governance" section of our website has also disclosed details of our board diversification policy and implementation status.</p>
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	✓		<p>■ The Corporation has established a Remuneration Committee and Audit Committee in accordance with law, and we have also voluntarily established other functional committees including our Corporate Governance &amp; Nomination Committee and Special Committee in consideration of corporate matters and development. The Audit Committee, Remuneration Committee, and Special Committee are convened by the three respective independent directors. The Audit Committee and Remuneration Committee are composed of independent directors, while more than half of the members in the Corporate Governance &amp; Nomination Committee are independent directors. All functional committees are well operated, exercise sound supervisory duties, and strengthen the functions of the Board.</p>
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually? And have the results of performance assessments been submitted to the Board and used as a reference for the remuneration and continued nomination of individual directors?	✓		<p>■ On March 21, 2017, the Corporation's "Regulation of Self-Evaluation of the Board of Directors" was passed at the 27th meeting of the 7th Board. The Corporation's Corporate Governance &amp; Nomination Committee serves as the implementation unit for these evaluations, and the Secretariat Division of the Board of Directors assists the Corporate Governance &amp; Nomination Committee in collecting information on Board activities at the end of each year for internal self-assessments of Board performance. Self-assessments on Board operations, Board members, and all functional committees (including the Corporate Governance &amp; Nominating Committee, Audit Committee, Remuneration Committee, and Special Committee) are conducted via surveys. Survey results are organized and submitted to the Board as a basis for review and improvement. Additionally, assessment results on the Board and its functional committees serve as a reference for selecting or nominating directors (and independent directors), while assessment results on individual directors may be used in future as a reference when setting salaries and remuneration. Furthermore, the aforementioned Corporation bylaw stipulates that an external assessment should take place at least once every 3 years.</p> <p>■ Assessment indicators for the Corporation's Board includes the following 5 aspects:</p> <ol style="list-style-type: none"> <li>1.Participation in corporate operations.</li> <li>2.Enhancement of Board decision-making quality.</li> <li>3.Board composition and structure.</li> <li>4.Director elections and continued training.</li> <li>5.Internal control.</li> </ol> <p>■ Assessment indicators for the Corporation's directors includes the following 6 aspects:</p> <ol style="list-style-type: none"> <li>1.Understanding of corporate goals and tasks.</li> <li>2.Recognition of director responsibilities.</li> <li>3.Participation in corporate operations.</li> <li>4.Internal relations and communication.</li> <li>5.Director knowledge and continued training.</li> <li>6.Internal control.</li> </ol>



Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "the Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies" and Reasons
	Yes	No		
			<p>■ Self-assessment indicators for functional committee members include the following five aspects:</p> <ol style="list-style-type: none"> <li>1.Participation in corporate operations.</li> <li>2.Recognition of functional committee responsibilities.</li> <li>3.Enhancement of functional committee decision-making quality.</li> <li>4.Composition of functional committees and election of committee members.</li> <li>5.Internal control.</li> </ol> <p>■ The Corporation completed all self-assessments of the Board, Board members, and functional committee members for 2019 in January 2020. The full score for assessments was 100. The Board and Board members received self-assessment scores of 96.41 and 95.74 (the scores were 94.22 and 95.78 for 2018). Assessment results were the same as for the previous year: "Significantly exceeded standards." Additionally, overall self-assessment scores for functional committee members were as follows: 99.40 for the Corporate Governance &amp; Nominating Committee, 99.67 for the Audit Committee, 99.34 for the Remuneration Committee, and 94.57 for the Special Committee.</p> <p>■ The aforementioned assessment results were submitted to the 29th Remuneration Committee meeting of the 8th Board on January 14, 2020 and the 27th Corporate Governance &amp; Nomination Committee meeting of the 8th Board on January 14, 2020, and were reported at the 34th meeting of the 8th Board on January 15, 2020. Suggestions for improvement and future strengthening were as follows:</p> <ol style="list-style-type: none"> <li>1. Board of Directors: <ol style="list-style-type: none"> <li>(1) "Participation in corporate operations": We plan to strengthen timeliness, relevance, and comprehensiveness of answers provided by our management team when responding to queries from the Board so as to ensure that director suggestions and questions are appropriately handled.</li> <li>(2) "Enhancement of board decision-making quality": We plan to improve the quality of meeting documentation provided to the Board so that directors can better understand proposals.</li> <li>(3) "Director elections and continued training": The Corporation's "Charter of the Corporate Governance &amp; Nominating Committee" stipulates that Board composition should be diversified and that appropriate diversification principles, standards, and necessary director capabilities should be formulated according to operations, mode of operation, and development needs for continued implementation of the aforementioned concepts.</li> <li>(4) "Internal control": We plan to strengthen proposals relating to internal control systems and risk management, and the Board will be responsible for assessing and overseeing the implementation of relevant procedures. We also plan to strengthen proposals relating to accounting systems, financial conditions, and audit reports so that the Board can understand and oversee the implementation of relevant procedures.</li> </ol> </li> <li>2. Board members: <ol style="list-style-type: none"> <li>(1) "Participation in corporate operations": We plan to strengthen proposals relating to internal control systems and risk management.</li> <li>(2) "Internal relations and communication": We plan to organize appropriate activities for directors to enhance communication.</li> <li>(3) "Director knowledge and continued training": We plan to continue providing diverse director training courses and organizing relevant training courses.</li> </ol> </li> <li>3. Functional committees: <ol style="list-style-type: none"> <li>(1) "Participation in corporate operations": We encourage directors to attend Board and committee meetings.</li> <li>(2) "Recognition of functional committee responsibilities": We plan to review the scope of functional committee duties when appropriate.</li> <li>(3) "Enhancement of functional committee decision-making quality": We plan to conduct timely reviews on the appropriateness of proposals submitted for discussion by functional committees and improve the quality of meeting documentation provided to functional committees so that directors can better understand proposals. We also plan to follow up on implementation of meeting resolutions more closely.</li> </ol> </li> </ol>	

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
			<p>(4) "Composition of functional committees and election of committee members": We plan to review the number of committee members when appropriate.</p> <p>(5) "Internal control": We will continue to emphasize and maintain the independence of relevant resolutions.</p> <p>■ According to the stipulations of our "Regulation of Self-Evaluation of the Board of Directors," an evaluation of Board performance should be conducted by external units at least once every three years. The Corporation commissioned the "Taiwan Corporate Governance Association" to evaluate Board performance and completed external evaluations of Board performance in February 2019. The Taiwan Corporate Governance Association and evaluating experts were independent units that had no business dealings with the Corporation; a report on Board performance was submitted on April 19, 2019. The aforementioned results of external evaluations were submitted to the 27th meeting of the 8th Board on June 19, 2019. Implementation details were as follows:</p> <p>1.Evaluation duration: March 1, 2018 to February 28, 2019.</p> <p>2.Evaluation method: The Taiwan Corporate Governance Association conducted reviews of the relevant documents submitted by the Corporation for evaluations, and also commissioned three experts to conduct on-site evaluations and interviews with the Corporation's Chairman, President, independent directors, corporate governance managers, planning office managers, and accountants on March 28, 2019.</p> <p>3.Evaluation standards: Standards included the eight aspects of board composition, board guidance, board authority, board supervision, board communication, internal control and risk management, self-discipline of the board, and others (board meetings, support systems, and so on). Experts conducting the evaluations referenced information provided by the Corporation and publicly available information regarding implementation for each indicator and carried out on-site interviews before submitting evaluation reports.</p> <p>4.Overall evaluation results:</p> <p>(1) The Corporation formed an appropriate Board based on the needs of our business development and changes in shareholding structure. Our directors have expertise in law, finance, rail transport, and business management, and Board members all prioritize the interests of the Corporation, helping us to realize our operating advantages as a publicly owned private enterprise.</p> <p>(2) The Corporation has kept abreast of the times and established functional committees to fulfill our needs at different stages and to help our Board overcome difficult challenges relating to procurement, finance, and other issues. Our Chairman encourages directors to raise different perspectives regarding various issues, thus creating an open atmosphere for discussion.</p> <p>(3) The Corporation upholds a mission and vision "To be the platform for advancement and enjoyment, and to become one of the top ten brands in Taiwan." Additionally, we have established mid- and long-term strategy plans in response to international and domestic economic trends and conditions in the transportation market, and have submitted these plans to our Board and Audit Committee for review so that the Board can fully exercise their authority.</p> <p>(4) The Corporation has established "Law Compliance Management Regulation." We make quarterly reviews of changes in applicable laws and regulations, and assess response mechanisms and subsequent revisions in accordance with these changes, and we also periodically compile information on legal compliance systems and implementation status, which are then presented to the Audit Committee and the Board. Our emphasis on legal compliance is clear for all to see.</p>	

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "the Corporate Governance Best-Practice Principles for TWSE/ TPEX Listed Companies" and Reasons
	Yes	No		
			<p>5. Evaluation recommendations and implementation status for improvement:</p> <p>(1) It was recommended that our Corporate Governance &amp; Nominating Committee formulate training and succession plans for Board directors and senior managers according to the Corporation's mid- to long-term development strategies. The implementation status of these plans should be periodically submitted to the Board for review so that the Board can fully understand succession strategies and achieve the goal of sustainable operations. ---The Corporation has since formulated succession plans for Board directors and senior managers, and submitted these to the Board for approval.</p> <p>(2) Currently, performance assessments for audit managers are approved by our Chairman before submission to the Board for approval. It was recommended that this mechanism be revised so that our Chairman provides preliminary assessments which are then submitted to the Audit Committee for review before submission to the Board for official approval. ---Audit manager performance targets for 2020 and results of performance assessments for 2019 have been submitted to our Audit Committee for review and to our Board for official approval.</p> <p>(3) The Corporation's "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior" stipulates that the audit department is responsible for investigating grievance reports. It was recommended that we establish communication channels that allow for direct contact with our independent directors so that they can realize their supervisory responsibilities. ---The Corporation has established a mailbox to contact our Audit Committee on the Stakeholder section of our external website, creating a communication channel for stakeholders to directly contact the Audit Committee.</p> <p>(4) It was recommended that the Corporation compile existing operational procedures relating to operational risks, information security, environmental hazards, and financial risks into a comprehensive set of risk management procedures which can be submitted to the Board for review. Implementation status on risk management should be periodically reported to the Audit Committee and the Board by the management team so that Board members can be regularly updated on the Corporation's risk management status. ---The Corporation has formulated relevant regulations governing risk management which have been reviewed and approved by the Board. Additionally, the Corporation has also established a mechanism for periodic reporting of risk management implementation to the Audit Committee and to the Board.</p> <p>■ The Corporation has disclosed our "Regulation of Self-Evaluation of the Board of Directors" on the Market Observation Post System and on our corporate website. Results of performance evaluations for the Board have also been disclosed on the "Corporate Governance Implementation Status" page in the "Corporate Governance" section of our corporate website.</p>	
(4) Does the company regularly evaluate the independence of CPAs?	✓		<p>■ According to Article 5-3-06 of the Corporation's Guidelines for Corporate Governance, the Audit Committee shall conduct assessments of CPA professionalism, independence, and reasonableness of audit fees at the end of each fiscal year, and these assessments shall be submitted to the Board. CPA assessment results for 2019 were approved by the 8th Board at the 33th Audit Committee meeting held on February 17, 2020 and the 35th Board meeting held on February 19, 2020, confirming that accountants Mei-Yen Chiang and Kwan-Chung Lai of Deloitte &amp; Touche both fulfilled the assessment standards for independence and competency (Note 2). A letter of declaration was provided by Deloitte and Touche (Note 3).</p>	None.

Evaluation Item	Implementation Status		Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons	
	Yes	No		Abstract Illustration
4. Does the company set up an appropriate number of suitable personnel responsible for corporate governance matters and appoint a corporate governance manager responsible for corporate governance matters (including but not limited to providing information for directors to perform their functions, assisting directors with legal compliance, handling work related to meetings of the board of directors and the shareholders' meetings in accordance with law, and producing minutes of board meetings and shareholders' meetings)?	✓		<p>■ The Secretariat Division of the Board of Directors has been established under the Board and an appropriate number of suitable corporate governance personnel have been deployed to this unit.</p> <p>■ The Corporation established the Board Secretariat as the unit responsible for corporate governance according to Article 3-08 of the Corporation's Guidelines for Corporate Governance. The qualifications and duties of the Board Secretariat manager complies with the criteria for corporate governance officers. On March 20, 2019, Board Secretariat Secretary Senior Vice President Barret Wang was appointed the Corporation's corporate governance officer at the 24th meeting of the 8th Board to protect shareholder rights and strengthen Board functions as he possesses legal qualifications and served in managerial capacities for more than three years, handling the legal, shareholding, and corporate governance affairs of listed companies. The main duties of the corporate governance officer are to handle Board and shareholder meeting matters in accordance with law, prepare meeting handbooks for Board and shareholder meetings, assist directors in taking office and continued training, provide directors with information necessary for implementation of business matters, and assist directors in complying with laws and regulations. The implementation status of corporate governance within the Corporation was reported at the 35th meeting of the 8th Board on February 19, 2019, and will be periodically reported to the Board every year. Main implementations include:</p> <ol style="list-style-type: none"> <li>1. Assisting the Board or its committees with drawing up annual work plans and meeting agendas, and collecting, researching, analyzing, or providing related materials.</li> <li>2. Providing analysis and opinions on the legality, appropriateness, and feasibility of proposals to be deliberated by the Board or its committees, for reference by the Board and its committees during deliberations.</li> <li>3. Ensuring that the operations of the Corporation's shareholders' meetings, Board meetings, and committees do not violate laws or regulations, the Corporation's Articles of Incorporation, shareholders' meeting resolutions, and the Corporation's Guidelines for Corporate Governance.</li> <li>4. Assisting with deliberation, supervision, or other processes relating to the planning and review of systems for liaison and interaction between the Corporation and shareholders, employees, consumers, stakeholders, and the general public.</li> <li>5. Assisting with the general administrative affairs of shareholders' meetings and the calling of, notices for, holding of, and record-keeping for Board meetings and committee meetings.</li> <li>6. Ensuring that Board members have timely knowledge of material information by notifying Board members upon publication of such information.</li> <li>7. Formulating Board meeting agendas and notifying directors seven days in advance of meetings, convening meetings and providing meeting information, providing prior reminders of conflicts of interest, and compiling Board meeting handbooks within 20 days of meetings.</li> <li>8. Organizing at least six hours of director training courses within the corporate offices and assisting directors in organizing other training plans and courses.</li> <li>9. Assessing and taking out appropriate D&amp;O liability insurance for directors, supervisors, and managers.</li> <li>10. Conducting performance assessments in accordance with the Corporation's Regulation of Self-Evaluation of the Board of Directors.</li> </ol>	None.

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			<p>■ Training undertaken by the Corporation's corporate governance officers in 2019 were as follows:</p> <table border="1"> <thead> <tr> <th>Training Date</th> <th>Hosting Organization</th> <th>Course Title</th> <th>Training Hours</th> </tr> </thead> <tbody> <tr> <td>2019/4/17</td> <td>Securities and Futures Institute</td> <td>Regulations and preventive practices of insider trading</td> <td>3</td> </tr> <tr> <td>2019/6/4</td> <td>Taiwan Corporate Governance Association</td> <td>Analysis of key information and responsibilities of annual reports: the perspective of directors and supervisors</td> <td>3</td> </tr> <tr> <td>2019/8/7</td> <td>Taiwan Corporate Governance Association</td> <td>Case studies of director disputes relating to financial statement fraud</td> <td>3</td> </tr> <tr> <td>2019/10/29</td> <td>Taiwan Academy of Banking and Finance</td> <td>Breaking down crisis management policies and communication techniques</td> <td>3</td> </tr> <tr> <td>2019/11/19</td> <td>Taiwan Corporate Governance Association</td> <td>Behind the scenes of corporate governance: operations of corporate governance personnel</td> <td>3</td> </tr> <tr> <td>2019/12/24</td> <td>Taiwan Corporate Governance Association</td> <td>Legal risks and crisis management of corporate management</td> <td>3</td> </tr> </tbody> </table> <p>Accumulated training hours in 2019: 18 hours</p> <p>■ The Corporation has established a shareholder services unit under the Finance Department; this unit is responsible for providing shareholder services, handling matters relating to shareholders' meetings, making changes to Corporation registration details, and publishing information on shareholder matters in accordance with law.</p>	Training Date	Hosting Organization	Course Title	Training Hours	2019/4/17	Securities and Futures Institute	Regulations and preventive practices of insider trading	3	2019/6/4	Taiwan Corporate Governance Association	Analysis of key information and responsibilities of annual reports: the perspective of directors and supervisors	3	2019/8/7	Taiwan Corporate Governance Association	Case studies of director disputes relating to financial statement fraud	3	2019/10/29	Taiwan Academy of Banking and Finance	Breaking down crisis management policies and communication techniques	3	2019/11/19	Taiwan Corporate Governance Association	Behind the scenes of corporate governance: operations of corporate governance personnel	3	2019/12/24	Taiwan Corporate Governance Association	Legal risks and crisis management of corporate management	3	
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5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		<p>■ A "Stakeholders" sub-section has been established under the "Corporate Social Responsibility" section of our corporate website to uphold the rights of stakeholders by periodically assessing stakeholder categories, establishing designated units and communication channels for stakeholders, using appropriate communication measures to understand the reasonable expectations and needs of stakeholders, and providing fitting responses to major CSR issues of concern. Communication with stakeholders and handling of major disputes for 2019 were reported to the Corporation's 30th meeting of the 8th Board on September 18, 2019, and will continue to be reported to the Board on an annual basis.</p> <p>■ For more comprehensive information on stakeholders, please refer to the "Stakeholder" sub-section in the "Corporate Social Responsibility" section of our corporate website and the "Material Issues and Stakeholders" section in our CSR report.</p>	None.																												
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		<p>■ The Corporation has appointed Fubon Securities Transfer Agency Department as our professional shareholder service agency.</p>	None.																												
7. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	✓		<p>■ The Corporation's corporate website has an "Investor Relations" section and a "Corporate Governance" section which both disclose information regarding the Corporation's finances, business matters, and corporate governance. This information is updated periodically and in a timely manner.</p>	None.																												

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	Yes	No		
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		<p>■ When disclosing information, the Corporation not only publishes the information on our annual reports and prospectuses in accordance with law, but also publicly discloses and files the information to websites designated by governing authorities and on our corporate website. Additionally, information is also disclosed in the following ways:</p> <ol style="list-style-type: none"> <li>1. The Corporation has established an English language website (<a href="http://www.thsrc.com.tw/index_en.html">http://www.thsrc.com.tw/index_en.html</a>) to disclose important information on the Corporation's finances, business matters, and corporate governance.</li> <li>2. The Corporation has implemented a spokesperson system.</li> <li>3. The Corporation's Investor Conference notices and related information are disclosed on our corporate website.</li> </ol>	None.
(3) Did the company publicly disclose and file its financial report within two months of the end of the fiscal year and publicly disclose and file financial reports for the first, second, and third quarters and monthly operational status reports prior to the time limits set by regulations?	✓		<p>■ The Corporation publicly disclosed and filed our financial report for 2019 on February 20, 2020, and our financial reports for the first, second, and third quarters of 2019 and monthly operational status reports for the same year were publicly disclosed and filed prior to the time limits set by regulations.</p>	None.
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		<p>■ The Corporation consecutively participated in the 4th (2017) and 5th (2018) Corporate Governance Evaluations since going public and was recognized as a top 5% listed company.</p> <p>■ The Corporation was awarded an "Excellent" certification by the Taiwan Corporate Governance Association under their CG6011 corporate governance evaluations (for 2017) on June 26, 2018, the certification period being from June 12, 2018 to June 11, 2020.</p> <p>■ The Corporation was independently assessed by FTSE4GOOD and listed as a constituent of the FTSE4Good TIP Taiwan ESG Index in December 2019, and also received a "FTSE4Good TIP Taiwan ESG Index" label.</p> <p>■ The Corporation was awarded the "2019 TCSA Award" by the Taiwan Institute for Sustainable Energy in November 2019 and received the "Top 50 Corporate Sustainability Award" and the "Corporate Sustainability Report Award."</p> <p>■ In July 2019, the Taiwan Index released periodic assessment results for the "Taiwan Corporate Governance 100 Index" and continued to list THSRC as one of the companies in the index.</p> <p>■ Director succession plans have been established in accordance with our revised "Charter of the Corporate Governance &amp; Nominating Committee," which was passed by the 31st meeting of the 8th Board on October 16, 2019. In order to pass on the professionalism and experiences of our Board members, the Corporation has organized plans for director successors through a variety of appropriate methods and has placed a list of director candidates in our talent pool database; nominees are submitted to the Board for review when appropriate and serve as a reference for the Board to nominate director candidates. For more information, please refer to the "Board Member Succession Plans" page under "Board of Directors" in the "Corporate Governance" section of our corporate website. Additionally, the Corporation plans annual training courses for directors in accordance with changes in external and internal environmental conditions and development needs to enhance the professional knowledge of new and returning directors and strengthen Board capabilities. For more information, please refer to Note 4.</p>	None

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
			<p>■ The Corporation has also established succession plans for important management personnel in accordance with the "Succession System for Important Management Personnel" passed by the 33rd meeting of the 8th Board on December 18, 2019, which is implemented through five stages (identification of key skills, availability of current talent, development of successors, evaluation of successors, and approval of management personnel), the purpose being to ensure sustainable management and growth, and establish a succession system for important management personnel to pass on the professionalism and experiences of important management personnel. In order to cultivate successors, the Corporation will conduct evaluations of management skills for all department managers, and will conduct management training courses once evaluations have concluded. For more information, please refer to the "Succession System for Important Management Personnel" page under "Corporate Governance Structure and Organization Chart" in the "Corporate Governance" section of our corporate website.</p> <p>■ The Corporation's Guidelines for Corporate Governance stipulate that the Corporation shall devote attention to public policy, economic development, consumer rights and interests, community concerns, environmental protection and sanitation, public safety, and other public interest issues, to enhance the Corporation's image, and to faithfully fulfill its social responsibilities. The Corporation participates in social contribution through a number of measures, for example through subsidies to preserve jacanas and other wildlife, providing care to communities alongside the HSR line, and support of other environmental hygiene and public policies.</p> <p>■ The Corporation has established "Ethical Corporate Management Best Practice Principles," "Code of Ethical Conduct," "Code of Conduct," "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior," "Regulations for Management of the Prevention of Insider Trading," "Reward and Discipline Regulation," "Grievance Regulation," and "Procurement Staff Ethical Regulation," which not only govern the ethical standards and codes of conduct for Corporation personnel when carrying out their duties, but also ensure that the corporate activities of the Corporation do not interfere with social contributions, thus maintaining the rights of the Corporation and our shareholders, fulfilling our corporate social responsibilities, and helping our stakeholders to understand relevant regulations.</p> <p>■ The Corporation has established an Occupational Safety and Health Policy and is committed to compliance with government health and safety laws, regulations, and procedures to ensure the safety of passengers, employees, and other members of the public. We periodically conduct employee health checks, promote health-enhancing activities, and implement health management every year to enhance the physical and mental health of employees.</p> <p>■ The Corporation has established a Safety Policy, and relevant procedures and implementation results are regularly reviewed each year to further our goal of continued improvements to safety. All employees have to undergo training in accordance with our safety regulations and operating procedures so that they can continue to present and be equipped with attention to and recognition of safety measures when carrying out daily tasks. Our contractors are carefully selected, supervised, and managed to ensure that their operations fulfill the Corporation's safety goals.</p> <p>■ The Corporation is committed to appropriate utilization of internationally recognized risk assessments and safety management methods in our safety management system to actualize control and minimize hazards. We are committed to maintaining the highest quality control standards and are active in exercising safety management policies as we strive to implement various health and safety measures.</p>	

Evaluation Item	Implementation Status		Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	
			<p>■ The Corporation has established a Supply Chain Management Policy which states that when collaborating with suppliers, we should gradually integrate environmental, social, and corporate governance needs into our supplier regulations in hopes of creating a more sustainable collaboration with our suppliers. Our management policies are disclosed on our corporate website.</p> <p>■ Since 2004, the Corporation has complied with the "Guidelines for Corporate Governance" approved by the shareholders' meeting and taken out liability insurance for all directors, supervisors, and managers with respect to their liability under the law for their actions when exercising their duties. D&amp;O liability insurance policies for 2019 and 2020 were approved by the 18th meeting of the 8th Board on September 13, 2018 and by the 30th meeting of the 8th Board on September 18, 2019. Insurance application procedures have since been completed, and the total insurance amount came to NT\$ 0.9 billion. Additionally, the insurance amount for environmental pollution defense costs came to NT\$ 3 million.</p> <p>■ The continued education of all current Corporation directors complies with the number of training hours stipulated by the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies. In 2019, Corporation directors underwent a total of 90 hours of training as detailed in Note 4.</p>

9. Please Explain the Improvements Which Have Been Made in Accordance with the Results of the Corporate Governance Evaluation System Released by the Corporate Governance Center, Taiwan Stock Exchange, and Provide the Priority Enhancement Measures:

The Corporation was ranked among the top 5% listed companies in the 5th Corporate Governance Evaluations (2018). We list improvements to unachieved evaluation items below:

Item	Evaluation Indicators	Improvements
2.6	Did the company's board members include at least one female director? [If directors of each gender accounted for at least one-fourth of all of the directors, and furthermore there is at least one female independent director among the directors, one additional point will be added to the total score.]	Our Board currently includes three female directors but no female independent directors. In future, we will seek to increase the number of female directors so as to achieve gender equality and raise the ratio of female directors and independent directors.
2.7	Did the company voluntarily appoint more independent directors than is required by laws? [If the company's independent directors reached one-half or more of all of the directors, one additional point will be added to the total score.]	We currently have three independent directors, which is fewer than the four required by this indicator. In future, we will seek to increase the number of independent directors.
2.10	Did the company have an Audit Committee in compliance with regulations? [If the company voluntarily established an Audit Committee, one additional point will be added to the total score.]	As a company with more than NT\$ 10 billion of paid-in capital, the Corporation is required to establish an Audit Committee, and is therefore not applicable to the additional points conditional.
2.16	Is it true that the chairman of the board, general manager (chief executive officer), or management in charge of finance or accounting affairs was not employed within the past 1 year by the current external auditors or an affiliate thereof?	No such circumstance exists within the Corporation.
3.8	Did the company voluntarily disclose its financial forecast quarterly, without having any corrections ordered by the competent authority or having any demerits imposed by the TWSE or TPEX?	The Corporation currently has no plans to publish financial forecast reports for the four quarters, and will discuss the necessity of disclosing financial forecast reports when appropriate.



Item	Evaluation Indicators	Improvements
3.9	Did the company disclose the trends and developments of the industry in which the company operates from macroeconomic perspectives in its annual report?	Relevant information has been disclosed in our annual report in accordance with the requirements of this indicator.
3.15	Did the company disclose in the annual report the amount and nature of any non-audit fees paid to the external auditor and its affiliates in addition to audit fees? [If non-audit fees were paid and the company furthermore voluntarily disclosed the amount and nature of the fees, one additional point will be added to the total score.]	We have already disclosed the amount and nature of non-audit fees paid to external auditors in our annual report for 2017. However, as the amount of non-audit fees was more than 1/4 of audit fees, this did not constitute a voluntary disclosure, and therefore the Corporation was ineligible to receive additional points.
4.4	Did the company, following internationally recognized guidelines, prepare and publish reports such as its corporate social responsibility report to disclose non-financial information of the company? [If the company voluntarily prepared and published reports such as its corporate social responsibility report to disclose non-financial information of the company, one additional point will be added to the total score.]	As a company with more than NT\$ 5 billion of paid-in capital, the Corporation is required to prepare and publish corporate social responsibility reports, and is therefore not applicable to the additional points conditional.
4.7	Did the company sign a collective agreement with the labor union in accordance with the Collective Agreement Act?	The Corporation is currently in discussion to sign agreements with our labor union.

Note 1: Implementation of board diversification policy

Director Name/ Core Diversification Items	Composition		Professional Background and Capabilities						
	Nationality	Gender	Finance and Accounting	Legal Practice	Marketing, Technology	Operational Management	Leadership and Decision- Making	Industry Knowledge and Operational Judgment	Crisis Management and International Outlook
Yao-Chung Chiang	R.O.C.	M			✓	✓	✓	✓	✓
Kung-Wha Ding	R.O.C.	M	✓				✓		✓
Kenneth Huang-Chuan Chiu	R.O.C.	M		✓			✓		✓
David Da-Wei Poo	R.O.C.	M					✓	✓	✓
Min-Ching Liu	R.O.C.	F	✓				✓		✓
Mao-Hsiung Huang	R.O.C.	M			✓	✓	✓	✓	✓
Kuo-Chih Liu	R.O.C.	M			✓	✓	✓	✓	✓
Huang-Liang Tsai	R.O.C.	M			✓	✓	✓	✓	✓
Shyi-Chin Wang	R.O.C.	M			✓	✓	✓	✓	✓
Tao-I Kwan	R.O.C.	M			✓	✓	✓	✓	✓
Shien-Quey Kao	R.O.C.	F	✓				✓		✓
Lee-Ching Ko	R.O.C.	F			✓	✓	✓	✓	✓

Note 2: Independence assessment indicators of CPA

No.	Evaluation Item	Evaluation Results	Passed Independence Assessment
1	As of the most recent audit, there have been no instances where CPA remained unchanged for 7 years, or where CPA was reassigned to the Corporation within 2 years.	Yes	Yes
2	CPA has no direct or indirect major financial stake in the Corporation.	Yes	Yes
3	CPA is not involved in any financing or financial guarantee agreements involving the Corporation or Corporation directors.	Yes	Yes
4	CPA does not have any potential employment relationship with the Corporation.	Yes	Yes
5	Accounting firm of CPA is not overly reliant on funds from any single client, including the Corporation.	Yes	Yes
6	CPA and members of the audit team are not currently serving as Corporation directors, managers, or in positions that have major impact on Corporation audits, and have not done so over the past 2 years.	Yes	Yes
7	Non-audit services provided by CPA to the Corporation have no direct impact on the major items of audit services provided.	Yes	Yes
8	CPA does not promote or sell shares or other securities issued by the Corporation.	Yes	Yes
9	CPA is not representing the Corporation in litigation of a third party or other disputes.	Yes	Yes
10	CPA and members of the audit team have no familial relationships with directors, managers, or people in positions that have major impact on Corporation audits at the Corporation.	Yes	Yes
11	CPA has not served as company director, manager, or in positions that have major impact on Corporation audits within 1 year of termination.	Yes	Yes
12	The Company has not requested that members of the audit team accept improper accounting practices or improper disclosures on financial statements made by the Corporation.	Yes	Yes
13	The Corporation has not pressured accountants and facilitated improper reduction of audit duties in order to reduce audit fees.	Yes	Yes
14	CPA is not involved in decision-making managerial duties at the Corporation.	Yes	Yes

Note 3: Letter of declaration from Deloitte & Touche

Date: November 8, 2019

Recipient: Taiwan High Speed Rail Corporation

Subject: With respect to the audit of the Corporation's financial statements for the year ended in 2019, our audit team confirms that we have complied with the following requirements without impairing auditor independence, in compliance with "The Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10, Integrity, Objectivity and Independence" of the National Federation of CPA Associations of the R.O.C.

Gentlemen :

1. Our audit team members, their spouses and relatives entitled to maintenance do not have the following circumstances:
  - a. Holding any direct or material indirect financial interests of the Corporation.
  - b. Maintaining an independence-impairing business relationship with the audit client and/or its directors or managers.
2. During the audit and engagement period, our audit team members, their spouses and relatives entitled to maintenance do not serve as a director, a manager of the audit client or hold any position to exercise direct and material influence over the audit of the financial statements.
3. Our audit team members do not have any spouse, linear family members by blood or marriage and/or a collateral relative to second degree who takes a position as a director or a manager of the audit client.
4. Our audit team members do not accept significant gifts and hospitality from the audit client and/or its directors, managers, or major shareholders. (The value of gifts and hospitality should not exceed the normal social practice.)
5. Our audit team has performed necessary independence/conflict check procedures to assure no independence impairment or unsolved conflicts.



Deloitte & Touche

Taipei, Taiwan

Republic of China

Note 4: Director training programs in 2019

Name	Date of attendance	Course	Training time (hours)
Yao-Chung Chiang	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
Kung-Wha Ding	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
	2019/11/01	Impacts and response measures on corporate governance, internal control, and director and supervisor responsibilities due to recent revisions of the Company Act	3
Kenneth Huang-Chuan Chiu	2019/04/24	Cyber crime and information security	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
David Da-Wei Poo	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
Min-Ching Liu	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
Mao-Hsiung Huang	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/14	Shareholder activism and hostile takeovers	3
Kuo-Chih Liu	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
Huang-Liang Tsai	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
Shyi-Chin Wang	2019/05/20	Industry 4.0 and how corporations lead innovative transformation	3
	2019/08/12	Exercising board duties and board performance evaluations	3
Chin-Shan Chiang (Former Director)	2019/04/17	Regulations and preventive practices of insider trading	3
	2019/08/07	Case studies of director disputes relating to financial statement fraud	3
Chao-Yih Chen (Former Director)	2019/09/19	Analysis of corporate financial information for decision-making	3
	2019/10/01	Director responsibilities and risk management under latest corporate governance strategies	3
	2019/05/24	Exercising board duties and performance evaluations	3
Tao-I Kwan	2019/06/20	Case studies of illegal cases in the securities market and discussion of director and supervisor responsibilities	3
	2019/10/15	Principles and applications of artificial intelligence	3
Shien-Quey Kao	2019/10/17	Discussion of corporate information security governance centered on legal practice	3
	2019/02/23	Director responsibilities and risk management under latest corporate governance strategies	3
Lee-Ching Ko	2019/10/18	Artificial intelligence in Taiwan: opportunities and challenges in industrial transformation	3
	2019/12/06	Corporate governance and regulations relating to securities	3
	Director training hours for 2019		

(7) Corporate Social Responsibility and Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
1. Does the company conduct risk assessment on environmental, social, and corporate governance issues, related to the company's operations and establish related risk management policies or strategies?	✓		<p>■ In order to build a complete risk management system; strengthen effectiveness of corporate governance; ensure comprehensiveness, effectiveness, and reasonableness of risk management, as well as effectively evaluate and oversee risk-bearing capabilities of the Corporation to determine risk response strategies and implementation of risk management procedures, the Corporation's "Risk Management Regulation" and related "Risk Management Policies" were established following approval of the 27th meeting of the 8th Board on June 19, 2019 to provide reasonable assurance of the Corporation's mid- to long-term strategic plans and achievement of targets.</p> <p>■ The Corporation has inventoried and identified, in a proactive and cost-effective manner, possible risks that may impact operations and profits due to Corporation business and operational activities, the main considerations being business environments, operations, finances, hazardous incidents, and other aspects. We have also reviewed comprehensiveness of corporate risk management procedures and effectiveness of risk management controls, and conducted risk evaluations of environmental, social, and corporate governance issues relating to operations by principle of materiality; these evaluations are used to establish implementation systems and identify main risk categories (Note 1). For more information regarding these risks and relevant response measures and actions, please refer to the following table (Note 2).</p> <p>■ The Corporation's various committees (such as the Audit Committee, Safety Committee, Information Security Committee, Corporate Social Responsibility Team under the Corporate Governance Promotion Committee, and so on) all participated in establishing the aforementioned risk management measures, issues, evaluations, and polices, and are assisting in promotion thereof.</p> <p>■ The Corporation's risk management implementation status and progress are reported to the Board each year. A risk management report for 2019 was approved by the 30th meeting of the 8th Board on September 18, 2019.</p>	None.
2. Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the Board to be in charge of proposing the corporate social responsibility policies and reporting to the Board?	✓		<p>■ We established a "Corporate Governance Promotion Committee" which is overseen by our Chairman and chaired by our President. Executives from our managerial departments serve as committee members and meetings are convened every 2 months or as needed to discuss specific topics. The Committee drafts optimization strategies for corporate governance systems and functions, formulates measures to strengthen corporate governance, and reviews corporate social responsibility policies to provide a reference for decision-makers within the Corporation. Additionally, the Committee makes annual reports of overall corporate governance promotion and implementation status to the Board, and conduct risk evaluations and management work of environmental, social, and corporate governance issues relating to operations by principle of materiality every year.</p> <p>■ The Corporate Governance Planning Team, Corporate Social Responsibility Team, and Ethical Management Team have been established under the Corporate Governance Promotion Committee, and committee structure and implementation status were reported to the 27th meeting of the 8th Board on June 19, 2019. The main duties of the committee are as follows:</p> <ol style="list-style-type: none"> <li>1. Review appropriateness and effectiveness of the Corporation's organizational efficiency and ensure consistency with management duties.</li> <li>2. Review effectiveness of internal risk management, audits, and control procedures, and implement control measures for potential risks.</li> <li>3. Review operational procedures for Corporation information and disclosures to ensure the accuracy and transparency of information disclosed to the public.</li> <li>4. Review legal compliance of operational processes and implement control strategies.</li> <li>5. Formulate and review the Corporation's implementation of corporate social responsibility, ethical management policies, guidelines, and specific promotion plans.</li> <li>6. Formulate plans for activities to enhance investor relations.</li> </ol>	None

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
			<p>7. Track the Corporation's preparations for corporate governance evaluations.</p> <p>8. Track Board resolutions relating to corporate governance.</p> <p>9. Formulate plans for other major corporate governance strategies.</p> <p>Details on the operational status of the Corporate Governance Promotion Committee can be found on our corporate website in the "Corporate governance structure and corporation organizational structure" sub-section under our "Corporate governance" section.</p> <p>■ The Corporation fulfills its corporate social responsibilities in accordance with our "Corporate Social Responsibility Best Practice Principles" approved by the Board of Directors in March 2016, and is active in promotion of corporate governance, social welfare, and environmental sustainability, concepts which are integrated in our operational strategies and management goals. Additionally, the corporate social responsibility team of the Corporate Governance Promotion Committee is convened by the vice president of our Corporate Planning Office, and composed of representatives from all departments; the team is responsible for planning and promoting activities relating to corporate social responsibility, compiling annual corporate social responsibility reports, and convening every quarter to discuss matters of corporate social responsibility promotion. The team is also responsible for making annual reports to the Board about the results of specific performance and promotion of our corporate social responsibilities. A report on specific implementation and promotion performance of corporate social responsibilities for 2019 was presented to the 30th meeting of the 8th Board on September 18, 2019. The main duties of the Corporate Social Responsibility team include:</p> <ol style="list-style-type: none"> <li>1. Coordinating the Corporation's recent developments and goals in corporate sustainability.</li> <li>2. Formulating future long-term strategies and guidelines for corporate social responsibility promotion.</li> <li>3. Overseeing internal units responsible for planning and proposing annual corporate social responsibility strategies and plans in their specific area of business.</li> <li>4. Coordinating various departments in implementing corporate social responsibility activities and projects.</li> <li>5. Reviewing and finalizing CSR report.</li> <li>6. Other tasks relating to review or compilation of corporate social responsibility matters.</li> </ol> <p>Details on the operational status of the Corporate Social Responsibility Team can be found on our corporate website in the "Corporate Governance Structure and Organization Chart" page under the "Corporate Governance" section.</p> <p>■ The Corporation continues to make strides in fulfilling our corporate social responsibilities and in demonstrating a sincere desire to serve; our mission is to build closer relationships with passengers and local communities, and become a platform for life improvement. We also actively ensure that the sustainable management measures of our core business comply with UN SDGs so that we can keep pace with international trends.</p> <p>■ The Corporation's CSR report for 2018 was published in June 2019. For more information on the Corporation's specific implementation plans and results of corporate social responsibility, please refer to item 7 below (Other important information to facilitate better understanding of the Corporation's corporate social responsibility practices). Details have also been disclosed on the "Corporate Social Responsibility" section of our corporate website, and in the "Sustainable Development" page of our "Corporate Social Responsibility" section.</p>	

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
3. Environmental Issues (1) Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		<p>■ The Corporation has established an environmental management system in accordance with ISO14001, and our "Environmental Management Manual" lays out specific implementations for all environmental management requirements. We are scheduled to pass the ISO 14001 environmental management system verification and obtain a certificate before the end of 2020.</p>	None.
(2) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		<p>■ The Corporation has established an environmental management objectives and strategies for continual reduction of energy and water usage based on principles of safety, comfort, environmental protection, energy saving and carbon reduction, and conducts periodical reviews of these environmental objectives. We also apply appropriate measures to protect the environment from possible negative impacts.</p>	None.
(3) Does the company assess the potential risks and opportunities of climate change for the company now and in the future, and take action on climate-related issues?	✓		<p>■ The Corporation actively faces the impact of climate change. With regard to the "Adaptation Strategy to Climate Change in Taiwan" proposed by the National Development Council, we continue to assist the Institute of Transportation, Ministry of Transportation and Communications (MOTC) in conducting research related to climate change adaptation, participate in the development of the railway and highway climate change adaptation information platform and the expansion of its functions, and strengthen the analytical functions regarding vulnerability and risk of the information platform, with a view to supporting decision-making analysis of climate change by railway and highway competent authorities. Furthermore, the Corporation has also signed the "Memorandum of Cooperation on Cross-border Disaster Prevention" with the Central Weather Bureau, Ministry of Transportation and Communications (MOTC) to enhance meteorological interpretation capabilities through mutual cooperation, while serving as an important reference for the Corporation to make traffic dispersion decisions and assess track safety during disasters.</p> <p>■ Since 2013, the Corporation has cooperated with the government to promote the renewable energy policy by leasing out the rooftop areas of Wuri and Zuoying maintenance depots and the Yanchao Main Workshop to energy suppliers for the installation of solar power equipment with a total power generation capacity of about 5,359 KW. We sequentially set up solar power generation system plans at Liujia depot, Wuri depot, Zuoying depot, Taoyuan Station, Chiayi Station, and Tainan Station starting from 2018. These solar equipment will be ready to generate power in 2020.</p> <p>■ Additionally, we installed solar panels on the rooftops and as sun and rain shelters at Miaoli, Changhua, and Yunlin stations with a total power generation capacity of 258 KW to generate electricity for use at these stations. In 2018, THSRC also applied for and obtained Renewable Electricity Certificates for the solar energy generated at these three stations.</p> <p>■ The main risks brought about by climate change include severe weather phenomenon such as extreme high temperatures; rising sea levels; increased rainfall, rainfall intensity, typhoons, cyclones, and lightning, which have increased in frequency and intensity, enhancing vulnerability levels of the railway industry and impacting our operations. At present (in 2018~2022), our adaptive actions toward climate change impact include:</p> <ol style="list-style-type: none"> <li>1. Establishment of warning system for slope safety.</li> <li>2. Strengthening protection of tunnel portal slopes.</li> <li>3. Risk assessment and protection design for scoured cross-river bridges.</li> </ol> <p>■ For information on the potential risks, opportunities, and corresponding measures of climate change for the Corporation now and in the future, please see Note 3. More details are disclosed on the "Risk Management Policy" and "Response Measures and Actions" pages under "Corporate Information" in the "About Us" section of our corporate website.</p>	None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons												
	Yes	No														
(4) Does the company count the greenhouse gas emissions, water consumption and total weight of waste in the past two years, and formulate policies for energy conservation and carbon reduction, greenhouse gas reduction, water consumption or other waste management?	✓		<p>■ The Corporation continues to promote its four major energy-saving programs (self-managed energy saving, reduction of power consumption, transfer peak power demands, and reasonable power usage) and has established energy-saving goals for each station (reduction of at least 0.86% in average annual power consumption per passenger). We implement water conservation, water reduction and water recycling as our water resources management policy, and set an annual water-saving goal at least 3.42% of "water consumption per passenger." Additionally, in order to quantify our carbon emissions of the Corporation's energy consumption, we have established a "passenger-kilometer emissions" indicator, and aim to reduce our carbon emissions by at least 1.5% every year.</p> <p>Compared with 2018, the achievements of various goals in 2019 were as follows: our "station energy-saving rate" at 5.87% (&gt; 0.86%); our "station water-saving rate" at 3.05% (&lt;3.42%); and our "carbon emissions rate" at 5.52% (&gt; 1.50%).</p> <p>The Corporation calculates greenhouse gas emissions, water usage, and total weight of solid waste every year, and discloses these in our annual "Corporate Social Responsibility Report." Statistical data for the past two years (2018-2019) are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Item Year</th> <th style="text-align: center;">Greenhouse Gas Emissions (ton CO<sub>2</sub>e)</th> <th style="text-align: center;">Water Usage (m<sup>3</sup>)</th> <th style="text-align: center;">Solid Waste (ton)</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2018</td> <td style="text-align: center;">328,689.25</td> <td style="text-align: center;">708,517</td> <td style="text-align: center;">8,190.79</td> </tr> <tr> <td style="text-align: center;">2019</td> <td style="text-align: center;">334,898.78</td> <td style="text-align: center;">723,602</td> <td style="text-align: center;">7,235.92</td> </tr> </tbody> </table> <p>Furthermore, we voluntarily conducted greenhouse gas (GHG) inventories for our 12 stations in 2016 ~2018 and obtained an ISO14064 Verification Opinion Statement issued by a third party. (Inventory and verification of station GHG emissions in 2019 are expected to be completed in December 2020).</p>	Item Year	Greenhouse Gas Emissions (ton CO <sub>2</sub> e)	Water Usage (m <sup>3</sup> )	Solid Waste (ton)	2018	328,689.25	708,517	8,190.79	2019	334,898.78	723,602	7,235.92	None.
Item Year	Greenhouse Gas Emissions (ton CO <sub>2</sub> e)	Water Usage (m <sup>3</sup> )	Solid Waste (ton)													
2018	328,689.25	708,517	8,190.79													
2019	334,898.78	723,602	7,235.92													
<p>4. Preserving Public Welfare</p> <p>(1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?</p>	✓		<p>■ Article 18 of Chapter 4 (Maintaining social welfare) in the Corporation's "Corporate Social Responsibility Best Practice Principles" stipulates compliance with the International Bill of Human Rights in gender equality, right to work, and prohibition of discrimination, and establishment of relevant management policies and procedures.</p> <p>■ The Corporation complies with the spirit of the International Bill of Human Rights and established a "Human Rights Policy" in 2018, which is disclosed on our corporate website and in Chapter 4 of this report. We adhere to the principles and spirit underlying the UN's Universal Declaration of Human Rights, the Guiding Principles on Business and Human Rights, the UN Global Compact, and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, including freedom of association, care for vulnerable groups, prohibition of child labor, elimination of all forms of forced labor, elimination of employment discrimination, and confirm that our human resource utilization policies do not discriminate on the basis of gender, race, social class, age, marriage status, religion, and political affiliation.</p>	None.												



Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		

■ The Corporation has established various regulations for corporate governance, environmental protection, public affairs, procurement and human resources. We have also built sound management systems in compliance with the Personal Information Protection Act to protect the privacy of our employees, passengers, and all stakeholders. We have specific regulations relating to human rights policies to serve as a basis for identifying important human rights issues and to promote risk-reducing measures. The Corporation's "Supply Chain Management Policy" stipulates that in addition to procurement quality, costs, delivery date, and services, the Corporation should also take issues such as reasonable profits, social responsibility, labor safety, human rights, and environmental protection into consideration when making management and implementation decisions. When inviting bids, the Corporation stipulates that companies submitting bids should not discriminate on the basis of gender, discriminate against indigenous people or vulnerable groups, and should not use child labor. We actively contribute to society and participate in local activities to the best of our limited abilities, in hopes of maintaining sustainable interactions with our collaborating organizations to implement social care and strengthening of local culture. The Corporation has provided effective and appropriate grievance mechanisms for matters that infringe upon labor rights to ensure the equality and transparency of grievance regulation. Relevant human rights concerns and specific management plans and actions are detailed in Chapter 7 of this annual report. Additional information is disclosed on the "Human Rights Policy" and "Human Rights Policy and Implementation of Measures to Mitigate Human Rights Risks" pages under "Corporate Information" in the "About Us" section of our corporate website.

(2) Does the company declare reasonable employee welfare measures (including remuneration, vacations, and other benefits) and appropriately reflect business performance and results on employee remuneration?	✓		<p>■ The Corporation has established a "Welfare Regulation," and not only provides employee vacation days, insurance, funeral subsidies, and health checks according to these regulations, but also works actively to establish a friendly work environment with catering, relocation subsidies, shuttle buses, uniform cleaning services, and even employee counseling, healthcare assistance, employee ride discounts, and employee benefits so that employees can enjoy their work. Additionally, we annually assess and compare related information to gain a better understanding of employee welfare to provide comprehensive benefits. For more information on employee benefits, please refer to Chapter Three of this annual report.</p> <p>■ The Corporation has established a "Retirement Regulation" and deposits pension funds for employees under prior pension plans according to law. A Pension Reserves Supervisory Committee was established and convenes every quarter to review pension reserves and other matters stipulated by law. We place deposits in individual labor insurance accounts established by the Bureau of Labor Insurance according to law so that employees under (new) pension plans of the Labor Pension Act can be protected after retirement. For more information on retirement systems and implementation status, please refer to Chapter Three of this annual report.</p> <p>■ Our "Charter of Remuneration Committee" stipulates periodic review of director and manager performance, as well as remuneration policies, systems, standards, and structures, and regular reviews of general compensation levels in the industry. To ensure competitiveness and motivation, employee remuneration is determined by the Corporation's financial conditions, business performance, and policies, as well as the work duties, work abilities, and performance of the positions held. In addition, according to our "Articles of Incorporation," if the Corporation is profitable in a given year, it shall allocate not less than 1% of the net profit as profitsharing compensation to employees.</p> <p>■ Our "Remuneration Management Regulations" serves as a basis for determining employee remuneration levels, and we regularly review pay levels and remuneration policies, setting out salary allowances and bonuses according to our "Salary Payment Regulation" to provide allowances and reward employees for their hard work. Year-end bonuses and performance bonuses are distributed based on the Corporation's annual business performance, financial conditions, operating conditions, and individual work performance, and we have established remuneration adjustment policies to enhance Remuneration levels for 2019 have been adjusted according to employee performance, with overall adjustment rates set at around 3.5% to achieve our goal of incentivizing employees.</p>	None.
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Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	✓		<p>■ To provide employees with safe and healthy work environments, the Corporation conducted environment monitoring at corporate headquarters, the OMC building, 12 HSR stations, and 4 maintenance depots.</p> <p>■ Every year, the Corporation establishes "Annual Health and Safety Education Training Plan" which includes relevant EHS training courses; training completion rates exceeded 100%. Additionally, our occupational safety and health office hosts a number of promotional activities on health and safety standards, operational procedures, and regulations for new recruits and existing personnel to enhance their awareness and capabilities. A total of 86 activities were hosted in 2019.</p> <p>■ The Corporation established "The Prevent Plan for Wrongful Physical or Mental Harm During the Execution of Job Duties" in accordance with the Occupational Safety and Health Act and guided implementation in all departments to ensure occupational health and safety.</p> <p>■ The Corporation established an incentive program to encourage our colleagues to report false alarms and violations of occupational health and safety, thus enhancing awareness of occupational health and safety.</p> <p>■ The Corporation implemented annual occupational health and safety audits to assess whether audited units had fulfilled their responsibilities and were operating in accordance with relevant regulations. We conducted 12 audits in 2019.</p> <p>■ The Corporation has established "Employee Safety and Health Work Instructions," "Railway Operation Safety Rulebook," "THSRC Operation Regulation," "THSRC Operation Rules," "Operation Control Center/Station Control Room/Depot Control Room Working Manual." These procedures are updated each year or every three years in accordance with stipulated regulations.</p> <p>■ The Corporation provided material incentives to employees in order to promote management solutions for measures that reduce occupational hazards, for example our "Occupational Safety and Health Management Target Achievement Incentive Program."</p> <p>■ In order to achieve our management target of "zero occupational hazards," we hosted a number of traffic safety management events, for example traffic safety lectures, traffic safety quizzes, safe-driving promotional training for Yamaha motorcycles, and the Kaohsiung shuttle bus program.</p> <p>■ We provided health checks beyond those mandated by regulation for those above 45 years old who have worked at the Corporation for more than 10 years. Annual health check attendance for train personnel was close to 100%, and above 90% for general employees.</p> <p>■ We established an online occupational health check reservation system to maximize service accessibility. Occupational health physicians provided hazard assessments, health consultations, home and work injury care, assessments for returning workers and worker fitness for 145 on-site sessions, ensuring comprehensive healthcare benefits for employees.</p> <p>■ Our corporate headquarters, the Taoyuan OMC building, 12 HSR stations, and 4 maintenance depots are all equipped with health stations and nurses to provide employees, passengers, and contractors with emergency injury care and healthcare resources.</p> <p>■ Every two years, we implement programs relating to prevention of hazards related to human factors, prevention of disorders brought on by abnormal workloads, maternal health protection, and so on. We also conduct health management surveys to analyze employee health risks and provide timely interventions and special preventive measures for preventive care and management.</p> <p>■ In terms of preventive care for mental health, we have established hotlines and dedicated emails to provide multiple communication channels and care for our employees.</p> <p>■ Each HSR station invites external supporting units in the district and emergency shuttle bus transport operators to conduct biannual surveys of the 184 emergency exits along the railway line. Surveys for the first half of 2019 were completed between April and June, and surveys for the second half of the year were completed between October and December.</p>	None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
			<ul style="list-style-type: none"> <li>■ A total of 81 disaster prevention and training drills were completed at various stations, depots, and routes in 2019, and were attended by external supporting units.</li> <li>■ All units responsible for access management take inventory of access card distribution every quarter and conduct access management reviews at all stations and maintenance depots once every 6 months.</li> <li>■ THSRC received TOSHMS &amp; OHSAS18001 certificates that verify our occupational health and safety management of HSR management areas along Taiwan's western corridor, including train stations, maintenance depots, trackside equipment, and offices, making THSRC the biggest verified occupational safety and health business unit in Taiwan.</li> <li>■ For more information on working environments, operational safety training, and drill activities, please refer to Chapter Six of this report.</li> </ul>	
(4) Does the company provide its employees with career development and training sessions?	✓		<ul style="list-style-type: none"> <li>■ The Corporation established a training program based on the two major themes of safety and service, which encompasses the three aspects of core competence, professional competence, management competence. This HSR-centric training provides employees with a comprehensive training program.</li> </ul>	None.
(5) Does the company's products and services adhere to related laws and regulations and international standards for customer health and safety, customer privacy, marketing, and labeling, and has the company established policies and appeal procedures to protect consumer interests?	✓		<ul style="list-style-type: none"> <li>■ Customer health and safety, customer privacy, marketing, and labeling of all Corporation products and services adhere to the Railway Act and relevant regulations and are regulated by Passenger Transportation Contract, which are disclosed on our corporate website and stations for consumer reference. Customers can also contact us through our official website or call the THSRC customers service hotline at 4066-3000 for any further assistance, and we will handle customers suggestions effectively and efficiently.</li> </ul>	None.
(6) Does the company establish a supplier chain management policy that requires suppliers to follow and implement related issues on environmental protection, occupational safety and health, or labor rights?	✓		<ul style="list-style-type: none"> <li>■ The Corporation has established a Supply Chain Management Policy and disclosed related requirements and implementation results of environmental, social, safety, and health issues.</li> <li>■ More details can be found in the "Supply Chain Management" page of the "Corporate Social Responsibility" section on our corporate website.</li> </ul>	None.

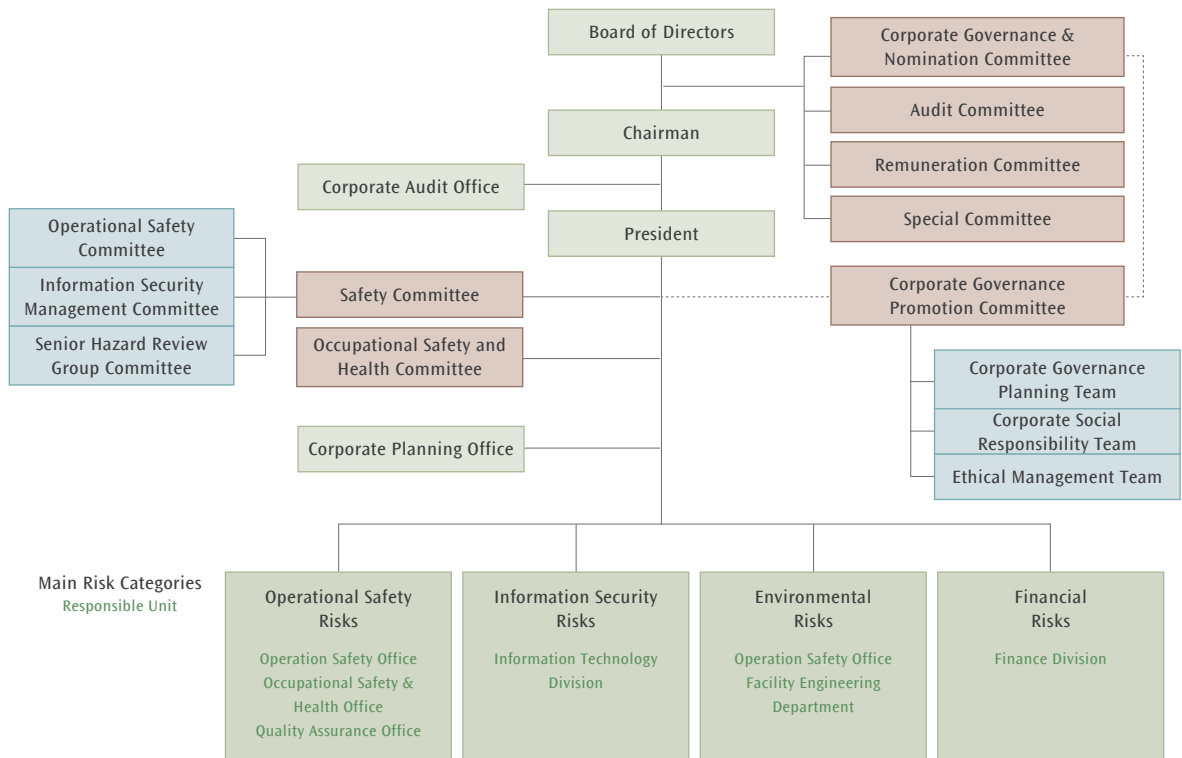
Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
5. Does the company comply with international standards or guidelines for preparing corporate social responsibility or non-financial related reports? Have the previous released reports been verified by third-party certification entity with assurance or opinion statements?	✓		<p>■ The Corporation's CSR report follows the core requirements of the Global Reporting Initiative Sustainability Reporting Standards (GRI Standards) developed by the Global Sustainability Standards Board (GSSB), the "Rules Governing the Preparation and Filing of Corporate Social Responsibility Reports by TWSE Listed Companies," and the "Corporate Social Responsibility Best Practice Principles for TWSE/TPEX Listed Companies."</p> <p>■ Our CSR report has been verified by the British Standards Institute (BSI), a third-party certification entity, which ensures that our report meets the Core option of the GRI Standards, and complies with the AA1000AS with 2018 Addendum Type 2 high-level assurance. The Independent Assurance Statement issued by BSI has also been included in the appendix to our CSR report.</p>	None.
6. If the company has established the corporate social responsibility principles based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies," please describe any discrepancy between the Principles and their implementation: The business operations of THSRC follow the Corporate Social Responsibility Best Practice Principles.				
7. Other important information to facilitate better understanding of the company's corporate social responsibility practices:				
(1) "FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that "Taiwan High Speed Rail Corporation" has been independently assessed according to the FTSE4Good criteria, and satisfies the requirements to become a constituent of the FTSE4Good TIP Taiwan ESG Index.				
(2) THSRC won the Corporate Sustainability Report Gold Award, and Corporate Comprehensive Performance TOP50 Corporate Sustainability Awards at the 2019 12th "Taiwan Corporate Sustainability Awards" hosted by the Taiwan Institute for Sustainable Energy.				
(3) To implement environmental protection and energy-saving policies, the Corporation's buildings are designed with sustainable environment concepts encompassing "ecosystem, energy-saving, waste-saving, and health." The Miaoli, Changhua, and Yunlin stations are equipped with solar power facilities which generate power for station usage, and have applied for Renewable Electricity Certificates (REC). These three stations respectively received Diamond Level, Gold Level and Gold Level Green Building Certificates from the MOI and Green Building Certification plaques. The rooftops of THSRC Wuri and Zuoying maintenance depots and the Yanchao main Workshop have all been leased out to energy suppliers for the installation of solar power equipment and generated power was sold to Taipower Co.				
(4) To extend our carbon label for another three years, THSRC conducted carbon emission assessments and verifications in 2017, and applied to the EPA for validity extensions on December 16, 2020. Our Carbon Footprint Label certificate number was updated (No. R1714910001), and our carbon footprint was verified to be 34 gCO <sub>2</sub> e per passenger-kilometer. Additionally, as we had achieved our goal of reducing carbon emissions by more than 3% within 3 years (our carbon emissions were reduced by 6.19%), we were also awarded the "Carbon Reduction Label" certificate (No. R1714910001).				
(5) On October 6, 2017, THSRC received ISO14064 certification for all HSR station GHG emissions in 2016. On December 26, 2018, THSRC received ISO14064 certification for all HSR station GHG emissions in 2017. On November 22, 2019, THSRC received ISO14064 certification for all HSR station GHG emissions in 2018.				
(6) The solar power facilities of Miaoli, Changhua, and Yunlin stations generated 188.10 MWh in 2019, and 188 RECs were obtained.				
(7) Since its initiation in 2010, the High-Speed Educational Endowment Program has accumulated 130 million NTD over 11 years and is estimated to have helped more than 25,000 disadvantaged schoolchildren achieve their dreams of learning.				
(8) The THSRC Smiling Train Program project was initiated in 2008 and collaborates with local educational and charitable institutes to help the disadvantaged fulfill their dreams of taking a ride on the punctual and convenient high-speed rail. A total of 786 disadvantaged groups and 140,851 people have participated in this program over the course of 12 years.				
(9) The THSRC Winter Outreach Blood Drive was initiated in 2012 and helps hospitals all over Taiwan store sufficient amounts of blood for use in time of medical emergency. THSRC hosted 12 blood drives in 2019 and has collected 10,068 bags of blood over the course of 8 years.				
(10) Starting in 2014, THSRC has collaborated with the Executive Yuan Taiwan Forestry Research Institute (TFRI) and the Wutong Foundation to host the "Travelling with Saplings" event every year on Arbor Day. In 2019, THSRC gifted more than 1,500 saplings of native Taiwanese tree species to passengers at the Hsinchu HSR Station. These saplings travelled far and wide with HSR passengers, spreading beauty and brightening environments all across Taiwan.				
(11) The THSR ART Together Program was initiated in 2015, connecting HSR stations to local communities through art performances. Over the course of 5 years, 511 groups and 13,674 people have performed at 9 stations (Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan, and Zuoying), winning great praise from the general public and HSR passengers.				

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		

(12)The THSR Museum was inaugurated on January 5, 2017 and displays cultural assets to illustrate the 3 spatial revolutions in the history of Taiwan’s railway industry, the subsequent development of high-speed rail policies, BOT vendor selection and negotiation, the founding of THSRC, and the process of THSR construction and operation, allowing visitors to learn about THSRC’s path through history. As of year-end 2019, 2,002 groups and more than 53,439 people have visited the museum.

(13)For more information on our corporate social responsibilities, please refer to the “Corporate Social Responsibility” section on our corporate website.

Note 1: Implementation structure for risk management



Note 2: Main risk categories and response measures and actions

Material Issues	Main Risk Categories	Summary	Risk Management Strategies and Related Response Measures and Actions
Environmental	Environmental Risks	Various environmental risks (such as global warming, extreme weather conditions, earthquakes, land subsidence, and formation of new fault lines) can cause revisions in laws and regulations, system damages, regional power cuts, and water shortages, which may affect service quality and increase maintenance and operation costs.	<ol style="list-style-type: none"> <li>1. Established environmental policies and implemented management according to our environment management manual. We have applied for ISO14001 certification and are seeking to establish environment management systems that adhere to these standards.</li> <li>2. Identified climate change risks and estimated future mid-to long-term climate change risks to formulate plans and strategies for saving energy. We also collaborated with professional institutions to analyze and formulate response strategies to climate change, effectively decreasing possible impacts to our operations from climate change.</li> <li>3. Collaborated with professional institutions to establish an early-warning system for earthquakes.</li> <li>4. Conducted assessments on land subsidence, new fault lines, flood prevention, and earthquake prevention capabilities to formulate improvement measures.</li> <li>5. Gained a full understanding of environmental hazards through DWS hazard warning systems, and conducted annual hazard prevention audits and regular and irregular drills.</li> </ol>
Social	Operational Safety Risks	HSR systems may be affected by internal and external factors such as malfunctions of facilities and equipment, human error, intentional sabotage, or other external factors, which may affect train safety; cause injury to our employees, passengers, contractors, or the general public; or cause delay or cessation of rail operations.	<ol style="list-style-type: none"> <li>1. Established our safety and health, corporate quality, and configuration management policies, and implemented management according to our operational safety plan, occupational safety and health management manual, corporate quality manual, high-speed rail system configuration management manual, corporate RAMS manual, management plan for rail security, and assurance plan for corporate safety.</li> <li>2. Established an Operational Safety Committee which convenes every quarter, and also an Occupational Safety and Health Committee which convenes every quarter.</li> <li>3. Implemented internal audits and safety inspections of rail operation safety, occupational safety and health, quality management, configuration management, and system assurance.</li> <li>4. Implemented rail safety training, education and training for occupational safety and health, hazard management training, and hazard prevention and response drills and training.</li> </ol>
Corporate Governance	Information Security Risks	THSRC is a Critical Information Infrastructure provider, and also a Level-A Cyber Security Responsibility Unit. All HSR information systems take into account various aspects including confidentiality, comprehensiveness, accessibility, and legal compliance.	<ol style="list-style-type: none"> <li>1. Formulated information security policy and software intellectual property rights protection policy, and implemented management according to information security management manual.</li> <li>2. Established Information Security Committee and convened information security review meetings once every six months.</li> <li>3. Established management procedures and systems according to international ISO27001 information security system.</li> <li>4. Implemented internal information security audits, drills and evaluations, information security inspections, penetration testing, defense-in-depth mechanisms, and education and training in accordance with requirements for Level-A Cyber Security Responsibility Units.</li> </ol>
Corporate Governance	Financial Risks	Changes in domestic and overseas economic and financial conditions may impact our income, maintenance and operation costs, interest rates, and exchange rates, which in turn affect our profitability and cash flows.	<ol style="list-style-type: none"> <li>1. Adhered to "International Financial Reporting Standards (IFRS)," "International Accounting Standards (IAS)," and government regulations.</li> <li>2. Underwent annual financial audits by competent authorities.</li> <li>3. Our managerial departments underwent monthly budgeting and accounting reviews and presented these to the Board every six months.</li> <li>4. Periodically issue quarterly and annual financial reports.</li> <li>5. Our Board conducted reviews of important financial activities in accordance with relevant regulations and internal control systems.</li> </ol>

Note 3: The potential risks, opportunities and corresponding measures of the company on climate change.

The potential risks, opportunities and corresponding measures on climate change for our company now and in the future		
Risks	Opportunities	Corresponding measures
The main risks brought about by climate change include severe weather phenomenon such as extreme high temperatures; rising sea levels; increased rainfall, rainfall intensity, typhoons, cyclones, and lightning, which have increased in frequency and intensity, enhancing vulnerability levels of the railway industry and impacting our operations.	<p>(1) THSRC signed the "Memorandum of Cooperation on Cross-border Disaster Prevention" with the Central Weather Bureau, Ministry of Transportation and Communications (MOTC) to enhance meteorological interpretation capabilities.</p> <p>(2) Collaborated with power companies to set up leased solar power generation systems at our maintenance bases.</p> <p>(3) Set up self-use solar power generation systems at Miaoli, Changhua, and Yunlin stations, and applied for renewable energy certificates.</p>	<p>(1) Establishment of warning system for slope safety.</p> <p>(2) Strengthening protection of tunnel portal slopes.</p> <p>(3) Risk assessment and protection design for scoured cross-river bridges.</p>

### (8) Implementation of Ethical Corporate Management and Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and Reasons

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
<p>1. Establishment of Ethical Corporate Management Policies and Programs</p> <p>(1) Does the company establish ethical corporate management policies and procedures, approved by the Board, in its guidelines and external documents, as well as commitment from its Board and senior management to implement the policies?</p>	✓		<p>■ The Corporation adheres to the five core values of Discipline, Integrity, Efficiency, Innovation, and Sensibility, and has established a corporate culture of ethical management based on our operational principles of Honesty, Transparency, and Responsibility. We have also established our Code of Ethical Conduct; Ethical Corporate Management Best Practice Principles; Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior; Regulations for Management of the Prevention of Insider Trading; Reward and Discipline Regulation; Grievance Regulation; and Procurement Staff Ethical Regulation for our employees to abide by.</p> <p>■ The Corporation established the "Ethical Corporate Management Best Practice Principles" following approval at the 11th meeting of the 7th Board on June 19, 2016, and these Principles were revised following approval at the 36th meeting of the 8th Board on March 18, 2020 to stipulate that directors and managers shall exercise due care of good administrators when carrying out business duties, rigorously execute their duties, and implement the commitments of ethical management policies.</p> <p>■ Additionally, the Corporation's "Procedures for Ethical Corporate Management and Guidelines for Conduct" were established following approval at the 36th meeting of the 8th Board on March 18, 2020, and contain specific stipulations regarding compliance with ethical management policy items by Corporation personnel.</p>	None.
<p>(2) Does the company establish assessment mechanisms against risks from unethical conduct, periodically analyze and assess operational activities with high potential for unethical conduct, and use these to establish solutions for prevention of unethical behaviors that at least encompass the preventive measures stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies?</p>	✓		<p>■ In addition to our "Code of Ethical Conduct" and "Code of Conduct," we have also established "Ethical Corporate Management Best Practice Principles" and "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior" to provide clear and detailed guidelines for operating procedures, behaviors, education and training, disciplinary violations, and appeals systems. The formulation and implementation of integrity management policies are overseen by our audit department, which periodically reports to the Board.</p> <p>■ The Corporation has also established "Procedures for Ethical Corporate Management and Guidelines for Conduct" to serve as our policy for guiding ethical management, stating in clear detail specific ethical management measures and preventive measures for unethical conduct.</p>	None.

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
(3) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and commitment to implement the policies, and periodically assess said policies?	✓		<p>■ The Corporation has also established "Procedures for Ethical Corporate Management and Guidelines for Conduct" to serve as our policy for guiding ethical management, stipulating operational procedures, codes of conduct, disciplinary actions for violations, and appeals systems, and we periodically review and revise whether preventive measures are operating effectively.</p> <p>■ The Corporation has established "Procurement Regulation" containing articles relating to business confidentiality and conflicts of interests in procurement staff, and employees that exhibit dishonest behaviors are subject to disciplinary actions under the "Rules Governing Rewards and Disciplinary Action" depending on severity of the cases.</p> <p>■ The Corporation's "Code of Ethical Conduct, "Code of Conduct," and "Work Rules" contain stipulations relating to business confidentiality and conflicts of interests in staff conduct, and employees that conduct dishonest behaviors are subject to disciplinary actions under the "Reward and Discipline Regulation" depending on severity of the cases.</p>	None.
2. Fulfillment of Operations Integrity Policy (1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	✓		<p>■ The Corporation has established an assessment system for suppliers and business partners. During contract negotiation, the rights and obligations of both parties are well documented, and confidentiality clauses are contained in all contracts.</p>	None.
(2) Does the company establish an exclusively (or concurrently) dedicated unit in charge of corporate integrity and to be supervised by the Board, which regularly (at least once a year) reports implementation status to the Board?	✓		<p>■ In order to fulfill our supervisory obligations of ethical management, the Corporation has established a Corporate Governance Nomination Committee, an Audit Committee, and a Remuneration Committee to supervise compliance with ethical management. Additionally, the Ethical Management Team, which is established under the "Corporate Governance Promotion Committee," is convened by the vice president of the Corporate Planning Office and composed of representatives from the Legal Office, the Audit Office, the Human Resources Division, the Secretariat Division of the Board of Directors, and the Corporate Planning Office. The Ethical Management Team is responsible for reviewing and improving ethical management policies and implementing measures, assessing ethical management developments both domestically and overseas, convening to discuss implementation of ethical management quarterly, and making annual reports on specific performance and promotion measures of ethical management to the Board. The specific performance and promotion measures of ethical management for 2019 were reported at the 30th meeting of the 8th Board on September 18, 2019. The main duties of the Ethical Management Team are as follows:</p> <ol style="list-style-type: none"> <li>1. Integrate ethical values into the Corporation's operational strategies and establish measures to ensure ethical management in accordance with laws and regulations.</li> <li>2. Establish programs containing standard operating procedures and behavioral guidelines for work duties to prevent unethical behavior.</li> <li>3. Plan internal organization, preparation, and job duties for mutual supervision and balance of operational activities at high risk of unethical behavior.</li> <li>4. Promote and coordinate ethical management policies and training.</li> <li>5. Plan systems for reporting ethical violations to ensure effective implementation.</li> <li>6. Assist the Board and management in reviewing and assessing effective operation of ethical management measures, and periodically assess and report on adherence of relevant processes.</li> </ol>	None



Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/ TPEX Listed Companies" and Reasons
	Yes	No		

■ The Corporation has implemented the ethical corporate management policies in accordance with the corporate governance, business strategies, and operating procedures. Implementation status for 2019 were as follows:

1. We hosted ethical management training programs for all employees for a total of 4,603 participants and ran for a total of 2,301.5 hours (digital courses).
  2. We hosted training courses for preventing of insider trading for a total of 4,554 participants and ran for a total of 759 hours, accounting for 100% of total employees.
  3. We hosted corporate ethical management course for junior-level managers and general employees for a total of 112 participants and ran for a total 224 hours.
  4. In 2019, ten Board members received training in anti-corruption policies, accounting for 83% of current Board members; 333 new recruiting employees also participated in this training, accounting for 7.21% of total employees.
  5. The Corporation upholds principles of ethical management and initiated the "Promotion Plan for Legal Compliance" in 2016 for comprehensive management of compliance with regulating authorities and Corporation regulations laid out in the Corporation Charter. Additionally, relevant regulations and rulings of regulating authorities are reviewed and presented every quarter, and legal compliance meetings are held to ensure that Corporation employees adhere to relevant regulations.
  6. Confidentiality of tender information, protection of intellectual property rights, and commitment of corporate social responsibility are enclosed on tender instructions and affidavits, and prevention of unjust enrichment and conflicts of interests are stated in the main body of the contract.
  7. We established an Audit Committee mailbox in the "Stakeholders" section of our corporate website to serve as a direct communication channel between stakeholders and the Audit Committee.
  8. We established internal and external whistle-blowing channels (including phone, fax, and mailbox channels) and set up a dedicated team for reviewing and investigating reported cases, and tracking management mechanisms.
- Detailed information on the Ethical Management Team can be found under the "Corporate Governance Structure and Organization Chart" subsection of the Corporate Governance section on the THSRC website.

(3) Does the company establish and implement policies to prevent conflicts of interest and provide appropriate communication channels?	✓	<p>■ The Corporation's regulations stipulate that managers of all levels are responsible for assisting the Corporation President in promoting ethical management policies. All conflicts of interest should be reported to department heads. The Corporation has also established "Grievance Regulation" and "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior" to provide timely and appropriate channels for making statements and reports to prevent conflicts of interest.</p>	None.
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Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, with internal audit units formulating audit plans based on risk assessments of unethical conduct which are used to review compliance with measures for preventing unethical conduct, or which are audited by CPAs?	✓		<ul style="list-style-type: none"> <li>■ In order to implement ethical management, regulation compliance at the Corporation is periodically reviewed by internal auditing, accounting, and internal control systems.</li> <li>■ The Corporation implements internal control mechanisms on an annual basis. The Quality Assurance Office acts as a secretariat unit in executing internal control systems and self-inspection of administrative procedures. Each office carries out self-inspections that are reviewed by the Audit Office. Finally, CPAs are responsible for issuing review reports on internal control systems.</li> <li>■ The accounting system at THSRC has been effectively implemented for many years. Every year, certified accountants conduct an audit and issue an audit report.</li> <li>■ The Corporation's "Ethical Corporate Management Best Practice Principles" stipulate that internal audit units should formulate audit plans based on risk assessments of unethical conduct which can be used to review compliance with measures for preventing unethical conduct, and which may be audited by CPAs. Assistance may be obtained from professionals when necessary.</li> </ul>	None.
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	✓		<ul style="list-style-type: none"> <li>■ The Corporation's Ethical Corporate Management Best Practice Principles stipulate that the Corporation should host periodic training and promotion activities for Board directors, managers, employees, and fiduciaries to help them understand the Corporation's determination in implementing ethical management, related policies, prevention solutions, and consequences of ethical violations.</li> </ul>	None.
3. Operation of the Integrity Channel (1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	✓		<ul style="list-style-type: none"> <li>■ The Corporation has established our "Code of Conduct," "Grievance Regulation," and "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior." Related matters are handled by dedicated units and service hotlines have been set up to handle feedback in accordance with established processes.</li> </ul>	None.
(2) Does the company establish standard operating procedures and subsequent procedures of following investigations and relevant confidential mechanism?	✓		<ul style="list-style-type: none"> <li>■ The Corporation's "Code of Conduct," "Grievance Regulation," and "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior." have clear stipulations on the appeals process and reviewing units, and commit to confidentiality for appeal makers and related evidence.</li> </ul>	None.
(3) Does the company provide proper whistleblower protection?	✓		<ul style="list-style-type: none"> <li>■ The Corporation's "Code of Conduct," "Grievance Regulation," and "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior." clearly stipulate that if reported persons threaten or retaliate against whistleblowers, the Corporation will take disciplinary action according to relevant regulations.</li> </ul>	None.
4. Enhancing Information Disclosure Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	✓		<ul style="list-style-type: none"> <li>■ The Corporation's "Ethical Corporate Management Best Practice Principles" and relevant standards are publicly available for review on our internal and external websites. When revisions are made, these are announced to all staff members and information on our website is simultaneously updated.</li> <li>■ The Corporation has established a "Regulations of Disclosure Information" and "Regulation for Posting Information on the 'Market Observation Post System,'" allowing us to fulfill our responsibilities and obligations of information disclosures and disclose important information in a timely manner. Additionally, voluntary disclosures are posted to the Market Observation Post System and our corporate website to strengthen information transparency and enhance timeliness, symmetry, and fairness of information disclosures.</li> </ul>	None.

Evaluation Item	Implementation Status		Abstract Illustration	Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies" and Reasons
	Yes	No		

5.If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation:  
None.

6.Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies).

To implement the basics of ethical corporate management policies, the Corporation operates under the Corporation Act, Securities and Exchange Act, Businesses Entity Accounting Act, related regulations for TWSE/TPEX-Listed Companies, and other laws and decrees concerning business transactions.

## (9) Corporate Governance Guidelines, Regulations, and methods to access those information

The Corporation has established the "Guidelines for Corporate Governance" as our principle rule of corporate governance. Such guideline is stipulated by reference to the OECD Principles of Corporate Governance; the S&P Corporate Governance Score-Criteria, Methodology and Definitions; the NYSE Listed Company Manual Sec303A; the Infosys Corporate Governance Report, corporate governance guidelines of established domestic and overseas companies, and is stipulated pursuant to the national laws and regulations; regulations set out by the Taiwan Stock Exchange Corporation; and the Corporate Governance Best-Practice Principles for TSEC/TPEX Listed Companies. Moreover, in order to comply with the modifications of the laws and regulations and to follow the schedules and goals of the new version of the "Corporate Governance Blueprint (2018~2020)," we revised 17 guideline items in May 2019, and such revision was approved at the 2019 annual shareholders' meeting.

In addition, to ensure effective performance of the directors' functions, to protect and promote shareholders' participation, and to guide and rule the procedures and activities of the election of directors, and the operations of shareholders' meetings, the Board, and functional committees, the Corporation has also established the "Rules of Procedure for Shareholders Meetings," "Rules of Procedure for Board of Directors Meetings," "Regulation of Self-Evaluation of the Board of Directors," "Rules for the Election of Directors," "Charter of Audit Committee," "Charter of Corporate Governance and Nominating Committee," "Charter of Remuneration Committee," "Charter of Special Committee," and other relevant regulations; in order to deepen the corporate culture of compliance and integrity management, to prevent, promptly detect and properly respond to internal illegal acts, we also established the "Code of Ethical Conduct," "Ethical Corporate Management Best Practice Principles," "Corporate Social Responsibility Best Practice Principles," "Regulations Governing the Prevention of Insider Trading," "Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior," and "Regulation of Related Party Transaction"; all these abovementioned regulations are our regulations relevant to corporate governance.

The aforementioned corporate governance regulations are fully disclosed on the "Investor Relations" section and the "Corporate Governance" section on our corporate website (<http://www.thsrc.com.tw>) for immediate access.

## (10) Other Important Information for Further Understanding Implementation Status of Corporate Governance

Besides publishing material information on the MOPS (<https://mops.twse.com.tw/mops/web/index>) in accordance with laws and regulations, all other material information for further understanding our implementation status of corporate governance is regularly updated on the "Investor Relations" section and the "Corporate Governance" section on our corporate website in a timely manner along with other information relating to the Corporation's finances, business matters and corporate governance.

Additionally, the Corporation has established 7 core policies (Safety and Health Policy, Information Security Policy, Corporate Quality Policy, Environmental Policy, Human Rights Policy, Risk Management Policy and Supply Chain Management Policy); all have been signed by the Chairman of the Board, fully implemented and disclosed on the "Corporate Information" page under the "About Us" section on our corporate website as our major guidelines for corporate compliance. Through the announcement of these core policies, all colleagues can work together to continuously deepen corporate governance and achieve the goal of sustainable business operations.


## 環境政策 Environmental Policy

環境保護是台灣高速鐵路股份有限公司善盡企業社會責任重要的一環，我們利用高速鐵路高運量、速度快、低污染的特點，致力推動環境管理、節能減碳、省水減廢、綠能建築、生態保育、環境教育、綠色採購及在地環境關懷，融入國際環境保護趨勢，共同追求企業永續經營。

- 一、以運輸 (Transportation)、科技 (Technology)、在地 (Taiwan) 及關懷 (Touch) 之 4T 作為發展主軸，積極擴展綠色運具服務效能，透過智慧運輸管理與創造需求提升運量，打造低碳運輸形象，使台灣高鐵成為引領進步，創造美好生活平台。
- 二、確保台灣高鐵各面向均符合環保法規，並履行環評承諾。
- 三、強化員工、廠商及旅客環境保護觀念。
- 四、推動綠色低碳運輸服務效能。
- 五、致力於提升環境績效，制定並定期審查環境目標，確保日常營運時，利用適當之流程及資源預防或減低對環境之衝擊。

Environmental protection is an important part of THSRC's social responsibility. We treat the environmental issues such as environmental management, energy saving, water saving, waste reduction, green building, ecological conservation, environmental education, green procurement and local environmental care seriously. With the integration of international trends on environmental protection, THSRC pursue a sustainable business management operation.

1. Define our core business as 4T of Transportation, Technology, Taiwan and Touch, as we strive to provide green and intelligent service and seek to be the platform for advancement and enjoyment.
2. Ensure that all corporate activities comply with environmental regulations and fulfill the commitments of environmental impact assessment.
3. Strengthen the environmental protection concept for employees, contractors and passengers.
4. Promoting effectiveness of green low-carbon transportation services.
5. Commit to improving environmental performance, developing and regularly reviewing environmental objectives to ensure that daily operations are carried out with appropriate processes and resources to prevent or mitigate environmental impacts.

董事長：   
Chairman \_\_\_\_\_

日期： 2019.08.21  
Date \_\_\_\_\_

## 風險管理政策 Risk Management Policy

本公司為確保風險管理的完整性、有效性與合理性，特訂定風險管理政策如下，作為本公司風險管理的最高指導原則：

To ensure integrity, effectiveness, and rationality of company's risk management, Taiwan High Speed Rail Corporation has established the following Risk Management Policy as the highest guiding principles:

1. 公司之經營管理應具備風險意識，並依經營及營運活動進行主要風險類別之定義。

THSRC operation managements should be risk-aware and define major risk categories based on managerial and operational activities.

2. 針對主要風險類別應建立辨識、評估、監督、控管之管理及風險應變機制，並訂定衡量標準。

Standard measurement mechanism and metrics should be established, for identifying, assessing, monitoring, managing, and responding to major risk categories.

3. 各風險類別之管理權責單位依其業務範疇與規模，應分別訂定適當的風險管理制度，並持續檢視與確保各業務執行單位推動時，確實能有效管理其所承擔之各類風險。

Management units of each risk categories should establish proper risk management systems, based on their business scopes and scales, for reviewing and ensuring the effectiveness of promoting business activities and managing various risks.

董事長：  
Chairman

江耀宗

日期：2019. 07. 02  
Date

## 資訊安全政策 Information Security Policy

為保護本公司所有電腦系統之相關資訊資產，包括實體環境、軟硬體設施、網路、資料、資訊等安全，免於因內部或外在之威脅，遭受洩密、破壞或遺失等風險，特制訂本政策。

THSRC formulates the Information Security Policy to protect all computer systems' information assets that include physical environment, software and hardware facilities, network, data and information, from risks such as information leakage, damage or loss resulted from threats by internal or external force.

本公司應採取以下措施：

THSRC should adopt the following actions：

1. 恪遵法令訂定相關資訊安全管理規章，對本公司資訊資產提供適當的保護措施，以確保其機密性、完整性、可用性及法律遵循性。

Comply with the laws to ensure the confidentiality, integrity, availability, compliance of the information assets, it is necessary to establish the correlative information security regulation to provide the appropriate protection.

2. 定期評估各種人為及天然災害對本公司資訊資產之影響，並訂定重要資訊資產及關鍵性業務之防災對策及災變復原計畫，以確保本公司業務持續運作。


Evaluate the influence of the negligence or natural disaster on the information assets regularly, and establish the precaution solution and disaster recovery plan to ensure the continuity of business operation.

3. 督導本公司同仁落實資訊安全防護工作，建立「資訊安全、人人有責」觀念，提升各業務部門及人員對資訊安全之認知。

Guide all employees to carry out information security protection, and set up "Information Security Is Everyone's Responsibility" to raise all units' and employees' understanding of information security.

4. 要求本公司全體同仁以及使用或連結本公司電腦系統之往來廠商，應確實遵守本公司資訊安全相關規定，如有違反者，視其情形分別依本公司規定懲處或依契約罰責辦理外，情節嚴重者另將受相關法律之訴追。

Demand the employee and contractor who uses or connects to THSRC's system should comply with the related information security regulation. The violator will be punished according to the THSRC's regulation or contract. And if it is serious, the violator will be sued by law.

董事長：   
Chairman \_\_\_\_\_

日期： 2019/5/27  
Date \_\_\_\_\_

## 人權政策 Human Rights Policy

本公司恪遵國內勞動暨相關法規，支持並遵循聯合國《世界人權宣言》、《商業與人權指導原則》、《全球盟約》與國際勞工組織《工作基本原則與權利宣言》等國際人權公約所揭櫫之原則與精神，包括結社自由、關懷弱勢族群、禁用童工、消除各種形式之強迫勞動、消除僱傭與就業歧視等，杜絕任何侵犯及違反人權的行為，有尊嚴的對待現職所有員工，特制定本政策及相關執行方針：

- 一、提供安全與健康的工作環境：為避免軌道運輸業之工作型態帶來的潛在健康安全風險，本公司定期檢視員工健康、工作環境安全風險，並依辨識結果進行改善計畫。
- 二、尊重職場人權：落實職場多元性，不因個人性別、性傾向、種族、階級、年齡、婚姻、語言、思想、宗教、黨派、籍貫、出生地、容貌、五官、身心障礙或工會會員為由，而為差別待遇或任何形式之歧視。
- 三、支持結社自由：員工得依法籌組及加入工會行使勞動權；本公司並與工會及員工維持暢通的溝通管道，定期勞雇協商，召開勞雇會議確保雙方權益，致力建構勞雇關係和諧之職場環境。
- 四、定期檢視及評估相關規範、制度及作為。

The Corporation complies with domestic labor regulations and adheres to the principles and spirit underlying the UN's Universal Declaration of Human Rights, the Guiding Principles on Business and Human Rights, the UN Global Compact, and the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, including freedom of association, care for vulnerable groups, banning of child labor, elimination of all forms of forced labor, elimination of employment discrimination, elimination of human rights violations, and dignified treatment for all employees. In light of this, we have established this policy and the following implementation guidelines:

1. Provision of safe and healthy work environment: to prevent potential health and safety risks brought on by rail transport work, the Corporation regularly reviews the health of its employees and safety risks in work environments, and implements improvement plans based on identified results.
2. Respect for human rights in the workplace: we have implemented a diversified workplace and do not give preferential treatment or discriminate based on gender, sexual orientation, race, social class, age, marriage status, language, ideology, religious belief, political affiliation, nationality, place of birth, appearance, facial features, disability, or union affiliation.
3. Support freedom of association: employees may organize and join trade unions to exercise their labor rights in accordance with the law. The Corporation strives to build a work environment with harmonious labor-management relations, maintaining an open communication channel with labor unions and employees, regularly conducting labor-management negotiations, and convening labor-management meetings to protect the interests of both parties.
4. Conduct regular review and assessments of relevant regulations, systems, and procedures.

董事長：  
Chairman

江耀宗

日期：2018/5/18  
Date

Note: The original version of this regulation is published in Chinese. In case of discrepancy between the Chinese and English version the Chinese version shall prevail.



## 供應鏈管理政策 Supply Chain Management Policy

台灣高速鐵路股份有限公司為邁向永續經營，我們承諾在環境保護、人權與勞動實務、商業倫理及社會公益等議題，持續與不同供應鏈夥伴進行溝通，建構完善的管理機制，並致力推展及持續改善：

To maintain a sustainable development, Taiwan High Speed Rail Corporation is committed to continuously communicate with supply chain partners on matters concerning environmental protection, human rights and labor practices, business ethics and social welfare; and build up a flawless management mechanism. In addition, we will endeavor to promote and constantly improve on the following:

1. 恪遵法令、規章與程序，與供應商共同推動社會責任，以經濟、環境、社會三大面向，作為共同發展的核心，達到本公司永續性發展之擘畫，創造雙贏。

Abide by the laws, by-laws and control procedures. Work with suppliers to promote social responsibility. Focusing on the economy, environment and society as the core of mutual development in order to achieve sustainable development initiatives, and move toward a win-win relationship.

2. 保障利害關係人權益，除要求採購的品質、成本、交期與服務(QCDS)，同時納入合理利潤、社會責任、勞工安全、人權及環境保護等議題，做為管理決策及執行依據。


Protect the interests of stakeholders. Apart from pursuing good quality, cost, delivery and service (QCDS) in the procurement process, matters including reasonable profits, social responsibility, labor safety, human rights and environmental protection shall also be considered to serve as the basis for management decision and implementation.

3. 視商業倫理與道德、機會平等與公平交易為供應鏈互動之最高指導原則，杜絕非法利益，嚴懲違法行為。

Make business ethics, moral principles, equal opportunity and fair trade as the primary guiding principles of supply chain interaction. Eradicating all forms of unlawful interests and sternly punish any illegal act.

4. 協助我國合格供應商進行高速鐵路物料開發及技術轉移，將產業鏈由國內擴展至國際軌道業，提升技術及國際競爭力，達到扶植國內產業之企業社會責任。

Assist local qualified Suppliers to carry out material development and technology transfer, bring and expand the local railway industry supply chain to international counterparts. Promote Supplier's technical abilities and international competitiveness in order to fulfill our Corporate Social Responsibility to support the local industry development.

董事長：   
Chairman \_\_\_\_\_

日期： 2017. 9. 21  
Date \_\_\_\_\_

## 安全衛生政策 Safety and Health Policy

安全是台灣高鐵的基石—沒有安全就沒有台灣高鐵。本公司所有決策與行動均應以安全為最高指導原則，並將維持主動積極的安全衛生管理，全員持續參與改善，以達零災害、零事故的目標。並承諾：  
Safety is the cornerstone of THSRC – Without safety, there is no THSRC. All decisions and actions of THSRC are based on safety as the highest guiding principle. THSRC will maintain proactive safety and health management with staff participation on improvements to achieve zero disaster and accident goals. THSRC's commitments are:

- 一、每一位都應恪遵法令、規章與程序，並有責任時時確保自身、所服務的對象與維護管理的高鐵資產，都被安全保護。  
Each staff should comply with the laws, regulations and procedures, and have a responsibility to protect his personal safety, the services and the management of THSRC's assets from time to time.
- 二、妥善運用國際認同之風險評估及安全衛生管理方法於安全管理系統中，於合理可行的範圍內控制及降低危害的風險至最低等級。  
Apply international recognized risk assessment and management techniques for safety and health management effectively in controlling and reducing risk hazards as low as reasonably practicable.
- 三、所有工作者皆須接受安全及健康規章與作業程序訓練，使其於執行日常業務時，皆能持續展現並具備對於安全及健康的關注與認知。  
Require all staff to be trained in the rules and procedures of safety and health to keep the concern and awareness of safety and health in performance of all their daily duties.
- 四、妥慎選擇、監督及管理承包商及供應商，確保其作業或設備、物料等供應均能符合法令以及公司安全管理要求。  
Select, supervise and manage contractors and suppliers carefully to ensure that their operations, equipment and materials comply with the laws of Taiwan and THSRC's safety management requirements.
- 五、建立及維持優質之作業環境及作業管理措施，以維護全體員工身心健康。  
Establish and maintain a high-quality working environment and operational management measures to keep all staff's physical and mental health.
- 六、本公司將定期檢討安全衛生政策、規章、程序與執行績效，以提升管理績效並達持續改善安全之目的。  
THSRC will review the safety and health policy, rules, procedures and executive performance regularly to enhance management performance and achieve continuous improvement of safety.

董事長： 江耀宗  
Chairman

日期： 2017.06.02  
Date

## 公司品質政策 Corporate Quality Policy

本公司承諾遵守品質管理系統的要求，全面落實並持續改進其有效性。

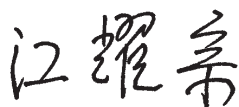
**安全、可靠、效率與顧客滿意**為本公司的品質目標。為達成此品質目標，本公司確保於各相關單位與層級建立主要績效指標，並定期檢討。

本公司將每年審議品質政策之持續適用性。

The Corporation is committed to comply with the requirements of the quality management system, implement it corporate-wide and continually improve its effectiveness.

The Corporation's quality objectives are **Safety, Reliability, Efficiency** and **Customer Satisfaction**. To achieve these quality objectives, the Corporation ensures that key performance indicators are established at relevant functions and levels and regularly reviewed.

The Quality Policy is reviewed annually for continuing suitability.



董事長 Chairman

日期 Date: 2017. 1. 4

## 2. Implementation Status of Internal Control System

### (1) Internal Control System Letter of Declaration

Taiwan High Speed Rail Corporation

Statement of Internal Control System

Date: Feb 19, 2020

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, 2019 to December 31, 2019:

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, 2019 to December 31, 2019, 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, 2019 to December 31, 2019, 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 Feb 19, 2020, with the contents of this Statement affirmed by all the 12 members present in the meeting.

Taiwan High Speed Rail Corporation  
Chairman of the Board of Directors:

*Y. C. Chiang*

President: *James J*

#### 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.

### (2) Items to be disclosed in the CPA's audit report relating to evaluations of internal controls system entrusted to CPA: None.

### 3. Important Governance Information for 2019 and as of Publication Date of This Annual Report

(1) Details of penalties, major faults, and improvement measures against the Corporation or internal staffs due to violations of legal requirements, or carried out by the Corporation against its own staffs due to violations of internal control regulations during the past year and as of publication date of the Annual Report.

Discipline has always been a core value for the Corporation. In 2019 and up to the publication date of this report, various disciplinary actions were taken against employees for violations of operational procedures in accordance with our Reward and Discipline Regulation. Memorandums announcing said violations were issued to all staff members for reference purposes and were supplemented with education, training, and case sharing to correct behaviors and promote accurate concepts. No material adverse impacts on corporate operations occurred as a result of the aforementioned violations. Relevant behaviors have all been improved, and all regulations and manuals are regularly reviewed and amended to fulfill our operational needs.

In 2019 and up to the publication date of this report, the Corporation incurred three penalty cases. The first penalty case occurred as we made a royalty payment for image usage totaling NT\$ 161,579 to an enterprise with no settled place of business within the Republic of China (Taiwan). Pursuant to the "Standards of Withholding Rates for Various Incomes," 20% (NT\$32,316) of such royalty should have been withheld, and the withholding tax should have been paid and relevant vouchers submitted within ten days of royalty remittance. Although the Corporation completed the tax payment within the required time period, submission of the relevant voucher was one day delayed due to operational errors, resulting in a violation of Paragraph 2, Article 114 of the "Income Tax Act" and incurring a fine of NT\$ 1,615 from the Taipei State Taxation Bureau. After paying the fine, we added control mechanisms to our information systems and adjusted our procedures for tax-related operations to prevent human errors. We have since concluded all improvements for this event, and the event did not have any material impact on overall operations, stockholders' equity or prices of securities.

The second penalty case occurred as one of our contractors commenced cement grouting before the design modification of relevant project procedures had been approved by the competent authority, resulting in a violation of Article 39 of the "Building Act" and incurring a NT\$ 9,000 fine from the Chiayi County Government. The design modification has since been approved, and the contractor has paid the penalty and obtained a construction license. We also instructed our construction site management unit to implement education and training for each of our contractors, and require our contractors to avoid violations of the "Building Act." We have since concluded all improvements for this event, and the event did not have any material impact on overall operations, stockholders' equity or prices of securities.

The last penalty case was incurred as some of our employees remained in their office after work to attend to non-business matters and clocked out after concluding such matters. As a result, the attendance time of these employees shown on our attendance records did not match their actual working time, resulting in a violation of Paragraph 6, Article 30 of the "Labor Standards Act" and incurring a NT\$ 20,000 fine from the Taoyuan County Government. After paying the fine, we required all supervisors to strengthen promotion of attendance regulations for staff members during department meeting, provide timely reminders, and establish tracking mechanism for abnormalities to ensure that our attendance records will match actual working time. We have since concluded all improvements for this event, and the event did not have any material impact on overall operations, stockholders' equity or prices of securities.

## (2) Important Resolutions of Shareholders' Meetings and the Board of Directors during current year and up to the publication date of the annual report:

### 1) Important resolutions of Shareholders' Meetings and implementation status in 2019:

#### Proposals

Proposal No. 1: Proposed by the Board

Proposal: Proposals of the 2018 Annual Business Report and financial statements of the Company.

Resolution: Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor came to 95.81%, exceeding more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions.

Proposal No. 2: Proposed by the Board

Proposal: Proposals of 2017 profit distribution of the Company.

Resolution: Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor came to 95.77%, exceeding more than one-half of total voting rights. The proposal was approved.

Implementation status: Cash dividends per share were NT\$ 1.12, the ex-dividend date was set as July 30, 2019, and cash dividend distribution date was set as August 22, 2019.

#### Discussion

Discussion No. 1: Proposed by the Board

Proposal: Revision of "Guidelines for Corporate Governance"

Resolution: Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor came to 95.91%, exceeding more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions. Revisions were posted to the Market Observation Post System and our corporate website on May 31, 2019.

Discussion No. 2: Proposed by the Board

Proposal: Revision of "Rules of Procedure for Shareholders' Meetings"

Resolution: Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor came to 95.91%, exceeding more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions. Revisions were posted to the Market Observation Post System and our corporate website on May 31, 2019.

Discussion No. 3: Proposed by the Board

Proposal: Revision of "Procedures for the Acquisition or Disposal of Assets"

Resolution: Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor came to 95.91%, exceeding more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions. Revisions were posted to our corporate website on May 31, 2019.

Discussion No. 4: Proposed by the Board

Proposal: Revision of "Procedures for the Handling of Derivative Transactions"

Resolution: Attending shareholders represented more than one-half of the total number of outstanding Company shares, and voting rights in favor came to 95.91%, exceeding more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions. Revisions were posted to our corporate website on May 31, 2019.

2) Important Board resolutions for January 2019-March 2020

Date	Session (Term-Sitting)	Major Resolutions
2019/1/23	8-22	<ol style="list-style-type: none"> <li>1. Changes of assistant vice presidents.</li> <li>2. Suggestions regarding additional year-end bonuses for 2018.</li> <li>3. Distribution suggestions for 2018 employee compensation and bonuses.</li> <li>4. Distribution suggestions for 2018 director remuneration.</li> <li>5. Changes in the estimated useful lives of certain operating concession asset.</li> <li>6. Submitted 2019 THSRC budget figures and financial modules to MOTC.</li> <li>7. Procurement and bid selection suggestions for "Installation of HSR station automatic teller machines and coin &amp; banknote exchange machines from 2020 to 2025" contract (Contract number: F1-18-001).</li> <li>8. "Donation and sponsorship plan for 2019."</li> <li>9. Revisions to the Corporation's "Official Stamp Administration Regulation."</li> <li>10. Implementation status of Corporate Governance &amp; Nomination Committee, Audit Committee, and Remuneration Committee in 2018.</li> <li>11. Formulation of suggestions for assessing implementation status of the Board and functional committees in 2018.</li> <li>12. Procurement and bid selection suggestions for "Rail grinding services from 2019 to 2024" contract (Contract number: S1-19-002).</li> </ol>
2019/2/20	8-23	<ol style="list-style-type: none"> <li>1. Changes of assistant vice president (and above rank).</li> <li>2. Revision of position rank table.</li> <li>3. Formulation of 2018 financial report.</li> <li>4. 2018 CPA audits.</li> <li>5. Formulation of proposal regarding "Revisions to the Corporation's 'Procedures for the Acquisition or Disposal of Assets'" for submission and discussion at shareholders' general meeting on May 30, 2019.</li> <li>6. Formulation of proposal regarding "Revisions to the Corporation's 'Procedures for the Handling of Derivative Transactions'" for submission and discussion at shareholders' general meeting on May 30, 2019.</li> <li>7. Donation of rail track waste to NKUST.</li> <li>8. Procurement and bid selection suggestions for Yanchao Main Workshop Bogie Running Tester Equipment manufacturing and supply contract (Contract number: L1-18-039).</li> <li>9. Additional terms added to the Corporation's station cleaning contract (contract number S1-16-058) for HSR Zuoying and Taichung stations from 2017 to 2019.</li> <li>10. Self-assessment results of internal control system for 2018.</li> <li>11. Formulation of 2018 Business Report.</li> <li>12. Report of implementation status of corporate governance.</li> <li>13. Formulation of proposal submission to shareholders' general meeting on May 30, 2019 "Revisions to the Corporation's 'Guidelines for Corporate Governance'" for discussion.</li> <li>14. Formulation of proposal submission to shareholders' general meeting on May 30, 2019 "Revisions to the Corporation's 'Rules of Procedure for Shareholders' Meetings'" for discussion.</li> <li>15. Revisions to the Corporation's "Rules of Procedure for Board of Directors Meetings."</li> <li>16. Formulation of 2019 shareholder's general meeting date, venue, and main topics.</li> </ol>

Date	Session (Term-Sitting)	Major Resolutions
2019/3/20	8-24	<ol style="list-style-type: none"> <li>1. Procurement and bid selection suggestions for KHI supply of rolling stock (PM) maintenance materials in 2020.</li> <li>2. Procurement strategy and bid selection suggestions for HSR meal boxes (Contract number: PCDD-18-2353).</li> <li>3. Procurement and bid selection suggestions for "Construction and renovation of HSR Taichung Station Central Region Operations Center" contract (contract number T3-18-029).</li> <li>4. Distributable surpluses for 2018.</li> <li>5. Appointment of corporate governance officer.</li> <li>6. Suggestions regarding remuneration adjustments for independent directors of the 8th Board of Directors.</li> </ol>
2019/4/17	8-25	<ol style="list-style-type: none"> <li>1. Procurement strategy suggestions for "Metal parts for major repairs to rolling stock" contract (Contract number: PCDD-18-2454) as it constitutes transactions with related parties.</li> <li>2. Procurement and bid selection suggestions for upgrading of mainframe for Traffic Control System (TCS) Package 3 Fault-Tolerant Computer (FTC)(Contract number: E231).</li> <li>3. Additional terms added to the Corporation's station cleaning contract (Contract number S1-16-058) for HSR Zuoying and Taichung stations from 2017 to 2019.</li> <li>4. Procurement and bid selection suggestions for inviting bids from convenient store operators for HSR stations.</li> <li>5. Submitted HSR Financial Resolution Plan 2018 implementation status table to MOTC.</li> <li>6. Formulation of the Corporation's "Standard Procedures for Handling Director Demands."</li> <li>7. Promotion of procurement office manager and permanent position granted to acting information office manager.</li> </ol>
2019/5/8	8-26	<ol style="list-style-type: none"> <li>1. Distribution suggestions for 2018 performance bonuses and manager bonuses.</li> <li>2. Suggestions regarding adjustment of Corporation catering expenses.</li> <li>3. Suggestions regarding promotion of procurement office manager.</li> <li>4. Suggestions regarding distribution of fees for repairing ceiling glass at Banqiao Station.</li> <li>5. Suggestions regarding construction fees and maintenance responsibilities for shuttle bus drive at plaza in front of HSR Tainan Station.</li> </ol>
2019/6/19	8-27	<ol style="list-style-type: none"> <li>1. CPAs conducted inspections of documentation for "Information on full-time salaries for non-managerial employees," a non-audit service.</li> <li>2. Suggestions regarding revision of employee bonus standards for working during consecutive holidays on traditional holidays.</li> <li>3. Procurement and bid selection suggestions for HSR shuttle bus affiliated marketing services from 2019 to 2020 (Contract number: S1-19-013~S1-19-021).</li> <li>4. Procurement strategy suggestions for "Metal parts for major repairs to rolling stock" contract (Contract number: PCDD-18-2454).</li> <li>5. Procurement and bid selection suggestions for Diesel Shunter Locomotive manufacturing and supply contract (Contract number: E2-18-022).</li> <li>6. Extension of quota for derivative assets that expired during the latter half of 2019.</li> <li>7. Extension or transfer of letters of credit that expired during the latter half of 2019.</li> <li>8. Establishment of 2018 surplus distribution ex-dividend date and cash dividend distribution date.</li> <li>9. Formulation of the Corporation's "Risk Management Regulation."</li> <li>10. Revisions to the Corporation's "Regulation of Self-Evaluation of the Board of Directors."</li> </ol>
2019/7/17	8-28	<ol style="list-style-type: none"> <li>1. Procurement and bid selection suggestions for 700T train 7GI (general inspection) turnover equipment and repairable parts.</li> <li>2. Renewal of director (supervisor) and manager liability insurance.</li> </ol>
2019/8/7	8-29	<ol style="list-style-type: none"> <li>1. 2019 Q2 Financial Report.</li> <li>2. Revision of the Corporation's "Internal Control System" and "General-Rules of Internal Control Self-Assessments."</li> <li>3. Changes to personnel ranking above assistant vice president.</li> <li>4. Renewal of President's Office consultant contract.</li> <li>5. Appointment of consultant for the Corporation's Finance Division.</li> </ol>



Date	Session (Term-Sitting)	Major Resolutions
2019/9/18	8-30	<ol style="list-style-type: none"> <li>1. Discussion regarding additions to contract for maintenance support personnel services for general maintenance of trains and train equipment at Yanchao Main Workshop from 2019 to 2023.</li> <li>2. Formulation of plans for issuance of unsecured corporate bonds</li> <li>3. Project for investment in renewable energies.</li> <li>4. Bid selection suggestions for renewal of director (supervisor) and manager liability insurance.</li> <li>5. Revisions to the Corporation's "THSRC Organizational Regulation" and "Organizational Structure," and suggestions regarding changes to personnel ranking above assistant vice president.</li> <li>6. Appointed assistant vice president for the Corporation's Human Resource Division to serve as the manager for the division.</li> <li>7. Revisions to scope of the Corporation's "Subsidies for Environmental Hardships" and suggestions for renaming to "Working in Special Environment Allowance."</li> </ol>
2019/10/16	8-31	<ol style="list-style-type: none"> <li>1. Suggestions regarding the Corporation's compensation competitiveness and salary positioning strategies.</li> <li>2. Suggestions regarding adjustments to the Corporation's salary grade table and salary adjustments for 2020.</li> <li>3. Recommendation that overtime pay rates for "national holidays" in 2020 should continue to comply with overtime pay rates for "rest days."</li> <li>4. Suggestions regarding distribution of Chinese New Year subsidies for 2020.</li> <li>5. Procurement strategy suggestions for contract from 2022 to 2027 regarding HSR passenger credit card ticketing payment acquisition services.</li> <li>6. THSRC sponsorship of Taiwan Railways Tourism Association.</li> <li>7. Formulation of 2020 audit report for auditing office.</li> <li>8. Formulation of Corporate Governance &amp; Nominating Committee, Audit Committee, and Remuneration Committee work plans for 2020.</li> <li>9. Revisions to the Corporation's "Charter of the Corporate Governance &amp; Nominating Committee."</li> </ol>
2019/11/6	8-32	<ol style="list-style-type: none"> <li>1. Procurement and bid selection suggestions for new L-shaped monitors under third (Contract number: E4-19-005) and fourth (Contract number: E4-19-006) tender bids for Passenger Information System (PIS) replacement project.</li> <li>2. Formulation of the Corporation's budget for 2020.</li> <li>3. Suggestions regarding performance goals for managers in 2020.</li> </ol>
2019/12/18	8-33	<ol style="list-style-type: none"> <li>1. Suggestions regarding additional year-end bonuses for 2019.</li> <li>2. Succession plans for major management.</li> <li>3. Appointment of vice president for the Corporation's Finance Division and to serve as the acting head for the division.</li> <li>4. Retirement of Finance Division manager and appointment as President's Office consultant.</li> <li>5. Continued appointment of Corporation Core Technology Development Department consultant.</li> <li>6. Procurement strategy suggestions for HSR meal boxes from 2020 to 2022.</li> <li>7. Procurement and bid selection suggestions for "Construction of waste water treatment facilities at HSR Taichung Station" contract (Contract number: T3-19-019).</li> <li>8. Procurement and bid selection suggestions for "CPA Appointment Contract for 2020 to 2022" (Contract number: S1-19-046).</li> <li>9. Submitted THSRC 2020 budget figures and financial modules to MOTC.</li> <li>10. Extension of quota for derivative assets that expired during the first half of 2020.</li> <li>11. Extension or transfer of letters of credit that expired during the first half of 2020.</li> <li>12. Application of quota for foreign letters of credit.</li> <li>13. Formulated applications for import duty guarantees to be submitted to the Ministry of Finance Customs Administration Keelung Customs and Taipei Customs due to the Corporation's need for post-release duty payments when handling imported cargo.</li> <li>14. Revisions to the Corporation's "Regulations Governing Nominating and Reviewing of Director Candidates" and renaming as "Regulation for Nominating of Director Candidates."</li> </ol>
2020/1/15	8-34	<ol style="list-style-type: none"> <li>1. Distribution suggestions for 2019 employee compensation and bonuses.</li> <li>2. Distribution suggestions for 2019 director remuneration.</li> <li>3. Procurement strategy suggestions for design and supervisor consultant services for construction of second train inspection and maintenance plant at Zuoying maintenance depot.</li> <li>4. Donation and sponsorship plan for 2020.</li> <li>5. First stage of equipment upgrading and asset changes for Traffic Control System (TCS) at traffic control center.</li> <li>6. Implementation status of Corporate Governance &amp; Nomination Committee, Audit Committee, and Remuneration Committee in 2019.</li> <li>6. Formulation of suggestions for assessing implementation status of Board and functional committees in 2019.</li> </ol>

Date	Session (Term-Sitting)	Major Resolutions
2020/2/19	8-35	<ol style="list-style-type: none"> <li>1. Formulation of 2019 financial report.</li> <li>2. 2019 CPA audits.</li> <li>3. Non-audit services plans for 2020 and follow-up of contracted and invoiced non-audit services.</li> <li>4. Procurement and bid selection suggestions for contract from 2022 to 2027 regarding HSR passenger credit card ticketing payment acquisition services (Contract number: 01-19-017).</li> <li>5. Results of manager performance audits for 2019.</li> <li>6. Suggestions regarding performance goals for managers in 2020.</li> <li>7. Self-assessment results of internal control system for 2019.</li> <li>8. Formulation of 2019 Business Report.</li> <li>9. Report of implementation status of corporate governance.</li> <li>10. Discussion of director (and independent director) seats for the 9th Board.</li> <li>11. Formulation of 2020 shareholder's general meeting date, venue, and main topics.</li> </ol>
2020/3/18	8-36	<ol style="list-style-type: none"> <li>1. Procurement and bid selection suggestions for contract from 2020 to 2023 for HSR security personnel services (Contract number: S1-19-050 to S1-19-057).</li> <li>2. Procurement and bid selection suggestions for KHI supply of rolling stock PM maintenance materials from 2021 to 2022 (Contract number: PCDD-21-0001).</li> <li>3. Procurement and bid selection suggestions for rolling stock PM maintenance materials supplied by the National Chung-Shan Institute of Science and Technology (Contract number: PCDD-20-0012 and PCDD-20-0013).</li> <li>4. Procurement strategy and bid selection suggestions for HSR meal boxes (Contract number: PCDD-19-1413).</li> <li>5. Proposal for approval to sign "First Amended Agreement to Land Use Contract for Taiwan North-South High-Speed Rail Traffic Facilities."</li> <li>6. Board nominations for the four independent directors and nine non-independent directors of the 9th Board.</li> <li>7. Suggestions regarding distributable earnings for 2019.</li> <li>8. Formulation of proposal regarding "Revisions to the Corporation's 'Operational Procedures for Loaning Funds to Others'" for submission and discussion at shareholders' general meeting on May 21, 2020.</li> <li>9. Formulation of proposal regarding "Revisions to the Corporation's 'Operational Procedures for Endorsements and Guarantees'" for submission and discussion at shareholders' general meeting on May 21, 2020.</li> <li>10. Formulation of proposal regarding "Revisions to the Corporation's 'Ethical Corporate Management Best Practice Principles' and establishment of the Corporation's 'Procedures for Ethical Management and Guidelines for Conduct' and 'Declaration of Compliance with Ethical Management Policies'" for submission and discussion at shareholders' general meeting on May 21, 2020.</li> <li>11. Formulation of proposal regarding "Revisions to the Corporation's 'Rules of Procedure for Shareholders' Meetings'" for submission and discussion at shareholders' general meeting on May 21, 2020.</li> </ol>

(3) Any Recorded or Written Dissenting Opinions of Directors in the Current Year and up to the Publication Date of the Annual Report in Relation to Important Resolutions and the Content of Said Dissenting Opinion: None.

(4) Resignation or Dismissal of the Company's Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D in the Current Year and up to the Publication Date of the Annual Report:

Title	Name	Date Effective	Date of Termination	Reasons for Resignation or Dismissal
Head of Finance	Eleanore New	2006/06/01	2020/01/15	Retired

## 4. Information on CPA Professional Fees

### (1) Audit Fees

Accounting Firm	Name of CPA	Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Mei-Yen Chiang Kwan-Chung Lai	2019.01.01~2019.12.31	

Fee Range	Fee Items	Audit Fee	Non-Audit Fee	Total
1	Lower than NT\$ 2,000,000			
2	NT\$2,000,000 (Included) ~ NT\$4,000,000		V	
3	NT\$4,000,000 (Included) ~ NT\$6,000,000	V		
4	NT\$6,000,000 (Included) ~ NT\$8,000,000			V
5	NT\$8,000,000 (Included) ~ NT\$10,000,000			
6	Above NT\$10,000,000			

(2) If Non-Audit Fees Paid to the Certified Public Accountant, the Accounting Firm of the Certified Public Accountant, and/or Any Affiliated Enterprise of Such Accounting Firm Surpass One Quarter of Audit Fees Paid Thereto, the Amounts of Both Audit and Non-Audit Fees as Well as Details of Non-Audit Services Should be Disclosed:

Unit: NT\$ in thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					Period Covered by CPA's Audit	Remarks
			System Design	Company Registration	Human Resources	Others	Subtotal		
Deloitte & Touche	Mei-Yen Chiang Kwan-Chung Lai	4,316	-	-	-	3,387	3,387	2019.01.01 ~ 2019.12.31	Other non-audit fees included financial advisory services, information security management system implementation and third-party validation services, and tax and accounting consulting services

(3) In the Event of a Change in Accounting Firm Where the Audit Fees Paid for the Fiscal Year in Which Such Change Took Place are Lower Than Those for the Previous Fiscal Year, the Amount of Audit Fees Before and After Said Change and The Reasons Should Be Disclosed: None.

(4) In the Event Where Audit Fees Paid for the Current Fiscal Year are Lower Than Those of the Previous Fiscal Year by More Than 10 Percent, Reductions in the Amount of Audit Fees, Reduction Percentage, and Reason(S) Should be Disclosed: None.

## 5. Replacement of CPA: None

**6. In the Event Where the Corporate Chairperson, General Manager, or Any Managerial Officer in Charge of Finance or Accounting Matters Has in the Most Recent Year Held a Position at the Accounting Firm of its Certified Public Accountant or at an Affiliated Enterprise of Said Accounting Firm, the Name and Position of the Person, and the Period During Which the Position was Held, Should be Disclosed: None.**

**7. Information on Share Transfers and Pledge Changes**

Changes in shareholding and pledge holdings of directors, managers, and shareholders holding more than 10% of shares in the current year and up to the publication date of this annual report. If the shares were traded with related parties, the name of the transferee, relationship between transferee and directors, managers and major shareholders, and obtained or pledged shares should be disclosed.

**(1) Changes in Shareholding of Directors, Managers and Major Shareholders**

Unit: thousand shares

Title	Name	2019		As of 2020/03/31	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase(Decrease)
Senior Specialist	Gavin Tsou	(5)	0	0	0
Assistant Vice President	Calvin Yen	(18)	0	0	0
Vice President	Andy Lu	(6)	0	0	0
Former Director	TSRC Corporation	(5)	0	0	0

**(2) Shares Trading with Related Parties**

Unit: thousand shares

Name	Reason for Transfer	Date of Transaction	Transferee	Relationship between Transferee and Directors, Managers and Major Shareholders	Shares	Transaction Price (NT\$)
—	—	—	—	—	—	—

Note: Not applicable as no shares were traded with related parties.

**(3) Shares Pledge with Related Parties: None**

**8. Information Disclosing the Spouse, Kinship within the Second Degree, and Relationship between any of the Top Ten Shareholders:**

Information Relating to Relationships Between Any of the Top Ten Shareholders

Unit: thousand shares, % (as of 2020/03/23)

Name (Note1)	Current Shareholding		Spouse's/ Minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees of Kinship		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Ministry of Transportation and Communications, R.O.C.	2,420,000	43.00	0	0	0	0	None	None	Corporation institutional director.
Min-Ching Liu	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.

Name (Note1)	Current Shareholding		Spouse's/ Minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees of Kinship		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
China Aviation Development Foundation	260,040	4.62	0	0	0	0	None	None	Corporation institutional director.
Yao-Chung Chiang	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
Huang-Liang Tsai	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
China Steel Corporation	242,148	4.30	0	0	0	0	None	None	Corporation institutional director.
Chao-Tung Wong	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
Taiwan Sugar Corporation	200,000	3.55	0	0	0	0	None	None	Corporation institutional director.
Tao-I Kwan	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
TECO Electric & Machinery Co., Ltd.	190,060	3.38	0	0	0	0	None	None	Corporation institutional director.
Mao-Hsiung Huang	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
The Overlook Partners Fund L.P.	165,477	2.94	0	0	0	0	None	None	Corporation institutional shareholder.
Management Committee of National Development Fund, Executive Yuan	120,000	2.13	0	0	0	0	None	None	Corporation institutional director.
Shien-Quey Kao	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
Taiwan Shinkansen Corporation	96,000	1.71	0	0	0	0	None	None	Corporation institutional shareholder.
Michihiro Nose	0	0	0	0	0	0	None	None	President of Taiwan Shinkansen Corporation
Taiwan Fixed Network Co., Ltd.	90,212	1.60	0	0	0	0	None	None	Corporation institutional shareholder.
Ming-Chung Tsai	0	0	0	0	0	0	None	None	Chairman of Taiwan Fixed Network Co., Ltd.
CMC Magnetics Corporation	80,217	1.43	0	0	0	0	None	None	Corporation institutional shareholder.
Ming-Sen Wong	0	0	0	0	0	0	None	None	Chairman of CMC Magnetics Corporation.

Note 1: Names of institutional shareholders and representatives should be listed separately.

Note 2: Shareholding ratio is calculated as the total number of shares held by the shareholder, spouses, minors, or held in the name of other individuals.

## 9. Shareholding of Corporation Director, Management and the Business that is Controlled by the Corporation Directly or Indirectly on Re-Invested Enterprises and Total Shareholding Ratio: None.



# 5

## Financing Information

## 1. Capital and Share Information

### (1) Sources of Capital

Year/Month	Issue Price	Authorized Capital		Paid-Up Capital		Remarks		
		Shares (thousand shares)	Amount (NT\$ thousand)	Shares (thousand shares)	Amount (NT\$ thousand)	Capital Source (NT\$ thousand)	Collateral of assets other than cash provided for shares	Other
1998/5	10	5,000,000	50,000,000	1,250,000	12,500,000	Founding capital stock 12,500,000	-	-
1999/4	10	5,000,000	50,000,000	2,000,000	20,000,000	Cash capital increase 7,500,000	-	-
1999/8	10	5,000,000	50,000,000	2,017,350	20,173,500	Surplus to capital increase 173,500	-	-
2000/5	10	5,000,000	50,000,000	3,017,350	30,173,500	Cash capital increase 10,000,000	-	-
2000/7	10	5,000,000	50,000,000	4,072,100	40,721,000	Cash capital increase 10,547,500	-	-
2001/9	10	5,000,000	50,000,000	4,999,900	49,999,000	Cash capital increase 9,278,000	-	Note 2
2003/1	10	10,000,000	100,000,000	7,689,900	76,899,000	Cash capital increase 26,900,000 (Series A Registered Preferred Stock)	-	-
2003/9	10	10,000,000	100,000,000	7,824,149.5	78,241,495	Cash capital increase 1,342,495 (Series B Registered Preferred Stock)	-	-
2004/1	9.3	10,000,000	100,000,000	7,985,449.5	79,854,495	Cash capital increase 1,613,000 (Type 1 Series C Registered Preferred Stock)	-	-
2004/2	9.3	10,000,000	100,000,000	8,136,849.5	81,368,495	Cash capital increase 1,514,000 (Type 2 Series C Registered Preferred Stock)	-	-
2004/3	9.3	10,000,000	100,000,000	8,211,449.5	82,114,495	Cash capital increase 746,000 (Type 3 Series C Registered Preferred Stock)	-	-
2004/4	9.3	10,000,000	100,000,000	8,319,069.5	83,190,695	Cash capital increase 1,076,200 (Type 4 Series C Registered Preferred Stock)	-	-
2004/8	9.3	10,000,000	100,000,000	8,956,146.5	89,561,465	Cash capital increase 6,370,770 (Type 5 Series C Registered Preferred Stock)	-	-
2004/9	9.3	10,000,000	100,000,000	9,020,646.5	90,206,465	Cash capital increase 645,000 (Type 6 Series C Registered Preferred Stock)	-	-
2004/11	9.3	10,000,000	100,000,000	9,057,656.5	90,576,565	Cash capital increase 370,100 (Type 7 Series C Registered Preferred Stock)	-	-
2005/4	9.3	11,500,000	115,000,000	9,703,556.5	97,035,565	Cash capital increase 6,459,000 (Type 8 Series C Registered Preferred Stock)	-	-
2005/9	9.3	12,000,000	120,000,000	10,510,056.5	105,100,565	Cash capital increase 8,065,000 (Type 9 Series C Registered Preferred Stock)	-	-
2008/4	10	12,000,000	120,000,000	10,510,089.8	105,100,898	332.85 First investor application of conversion for convertible unsecured overseas corporate bonds in 2007	-	-

Year/Month	Issue Price	Authorized Capital		Paid-Up Capital		Remarks		
		Shares (thousand shares)	Amount (NT\$ thousand)	Shares (thousand shares)	Amount (NT\$ thousand)	Capital Source (NT\$ thousand)	Collateral of assets other than cash provided for shares	Other
2008/6	10	12,000,000	120,000,000	10,532,224	105,322,243	221,345 First investor application of conversion for convertible unsecured overseas corporate bonds in 2007	-	-
2015/8	10 9.3	12,000,000	120,000,000	6,513,232	65,132,326	Capital reduction (40,189,917) (Withdrawal of preferred shares)	-	-
2015/10	10	12,000,000	120,000,000	2,605,293	26,052,930	Capital reduction (39,079,396) (Withdrawal of common stock)	-	Note 3
2015/11	10	12,000,000	120,000,000	5,605,293	56,052,930	Cash capital increase 30,000,000 (Privately placed common stock)	-	-
2016/10	10	12,000,000	120,000,000	5,628,293	56,282,930	Cash capital increase 230,000	-	Note 4

Note: 1. The Corporation completed effective registration as a public company under reissued Securities & Futures Institute (90) Tai Tsai Cheng (1) No. 120792 decree.

2. Effective date and decree of 2001/9 cash capital increase: 2001/7/6 Tai Tsai Cheng (1) No. 144286.

3. Effective date and decree of 2015/10 common stock capital reduction: 2015/10/2 Financial-Supervisory-Securities-Fa No. 1040039751.

4. Effective date and decree of 2016/10 cash capital increase: 2016/9/12 Tai-Zheng-Shang-Yi-Zi No. 1051804339.

5. Current issued stocks in circulation are: 5,628,293,058 shares of common stock, including 2,628,293,058 shares of publicly issued common stock and 3,000,000,000 shares of privately placed common stock.

## (2) Share Types

Unit: thousand shares (As of 2020/3/23)

Share Type	Authorized Capital			Remarks
	Issued Shares	Unissued Shares	Total Shares	
Common shares	2,628,293	6,371,707	12,000,000	Publicly issued
	3,000,000			Privately placed

Note: The Corporation went public on 2016/10/27.

Information for Shelf Registration: Not applicable.

## (3) Shareholding Structure

Common shares

Units: people, thousand shares, % (As of 2020/3/23)

Shareholders	Government Agencies	Public Institutions	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Quantity							
Number of Shareholders	2	1	18	273	96,885	585	97,764
Shareholding	2,540,000	200,000	480,908	1,028,751	579,341	799,293	5,628,293
Shares ratio (%)	45.13	3.55	8.55	18.28	10.29	14.20	100.00

Note: According to Article 47 of the Audit Act (Definition of public enterprises), the following public enterprises and institutions shall 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 paragraphs 1 and 2, which accounts for over 50 percent of the total capital of the reinvested enterprise.



#### (4) Distribution of Shares

##### Common shares

Units: people, shares (face value of each share being NT\$10)  
(As of 2020/3/23)

Share breakdown			Number of Shareholders	Shareholding	Shareholding Ratio (%)
1	to	999	20,305	3,889,401	0.069
1,000	to	5,000	56,308	128,459,533	2.282
5,001	to	10,000	10,810	84,938,944	1.509
10,001	to	15,000	3,216	40,627,484	0.722
15,001	to	20,000	2,446	45,648,505	0.811
20,001	to	30,000	1,465	37,528,552	0.667
30,001	to	50,000	1,513	60,359,636	1.072
50,001	to	100,000	880	63,328,539	1.125
100,001	to	200,000	335	47,202,885	0.839
200,001	to	400,000	203	59,180,839	1.051
400,001	to	600,000	74	35,978,771	0.639
600,001	to	800,000	40	28,123,826	0.500
800,001	to	1,000,000	26	23,841,792	0.424
1,000,001	to	1,200,000	23	25,056,200	0.445
1,200,001	to	1,400,000	12	15,745,677	0.280
1,400,001	to	1,600,000	8	11,717,405	0.208
1,600,001	to	1,800,000	4	6,907,880	0.123
1,800,001	to	2,000,000	7	13,491,376	0.240
Over 2,000,001			89	4,896,265,813	86.994
Total			97,764	5,628,293,058	100.000

#### (5) List of Major Shareholders

Unit: thousand shares (As of 2020/3/23)

Shareholder's Name	Shareholding	Shareholding Ratio (%)
MOTC	2,420,000	43

Note1: Shareholders holding more than 5% of shares.

Note 2: For more information on the top ten shareholders by shareholding ratio, shareholding, and shareholding ratio, please refer to Chapter 4 (Corporate Governance) of this report.

**(6) Market Price, Net Worth, Earnings, and Dividends per Share**

Unit: NT\$/thousand shares

Item	Year	2018	2019	2020/1/1- 2020/3/31
<b>Market Price per Share</b>				
Highest Market Price		33.30	47.00	39.60
Lowest Market Price		21.40	29.85	25.95
Average Market Price		25.63	37.45	34.30
<b>Net Worth per Share</b>				
Before distribution		12.33	12.63	-
After distribution		11.21	(Note 1)	-
<b>Earnings per Share</b>				
Weighted Average Shares (thousand shares)		5,628,293	5,628,293	-
Earnings per Share		1.9	1.42	-
<b>Dividends per Share</b>				
Cash Dividends		1.12	1.2101 (Note 1)	-
Stock Dividends		-	-	-
• Dividends from Retained Earnings		-	-	-
• Dividends from Capital Surplus		-	-	-
Accumulated Undistributed Dividends		-	-	-
<b>Return on Investment</b>				
Price/Earnings Ratio (Note 2)		13.49	26.37	-
Price/Dividend Ratio (Note 3)		22.88	30.95 (Note 1)	-
Cash Dividend Yield (Note 4)		4.37%	3.23 (Note 1)	-

Note 1: The amount of dividends for 2019 is currently pending shareholders' approval.

Note 2: Price/Earnings Ratio = Average Market Price / Earnings per Share

Note 3: Price/Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 4: Cash Dividend Yield = Cash Dividends per Share / Average Market Price

**(7) The Corporation's Dividend Policy and Implementation Status**

## 1) Dividend Policy in Articles of Incorporation

If the final annual accounts of the Corporation show a net profit for a given year, the profit-sharing compensation to employees and directors shall first be allocated from the net profit pursuant to Article 35-1. If the Board of Directors then resolves to make distributions, it shall prepare an earnings distribution proposal, including therein the amount of any accumulated undistributed earnings and the amount equaling to the remainder of the net profit for the given year after further deduction for the payment of all taxes required by law, the allocation of the 10% legal reserve (no such allocation is necessary if the legal reserve is maintained at the level of the paid-in capital of the Corporation), and the provision or reversal for the special reserve pursuant to law or regulation, and submit the proposal to a shareholders' meeting for resolution on the distribution of dividends to shareholders.

When forming its dividend policy, the Corporation considers various factors such as its plans relating to current and future development, the overall investment environment, its financial needs, competition in the domestic and foreign markets, as well as the interest of shareholders and the principles of stability and balance in the distribution of dividends. Each year, it will set aside as shareholder dividends an amount of not less than 60% of the earnings available for distribution, which however is not obligatory if the earnings cumulatively available for distribution is less than 0.5 % of its paid-in capital. Dividends to shareholders may be distributed in cash or shares, but in any event the amount of cash dividends may not be less than 50% of the total dividends.

## 2) Implementation Status

The proposal for the distribution of 2019 profits was passed at the meeting of the Board of Directors:

The proposed distribution of cash dividends is NT\$ 1.2101 per share to a total of NT\$ 6,810,797 thousand. An ex-dividend date will be set following approval by the shareholders' general meeting.

## (8) Effect upon Business Performance and Earnings per Share of Any Stock Dividend Distribution Proposed or Adopted at the Most Recent Shareholders' Meeting:

Not applicable. The shareholders' meeting has not proposed any stock dividend distribution.

## (9) Employee Compensation and Director Remuneration

### 1) The percentage or range with respect to employee and director compensation, as set forth in the Corporation's Articles of Incorporation:

If the final annual accounts of the Corporation show a net profit for a given year, it shall allocate not less than 1 percent of the net profit as profit-sharing compensation to employees and not more than 1 percent as profit-sharing compensation to directors; provided, however, that if the Corporation still has any accumulated loss, it shall first set aside the amount to offset the loss before such allocation.

### 2) The basis for estimating the amount of employee and director compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

A. In 2019, 2% of net profit was set as employee compensation, amounting to NT\$ 159,489 thousand in cash; 0.5% of net profit was set as director remuneration, amounting to NT\$ 39,872 thousand in cash.

B. Material differences between estimated amounts and amounts resolved by the Board of Directors on or before the date that annual financial statements are approved are adjusted in the year where compensation and remuneration were recognized. If a change in resolved amounts occurs after annual financial statements were approved, the differences are recorded as a change in accounting estimates and adjusted in the following year.

### 3) Board resolutions on employee and director compensation distributions:

A. Amount of any employee compensations distributed in cash or stocks and amount of compensation for directors; if there are any discrepancies between these amounts and estimated figures for the fiscal year where these expenses are recognized, the discrepancies, their causes, and accounting treatment should be disclosed:

On January 15 and February 19, 2020, the Board approved a resolution for employee compensation of NT\$ 159,489 thousand and director remuneration of NT\$ 39,872 thousand, payable in cash, for the year ended December 31, 2019. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2019.

B. The amount of any employee compensation distributed in stock and the size of that amount as a percentage of the sum of the after-tax net income stated in individual financial reports for the current period and total employee compensation:

Not applicable. There are no plans to pay employee compensation in stock.

- 4) Information on 2018 distribution of compensation for employees and directors (with an indication of the number of shares, monetary amount, and stock price of the shares distributed) and, if there is any discrepancy between the actual distribution and the recognized employee or director compensation, additionally the discrepancy, cause, and how it is treated:

Employee compensation of NT\$ 149,986 thousand and director remuneration of NT \$37,497 thousand for 2018 was distributed in 2019 in cash. There was no discrepancy between said amounts and respective amounts recognized in the financial statements for 2018.

(10) Corporate buy-back of corporation shares: None.

## 2. Information on Corporate Debts

### (1) Unpaid domestic corporate bonds:

#### Issuance of Corporate Bonds

Issuance	1st unsecured corporate bond for 2019
Issuing Date	2019/11/14
Denomination	NT\$ 10 million
Issuance and Transaction Location	Not Applicable
Offering Price	Par
Total Amount	NT\$ 8 billion
Coupon Rate	Fixed Rate: 1.60%
Maturity	30 years Maturity: 2049/11/14
Guarantor	None
Trustee	Taishin International Bank
Underwriter	Yuanta Securities
Legal Counsel	LCS & PARTNERS
Auditor	Deloitte & Touche
Repayment	Bullet
Outstanding	NT\$ 8 billion
Redemption or Early Repayment Clause	None
Covenants	None
Credit Rating	Taiwan Ratings Corp. Date: 2019/9/10 Rating: twAA+ (Issuer rating)
Other Rights of Bondholders	Amount of Converted or Exchanged Common Shares, ADRs or other securities None
	Conversion Right None
Dilution Effect and Other Adverse Effects on Existing Shareholders	None
Custodian	None

(2) Current corporate bonds: None.

### **3. Information on Preferred Stock**

(1) Preferred stock in circulation: None.

(2) Current preferred stock: None.

### **4. Information on Global Depository Receipts: None.**

### **5. Information on Employee Stock Options: None.**

### **6. Information on New Restricted Employee Shares: None.**

### **7. New Shares Issuance in Connection with Mergers and Acquisitions: None.**

### **8. Implementation of Capital Utilization Plans**

Up until the quarter prior to the publication of this annual report, the Corporation has not completed previous issuance or private placement of securities, or had any project completed in the last three years where project benefits have not become apparent.



# 6

## Operational Overview

## 1. Operations Scope and Review of Current Operations

### (1) Business Scope

Our main scope of business encompasses high-speed rail operations and affiliated businesses.

#### 1) High-speed rail operations

THSRC operations adhere to the principle of providing passengers with safe and speedy transportation. After more than 10 years of effort, we have now become the transportation backbone of Taiwan's western corridor. THSRC provides intercity high-speed rail services via 12 stations: which are Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan, and Zuoying, and we are constantly enhancing passenger services through service planning, promotional activities, and multiple ticketing channels to expand market share. Our passenger volume for 2019 reached 67.41 million.

#### 2) Operation of affiliated business services

To enhance HSR value and increase revenues from affiliated business, THSRC operates a number of affiliated business, encompassing retail space leasing (including convenience stores, restaurants, and service counters), station parking lots, advertisement media leasing (including lightboxes, column space, wall space, product displays, and train decorations), retail, trolley sales, and others.

### (2) Results of Operations

#### 1) Operational overview

##### A. Passenger service

In 2019, THSRC carried over 67.41 million passengers, an increase of 5.39% over the prior year, making for a total of 11,994 million passenger-kilometers. We ran a total of 53,727 trains, an increase of 2.46% over the prior year, resulting in a total of 17,630 million seat-kilometers. We ran up to 166 north- and south-bound trains daily depending on peak or off-peak days of the week and provided maximum traffic volumes amounting to as many as 204 daily runs on one consecutive holiday. Our loading factor was 68.03%, an increase of 1.02% over the prior year, and punctuality was 99.88%, an increase of 0.45% over the prior year.

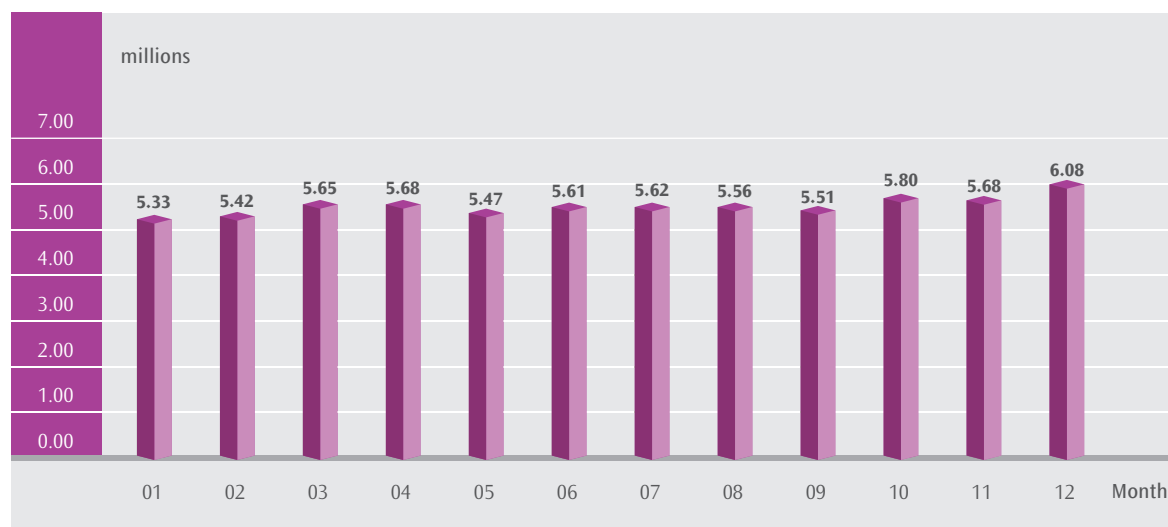
Measures of Operation Performance, 2018-2019

Item	2018	2019
1. Train Services	52,437	53,727
2. Ridership (in millions)	63.96	67.41
3. Seat-kilometers (in millions)	17,250	17,630
4. Passenger-kilometers (in millions)	11,559	11,994
5. Punctuality (as % of trains arriving within five minutes of scheduled time)	99.43%	99.88%
6. Loading factor (passenger-km/seat-km)	67.01%	68.03%

HSR Operational Growth Index 2015~2019

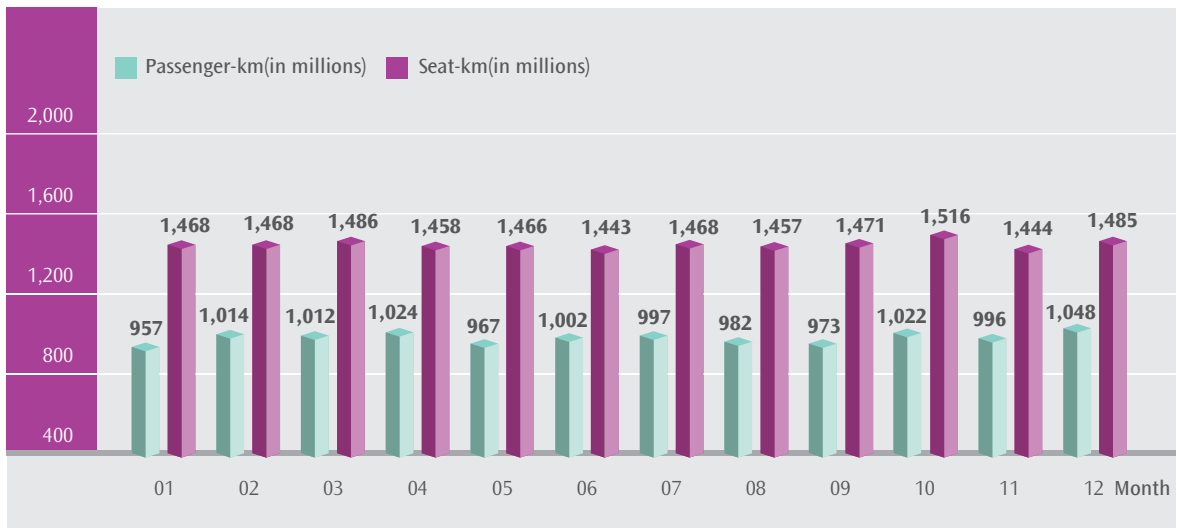


Monthly Ridership in 2019





### Passenger-Kilometers and Seat-Kilometers in 2019



#### B. Multiple booking and ticketing options

We offer a number of ticket booking and payment channels that make ticket purchases easy and convenient. Passengers can choose to purchase tickets through ticket window equipment (TWE), ticket vending machines (TVM), internet reservation system (IRS), convenience store ticketing system (CVS), electronic ticket system (ETS), Facebook Messenger ticketing system (AITS), interactive voice reservation (IVR), reservation call center (RCC), reservation system workstation (RSSW), B2B joint promotion (BJP), and agent ticketing management system (AGTS). Passengers can also board trains using contactless smartcards such as EasyCard co-branded credit cards (EC) and iPass co-branded credit cards (IPS).

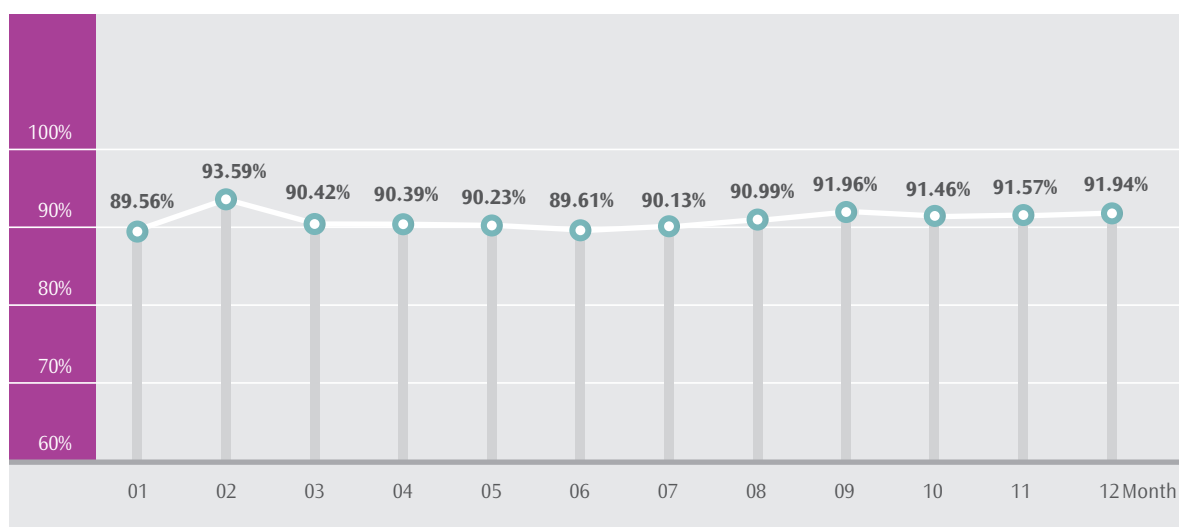
#### C. Maintenance

In order to provide passengers with a safe and comfortable experience, we ensure that all repairs and maintenance work comply with a comprehensive Rolling Stock Maintenance Plan. Our maintenance cycle for rolling stock is as follows:

- (a) Daily inspection (Level 1 inspection): every 2 days
- (b) Monthly inspection (Level 2 inspection): every 30 days or every 30,000 km
- (c) Bogie inspection (Level 3 inspection): every 18 months or every 600,000 km
- (d) General inspection (Level 4 inspection): every 3 years of operations or every 1,200,000

Note: Maintenance frequency is determined by the condition that occurs first.

## Trainset Availability in 2019



## D. Operational safety

The primary objective of THSRC is to build, manage, and maintain high-speed rail operations that meet international safety and reliability standards. To achieve this objective, we established a risk assessment and safety management system that facilitates continuous improvements in safety and provides our customers with fast, punctual, and highly reliable transportation services.

## (a) Train operation and passenger safety

Up until December 31, 2019, there has been no record of passenger casualties caused by railway operation accidents since THSRC commenced operations. We are constantly seeking to improve and enhance passenger services through equipment updates and strive to prevent accidents such as falls or collisions from occurring at stations or on trains due to personal carelessness.

In order to maintain our high reliability, punctuality, and operational safety, any operational events that cause delays of more than 5 minutes in scheduled arrival time or abnormal operational events (including natural disasters) that senior executives deem worthy of investigation are immediately submitted for investigation by the Operation Safety Office of THSRC. Investigations cover the various aspects of train operation and dispatch, passenger services, emergency repairs and maintenance work, original designs and construction concepts, and so on. Possible causes are cross-checked and analyzed, and the resulting suggestions and improvement measures for the incident are reported to all supervisors during weekly management meetings. In addition, further investigations are conducted to identify the causes of the incident, and various improvement measures or contingency techniques are discussed in relevant safety management meetings.

## (b) Safety audits and hazard management

In order to review whether relevant operational safety implementations are consistent with announced and written procedures, the Operation Safety Office of THSRC conducted 5 audits of railway operation safety in internal operation and maintenance units in 2019. Audits covered train operation and dispatch, passenger services, facility maintenance, disaster prevention preparation, and so on. Improvements were already made to all relevant audit findings prior to publication of audit reports.

Hazard management serves as an important cornerstone to THSRC's successful establishment of a safety management system. Continuous encouragement and our reward system have incentivized employees to actively report hazards

and false alarms. Monthly hazard review meetings have put forward systematic management suggestions for operation, maintenance, and engineering projects for reducing hazard levels to reasonable ranges and to ensure the safety of high-speed rail operations and passengers.

(c) HSR line security

In order to ensure smooth operation of passenger services and to protect the safety of passengers and THSRC assets, we contracted a professional security company to provide over 300 daily personnel that work with railway police and local police to patrol trains, stations, depots, and all areas serviced by the HSR.

In 2019, we continually reviewed our safety and security procedures and launched a third-level anti-terrorism response team in response to the many domestic and overseas incidents and events that have occurred in the past, such as the fatal stabbing of a police officer by a TRA passenger that occurred at Chiayi Station in 2019, in-station protests, or major annual activities such as the Taipei and New Taipei Cities New Year's Eve Parties. We collaborated with the police to assess the number of surveillance cameras at all stations, as well as installation locations and camera angles. We also introduced smart surveillance cameras at several stations, the mainline areas along the high-speed railway and in maintenance facility rooms; increased the number of on-train security personnel; and established a tripartite security intelligence and information exchange platform with the Railway Bureau (MOTC) and the Railway Police Bureau.

(d) Disaster response drills

At the end of each year, THSRC reviews operational responses and evacuation work for various emergency domestic and foreign railway events and begins planning for major events and activities likely to occur in the following year. We planned and promoted various disaster prevention training and rescue drills in collaboration with local police and firefighters, as well as environmental protection, medical, and special external supporting units so that they could all familiarize themselves with our "HSR overall disaster prevention and contingency plan" (including joint disaster relief operation procedures and response command mechanisms for various types of major disaster events), develop a tacit understanding, enhance on-site rescue competency, and work together to prepare for disaster prevention and damage control.

To instill command and response capabilities in our staff, we held an internal training course for site commanders and disaster relief engineers in 2019. A total of 32 staff members participated in this training. Additionally, two seminars for external supporting units (firefighters; police; health units; environmental protection units; North, Central, South District medical response centers; EPA Toxic and Chemical Substances Bureau; and North, Central, South District incident specialist teams) were held on November 5 and 14. A total of 79 people participated in these seminars, which familiarized potential instructors from each supporting unit with priority disaster relief work for HSR.

Furthermore, to familiarize staff with disaster relief routes and emergency escape routes along the high-speed railway, we requested that each station invite external supporting units and emergency shuttle bus transport operators to jointly survey the 184 emergency escape exits along HSR line once every six months. Survey work for the first half of 2019 were completed from April to June, and surveys for the second half of the year were completed from October to December.

In 2019, we completed 81 disaster prevention drills exercises at various stations, depots, and on the mainline, as shown in the following table. We also conducted two joint training events as described below.

Number of disaster prevention drills in 2019

Location	Station/Depot Area	Mainline Area	HQ & OMC Buildings	No-Warning Response Test	Total
Frequency	65	6	5	5	81

- I. We held a "response drill for passenger injuries resulting from indiscriminate killings on trains" on the evening of June 28 at the elevated section of the mainline to simulate notification procedures by train and station personnel; evacuation of passengers on trains, platforms, and in stations; and joint rescue efforts by external support units in the event of a knife attack incident occurring on a train. In addition to mobilizing relevant employees at THSRC to participate in the drill, we also mobilized the Chiayi County Fire Department, Chiayi County Police Department, the Gendarmerie, the Health Bureau (including Chang Gung Memorial Hospital, the designated response hospital for the region), and the Railway Police Bureau. More than 200 people participated in this drill (as shown in photos 1-4 below).
- II. We held a joint training session for "simulation of toxic chemical attacks in stations" at Taoyuan Station on the evening of October 24 to simulate station notification procedures, emergency response, and passenger evacuation in the event of toxic gas leaks in stations. In addition to mobilizing relevant employees at THSRC to participate in this training session, we also mobilized the Railway Bureau, Zhongli Branch of Taoyuan City Police Department (Qingpu Police Station), Taoyuan City Fire Department (Second Corps Qingpu Fire Station), Taoyuan Department of Environmental Protection, Taoyuan Department of Public Health, Saint Paul's Hospital, EPA North environmental incident specialist team (Taipei team), the Railway Police Bureau (Taipei Branch Banqiao Station), and the Taoyuan City Gendarmerie. More than 200 people participated in this drill (as shown in photos 5-8).



Photo 1: Standoff between armed assailant and train security personnel and passengers



Photo 2: Assailant arrested by police after train enters station



Photo 3: Medical personnel assess injuries and provide preliminary care to injured passengers at first-aid station



Photo 4: The train master reports to the site commander, who then leads an investigation on the incident area



Photo 5: Station police evacuates personnel and seals off site



Photo 6: Site commander explains the incident to a high-speed rail police team leader



Photo 7: Station staff set up decontamination waiting areas at emergency area and help calm passengers



Photo 8: The North District Environmental Incident Specialist Team conducted on-site inspections, confirmed the unknown gas to be chlorine, and checked that environmental concentrations had returned to a safe value

#### E. Training

We have put in place various training initiatives to ensure that our operations and maintenance staff obtain the proper competencies and knowledge.

The participation of first-time or recurrent training courses in 2019 was as follows: 6,625 attendances for employees and external partners, who received general training on High Speed Rail Operations Regulations (HSROR); 13,062 attendances in 670 sessions for controller, train, and station staff; and 7,846 attendances in 1,065 sessions for staff responsible for maintenance of rolling stock, signaling, communications, power, and tracks. There were a total of 1,735 training classes and 20,908 attendances.



Supervisor, instructor, and trainee group photo at the Controller (G27), Train Driver (G25), and Train Master (G27) Professional Training Certificate Award Ceremony on August 8, 2019.

## (2) Marketing Events

### 1) Plans for product events

- A. Our TGo membership program was launched in October 2017 and the number of members exceeded the 1.28 million persons by December 2019. We continue to increase member retention, activity participation, and other sources of income, we not only implemented exclusive member offers, provided discount programs for designated trains, and organized bonus points promotion programs on designated dates, but also participated in cross-branded point exchange and affiliate programs as well as convenient store point exchange programs, using a variety of marketing activities to boost membership numbers and member contributions.
- B. We continue to plan exclusive offers for corporate members, including our cumulative transaction amount rewards program which helped us build closer relationships with our corporate members, and special discounts for off-peak trains which helped to increase ridership on those trains.
- C. We continue to promote a variety of integrated T Holiday packages, hotel packages, THSR Passes (for foreign passengers only), tour packages, travel packages, event packages and other discounts and promotions. Additionally, we also reviewed and made adjustments to our multi-ride tickets, college student discounts, and business class discounts to increase ridership and revenues.

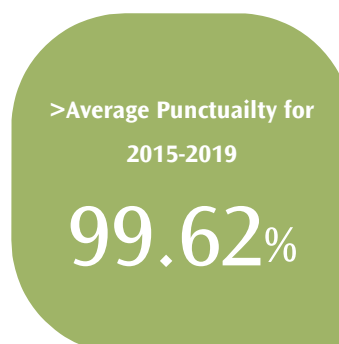
### 2) Plans for service improvement

- A. We streamlined and automated the ticketing process for concession tickets provided to people with disabilities and the elderly in 2019. Validated passengers are now able to collect Senior/Disabled ticket(s) directly from ticket vending machines, our partnering convenience stores, or via the T Express app for one year after presenting eligible documents and registering their identity at Station Ticket Windows. (If said documents expire during the ticket validity period, document expiration date shall also be marked at the end of the ticket validity period.)
- B. Free wireless internet access was made available in all HSR public service areas via the iTaiwan Wi-Fi network.
- C. We cooperated with "Hami Book City" to provide "Fixed-Point Mobilized Reading" service at all HSR stations and on all trains so that passengers can enjoy the fun of reading while taking HSR.

## (3) Five Years in Review

This section provides a review of THSRC operations and performance for the past five years, from 2015 to 2019:

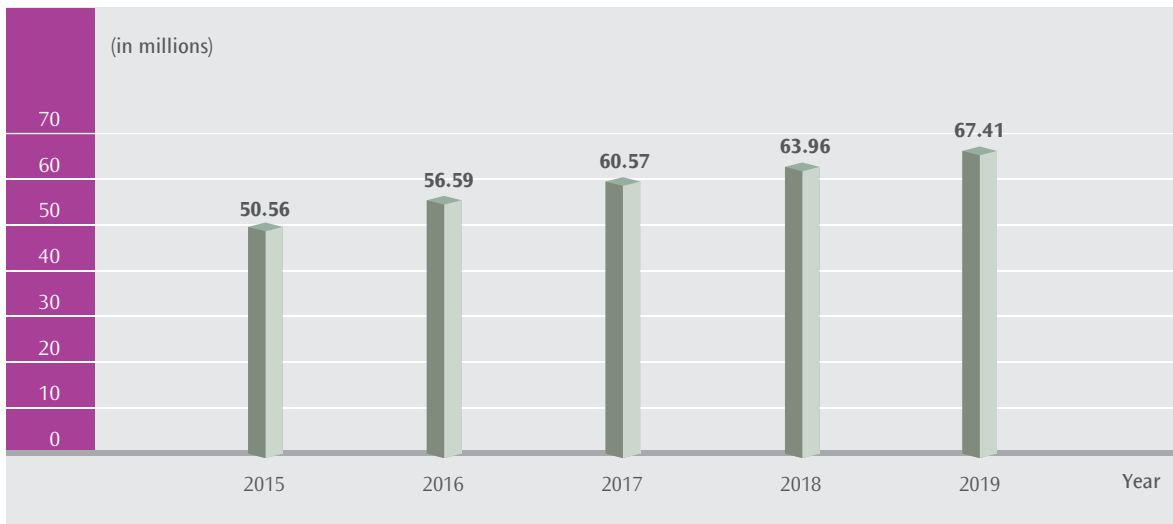
- Provided a total of 259,553 train services
- Average reliability rate: 100%
- Achieved a total of 54.80 billion passenger-kilometers and 84.62 billion seat-kilometers. Average loading factor: 64.76%.
- Average punctuality rate: 99.62%.



Key Operating Statistics, 2015-2019

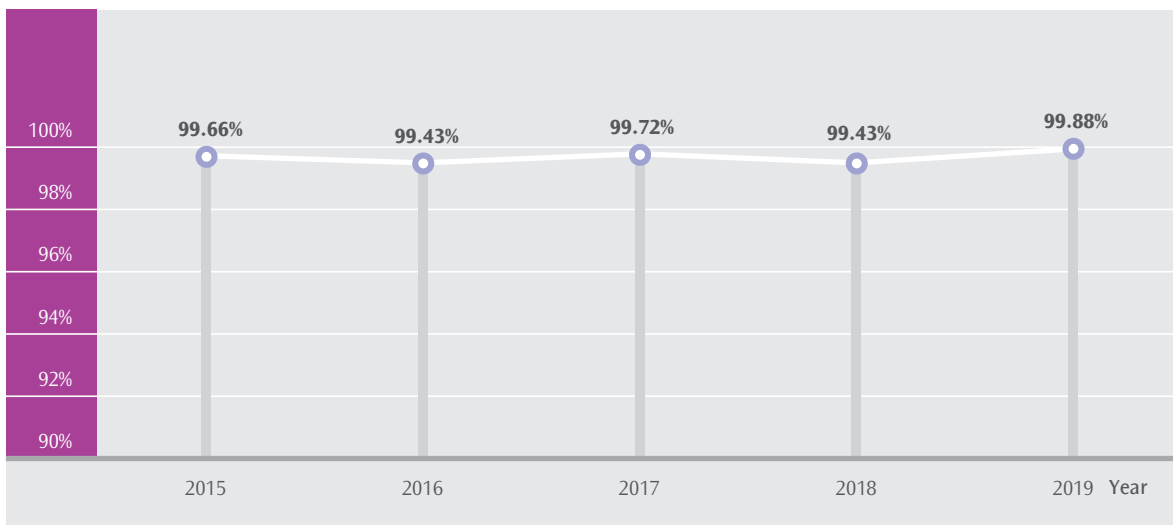
Year/Key Performance Indicator	Total Ridership (in Millions)	Train Services per Year	Loading Factor (Passenger-Kilometers/Seat-Kilometers)	Punctuality (as % of Trains Arriving Within Five Minutes of Scheduled Time)	Passenger-Kilometers (in Millions)	Seat-Kilometers (in Millions)
2015	50.56	50,532	59.65%	99.66%	9,655	16,187
2016	56.59	51,106	63.52%	99.43%	10,488	16,513
2017	60.57	51,751	65.16%	99.72%	11,103	17,040
2018	63.96	52,437	67.01%	99.43%	11,559	17,250
2019	67.41	53,727	68.03%	99.88%	11,994	17,630

Total Ridership, 2015-2019

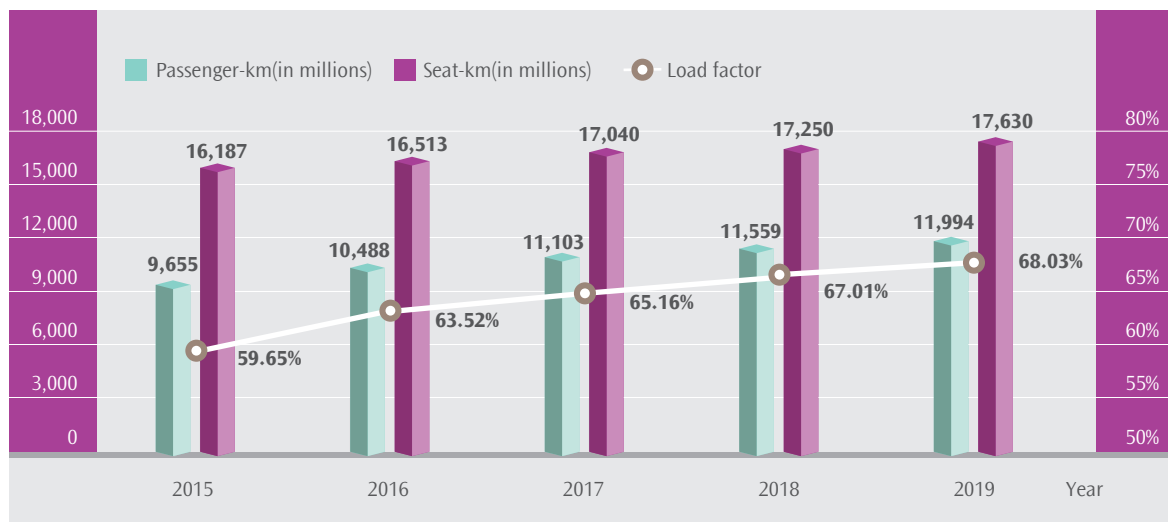


Punctuality, 2015-2019

(shown as % of trains arriving within five minutes of scheduled time)



Passenger-Kilometers and Seat-Kilometers for 2015-2019



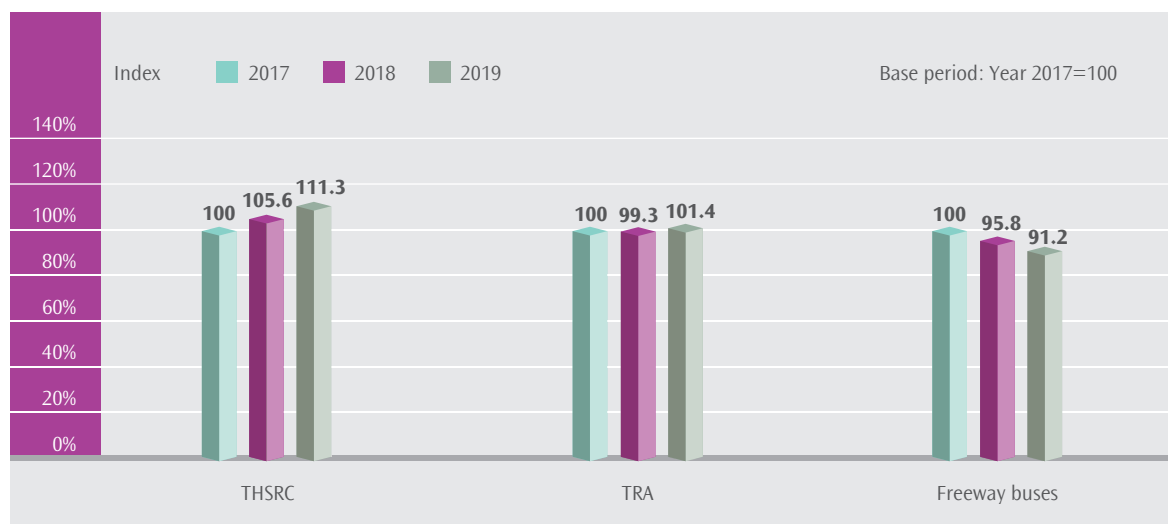
## 2. Industrial Overview & Development

### (1) Operational Overview

#### 1) Current industry conditions and development

Intercity travel service providers in Taiwan mainly include THSRC, TRA, and freeway buses. Passenger volumes over the past three years increased for THSRC, remained the same for TRA, and decreased for freeway buses.

Passenger index for main public transportation



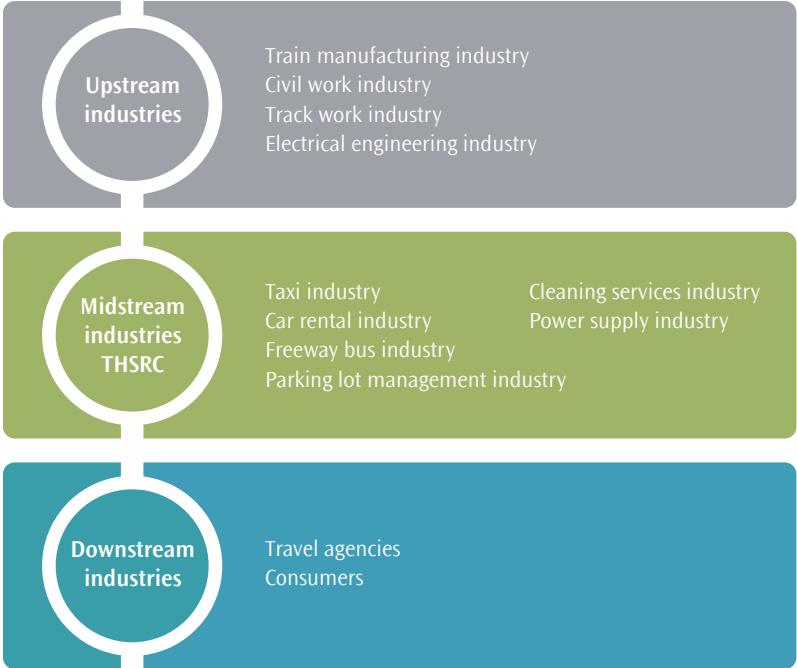


Domestic economic forecasts released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan on November 29, 2019 predict that Taiwan's export capabilities will rise in 2020 due to advances in global trade volumes, continuing and increasing positive effects on exportation from enhanced capacity due to homecoming Taiwanese entrepreneurs, and continuing development of competitively advantageous advanced manufacturing processes for semiconductors, as well as trends of emerging applications in 5G mobile communication, high-performance computing, AI, and IoT which are expected to contribute to industrial developments. The local market is stable in terms of private consumption and public investment continues to rise. However, aging populations and low birth-rates may have some impact on trade growth momentum. Thus, expected economic growth rate for 2020 is estimated to be 2.72% (slightly higher than 2019 estimations of 2.64%, but still lower than 3%). Faced with these external economic environmental challenges, THSRC will continue to formulate suitable operational strategies to achieve our business targets.

Looking at overall operational conditions, THSRC is facing challenges from economic depression, decreasing birth rates, and aging populations, which is slowing our passenger growth. In addition, challenges such as abnormal climate changes and aging operation equipment are causing our maintenance costs to increase. However, we will continue to focus on developing smart transportation, increasing safety and efficiencies of emergency responses, establishing localized maintenance capabilities, developing localization materials, and formulating other strategic plans. Additionally, we will continue to enhance our strengths through industry cooperation and integrate local cultures to provide our passengers with better transportation quality and establish a foundation for long-term sustainability.

2) Industry supply chain

THSRC mainly provides passenger transportation services. Our upstream industries mainly provide rolling stock, civil work, track work, and other services related to the manufacturing and maintenance of service facilities and equipment. Midstream industries not only include THSRC, but also other supporting operators such as parking lot management, freeway bus services, car rental services, and taxi services. Downstream industries comprise clients or sales channels that provide services to railway companies, including passengers who purchase tickets, and travel agencies that sell THSRC vacation packages.



### 3) Development of various products

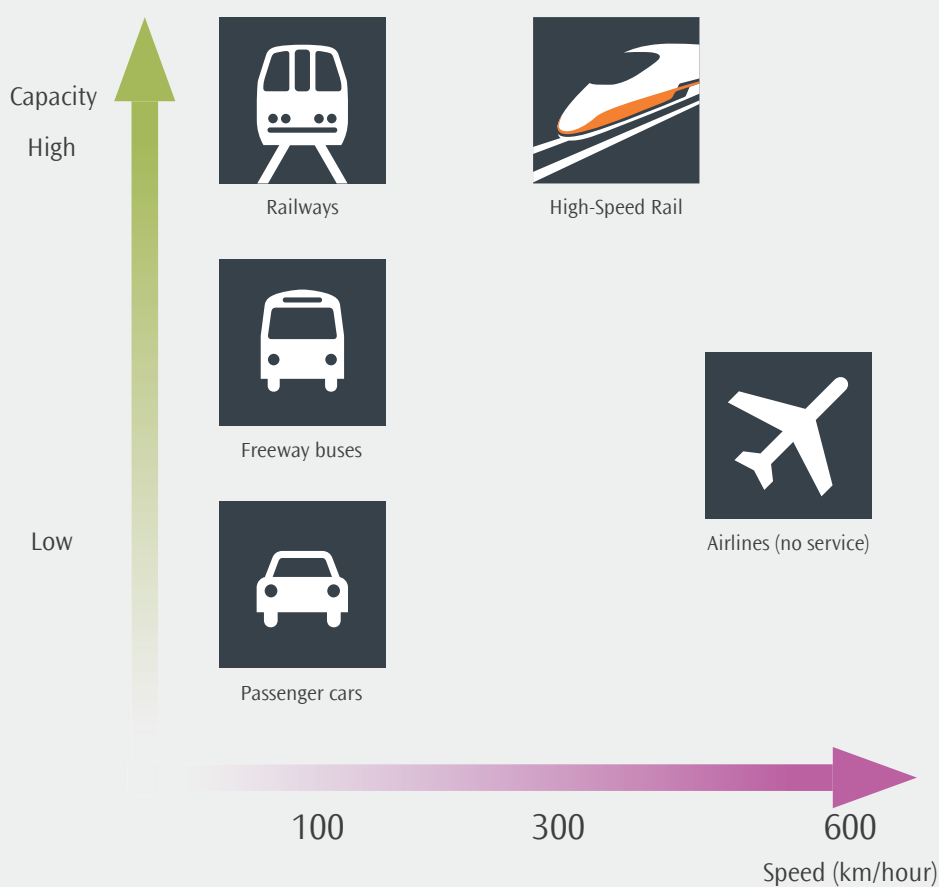
In response to growing passenger demand, clear disparities in ridership during peak and off-peak times, continued growth in the elderly population, advances in mobile and digital technologies, and to enhance customer relations, we have developed the following strategic plans for our products.

- A. Continued provision of varied travel packages, services, and promotions to satisfy needs of different customer segments.
- B. Differentiation of promotions for peak and off-peak times to enhance overall revenue.
- C. Establishment of digitalized sales platforms, integration of automated ID validation ticketing services for seniors and passengers with disabilities, and expansion of mobile/electronic payments to increase convenience of ticketing services.
- D. Use of gradual promotions and diversified redemption programs to raise TGo membership for development of membership economy.

### 4) Competitive status

THSRC provides intercity passenger transportation services along Taiwan's western corridor. Transportation providers in this market include THSRC, TRA, airlines, and freeway buses, as well as passenger cars. Currently, there are no airline passenger transport services along Taiwan's western corridor. The market competitive status of each transportation is as shown in the image below:

Market advantages of each transportation type



The advantages and disadvantages of the transportation along Taiwan's western corridor is analyzed in the table below:

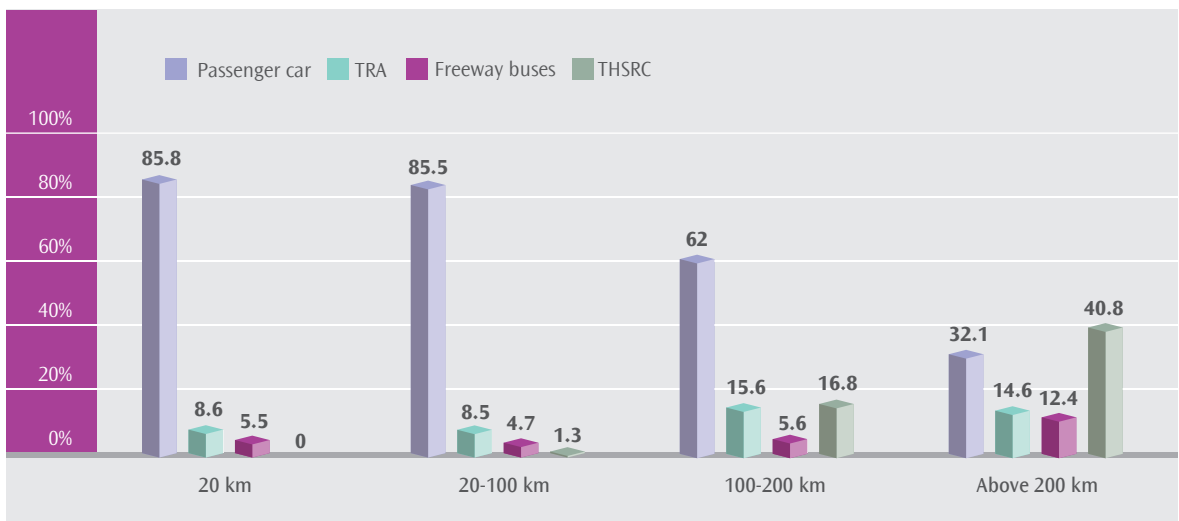
	Advantages	Disadvantages
Passenger cars	<ul style="list-style-type: none"> <li>Not limited by fixed routes, stations, or schedules, and therefore have the highest accessibility and convenience</li> <li>Fixed total costs, variable costs of fuel do not increase exponentially with passenger figures, suitable for multiple passengers.</li> </ul>	<ul style="list-style-type: none"> <li>Easily affected by road conditions; travel time is difficult to control</li> <li>Physical and mental fatigue on long trips</li> <li>Higher risk of accidents compared to railways</li> </ul>
TRA	<ul style="list-style-type: none"> <li>Stations are located in city centers, and therefore provides convenient access</li> <li>Mid-range fare prices</li> </ul>	<ul style="list-style-type: none"> <li>Longer travel time</li> <li>Addition of commuting stations and shuttle trains affect intercity passenger car capacity and travel time</li> </ul>
Freeway buses	<ul style="list-style-type: none"> <li>Many stations and intercity routes, providing higher accessibility compared to TRA and THSRC</li> <li>Lower fare prices</li> <li>Some routes operate 24 hours a day</li> </ul>	<ul style="list-style-type: none"> <li>Longer travel time</li> <li>Easily affected by traffic conditions; travel time is difficult to control</li> <li>Higher risk of accidents compared to railways</li> </ul>
THSRC	<ul style="list-style-type: none"> <li>Fast, punctual, reliable, and safe</li> <li>Varied services to fulfill the needs of different passengers</li> </ul>	<ul style="list-style-type: none"> <li>Some new stations are not located in city centers, and therefore provides lower levels of accessibility</li> <li>Higher fare prices</li> </ul>

THSRC implements the following strategies in response to the advantages and disadvantages of the aforementioned competing transportation tools:

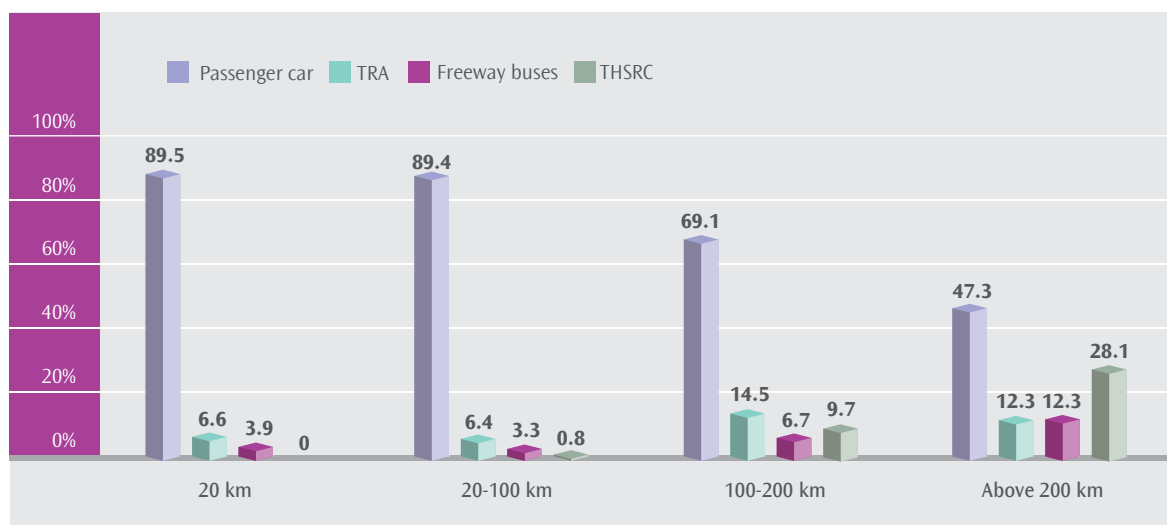
- A. Provision of varied products and diversely marketing activities such periodic tickets, college student discounts, early bird discounts, and so on, targeting specific consumers and specific trains to enhance competitiveness in mid-length travel markets and price-sensitive consumer segments.
- B. Maintain suitable frequency of services, optimization of ticketing channels, and shuttle services to enhance convenience.
- C. Integrate shuttle transport services and form travel ecosystems through alliances to provide HSR vacation packages, assisting passengers in solving the two big issues of transport and accommodation, enhancing product scope, revitalizing varied travel experiences, and developing new markets.
- D. Develop membership economy systems to enhance customer loyalty and increase marginal revenue gains from members.

According to the “Western Taiwan intercity land transport statistics 2017(2019)” published by the MOTC Institute of Transportation, the weekday/weekend passenger car, TRA, freeway bus, and THSRC market share for varying distances is as shown below:

Weekday market share



Holiday market share



## (2) Market Analysis

### 1) Market scope and market share

According to statistical data from the MOTC, average passenger volumes in 2019 for on-land public transportation was close to 6.675 million passengers (including 3.051 million intercity bus passengers, 2.437 million MRT passengers, 0.355 million freeway bus passengers, 0.647 million TRA passengers, and 0.185 million high-speed rail passengers), an increase of 1.7% from 6.565 million passengers in 2018. After deducting passenger volumes for intercity bus and MRT systems, HSR accounts for 16% of passenger volume, higher than the 15% in 2018. In terms of private transport, an average of 14.381 million cars travel through freeway toll systems every day, an increase of 1.05% from 14.232 million in 2018.

### 2) Future demand and supply and market growth

We estimate a passenger volume target of 68.37 million for 2020 (1.4% growth compared to 2019) based on domestic and overseas economic environments, growth in THSRC capacity, and promotion of products and services.

## (3) Competitive Capabilities, Advantages and Disadvantages of Future Development, and Response Measures

The "One-day living circle" effect continues to thrive, and taking north- and south-bound trips via the HSR has been integrated into the lives of the general public. Increasing numbers of performance events are being held in the vicinity of HSR stations, increasing demand for transport services, which is advantageous for future development of the HSR. However, the impacts of overseas trade conflicts on domestic economic growth may cause a lull in transport demands, and abnormal climates and increases in asset usage times may cause a rise in equipment maintenance costs. In response to the aforementioned opportunities and barriers, THSRC will continue to expand our membership economy and integrate smart transportation technology to strengthen travel information services and enhance security and efficiency of response measures. We will also continue to build autonomous maintenance capabilities and develop localized materials to establish a foundation for sustainable operations.

#### (4) Main Purpose of Products and Production Process

The main product provided by THSRC is convenient and high-quality railway passenger transport services. These constitute part of the transport service industry, are not part of the manufacturing industry, and therefore have no production processes.

#### (5) Main Supply Conditions for Raw Materials

THSRC is a transportation service provider and requires no raw materials for manufacturing. Our main energy source is electricity supplied by the Taiwan Power Company (TPC).

Each mainline bulk substation (BSS) has 2 independent sources. The BSS for the Wurih and Zuoying Depots is fed from a single TPC power source, but this is for depot maintenance use only and provides sufficient amounts of power.

#### (6) Major Clients with Procurement (Sales) Amounts Exceeding 10% for Any Given Year Over the Past Two Years, Procurement (Sales) Amounts and Ratios, and the Reasons for Changes in Said Amounts and Ratios.

We provide high speed rail services for passengers, rather than a manufacturing business. Our operating costs primarily include depreciation and amortization expenses, personnel expenses, power expense, costs of materials and maintenance. Consequently, there are no reportable major customers and vendors.

The Corporation provides railroad transportation service to the public, has no specific major clients, and has seen steady growth in total ridership throughout 2019.

#### (7) Production in the Last Two Years

	Seat-Kilometers (Million)	Passenger-Kilometers (Million)	Loading Factor (%)	Total Ridership (Thousand)
2018	17,250	11,559	67.01%	63,963
2019	17,630	11,994	68.03%	67,411

#### (8) Sales in the Last Two Years

Sales/ Year	2018			2019		
	Quantity (Million Passenger-Kilometers)	Amount (NT\$ Thousands)	Rate (%)	Quantity (Million Passenger-Kilometers Million)	Amount (NT\$ Thousands)	Rate (%)
Railroad Transportation	11,559	44,098,796	97.10	11,994	46,107,656	97.05
Goods	-	208,683	0.46	-	210,947	0.45
Rental & Others	-	1,107,528	2.44	-	1,188,787	2.50
Total	11,559	45,415,007	100.00	11,994	47,507,390	100.00

### 3. Analysis of Macroeconomic Environments

Domestic economic forecasts released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan in late November 2019 predict that Taiwan's export capabilities will rise due to trends of emerging applications in 5G mobile communication, high-performance computing, AI, and IoT which is expected to contribute to industrial developments. The local market is stable in terms of private consumption and public investment continues to rise. However, aging populations and low birth-rates may have some impact on trade growth momentum. Thus, expected economic growth rate for 2020 is estimated to be 2.72% (slightly higher than 2019 estimations of 2.64%, but still lower than 3%). THSRC will continue to formulate suitable operational strategies to achieve our business targets.

### 4. Long and Short-Term Business Development Plans

#### (1) Short-Term Business Development Plans

- 1) In order to increase revenues, we will focus on providing a variety of products through utilization of big data, and continue to fulfill our corporate social responsibilities. Additionally, we have also set "Establishment of Autonomous Maintenance Capabilities" and "Localization of Maintenance Materials" as our corporate goals.

- 2) Our corporate vision adheres to our 4T program of Transportation, Technology, Taiwan, and Touch, and our mid- and long-term business plans are as follows:

#### Transportation

- A. To strengthen station and train operational facilities, and improve service quality through addition or improvement of various station equipment or systems.
- B. To improve operational process and ensure maximum transportation capacity.
- C. To provide a variety of products that increase ridership during off-peak hours and optimize related application systems.
- D. To strengthen maintenance and ensure system stability, safety, and reliability, and establish autonomous maintenance capabilities.

#### Technology

- A. To digitize ticket channels and develop mobile/e-payment channels and electronic tickets.
- B. To utilize big data in the promotion of membership economy and expand membership benefits.
- C. To utilize information technology that strengthens operational services and efficiency.

#### Taiwan

- A. To enhance local development capabilities and increase the percentage of local equipment and materials.
- B. To promote localization of railway industry and explore potential suppliers and alternative materials.
- C. To integrate technical railway resources, evaluate possibilities for re-investment or technical exportation, and form strategic alliances with transportation operators.

#### Touch

- A. To build a corporate governance culture that fulfills corporate social responsibilities, participate in corporate governance evaluations, continue to promote railway culture, and care about underprivileged groups.
- B. To promote environmental protection, energy efficiency, and carbon reduction, and to implement energy conservation programs and environmental protection measures.

- C. To promote talent development, strengthen employee training, and implement a job rotation system.
- 3) Facilitation of timely train service adjustments and maintaining adaptability of seating supply and demand in response to growth in passenger numbers, as well as establishment of appropriate stopping patterns and train schedules as necessary to meet market demands for transportation services.
  - 4) We continue to develop diversified products based on different customer characteristics to meet customer needs. In addition to normal products, we also launched projects themed around seasonal, festive, topical, and current events in order to attract more passengers and build the THSR brand image.
  - 5) We continue to promote our "Journey with THSR, Discover Taiwan" brand through a variety of integrated T Holiday packages, hotel packages, travel packages, and event packages to integrate sales and attract more passengers.
  - 6) We enhanced our TGo membership system and related services through data analysis and provision of customer-based recommendations to increase purchase frequency, customer loyalty, ridership, and quality of customer relationships. Furthermore, we are working to build TGo cross-industry alliances and develop TGo membership rewards program so as to expand member benefits and increase ticket and non-ticket revenues.
  - 7) We plan to utilize passenger flows to develop an affiliate business with shops, parking lots, advertising, and other businesses. We will also continue to develop retail products and expand sales channels to enrich passenger experiences and increase non-ticket revenues.
  - 8) We continue to enhance our ticketing services through our online-offline integration strategy, and work with different industries to increase ticket utilization and enhance ticketing convenience. Additionally, we continue to introduce innovative payment technologies and applications into our ticketing channels and are assessing the feasibility of mobile credit card transactions, travel cards, and cloud-based ticketing systems.
  - 9) We cooperated with the famous Japanese illustrator Kanahei to launch a new themed train in November 2019 featuring the pink rabbit "Usagi" and the white bird "Piske", the most popular characters created by Kanahei. These characters also appear as the train masters, on-board service personnel, and station crew to promote the "Journey with THSR, Discover Taiwan" brand. We also released a range of highly popular "Piske and Usagi" co-branded products.

## (2) Long-Term Business Development Plans

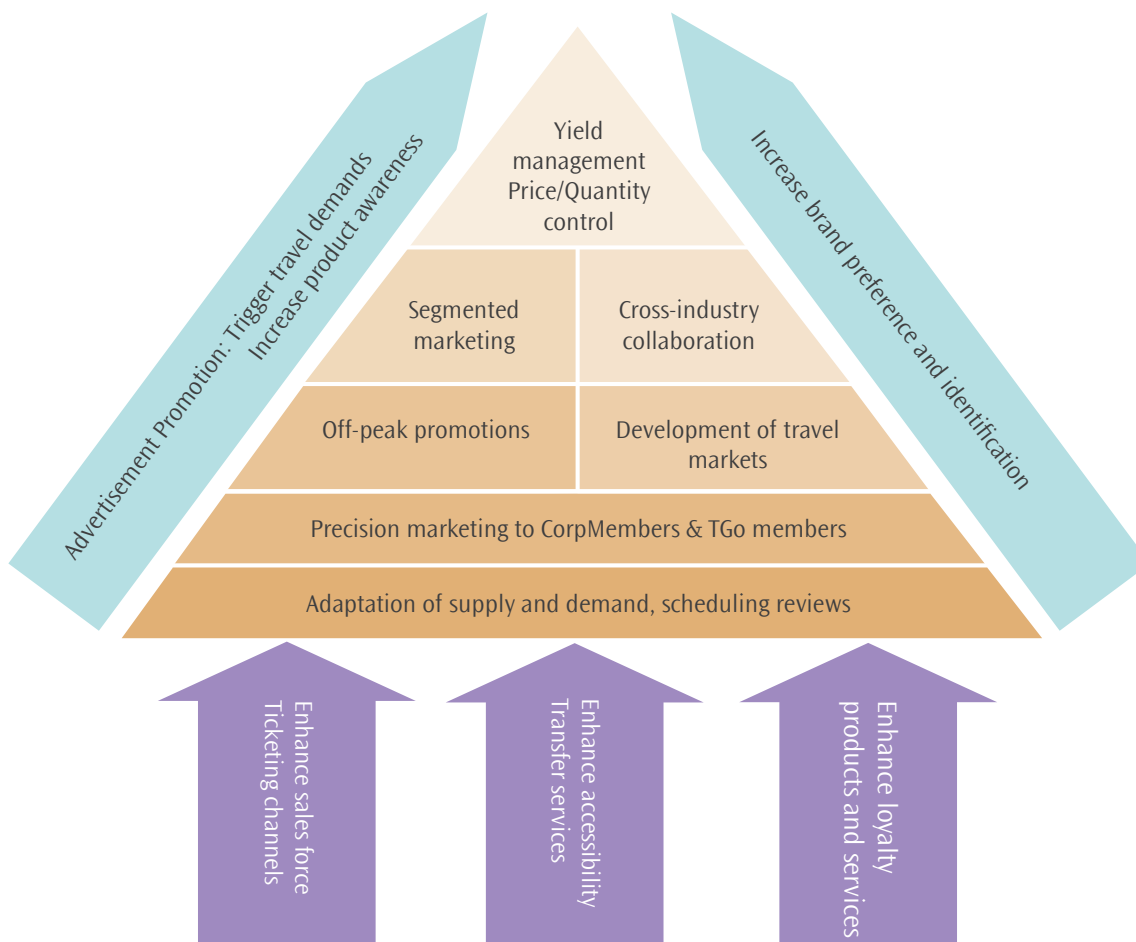
### 1) Enhance corporate brand image

To achieve our goal of leading progress and life improvement as one of Taiwan's top ten companies, we continue to integrate our 4Ts (Transportation, Technology, Taiwan, and Touch) into development of multiple products and promotional activities to strengthen brand promotion and attract different passenger segments, thus enhancing passenger volumes and revenue growth.

Relevant projects in development include: strengthening of social medial marketing for all future product promotions in response to advances in information and communications equipment and environments; provision of more payment options at all ticketing channels in response to trends in mobile payment; continued updating and strengthening of THSRC app functionality and content; and enhancement of TGo member services.

## 2) Strengthen revenue growth

We will continue to enhance the efficiency of revenue management, increase ridership during off-peak hours, improve convenience of ticket utilization and payment, expand the scope of cross-industry cooperation, and shape local tourism through rail travel. In addition, we plan to add overseas ticketing channels to increase brand awareness and integrate innovative technology and applications such as digital HSR services to enhance convenience of ticket purchasing. We also plan to set up a membership platform and promote our membership program to build a foundation for our precision marketing strategies, big data analytics, and points economy.





## 5. Important Contracts

Contract Type	Contracting Party	Signing Date	Summary	Restrictive Covenants
Taiwan North-South High Speed Rail Construction and Operation Contract	Ministry of Transportation and Communication R.O.C.	1998/07/23	35-year high-speed rail Build- Operate-Transfer (BOT) contract from Taipei (Xizhi) to Kaohsiung (Zuoying) with Ministry of Transportation and Communication, and Union Passenger Terminal contracts with Taiwan Railway Administration and Mass Rapid Transit.	THSRC assets and equipment obtained for the construction and operation of the high-speed rail cannot be transferred, leased or reallocated without approval from the Ministry of Transportation and Communication
Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement	Ministry of Transportation and Communications and Bank of Taiwan	2010/01/08	In order to protect the rights of the financing institutions, this agreement is signed in accordance with the provisions of the Taiwan North-South High-Speed Rail Construction and Operation Agreement.	There are certain restrictions on the Corporation's assets and equipment quality and the change of Syndicated Loan Agreement.
Taiwan North-South High Speed Rail Construction and Operation Project NT\$ 382 billion Syndicated Loan Agreement	8 Syndicated loan banks, including Bank of Taiwan	2010/01/08	In order to reduce the financial risks of the Corporation, the leading bank was appointed to form a bank syndicate to provide a syndicated loan of no more than NT\$ 382 billion. The lending banks shall provide credit to the Corporation within the scope of their individual credit lines in accordance with the provisions of the Syndicated Loan Agreement.	There are certain restrictions on the Corporation's assets and equipment quality, and its increase in debt and principal interest coverage.
Construction of HSR Changhua Station No. S260	Joint venture between TECO Corporation and Century Development Corporation	2013/01/08	Construction of HSR Changhua Station	Confidentiality
Core System for PLS (Provided Later Stations) No. E203	Toshiba Digital Media Network Taiwan Corporation	2014/02/20	Integration and installation of PLS core system	Confidentiality
Credit card payment service for passenger tickets (2017~2022) No. 01-15-012	Taishin International Commercial Bank Co., Ltd.	2015/07/28	Credit card payment service for passenger tickets	Confidentiality
Taiwan High Speed Rail Corporation Joint Underwriting Agreement	10 joint underwriting companies, including International Bills Finance Corporation	2017/01/24	In order to enrich working capital, the sponsoring companies were appointed to form a Joint Underwriting Agreement to provide an underwriting amount of NT\$20 billion in total. Each underwriting company underwrites unsecured commercial papers issued by the Corporation within the scope of their individual underwriting amount in accordance with the Joint Underwriting Agreement.	There is a requirement for the credit rating of the High-Speed Rail Corporation
2017~2020 THSRC Security Services (North Zone 1, North Zone 2, South Zone 1, and South Zone 2) No. S1-17-001~004	Vanguard Security Corporation	2017/03/23	Security services for THSRC stations	Confidentiality
Upgrade of TCS and Related Subsystems, Package 1-OCC: SCADA, MMIS(O), CFS, CEDS, TIS and CN No. E211	Toshiba Electronic Components Taiwan Corporation	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: SCADA, MMIS(O), CFS, CEDS, TIS and CN	Confidentiality

Contract Type	Contracting Party	Signing Date	Summary	Restrictive Covenants
Upgrade of TCS and Related Subsystems, Package 1-OCC: Signaling and PMC (Supply Contract) No. E213	Mitsubishi Heavy Industries, Ltd.	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: Signaling and PMC (Supply Contract)	Confidentiality
Upgrade of TCS and Related Subsystems, Package 1-OCC: Signaling and PMC (Installation Contract) No. E214	Mitsubishi Heavy Industries, Ltd.	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: Signaling and PMC (Installation Contract)	Confidentiality
Upgrade of TCS and Related Subsystems, Package 1-OCC: TCS and UC No. E215	Taiwan Hitachi Asia Pacific Co., Ltd.	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: TCS and UC	Confidentiality
Modification of THSRC AFCS software system and maintenance contract. No. M7-17-007	IBM Co.	2017/06/12	AFCS software system maintenance	Confidentiality
Supply and Manufacturing of Maintenance Vehicles No. E5-18-003	China Steel Co.	2018/08/10	Manufacturing and supply of Maintenance Vehicles	Confidentiality
Bogie Running Tester Manufacture and Supply Contract No. L1-18-039	Industrial Technology Research Institute (ITRI)	2019/03/29	Manufacture and supply of bogie running testers which help THSRC technicians in judging the condition of the bogie during operations and in early detection of potential hazard factors.	Confidentiality
Upgrade of TCS and Related Subsystems Package 3 FTC- OCC: ARS/ TD Contract No. E231	Taiwan Hitachi Asia Pacific Co., Ltd	2019/04/23	Upgrades to Taiwan High Speed Rail OCC traffic control system main computer, including software porting and modification and hardware upgrades.	Confidentiality
Manufacturing and Supply of Three Diesel Shunters Contract No. E2-18-022	Taiwan Rolling Stock Co., Ltd. (TRS)	2019/07/03	Manufacturing and supply of three diesel shunters.	Confidentiality
700T 7GI Spare Parts Contract No. PCDD-19-0749	Toshiba Electronic Components Taiwan Corporation	2019/07/26	7GI turnover equipment and repairable parts for 700T trainsets.	Confidentiality
Insurance broker contract	Marsh Ltd., Taiwan Branch	2019/10/16	Insurance broker service for MOIP	Confidentiality
Insurance contract	Fubon Insurance Company Ltd.; ShinKong Insurance Company Ltd.; Cathay Century Insurance Company Ltd.; Chung Kuo Insurance Company Ltd.; Taiwan Fire & Marine Insurance Company Ltd.	2019/12/13	Master Operational Insurance Program (MOIP)	Confidentiality
Credit card payment service for passenger tickets (2022~2027) No. 01-19-017	Taishin International Commercial Bank Co., Ltd.	2020/03/26	Credit card payment service for passenger tickets	Confidentiality

## 6. Status of Technological Research and Development

Research and development for 2019 were as follows:

Category	R&D project	R&D project content	Benefits of R&D	R&D results
Communication System Research	Development of remote microphones for Public Address system	Cooperated with NKUST to develop a device compatible with current system.	Maintains system function while reducing maintenance costs.	Development is completed and equipment is gradually being renewed.
	Development of Wayside Telephone for Direct Line Telephone system	Cooperated with NKUST to develop a device compatible with current system.	Maintains system function while reducing maintenance costs.	Development is completed and equipment is gradually being renewed.
	Localization of TEL IP Server for Direct Line Telephone system	Localization to replace products purchased from Germany.	Maintains system function while reducing maintenance costs.	A prototype has been developed and is undergoing testing.
	R&D on Intelligent Passenger Information System (PIS)	We conducted R&D on Passenger Information System (PIS) to reduce the technology reliance on an overseas vendor, to enhance passenger experience and corporate operation efficiency.	This project, when completed, will enhance passenger riding experience and corporate operation efficiency with new technologies & products.	The first & 2nd phases are undergoing Factory Acceptance Test (FAT). The 3rd and 4th phases just kicked off (on 2019/12/11), with a target to upgrade the PIS for 8 stations in the 2nd half of 2021.
Electronic Service Center (ESC)	Build Track Circuit Training Room	The Track Circuit Training Room is built using real machines completely adhering to mainline conditions and connected to track transmitters. This training room can provide professional training without being restricted by weather and site distance, and can also provide training on dismantling of track circuits and equipment to enhance staff repair capabilities.	Low establishment costs, autonomous technology, and enhancement of maintenance capabilities.	Construction completed and currently used for simulation testing and training.
	Test of fire and smoke diagnostic systems	Performed function tests for fire and smoke detectors using our self-designed diagnostic system to ensure good maintenance quality.	Maintains system function while reducing maintenance costs.	A prototype has been developed and tested. Patent certificate number: No. M572547 Patent certificate number: No. I674958
	Development of Event Automatic Reporting System (EARS)	In the event of equipment abnormalities, EARS will receive real-time warnings that will be automatically relayed as edited messages with images via wireless devices and mobile phones. EARS uses an automatic messaging system to replace the traditional manual system, not only reducing notification times and delivery times, but also ensuring accuracy, identifiability, and completeness of information via smart messages.	<ul style="list-style-type: none"> <li>• Reduces risk of operational disruptions</li> <li>• Reduces response time for emergency repair work</li> <li>• Provides real-time equipment fault information to repair workers</li> <li>• Improves overall service quality</li> <li>• Reduces compensation costs for passenger due to train delays</li> <li>• Real-time delivery of abnormal equipment information to managers</li> </ul>	The EARS system has been developed and tested. Patent certificate number: No. M577562 Patent certificate number: No. I669232

Category	R&D project	R&D project content	Benefits of R&D	R&D results
Signaling System Research	Research of new type detection slides for Point Machines	Cooperated with NCKU to develop new type detection slides for point machines.	Maintains system function while reducing maintenance costs.	Developed and tested.
	Improvement and research of Frog Nose Holding Down Device (FNHDD) control circuit	Cooperated with NSYSU to develop a protector for the circuit.	Maintains system function while reducing maintenance costs.	Developed and tested.
	Research to improve the reliability of railway turnout controller	We conducted R&D on alternative PLC turnout controllers using new technologies & components to raise controller reliability.	This will reduce the number of relays and also enhance the reliability of existing turnout controllers to reduce impact to customer service.	Prototype development was completed in Jan. 2018. Prototype controllers were installed online in April 2019, received IV&V, & are undergoing a 12-month stability test till 4/2020. If a positive result, the new controllers will replace all 150 Siemens controllers online.
Rolling Stock System	Train EMI improvement project	Used insulating materials to coat interference source.	Reduction of train ATC BPU (protection control unit) control system failure events caused by EMI problems.	EMI improvements have been implemented on 30 trains as of October 2019.
	Upgrade of Wheel Load Measuring Devices system	The purpose of this project was to develop a new PC control system to record and compute signals from the original PLC system.	Improve maintenance efficiency, reduce costs, and expand local supplier sources.	NKUST completed this project on 2019/5/14.
	Upgrade of wheel verification press computer system	Developed 700T train axle box temperature sensor and wireless transmission interface module system.	Increases axlebox temperature measurement information and reduces train operating delay time due to temperature sensor failures.	Undergoing research and development by ITRI.
Track & Power system	Collaboration with NCSIST on development of automatic measurement system for rolling stock vibrations	Rolling stock automatic vibration measurement and report system.	Measurement data can automatically be delivered via internet to offices for real-time monitoring of track alignment conditions.	Items completed in 2019: (1) Completed cable laying and installation for all 34 rolling stock; (2) Completed validation testing and submitted reports.
	Localization of OCS maintenance vehicles	8 MV type vehicles and 2 sets of CS vehicles (4 vehicles)	Combine and integrate 6 existing Japanese/Germany vehicle types to 2 types, resulting in less investment and improvement of maintenance efficiency and safety.	Completion of layout design and manufacturing of model cars in 2019.

Category	R&D project	R&D project content	Benefits of R&D	R&D results
System Research & Development	Develop second-generation customer loyalty program system	THSRC designed and developed a customer loyalty program system currently containing over 1.27 million members. THSRC is able to connect people and create customer rewards programs via classification of members and collection of behavior information. In addition, the system collects big data on our members to serve as the foundation for a variety of precision marketing strategies. Our first-generation customer loyalty program system commenced services on October 26, 2017. Since then, THSRC has been developing and continuously improving the system in order to provide high-quality services to our customers.	<ol style="list-style-type: none"> <li>(1) Provide diversified utilization of member bonus points.</li> <li>(2) Cross-industry cooperation for bonus point usage or exchange services.</li> <li>(3) Optimize marketing activities and member service management functionalities to satisfy diversified requirements of marketing activities.</li> <li>(4) Optimize ticketing data process flow to improve system performance.</li> </ol>	The second-generation system services was launched on 2019/2/22.
	Develop Smart Maintenance platform	THSRC commenced a five-year Smart Maintenance platform development and implementation plan in 2018 to collect, store, and integrate inspection and maintenance structure data of mainline traction power, track, and overhead catenary systems, thus providing automatic analysis on inspection data, and condition-based decision making for maintenance and repair.	Enhance equipment degradation analysis and maintenance efficiency of on-site units to hopefully achieve the goal of predictive maintenance.	<p>This project is divided into several phases, and the following results were completed in 2019:</p> <ol style="list-style-type: none"> <li>(1) Completion of development of Traction Power Management &amp; Maintenance System.</li> <li>(2) Completed development of asset management and inspection management (basic) modules in Permanent Way Maintenance Information System.</li> <li>(3) Completed development of inspection management module in OCS Maintenance Management System.</li> </ol>
	Develop new-generation automatic ticket vending machines	THSRC developed new-generation automatic ticket vending machines which are fully compatible with our current AFCS (Automatic Fare Collection System). The system design integrates our existing stable modules and provide more flexibility to effectively reduce manufacturing costs.	The improved maintenance interface makes for speedy and more intuitive maintenance, and significantly reduces maintenance costs. This project protects the rights of investors and shareholders while simultaneously improving passenger service satisfaction.	<p>This project protects the rights of investors and shareholders while simultaneously improving passenger service satisfaction. Completed results are as follows:</p> <ol style="list-style-type: none"> <li>(1) Localized system development and integration in Taiwan for full grasp of core technologies.</li> <li>(2) Consistent human-machine interface with faster and better user experience.</li> <li>(3) The new automatic ticket vending machines provide faster ticket printing functions, and all automatic ticket vending machines at all stations are equipped with cash transaction functions which provide both banknotes and coins in change.</li> <li>(4) All automatic ticket vending machines in all stations accept tap-to-pay credit card payments and mobile payments from Apple Pay and Google Pay. Furthermore, the automatic ticket vending machines possess flexibility for rollout of future QR code transaction capabilities.</li> <li>(5) Enhanced the depth of information security defenses.</li> <li>(6) Integrated automatic cloud source code control, version update, and deployment to effectively ensure the consistency and stability of ticketing services.</li> </ol>



# 7

## Value Propositions

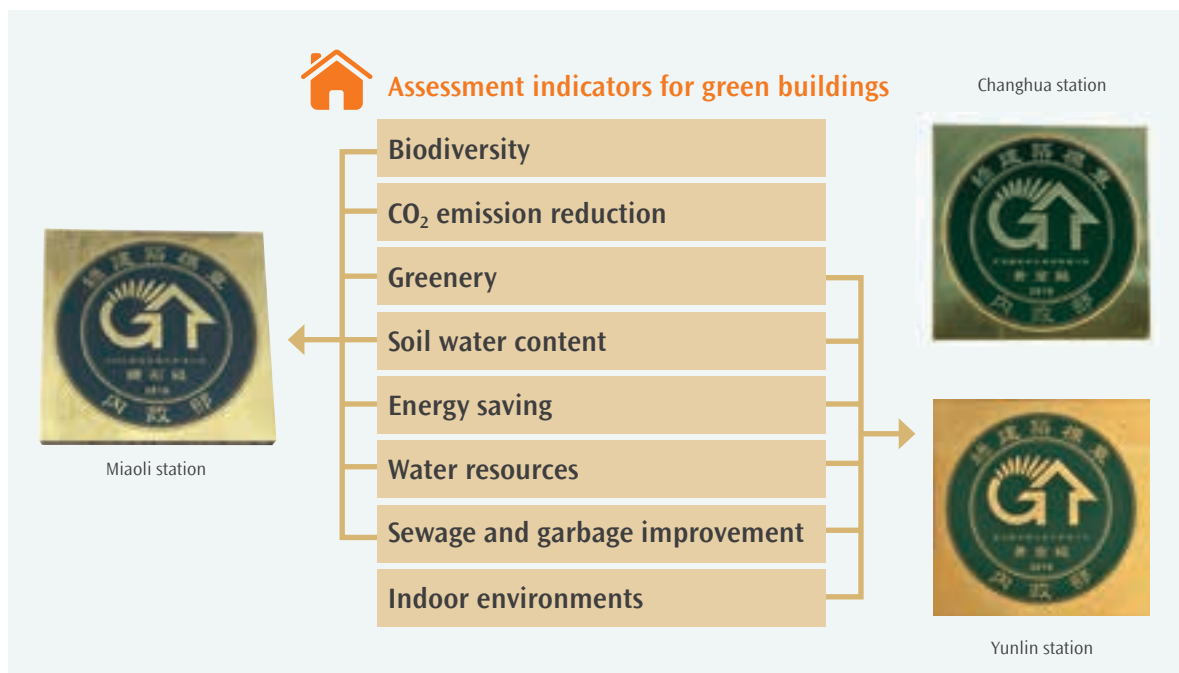
# E nvironmental

## 1. Establishing a Sustainable Environment

### (1) Green Buildings

THSRC strives to integrate the four pillars of "ecology, energy saving, waste reduction, and health" with the nine indicators of green buildings as we build new sustainable green buildings that can become potential landmarks. HSR Miaoli, Changhua, and Yunlin stations were designed in accordance with the "Green Chapter of the Building Construction Regulations" and the "Green Building Evaluation Manual," and in 2013 received Green Building Candidate Certificates. Green designs were implemented during construction, and we applied for the Green Building Certificate in 2016 after completion of construction.

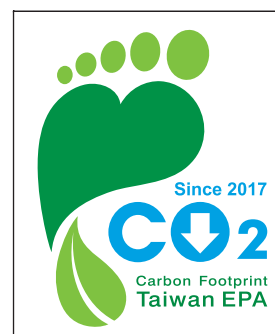
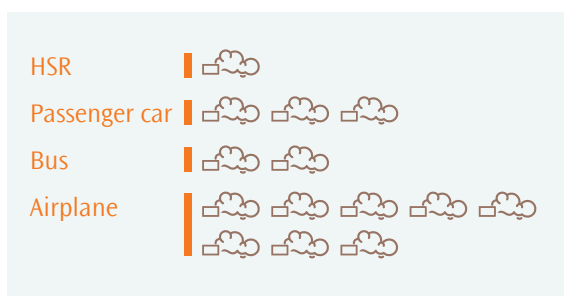
Miaoli station applied for 7 indicators and was awarded a Diamond level certificate from the Ministry of the Interior (MOI). Changhua and Yunlin stations applied for 6 indicators and were awarded Gold level certificates from the MOI.



### (2) Energy Saving and Carbon Reduction

#### 1) High-Speed Rail Carbon Footprint

We received the Carbon Footprint Label Certificate of High Speed Rail Transportation Services, issued by the Environmental Protection Agency (Certificate label No. 1714910001, valid until December 16, 2020). Our carbon footprint was verified to be 34 gCO<sub>2</sub>e per passenger-kilometer (per passenger per kilometer). THSRC placed a "foot print" label on the back of train tickets to show passengers 34g of CO<sub>2</sub> emissions will be produced for each passenger-kilometer. A comparison with other transportation vehicles indicates that this emission level is one-third that of cars, one-half of buses, and one-eighth of national airlines. In 2019, THSRC passenger traffic volume was 11,994 million passenger-kilometers, 971,551 tons of carbon emissions lower than that of small vehicles with similar passenger-transport volume. This reduction level is equal to the carbon absorption level of 3,274 Daan Forest Parks combined.



In November 2018, we participated in the annual EPA "Low Carbon Product Awards" and won the Excellence Award. We were awarded with a prize of NT\$200,000 and became the first winner from the transportation industry. In addition, we received a trophy in appreciation for our selfless contribution to EPA's carbon footprint product database.

2) CO<sub>2</sub> or other Greenhouse Gas Emissions

We continue to promote our four major energy-saving programs (self-managed energy saving, reduction of power consumption, transfer peak power demands, and reasonable power usage), set a power saving target to reduce at least 0.86% of "averaged electricity consumption per passenger" each year, and also established an index of the "carbon emissions per Passenger-Kilometer" for the purpose of quantifying the tendency and status of carbon emissions generated by overall energy consumption. The target of carbon reduction is set to exceed 1.5% annually. In 2019, the Corporation's greenhouse gas emissions were 334,898.78 tons of CO<sub>2</sub>e, with more than 99% of emissions coming from purchased electricity. Furthermore, we voluntarily conducted greenhouse gas (GHG) inventory for our 12 stations in 2016~2018 and obtained an ISO14064 Verification Statement issued by a third party. The relevant verification information is as follows:



Year	Scope 1: Direct greenhouse gas emissions (the source of emissions from the usage of diesel, gasoline and refrigerant) (CO <sub>2</sub> e tons)	Scope 2: Indirect greenhouse gas emissions from energy purchased and consumed (the source of emissions from the purchased electricity) CO <sub>2</sub> e tons	Verification Unit
2016	1,253.5175	45,630.9776	TÜV Rheinland Taiwan Ltd.
2017	1,435.9965	50,533.9868	DNV GL Business Assurance Co., Ltd.
2018	1,754.6352	50,119.8128	DNV GL Business Assurance Co., Ltd.

Carbon-reducing efficiency of electronic documentation system:

- Signing rates for documents in the electronic documentation exchange system was more than 99%.
- The number of electronic documents in 2019 was 46,798, saving 561,876 pieces of paper, conserving 68 trees, and reducing 816 kgs of carbon emissions.



(3) Adaptation to Climate Change Impact

The main risks from climate change include severe weather phenomenon such as extreme high temperature; rising sea levels; increased rainfall, rainfall intensity, typhoons, cyclones, and lightning, which have increased in frequency and intensity, enhancing vulnerability levels of the railway industry and impacting our operations. We actively face the impact of climate change. In accordance with the "Adaptation Strategy to Climate Change in Taiwan" proposed by the National Development



Council, we continue to assist the Institute of Transportation, Ministry of Transportation and Communications (MOTC) in conducting research related to climate change adaptation, participating in the development of a railway and highway climate change adaptation information platform and expansion of its functions, and strengthening the analytical functions of the information platform regarding vulnerability and risk with a view to supporting decision-making analysis of climate change by railway and highway competent authorities. Furthermore, we have also signed the "Memorandum of Cooperation on Cross-Border Disaster Prevention" with the Central Weather Bureau, MOTC to enhance meteorological interpretation capabilities through mutual cooperation; these also serve as an important reference for THSRC to make traffic dispersion decisions and track safety assessments during disasters. All the facilities built by THSRC for "flood prevention, earthquake prevention and wind damage prevention" comply with domestic and international regulations.

At present (2018~2022), our adaptive actions toward climate change impact include:

- 1) Establishment of warning system for slope safety.
- 2) Strengthening protection of tunnel portal slopes.
- 3) Risk assessment and protection design for scoured cross-river bridges.

#### **(4) Air Pollution Prevention and Control**

We set up facilities for air pollution control at our train painting station located in the Yanchao Main Workshop. These facilities include a pulse-jet bag filter, activated carbon filter, and catalyst incinerator, and help to treat the dust and volatile organic compounds (VOCs) generated from painting cars. We obtained a permit for stationary pollution source installation on October 19, 2017 and an operation permit on January 31, 2019.

#### **(5) Water Resources Management**

We implemented water conservation, water reduction, and water recycling as our water resources management policy, and set an annual water-saving goal to reduce at least 3.42% of "water consumption per passenger." We established sewage treatment plants at each maintenance depot and station; we test and report regularly on the quality of discharged water every month to ensure that it meets standards for discharged water and can be recycled for sprinkling, and also track the implementation status of water-saving measures through quarterly review meetings to check water usage volumes, analyze reasons for increments or decrements in water consumption, and promote water saving measures to reduce our water usage. Additionally, our water supply is completely sourced from tap water and uses no underground water. The Corporation's total tap water consumption was 723,602 m<sup>3</sup> in 2019. Recovered rainwater and waste water is used for plant irrigation to reduce tap water usage. At depots, discharged rain and waste water is first discharged to a retention pond prior to usage. The station buildings at Miaoli, Changhua, and Yunlin stations are specially equipped with underground water storage tanks to store rainwater and waste water for reuse.

#### **(6) Waste Management**

Our waste management policy promotes the concepts of recovery and recycling, reduces waste at the source, and strengthens waste separation and recycling. Most waste generated from our operations, including passenger waste, is industrial waste which we entrust to qualified disposal companies for transport to incinerators. Furthermore, we promote waste recycling (including waste paper, waste plastic, scrap iron, waste wood, scrap copper, aluminum scrap, waste lighting source, waste lead storage battery, waste glass container) at stations and through workshops, which has effectively reduced our waste volume. The Corporation's total waste disposal capacity was 7,235.92 tons in 2019, of which 1,245.88 tons of waste were recycled.

## (7) Noise Prevention and Control

Our noise prevention and control targets comply with government regulations and commitments set out in THSR EIA Reports, and we have responded effectively to noise complaints from local residents. A team of dedicated staff members are responsible for communication with the environmental authorities, and standard procedures have been developed for handling noise petitions and noise complaints. Additionally, to reduce the impact of noise made by our trains, we use noise barriers and soundproof windows or doors for better noise control.


## (8) Information on Environmental Expenses

1) Loss and penalty caused by environmental pollution during the latest year and up to the printing date of this annual report and disclosures of current and future estimated losses and response measures:

No losses or penalties occurred as a result of environment pollution during 2019 or up to the printing date of this report

2) Major capital expenditures of environmental protection estimated for the next three years:

Unit: NT\$ thousands



Item	Year	2019	2020	2021	2021
Monitoring of Environmental Quality		2,769	2,769	2,769	2,769
Research for Environmental Impact		2,980	4,653	4,653	3,653
Environmental Pollution Prevention		60,014	70,505	70,959	66,809
Total		65,763	77,927	78,381	73,231

3) Investment in main facilities for prevention and control of environmental pollution, as well as the usage and benefits, previous work and expenditures, and plans to be implemented within three years:

Unit: NT\$ thousands

Item	Year	Amounts	Use and Benefits
Recovery of artificial jacana habitat	2017~2019	3,286	Compliance with the commitments set in the THSRC EIA Report and highlighting our concern for ecological conservation.
Noise prevention project (including noise improvement of surrounding residential buildings)	2017~2019	3,716	Implementation of noise prevention and control according to EIA reports and regulations.
Measurement of noise and vibration at sensitive areas along HSR	2017~2019	5,724	Compliance with commitments set in THSRC EIA Report and analysis of noise prevention and control measures to be taken pre- and post-development.
Environmental monitoring in Miaoli, Changhua, and Yunlin, Stations during the operation stages	2017~2019	1,726	Compliance with commitments set in THSRC EIA Report and analysis of measures to be taken pre- and post-development.
Treatment of waste and waste water generated from HSR stations, workshops and relevant operations and maintenance	2017~2019	162,021	Treatment of waste and waste water from stations and workshops in accordance with relevant regulations.
Verification of Carbon Footprint for High Speed Rail Transportation Services	2017~2019	2,450	Obtained EPA Carbon Footprint Label Certificate of High Speed Rail Transportation Services, confirming CO <sub>2</sub> emissions produced for each passenger-kilometer.
Greenhouse gas inventory of HSR stations.	2018~2019	2,755	Voluntarily execution of GHG inventory over all 12 stations and obtained ISO14064 Verification Opinion Statement issued by a third party.
Establishment of ISO14001 Environmental Management System with continuous improvement and consultation.	2018~2019	428	Ensuring effective and consistent operations and maintenance of the ISO14001 Environmental Management System .
Total		182,106	

## 2. Quality Services

### (1) Frequent, Convenient, Punctual, and Reliable Train Services

In order to meet the varying travel destinations and needs of passengers, and to ensure provision of fast intercity transportation services, THSRC offers the following train stopping patterns:

Train stopping patterns

Nangang	Taipei	Banqiao	Taoyuan	Hsinchu	Miaoli	Taichung	Changhua	Yunlin	Chiayi	Tainan	Zuoying	Total run time (minutes)
●	●	●				●					●	105
●	●	●				●				●	●	110
●	●		●			●	●	●	●	●	●	130
●	●	●	●	●		●			●	●	●	130
●	●	●	●	●	●	●						76
						●	●	●	●	●	●	72
●	●	●	●	●	●	●	●	●	●	●	●	145

THSRC provides up to 166 services a day depending on peak or off-peak days of the week. The number of train runs are increased during consecutive holidays in order to provide frequent and convenient services that fulfill passenger needs.

### (2) Multiple Convenient Ticket Booking and Purchasing Channels

Currently, passengers can book, purchase, and pick up their tickets through ticket window equipment (TWE), ticket vending machines (TVM), internet reservation system (IRS), convenience store ticketing system (CVS), electronic ticket system (ETS), Facebook Messenger ticketing system (AITS), interactive voice reservation (IVR), reservation call center (RCC), reservation system workstation (RSSW), B2B joint promotion (BJP), and agent ticketing management system (AGTS). Passengers can also board trains using contactless smartcards such as EasyCard co-branded credit cards (EC) and iPass co-branded credit cards (IPS).

THSRC upholds principles of innovative service and continues to establish other ticket purchasing channels so as to provide our passengers with convenient ticketing services.

### (3) Convenient Station Services

1) Modernized and artfully designed stations and enthusiastic station service personnel provide a wide range of services and amenities to ensure ease of travel, including ticket counters and automated ticket vending machines, passenger information systems, information desks, guidance for elderly and disabled passengers travelling alone, disabled facilities, nursery rooms, drinking fountains, convenience stores, and restaurants. Wi-Fi is also available in all stations so passengers can quickly retrieve any information they need.

- 2) HSR station shuttle services include: buses, taxis, rental cars, drop-off and pick-up zones, and parking lots. Nine of our stations (Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Tainan, and Zuoying) are connected to other rail (TRA or subway) services.
- 3) In order to provide our passengers with convenient access to and from our stations, the Corporation works with express bus companies to provide free shuttle bus services under joint marketing campaigns. In 2019, we offered 330,678 free shuttle bus trips to 4,203,000 passengers. The following is a summary of bus routes operated in 2019:

Distribution of HSR Shuttle Bus Routes

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

#### (4) Comfortable Train Travel

- 1) Disabled access services: The seventh carriage of HSR trains are designated as disabled-access carriages, and four seats are reserved for carers, allowing them to stay close to and take care of disabled passengers. A disabled accessible toilet is also provided at the vestibule of the seventh carriage. Call-for-aid buttons are provided at each disabled seat and in the disabled toilet. Disabled passengers requiring assistance can notify train personnel by activating the call-for-aid button at any time. Charging sockets have also been installed on trains for electric wheelchair users.
- 2) Friendly and helpful train personnel:

##### Train attendants

Train attendants sell goods from our train trolleys, assist disabled passengers and passengers who have applied for assistance to get on and off trains, and help to manage on-train lactation rooms. They are attentive to the needs of wheelchair-riding, disabled, elderly, and pregnant passengers and ensure that passenger luggage is placed in appropriate locations. Additionally, train attendants also help to maintain on-train comfort and noise levels, thus enhancing safety and service quality for passengers. Furthermore, attendants also respond to passenger queries, accept passenger feedback, and assist the trainmaster with emergency responses to ensure the safety of on train passengers.



##### The train master

The train master is not only responsible for driving the train when necessary and inspection of operational safety equipment, but also conducts ticket inspections and fare charges. For passengers who have boarded the wrong train or who have changed their plans at short notice, the train master provides transportation transfer details and guidance, helping passengers to board the right trains. Additionally, the train master also provides lost and found services, assists passenger who have applied for guidance assistance at short notice, and responds to passenger queries. The train master not only maintains trains safety, but is also committed to providing high-quality passenger transportation services.

- 3) Mother- and infant-friendly areas: Fifth-carriage vestibules of all trains are equipped with lactation rooms that provide a private and safe space for nursing, pumping, and breastfeeding mothers. If passengers need to use lactation rooms, train personnel will guide them through the usage of available facilities which offer a mother- and infant-friendly travel environment and passenger services.
- 4) Free Wi-Fi services: In consideration of the increasing popularity of mobile communication devices and passenger needs, passengers can use their mobile phones, tablets, laptops, and other communications devices to connect to the Internet via the "iTaiwan" network (requires login account) and use the free Internet services provided by this network, as well as free charging services. In addition, free onboard charging services are provided in the telephone booths of the fourth and twelfth carriages of every train for the convenience of passengers who wish to charge their mobile devices.

### (5) Instant Consultation Services

Our customer service provides instant online consultation, reservation of wheelchair accessible seats, passenger guidance, and lost & found services every day from 06:00am to 24:00am. Customer service is available in English, Chinese, and Taiwanese.

In addition to our online customer service, we also offer multiple channels for gathering customer feedback, such as customer suggestion forms, station and train service personnel, our corporate website, and our customer service center, to accept, handle, and respond to customer suggestions and ensure protection of customer rights.

Customer suggestions are also used as an important basis for promotional activities and implementation of service strategies.

## 3. Friendly Work Environment

### (1) Talent Development

#### 1) Labor conditions

##### A. Talent retention and appropriate placement:

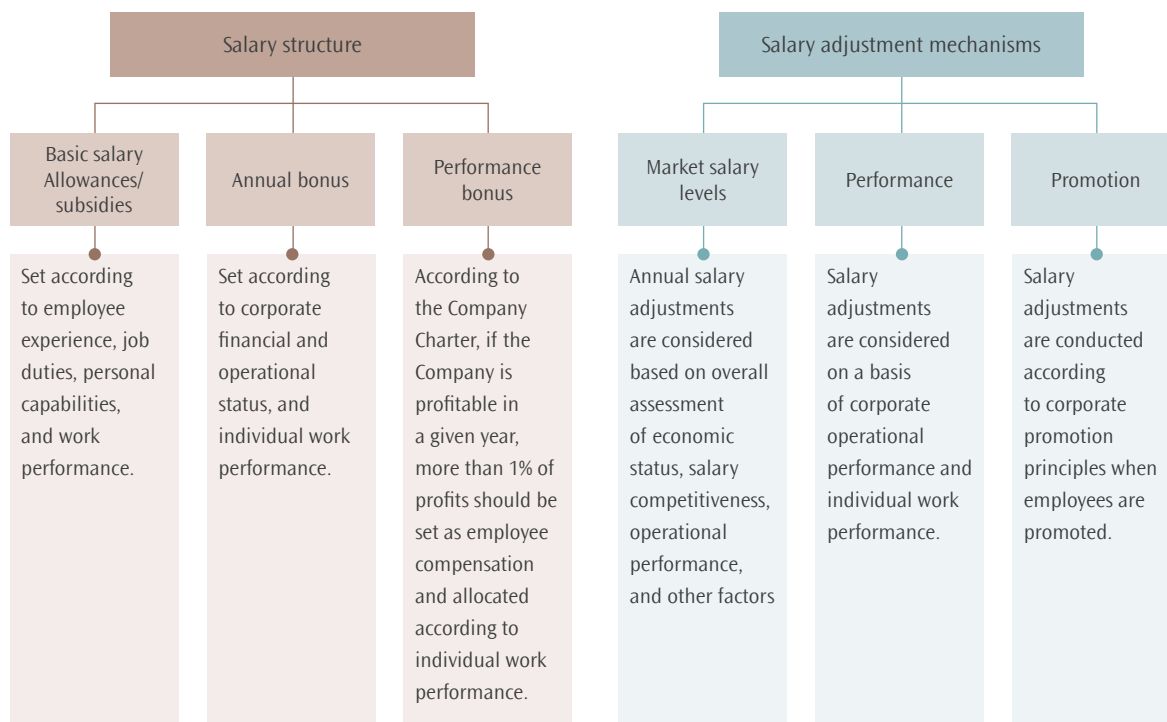
THSRC provides career advancement opportunities for talented employees based on organizational needs and individual development to enhance professionalism and achieve our target of incentivizing and retaining talent. Qualified employees that meet company requirements and wish to hold managerial positions can further their career development and fully realize their potential through positional promotions.

Additionally, THSRC prioritizes internal application channels when filling in-house positions. We train employees in multiple skills through different job opportunities in line with our policies to realize talent potential, provide appropriate placements, and cultivate talent.

##### B. Competitive remuneration:

THSRC annually reviews the competitiveness of our salary structure and assesses necessity for salary adjustments. Additionally, we achieve our goals of prioritizing employees, incentivizing talent, and profit sharing by providing bonuses based on corporate and individual performance.

## Salary structure and salary adjustment mechanisms



Year	2015	2016	2017	2019
Adjustment	3.0%	3.2%	3.1%	3.5%

Note: Salary adjustments for 2019 were implemented on November 2018. Average overall salary adjustments for the year amounted to 3.5% (not including salary adjustments for promoted personnel).

### 2) Learning and development

We promote talent management evaluations to aid active identification of management capabilities when formulating talent development plans, helping to focus talent cultivation and resource utilization. Additionally, we have also formulated specific development paths for certain job positions and cultivate professional talent through job rotations and experience. We have also established a knowledge management mechanism using the company's knowledge base as a blueprint, and classify knowledge documents into the following types: integrated materials, LFE learning from experience, maintenance database, operational database, and general knowledge, to help pass on operations, maintenance, construction, and services experiences, and build the level of knowledge needed to achieve maintenance and operations targets.

## (2) Concern for Human Rights

Human rights policies and implementation of measures to alleviate human rights risks:

Human Rights Issues	Stakeholders	Human Rights Policy	Implementation of Mitigation Measures for Human Rights Risks	International Human Rights Conventions
Freedom of Association	Employees	We ensure employees have freedom to form associations for various purposes, and to participate or refrain from participating in association composition and related affairs.	<ol style="list-style-type: none"> <li>1. We support freedom of association for our employees, who have currently established more than one hundred different clubs.</li> <li>2. We protect our employees' right to organize. Currently, two labor unions (a corporate union and an industry union) have been formed within the Corporation. The Corporation periodically convenes meetings with these unions to build harmonious and strong labor-management relationships.</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 22 of the International Covenant on Civil and Political Rights</li> <li>2. Article 8 of the International Covenant on Economic, Social and Cultural Rights</li> <li>3. International Labour Convention No. 87: Freedom of Association and Protection of the Right to Organize Convention</li> </ol>
Care for Disadvantaged Groups	Employees/ Employee Family Members/ Passengers/ Community Residents	We focus on public policy and various charities, and participate in the community development and education activities of civic organizations, charitable organizations, and local governmental institutes.	<ol style="list-style-type: none"> <li>1. We hire disabled and indigenous individuals in accordance with law, and provide group insurance, compensation payments, and relief payments for hospitalization, medical care, and major hazards.</li> <li>2. We provide passenger guidance services as well as accessible seating, elevators, parking spaces, and toilets as part of our commitment to offer a friendly and accessible environment for our passengers, and we have formulated a comprehensive service program.</li> <li>3. Our "High-Speed Educational Endowment Program" provides educational opportunities for economically disadvantaged groups; our "THSRC Smiling Train Program" works with various educational and charitable institutes to help disadvantaged groups obtain free or discounted HSR tickets; and our "Winter Outreach Blood Drive" helps to relieve blood shortages during the winter season.</li> </ol>	Article 9 of the Convention on the Rights of Persons with Disabilities: Accessibility
Prohibition of Child Labor	Legal hiring and employment procedures No employment of child labor	We do not employ any child laborers younger than 15 years of age.	To protect children's right to education, we filter out child laborers under 15 years of age when assessing job candidates. The Corporation does not currently employ any child laborers.	Article 10 of the International Covenant on Economic, Social and Cultural Rights
Eradication of Forced Labor	Employees	We prohibit use of any form of forced labor through abuse, intimidation, detainment, or other illegal means.	<ol style="list-style-type: none"> <li>1. We do not retain personal identification documents of personnel reporting for work and also do not require prior payment of any fees.</li> <li>2. All wages are paid in full, save where otherwise provided by law (legally withheld funds, health insurance and labor pension co-payments, employee welfare funds, union fees, and so on).</li> <li>3. Employees provide their services voluntarily.</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 8 of the International Covenant on Civil and Political Rights</li> <li>2. International Labour Convention No. 100: Equal Remuneration Convention</li> </ol>

Human Rights Issues	Stakeholders	Human Rights Policy	Implementation of Mitigation Measures for Human Rights Risks	International Human Rights Conventions
Eradication of Hiring and Employment Discrimination	Employees/ Job Candidates	We avoid discrimination and differential treatment in all forms to realize diversity and enhance equality in the workplace.	<ol style="list-style-type: none"> <li>1. The Corporation does not discriminate in any way during the hiring process.</li> <li>2. We provide employee lactation rooms to support breastfeeding policies.</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 7 of the International Covenant on Economic, Social and Cultural Rights</li> <li>2. International Labour Convention No. 111: Discrimination (Employment and Occupation) Convention</li> <li>3. International Labour Convention No. 183: Maternity Protection Convention</li> </ol>
Abolish Violations of Human Rights	Employees	We ensure that individual employees have appropriate channels for clarification and grievance reporting when their legitimate rights and interests are infringed upon, and make sure that they are not subject to any form of adverse treatment.	<ol style="list-style-type: none"> <li>1. We have formulated preventive measures and grievance reporting procedures for sexual harassment and publicly disclosed these within the workplace; additionally, our two-tiered grievance processing mechanism solidifies our internal grievance system and ensures that the problems of each employee are appropriately handled.</li> <li>2. Our appraisals and penalties for violations or noncompliance of laws, regulations, and internal Corporation rules are handled in accordance with regulations governing rewards and disciplinary actions.</li> <li>3. We provided training for protection of human rights (666 hours on legal compliance, 288 hours on prevention of workplace bullying, 12,903 hours on occupational safety, 2,359 hours on ethics and morals, and 2,353 hours on prevention of insider trading); the total number of training hours for 2019 was 18,569 hours.</li> </ol>	Article 2 of the International Covenant on Civil and Political Rights
Friendly Workplace	Employees/ Employee Family Members	We help our employees to find a balance between work-life conflicts so as to build a friendly workplace and enhance employee loyalty.	<ol style="list-style-type: none"> <li>1. We disclosed remuneration information for full-time non-managerial employees: average remuneration for 2018 was NT\$888,000, a 4.70% increase over the previous year. We annually review the competitiveness of our remuneration so that our employees can receive reasonable compensation.</li> <li>2. We provide employees with appropriate leisure spaces and facilities such as softball fields, basketball courts, badminton courts, gym equipment, and so on. We host a variety of sports competitions and invite family members of employees to participate.</li> <li>3. Our "HSR Family Day Activity" gives employee family members a chance to visit our maintenance depots and other places of work, providing a fun experience within the workplace and bringing our employees together.</li> <li>4. Each department hosts birthday celebrations and dinner parties to enhance employee relationships.</li> <li>5. We have established mechanisms to protect the physical and mental health of our employees and to build a healthy and friendly work environment.</li> </ol>	Article 11 of the International Covenant on Economic, Social and Cultural Rights



Human Rights Issues	Stakeholders	Human Rights Policy	Implementation of Mitigation Measures for Human Rights Risks	International Human Rights Conventions
Safe Work Environment	Employees	We protect employee safety and strive to prevent workplace hazards from occurring.	<ol style="list-style-type: none"> <li>1. We formulated and executed annual programs for occupational health and safety management reviews and rewards, including our "Rewards Program for Occupational Health and Safety Management" and our "Rewards Program for Reporting Near Misses of Occupational Health and Safety Hazards."</li> <li>2. We organized safety promotion activities including safety culture assessments, check-ups of employee scooters, free shuttle buses for areas with high traffic hazard risks, and traffic safety lectures. In order to reduce traffic hazards, we submitted proposals for improvements, hosted safety awareness competitions, and created promotional materials.</li> <li>3. We obtained certification of our occupational health and safety management systems and follow-up procedures; impartial reviews from third parties allow the Corporation's occupational health and safety management system to operate sustainably and continue to improve, helping us to achieve our ultimate target of zero hazards and zero accidents.</li> </ol>	<ol style="list-style-type: none"> <li>1. Article 7 of the International Covenant on Economic, Social and Cultural Rights</li> <li>2. International Labour Convention No. 155: Occupational Safety and Health Convention</li> <li>3. International Labour Convention No. 161: Occupational Health Services Convention</li> <li>4. International Labour Conventions No. 187: Promotional Framework for Occupational Safety and Health Convention</li> </ol>
Promotion of Employee Health	Employees	Enhance employee health.	<ol style="list-style-type: none"> <li>1. We continue to evaluate employee health check items. The frequency and number of items included in our employee health checks exceed that required by law. We added advanced microscopy and imaging inspection items for senior employees (those above 45 years of age and who have worked at the Corporation for more than 10 years) starting in 2018, and pulmonary function tests and measles immunity tests starting in 2020. Apart from periodic health checks, we also provide flexible health check programs according to individual needs.</li> <li>2. We advanced our employee health management system. Apart from evaluations by medical personnel, health check results were compiled and analyzed by a personalized "EHM Employee Health Management Platform," and analysis results were used to plan and manage various health promotion activities suitable for our employees.</li> <li>3. Every year, we host health promotion activities such as lectures on healthy diets, weight loss, and smoking cessation; influenza vaccines; and health and physical fitness inspection activities.</li> </ol>	Article 25 of the Universal Declaration of Human Rights

Human Rights Issues	Stakeholders	Human Rights Policy	Implementation of Mitigation Measures for Human Rights Risks	International Human Rights Conventions
Supply Chain Management	Suppliers	To achieve our target for sustainable operations, we continue to communicate with different partners in our supply chain regarding establishment of comprehensive management measures for human rights issues (such as prohibited use of child labor, compliance with legal work hours, equality in hiring procedures, and freedom of association).	<ol style="list-style-type: none"> <li>1. Our tender notices stipulate that we oppose all discriminatory behaviors (include discrimination towards women, indigenous people, and disadvantaged groups). Major violators of this policy, if discovered, are blacklisted.</li> <li>2. When submitting bids, suppliers have to submit affidavits declaring compliance with relevant labor laws and internationally accepted labor rights.</li> </ol>	-

Training for protection of human rights:

In order to establish a high-quality work environment and reduce risks relating to human rights, the Corporation has implemented information assimilation, sexual harassment courses, promotion to prevent workplace bullying, and comprehensive workplace safety training in accordance with relevant regulations. Attendances in these courses and total training hours are as shown below:

Item	2015	2016	2017	2018	2019
Attendees	3,491	1,689	16,041	13,354	14,153
Total training time (hours)	10,047	4,180	36,651	17,719	18,569

### (3) Occupational Safety and Health

THSRC periodically reviews company safety policies, procedures, and implementation results to achieve our goal of continued safety improvement. We worked with external professional units to conduct safety culture assessments for 2017 as a way of reviewing overall safety implementation results and to provide a reference for senior management. We also conducted a series of corporate safety activities to strengthen autonomous management of health and safety, effectively reducing occupational hazard risks and enhancing protection of employee health and safety.

Additionally, we became an accredited Health Promotion Administration "Healthy Workplace Accreditation-Health Promotion Certificate" workplace starting in 2019, and are actively establishing smoke-free environments, promoting health-enabling measures, and building healthy work environments.

In 2019, THSRC continued promotion of the Ministry of Labor's Operation Directions for the Performance Recognition of the Occupational Safety and Health Management Systems of Business Entities to ensure that the Corporation's occupational safety and health management measures can operate efficiently in line with international safety and health voluntary management standards, and help to protect worker safety and health.

## 4. Mutually Beneficial Society

### (1) Social Contributions

THSRC upholds operational principles of sustainable development and strives to fulfill our corporate social responsibilities. We continue to expend our corporate resources to support all sorts of social contributions, environmental issues, and art performances, hoping to enhance public recognition of the Corporation, provide support to those in need, and to build a richer and better society in Taiwan through delivery of sincere care.

#### 1) High-Speed Educational Endowment Program

The THSRC "High-Speed Educational Endowment Program," which has been hosted consecutively for 11 years, was once again initiated on New Year's Day of 2020. In order to help disabled and disadvantaged children bridge learning gaps, THSRC Chairman Yao-Chung Chiang and Cheng-Hsia Lin, the Chairman of Down Syndrome Foundation jointly hosted the "2020 High-Speed Educational Endowment Program" press conference on December 24, 2019 at HSR Nangang Station, and also collaborated with Goodwill Ambassador James Wen in inviting HSR passengers and the general public to understand the importance of early intervention for developmentally delayed children in rural areas. The donations collected on HSR trains and in stations were used to spread warmth and care to every corner of Taiwan.

THSRC has hosted the "High-Speed Educational Endowment Program" annually since 2010. Over the years, we have raised more than NT\$138 million and helped with the learning and growth of more than 25,000 disadvantaged schoolchildren. We hope our passengers can continue to show love for others; every single donation is used to provide hope and new opportunities that can help developmentally delayed children and Down syndrome patients change their lives.



#### 2) THSRC Smiling Train Program

THSRC previously worked with charitable organizations and enterprises to provide HSR rides for disadvantaged groups and has since launched the "THSRC Smiling Train Program" to extend our work with disadvantaged groups and families. We leveraged our own advantages and collaborated with local educational and charitable organizations to help those in need. Since 2009, THSRC has worked with local educational and charitable organizations and helped many people achieve their dreams, bringing warmth and positive encouragement to the underprivileged in society.

To date, a total of 786 groups and 140,851 individuals have participated in this program. THSRC will continue to promote the THSRC Smiling Train Program in hopes of providing positive energy to those in need, spreading warmth, and building good memories.

### HSR Taipei Station "Love Accessibility" Project for Patients from the Ju Ren Special Needs Center

As part of our corporate social responsibilities and our initiative encouraging disadvantaged groups to enjoy outdoor activities, HSR Taipei Station gifted tickets to the Ju Ren Special Needs Center of the Catholic Kuang Jen Social Welfare Foundation so that its disabled patients could fulfill their dreams of riding the HSR. Participating teachers and students were grateful for THSRC's care and assistance, and the process of taking these disabled patients on the HSR and broadening their horizons also allowed them to fully experience THSRC's spirit of selfless love and fulfillment of corporate social responsibilities. In future, THSRC will continue to give back to our passengers and to society as we strive to ensure that every HSR train that runs along Taiwan's western corridor not only provides comfortable and convenient transportation services for our passengers, but also remains the best mode of transport for north-south travel and for sending love, so that we can become the best platform for spreading our spirit of "Love Accessibility."



### Special Performance from Wufeng Elementary School in Hsinchu County

Wufeng Elementary School is a remote school located at the Da'ai Tribe at Wufeng Township in Hsinchu County. The school's dean, Ms. Li-Juan Xia, explained that Wufeng Elementary School is located in a remote area and that all students are aborigines, mostly from the Atayal and Saisiyat tribes. Most of the working-age population in the region have left to seek employment elsewhere, while the middle-aged and the elderly are mostly farmers or work odd jobs. The students and teachers of the school have dreamed of taking a trip on the HSR for many years, but were unable to do so because of limited resources. They were finally able to ride the HSR this year thanks to THSRC's sponsorship. The students journeyed to HSR Hsinchu Station to sing Saisiyat songs and perform ocarina tunes in order to express their sincere gratitude. The elegant ocarina tunes paired with lively and moving melodies attracted the attention of many station passengers, causing them to stop in their tracks and enjoy the performance. The students and teachers were very grateful to THSRC for fulfilling their dreams of traveling on the HSR.



### Spreading Love at HSR Miaoli Station to Aboriginal Students from the Atayal Tribe

Shiang-Bi Elementary School in Taian Township is one of the few highly remote schools in Miaoli County for aboriginal students. All students at the school are members of the Atayal tribe. These schoolchildren donned traditional Atayal clothing and used their rich and clear voices to sing moving aboriginal songs which filled the halls of the HSR station. Many passengers stopped to enjoy and film this rare performance. The tickets gifted from THSRC provided a rare and new experience for most of these children, and helped them learn how to utilize their talents and realize the value of their aboriginal culture. The children were excited to face these new experiences as they boarded the HSR with the blessings of many well-wishers.



### HSR Tickets Gifted to Nantou Students for Eco-Friendly Coastal Cleanup

In order to allow students from rural areas to experience the speed and convenience of the HSR, THSRC invited 19 students and teachers from the "Taiwan Rainbow Gospel & Social Welfare Association in Nantou County" to travel to Taipei on a journey to give back to society. The Association arranged a special coastal cleanup activity on Bai Sha Bay and taught the students that they should learn to give back to society and do what they can for the environment even while accepting help from others.



Most of the children who participated in this HSR trip hailed from Nantou City, Puli Township, or Renai Township, and came from low-income families, skipped-generation families, or single-parent families. These children seldom had the chance to ride on the HSR or visit the ocean, so the Association took them to Taipei on the HSR just before the end of their summer vacation, and also arranged a coastal cleanup activity at Bai Sha Bay, hoping that this would remind them to contribute, give back to society, and care for the Earth.

### HSR Taichung Station Gifted Tickets to Patients with Spinal Cord Injuries

As part of our initiative to help disabled patients fulfill their dreams of taking a trip on the HSR, THSRC invited patients with spinal cord injuries from the Shanhaitun Spinal Cord Injury Association in Taichung City to take a day trip to Taipei on the HSR, giving these patients a chance to experience the HSR's accessibility facilities and convenient transit options.



Everything progressed smoothly from entering the station, riding the train, to leaving the station. These patients were able to experience the heartwarming services and convenient transportation provided by THSRC just like any other passenger. Before they embarked on their journey, the stationmaster at HSR Taichung Station gifted tickets to these patients on behalf of THSRC and wished them a pleasant journey. The music club within the Association arranged a special harmonica and ukulele performance to thank THSRC for organizing this trip.

### HSR Changhua Station Gifted Tickets to the Changhua TFCF

In order to help disadvantaged children in southern Changhua enrich their life experiences and gain the courage to pursue their dreams, HSR Changhua Station sponsored disadvantaged schoolchildren from southern Changhua County under the care of the TFCF (Tianzhong service center of Changhua branch), and provided them with round-trip HSR tickets from Changhua to Taipei so that they could visit the presidential office building in Taipei and have fun during their summer vacation. The children supported by the TFCF all came from economically disadvantaged families and they were all excited



to get an opportunity to ride on the HSR. We helped these children accomplish their dreams as part of our social responsibilities, and left them with great memories of their time on the HSR. The Changhua branch of TFCF is currently assisting 1,063 families and 1,889 children in southern Changhua. These children seldom had the chance to go on trips due to the economic conditions of their families, and taking a trip on the HSR was even more of an impossible dream. By allowing these disadvantaged schoolchildren from rural areas a chance to fulfill their dreams, THSRC became like Santa Claus to them.

### HSR Yunlin Station Sent Warmth to Children from Group Homes

The Corporation spread love to the children of the Long Love Group Home in Yunlin County by inviting them to take a field trip and providing tickets for a day-trip to Taipei, in hopes that this would encourage other members of the public to spread love also. Mr. Wen-Hui Wu, the head of the group home, said that the children were delighted by their HSR trip to Taipei, which was like a big family trip. He was very grateful to THSRC for giving them this opportunity.



### HSR Chiayi Station Spread Love and Kindness to Disabled Individuals

Each HSR ticket is a symbol of kindness. In order to encourage people with disabilities to enjoy the outdoors and expand their horizons, THSRC gifted HSR tickets to the "Dalín Education and Nursing Institute" in Chiayi County so that the disabled patients there could take a trip to Taipei on the HSR and enjoy the sights of the city. This was the first HSR trip for many of the patients at the Institute. Ms. Mei-Ling Liu, the head of the Dalín Education and Nursing Institute, said that the patients at the Institute were limited by factors such as physical conditions and time, so taking any trip was a challenge. She was grateful to HSR Chiayi Station for planning and organizing this trip, which allowed the patients to have an opportunity to experience a high-speed trip filled with love and knowledge, and she believes that this loving gift from THSRC gave the disabled patients very powerful support and encouragement.



### HSR Zuoying Station Created Memories for Elderly People with Dementia

Elders with dementia are unable to sit for lengthy periods of time on long journeys, and going to Yilan was even more of an impossible dream for many elderly people living in Kaohsiung. HSR Zuoying Station delivered love and care to elders suffering from dementia who were under the care of the Taiwan Holistic Care Information Association, helping them fulfill their dream of taking a trip around Taiwan using the HSR. The stationmaster of HSR Zuoying Station ceremoniously presented the tickets at the great hall of the HSR Zuoying Station and sent well-wishes to the elderly grandpas and grandmas with dementia who had been given the opportunity to take this trip. The senior members and volunteers of the Association organized a brief performance as an expression of gratitude, entertaining HSR passengers with wonderful song-and-dance and ukulele performances. These elderly people with dementia were thus able to accomplish their dream of taking the HSR to Kaohsiung and Taipei without the stress of a long journey. They were able to relax and enjoy their trip, admire the beautiful sights of Yilan, and make beautiful memories.



### 3) Annual THSRC Winter Outreach Blood Drive

THSRC launched the Winter Outreach Blood Drive initiative in 2012, and this marks the eighth consecutive year that we have hosted this annual blood drive at our 11 HSR stations and company headquarters. This initiative always attracts enthusiastic participation from THSRC staff and the general public. Our 8th annual blood drive attracted 1,978 participants and 2,854 bags of donated blood, which helped to relieve winter blood shortages and provide adequate supplies for those in need.



### 4) THSRC Collaborated with the Jane Goodall Institute on the "Explore the Beauty of Taiwan" Environmental Education Exhibition

THSRC actively implements our corporate spirit of "local cultivation" and "sustainable care" as we strive to build a better future and living environment through deepening and extending environmental awareness. In 2019, we commenced a special collaboration with the Jane Goodall Institute to jointly promote the "Explore the Beauty of Taiwan" environmental education project and deepen local awareness of ecosystem sustainability through the "Roots and Shoots" course taught at 20 schools across Taiwan. This course not only helped students understand the wide variety of wildlife and their habitats in Taiwan, but also encouraged schoolchildren to share and spread concepts related to the environment and animal protection to their friends, families, and communities, allowing more people to understand the importance of "sustainable care."



### 5) First "Journey with THSR, Discover Taiwan" Parade Float Launched at National Day Celebrations

In 2019, THSRC participated in the National Day celebration and parade for the first time, using "Journey with THSR, Discover Taiwan" as our theme and decorating our HSR float with amazing sights and cultures from different locations all over Taiwan, showcasing THSRC's activeness in promoting local travel, while simultaneously symbolizing that THSRC is advancing in step with Taiwan as we work to build a good reputation in the public eye.

We arranged for a "hand gesture dance" to be performed for the National Day parade, where the safety hand gestures used within THSRC were used as choreography elements and were paired with brisk dance moves. This dance was performed during the course of the parade, symbolizing our proactiveness in promoting local travel and encouraging the public to take fun trips. Each THSRC employee is focused and responsible in providing high-quality services, while also using the highest safety standards to protect passengers during every leg of their journeys.



## (2) Environmental Protection

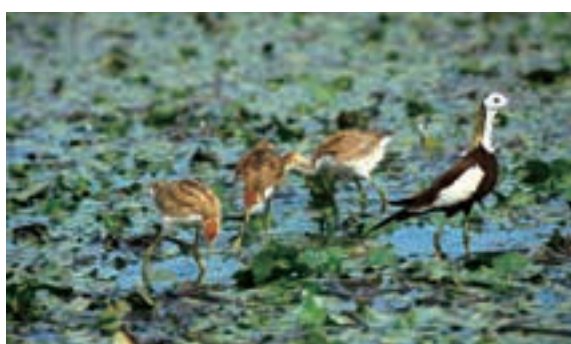
### Traveling with Saplings Program

THSRC collaborated with the Executive Yuan Taiwan Forestry Research Institute (TFRI) and the Wutong Foundation to launch the "2019 Traveling with Saplings" program on Arbor Day. We gifted 1,500 native tree saplings, 200 roll-on bottles of essential oils made from native plants, and moss pots to HSR passengers and members of the public at HSR Hsinchu Station. 2019 marks the sixth year that THSRC has collaborated with the Wutong Foundation on this gifting saplings project. To date, we have gifted a total of more than ten thousand saplings at HSR stations, taking action to remind the general public of the importance of planting trees and caring for the environment.



### Pheasant-Tailed Jacana Preservation

In 1998, the pheasant-tailed jacana, a Level 2 protected species also known as the "water chestnut bird" and the "ripple fairy," faced a survival crisis as HSR's mainline passed through their habitat in Hulubei of Guantian District in Tainan. In order to conserve the pheasant-tailed jacana, THSRC worked with relevant units and, starting from 2000, invested more than NT\$50 million to build the first artificial habitat recovery ground in Guantian under a three-way collaboration project involving the government, construction units, and civil organizations. Many volunteers have participated in the processes of habitat assessment, land rental, and construction, and many professionals and academics have also been involved in this work, causing the number of jacanas to rise from 9 in 2000 to 1,741 in 2019. The area of the jacana habitat was gradually increased; in 2007, we renamed the recovered habitat Jacana Park and opened it to the public. More than 21 thousand visitors have been recorded to date. To strengthen the educational value of this park, we created tour devices, galleries, and interactive displays to present the results of our native species restoration efforts and help the public better understand wildlife conservation. This project has also drawn the attention of international environmental units and conservation activists, serving as one of the few successful cases where economic development and conservation were able to coexist.





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

During THSRC's construction period, an old camphor tree and a Land God Temple in the city of Hsinchu both faced removal as they were located on the main route used by the HSR. Under a joint effort involving both our management team and local residents, our construction team managed to preserve the old camphor tree at its original position by adjusting our construction designs. Subsequently, as the old camphor tree began to advance in years, long-term care was required to maintain the appearance of its branches and leaves. THSRC worked with the government, the Environment and Resources Protection Committee, and cultural and historical authorities to draft the "Hsinchu Old Camphor Tree Medical Plan," which proposed measures to repair decayed branches and maintain an environment suitable for the tree's health.

Phase	Time	Description
Preservation and incubation	1996~1999	The government originally wanted to transplant the tree, but driven by our emphasis on protecting cultural relics, we ultimately decided to preserve the tree.
Design alteration	1999~2000	Construction designs were changed to accommodate the Land God Temple and the old camphor tree, increasing engineering costs and subsequent maintenance expenses.
Emergency rescue	2001~2002	The old tree suffered from severe infestation and parts of its trunk became decayed. Tree surgeon Mr. Gan-Lin Yang was engaged to restore life to the old tree.
Relocation and change in temple orientation	2003~2004	Following completion of HSR construction, worshippers recommended changing the orientation of the Land God Temple to face south for a broader field of vision. After several negotiations, the orientation of the Land God Temple was successfully changed.
Management and maintenance	2006~present	The branches of the old tree gradually grew closer to the HSR track. In order to maintain the tree's appearance and heal its wounds, the old camphor tree was regularly trimmed and the surrounding trees were also sprayed with pesticides for plant protection.

## Reduce energy and plastic usage for environmental sustainability

Almost 2,400 THSRC employees have participated in beach clean-ups from 2016 to 2019 on wetlands, sandy beaches, and tetrapod filled beaches. HSR employees from north to south have cleared about 12,090 kg of ocean waste over the past four years, doing what they can to protect our environment.

THSRC is a symbol of green transportation in Taiwan. In response to governmental energy-saving and carbon-reducing initiatives, we fulfill our commitment to environmental sustainability through innovative low-carbon and green procurement strategies, and green buildings. These beach clean-ups can serve as a new beginning for all: use one less plastic straw, one less plastic bag, and one less plastic bottle every day; and carry reusable eating utensils. Let us all work together to ensure the sustainability of the environment in Taiwan.



### (3) Exchanges and Events

#### HSR Camps

THSRC is responsible for providing transportation along Taiwan's western corridor, connecting major cities at speeds of up to 300 kilometers per hour and providing safe, comfortable, convenient, and high-quality travel for passengers. As passenger numbers continued to rise, THSRC launched a railway camp during the winter and summer vacations starting in 2008 as part of its corporate social responsibilities. The camps provide a variety of courses for students of different ages, and include visits to our Operational Control Center, Maintenance Base, and the THSR Museum. Detailed introductions and tours provided participants with moving descriptions of THSRC's history, maintenance procedures, and operations. This fun and comprehensive learning journey firmly embedded knowledge of the railroad industry and THSRC culture into the hearts of participants of all different ages.



#### THSR ART Together Program

THSRC launched the "THSR ART Together Program" in 2015, providing free space in HSR stations for group performances as well as individual singing, dancing, or musical performances. In 2017 and 2019, THSRC was respectively awarded the "13th Arts and Business Awards (Cultural Development)" and the "14th Arts and Business Awards (Permanent Awards Category)" by the Ministry of Culture. As of year-end 2019, 511 groups and 13,674 individuals have performed at 9 HSR stations (Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan, and Zuoying). THSRC hopes that the "THSR ART Together Program" can allow passengers to appreciate the beauty of the arts while traveling with the HSR.



#### More than 600 Million Passengers Transported on the HSR

THSRC hosted the "600-Million Ridership Awards" from December 23, 2019 to January 31, 2020 to celebrate our corporate milestone, inviting the general public to celebrate a new peak in our ridership numbers, and to bring continued good fortune to all. Members of the general public could participate in a lucky draw for free or half-priced HSR tickets by joining our online activities, predicting which station would welcome the 600-millionth passenger, playing games on our event website, or by sharing the event on Facebook. The 600-millionth HSR passenger received one year's worth of free and unlimited number of HSR rides, while passengers before and after the 600-million mark received HSR business-class travel package tickets for two as a mark of

our appreciation. In order to promote these events, THSRC designed six characters to represent the different scenarios faced by passengers and scripted an animation featuring these characters. We also placed advertisements on specific ticket barriers, ticketing machines, photo-worthy spaces, corporate ad spaces, multimedia ad slots, TLife magazine, and other platforms for the first time. Traffic for our event website reached 641,114 page views, total online users exceed 2.6 million.



### Preserving Railway Culture - THSR Museum

The THSR Museum was planned and established around cultural assets taken from the planning, construction, and operational stages of the HSR. The Museum was formally launched on January 5, 2017 to celebrate the tenth anniversary of HSR's operation commencement. The collection at the Museum looks back on the three revolutions of Taiwan's railroad industry, moving sequentially through policy planning for the HSR, BOT contractor selection and contract negotiation, founding of THSRC and its five original shareholders, as well as the construction and operational stages of the HSR. The display and introduction of these items help visitors gain a better understanding of our history. Currently, the Museum has become an important platform for THSRC external communications. A total of 11 lectures relating to railroad culture were hosted in the spring and autumn of 2019, attracting and gaining a strong following among many railway lovers and members of the general public. As of year-end 2019, a total of 2,002 groups and 53,439 people have visited the museum.

### "New Driving Simulator": Giant Strides Made in Domestic Production Capabilities

As part of our active involvement in the government's "Special Act for Forward-Looking Infrastructure," we commissioned the National Chung-Shan Institute of Science & Technology (NCSIST) to construct a new driving simulator for HSR trains, a project that was successfully completed in two years and five months. Having localized design and development spearheaded by the NCSIST greatly reduced manufacturing costs, and could possibly enhance maintenance efficiency, allowing for better training schedules and easier skill verification processes for HSR drivers. Additionally, designing and manufacturing locally in Taiwan gives us high levels of autonomy, meaning that we can extend and revise simulation scenarios according to the actual needs of HSR operations. These scenarios can then be used to provide timely and comprehensive training to drivers, which will help to ensure the safety



of train operations and passengers. THSRC continues to make strides towards our goal of "autonomous technology and local maintenance," and we also hope to utilize our role as a leader in the rail industry to bring limitless opportunities to other local industries.

### "Bogie Running Tester Equipment" and "Diesel Shunter Locomotives": Domestic Production of Domestic Trains

THSRC continues to adhere to the government's "domestic manufacturing of domestic vehicles" policy. We are active in promoting localized development in the rail industry and have worked with the Industrial Technology Research Institute (ITRI) to develop Bogie Running Tester Equipment that allowed maintenance of HSR trains to become more efficient and enhanced our transport efficiency so we could better fulfill the needs of our passengers. THSRC also began working with Taiwan Rolling Stock Company for the first time to develop Diesel Shunter Locomotives which would further ensure our speed control safety and locomotive driving safety. By integrating the R&D capacities of top Taiwanese companies and academic research units, THSRC has now taken a further step in implementing our corporate goal of "autonomous technology and local maintenance."



#### (4) Technical Exchanges and Visitations

##### 1) Group Field Visits

THSRC continues to maintain good relations with our peers in the transportation and rail industries, and is involved in 17 public associations. We ensure continued updating and innovation of our services and operational strategies through academic and experience exchanges with academic societies.





THSRC has accumulated many achievements and experiences through continued and steady learning. Starting from 2006, we opened our doors to groups from government units, rail transportation peers, and industry-academia collaboration projects in order to allow industrial, governmental, and academic representatives and transportation companies from countries all around the world a chance to obtain a more complete understanding of THSRC's spirit and operations. We have organized tours of HSR stations, as well as our Maintenance

Base and Operations Building. Visitors have included a state legislature visiting group from northeast America, as well as groups from the Academy for the Judiciary, the Taoyuan Metro Company, the System Operation Control Division of China Airlines, and the Japan Railway (JR) Companies (West Japan, East Japan, and Hokkaido). In 2019, we welcomed a total of 32 groups and 916 visitors.

## 2) Taiwan High Speed Rail and JR Kyushu Job Observation Visits and Experience Exchanges

THSRC first began conducting job observation visits and experience exchanges with train attendants from the Kyushu Railway Company (JR Kyushu) in 2013, and we have since maintained these activities for more than six years. These exchanges help us learn different railway cultures and service skills to improve our quality of passenger services. Two train masters and three train attendants from THSRC traveled to Kyushu to undergo ten days of observation, while four train attendants from JR Kyushu underwent ten days of observation at THSRC.



Additionally, two driver managers and three drivers from THSRC also underwent five days of observation in Kyushu, while four driver managers from JR Kyushu underwent four days of observation at THSRC. Through experience sharing and discussions, both sides learned driver management and training mechanisms, system features, and emergency response techniques from each other. These activities paved the way for mutually beneficial cultural exchanges and laid the foundation for a solid relationship between the two companies.



THSRC first launched controller visits and exchanges with the JR Kyushu Fukuoka Control Center in 2018, and we continue to advance our controller skills and dispatch efficiency through sharing of case studies and discussions. Four controllers from THSRC underwent five days of observation in Kyushu, while two controllers from JR Kyushu underwent four days of observation at THSRC.

# Governance

## 5. Effectiveness of Corporate Governance System

### (1) Preliminary Review by Functional Committees

In accordance with the Guidelines for Corporate Governance, functional committees discuss respective proposals submitted by Management, perform relevant duties, and actively fulfill their preview role for the Board of Directors.

### (2) Independence and Professionalism of Independent Directors

When discussing official business with the Board of Directors and functional committees, independent directors frequently express their opinions, exert their independence and professionalism, and contribute to discussion efficiency and quality of decision making.

### (3) Management Implementation

The Management fully understands the framework and spirit of corporate governance, and complies with applicable by-laws and regulations and resolutions of shareholder or Board meetings when carrying out their duties and fulfilling their duty of care.

### (4) Strengthen Information Disclosure

For the convenience of shareholders and stakeholders, our corporate governance information is disclosed on the Market Observation Post System (<http://mops.twse.com.tw>). In addition, we release our corporate governance information on our corporate website (<http://www.thsrc.com.tw>) in both Chinese and English to further enhance transparency. Material information is disclosed on the Market Observation Post System in both Chinese and English so that domestic and overseas investors can receive timely updates on the latest Company information. Furthermore, we not only communicate all issues of concern to our stakeholders through multiple channels, but also established a stakeholder section and stakeholder contacts on our corporate website. Appropriate communication allows us to understand the reasonable expectations and needs of our stakeholders and respond accordingly to major issues of concern.

Since going public, the Company has participated in the 4th and 5th TWSE Corporate Governance Evaluations (for 2017 and 2018) and was consecutively ranked among the top 5% of publicly listed companies. In order to enhance our corporate governance, we participated in the Taiwan Corporate Governance Association CG6011 corporate governance evaluations (for 2017) and received an "Excellent" certification on June 26, 2018. Evaluations for the CG6012 corporate governance evaluations (for 2019) are currently ongoing. In future, we will focus on the ongoing influence of functional committees and independent directors. Furthermore, we will uphold the principles of enterprise autonomy, consistently review the framework and mechanisms of corporate governance, and embrace corporate governance evaluations in order to build a sound corporate governance system and set Taiwan High Speed Rail Corporation as a benchmark for corporate governance.

Details of our corporate governance implementations can be found in Chapter Four of this report or on the "Corporate Governance" section of our website.



# 8

## Financial Overview

## 1. Five-Year Financial Summary

### (1) Condensed Balance Sheet

Unit: NT\$ thousands

Item	Year	Financial Summary for The Last Five Years				
		2015	2016	2017	2018	2019
Current Assets		60,148,335	28,728,282	20,090,816	22,796,549	42,710,136
Property, Plant and Equipment		70,928	65,305	107,354	98,085	125,047
Operating Concession Asset		439,626,852	426,020,379	413,166,373	401,168,964	390,113,063
Other Assets		6,758,101	6,393,406	6,695,914	8,993,471	10,111,356
Total Assets		506,604,216	461,207,372	440,060,457	433,057,069	443,059,602
Current Liabilities	Before Distribution	36,153,835	19,815,494	6,549,408	13,814,046	13,278,906
	After Distribution	39,797,276	23,192,470	10,770,628	20,117,734	(Note 1)
Non-Current Liabilities		410,247,659	380,328,197	370,492,700	349,830,010	358,703,427
Total Liabilities	Before Distribution	446,401,494	400,143,691	377,042,108	363,644,056	371,982,333
	After Distribution	450,044,935	403,520,667	381,263,328	369,947,744	(Note 1)
Capital Stock		56,052,930	56,282,930	56,282,930	56,282,930	56,282,930
Capital Surplus		-	172,981	172,981	172,981	172,981
Retained Earnings	Before Distribution	4,149,237	4,607,077	6,561,953	12,957,102	14,621,358
	After Distribution	505,796	1,230,101	2,340,733	6,653,414	(Note 1)
Other Equity		555	693	485	-	-
Total Equity	Before Distribution	60,202,722	61,063,681	63,018,349	69,413,013	71,077,269
	After Distribution	56,559,281	57,686,705	58,797,129	63,109,325	(Note 1)

Note 1: Pending shareholders' approval.



## (2) Condensed Statement of Comprehensive Income

Unit: NT\$ thousands  
Except Basic Earnings Per Share

Item	Financial Summary for The Last Five Years				
	2015	2016	2017	2018	2019
Operating Revenue	51,901,392	40,610,906	43,435,042	45,415,007	47,507,390
Gross Profit	21,401,932	14,637,733	18,821,397	20,333,613	21,744,703
Income from Operations	20,556,496	13,699,496	17,754,984	19,144,964	20,511,953
Non-Operating Income and Expenses	(1,722,661)	(8,701,921)	(11,276,484)	(11,833,141)	(12,736,845)
Income Before Income Tax	18,833,835	4,997,575	6,478,500	7,311,823	7,775,108
Net Income	20,872,630	4,149,098	5,339,905	10,696,381	8,007,033
Other Comprehensive Income	(49,309)	(47,679)	(8,261)	(80,497)	(39,089)
Total Comprehensive Income for the Year	20,823,321	4,101,419	5,331,644	10,615,884	7,967,944
Basic Earnings Per Share (NT\$)	7.19	0.74	0.95	1.90	1.42

## (3) Auditors' Opinions from 2015 to 2019

Year	Accounting Firm	Name of CPA	Audit Opinion
2015	Deloitte & Touche	Jui-Hsuan Ho and Mei-Yen Chiang	Unqualified opinion with an emphasis of matter paragraph
2016	Deloitte & Touche	Jui-Hsuan Ho and Kwan-Chung Lai	Unmodified opinion
2017	Deloitte & Touche	Jui-Hsuan Ho and Kwan-Chung Lai	Unmodified opinion
2018	Deloitte & Touche	Mei-Yen Chiang and Kwan-Chung Lai	Unmodified opinion
2019	Deloitte & Touche	Mei-Yen Chiang and Kwan-Chung Lai	Unmodified opinion

## 2. Five-Year Financial Analysis

Item (Note)	Year	Financial Analysis for the Last Five Years					
	2015	2016	2017	2018	2019		
Financial Structure (%)	Debt ratio	88.12	86.76	85.68	83.97	83.96	
	Ratio of long-term capital to property, plant and equipment	663,278.79	675,892.93	403,814.53	427,428.27	343,695.33	
	Ratio of long-term capital to operating concession asset	107.01	103.61	104.92	104.51	110.17	
Solvency	Current ratio (%)	166.37	144.98	306.76	165.02	321.64	
	Quick ratio (%)	159.24	130.55	263.76	143.81	296.44	
	Times interest earned (times)	3.03	1.60	1.87	2.10	2.20	
Operating Performance	Accounts receivable turnover (times)	237.31	106.84	96.81	106.50	113.29	
	Average collection days	1.54	3.41	3.77	3.42	3.22	
	Inventory turnover (times)	-	-	-	-	-	
	Accounts payable turnover (times)	-	-	-	-	-	
	Average days in sales	-	-	-	-	-	
	Property, plant and equipment turnover (times)	709.81	596.20	503.13	442.13	425.82	
	Operating concession asset turnover (times)	0.12	0.09	0.10	0.11	0.12	
	Total asset turnover (times)	0.10	0.08	0.10	0.10	0.11	
	Profitability	Return on total assets (%)	5.98	2.29	2.55	4.25	3.35
		Return on total equity (%)	39.68	6.84	8.61	16.15	11.40
Pre-tax income to paid-in capital ratio (%)		33.60	8.88	11.51	12.99	13.81	
Profit ratio (%)		40.22	10.22	12.29	23.55	16.85	
Earnings per share (NT\$)		7.19	0.74	0.95	1.90	1.42	
Cash Flow (%)	Cash flow ratio	63.49	29.93	329.89	189.78	214.98	
	Cash flow adequacy ratio	374.41	310.89	338.04	345.23	320.17	
	Cash flow reinvestment ratio	85.84	19.66	111.18	185.72	68.81	
Leverage	Operating leverage ratio	2.37	2.73	2.25	2.18	2.13	
	Financial leverage ratio	1.82	2.57	1.73	1.53	1.46	

Analysis of differences over 20% for the last two years:

1. The increase in current ratio and quick ratio and the decrease in cash flow reinvestment ratio were mainly due to increase of current assets in 2019.
2. The decrease in return on total assets, return on total equity, profit ratio, and earnings per share were mainly due to decrease of net income in 2019.

Note: The above financial analysis ratios were calculated using the following equations:

1. Financial Structure

(1) Debt ratio = Total liabilities / Total assets

(2) Ratio of long-term capital to property, plant and equipment ratio = (Total equity + non-current liabilities) / Net property, plant and equipment

(3) Ratio of long-term capital to operating concession asset = (Total equity + non-current liabilities) / Net operating concession asset

2. Solvency

(1) Current ratio = Current assets / Current liabilities

(2) Quick ratio = (Current assets - inventory - prepaid expenses) / Current liabilities

(3) Times interest earned = Net income before tax and interest expenses / Interest expenses

3. Operating Performance

(1) Accounts receivable turnover = Net sales / Average account receivable balance

(2) Average collection days = 365 / Receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory

(4) Accounts payable turnover = Cost of goods sold / Average account payable balance

(5) Average days in sales = 365 / Inventory turnover

(6) Property, plant and equipment turnover = Net sales / Average net property, plant and equipment

(7) Operating concession asset turnover = Net sales / Average net operating concession asset

(8) Total asset turnover = Net sales / Average total assets

4. Profitability

(1) Return on total assets = [Net income after tax + interest expense \* (1 - interest rate)] / Average total assets

(2) Return on total equity = Net income after tax / Average shareholders' equity

(3) Profit ratio = Net income / Net sales

(4) Earnings per share = (Net income - preferred stock dividends) / Weighted average number of shares outstanding

5. Cash Flow

(1) Cash flow ratio = Net cash flow provided by operating activities / Current liabilities

(2) Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividends

(3) Cash flow reinvestment ratio = (Cash provided by operating activities - cash dividends) / (Gross property, plant and equipment + long-term investments + other non-current assets + working capital)

6. Leverage

(1) Operating leverage ratio = (Net sales - variable costs and expenses) / Operating income

(2) Financial leverage ratio = Operating income / (Operating income - interest expenses)

### 3. Audit Committee's Review Report for Most Recent Financial Statement

#### Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 Business Report and Financial Statements. The CPA of Deloitte & Touche, Mei-Yen Chiang and Kwan-Chung Lai, were retained to audit THSRC's Financial Statements and have issued an audit report relating to the Financial Statements. The Business Report and Financial Statements have been reviewed and determined to be correct and accurate by the Audit Committee members of Taiwan High Speed Rail Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Taiwan High Speed Rail Corporation

Chairman of the Audit Committee: Kung-Wha Ding



February.19.2020

## Audit Committee's Review Report

The Board of Directors has prepared the Company's 2019 proposal for allocation of profits, and the proposal has been reviewed and determined to be correct and accurate by the Audit Committee members of Taiwan High Speed Rail Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Taiwan High Speed Rail Corporation

Chairman of the Audit Committee: Kung-Wha Ding

A handwritten signature in black ink that reads "Ding, kung-wha". The signature is written in a cursive, slightly slanted style.

April.8.2020

## 4. Financial Statements and Independent Auditors' Report in the Most Recent Year

### (1) Financial Statements for the Years Ended December 31, 2019 and 2018 and Independent Auditor Reports

#### 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 (the "Corporation"), which comprise the balance sheets as of December 31, 2019 and 2018, 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, 2019 and 2018, 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 and 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") of Taiwan, the Republic of China ("ROC").

#### 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 ROC. 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 ROC, 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.

#### Key Audit Matter

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, 2019. 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 matter of the 2019 financial statements are as follows:

#### Provision for Stabilization Reserve

Refer to Note 4, n. for further information on accounting policy on provision for stabilization reserve; Note 5, b. for further information on the accounting uncertainty associated with the judgments, and estimates and assumptions about provision for stabilization reserve. Refer to Note 17 for the details of such provision.

According to the Taiwan North-South High Speed Rail Construction and Operation Agreement (the "C&O Agreement"), which was amended on July 27, 2015, the Corporation established the financial stabilization mechanism ("FSM") in 2016 in order to serve the purpose of returning the major portion of the excess earnings, which is defined under the C&O Agreement, to the ROC government. Started in 2017, the Corporation reports the status of the implementation of the aforementioned FSM to the Ministry of Transportation and Communications ("MOTC"), including the provision, contribution, and accumulated balance of the stabilization reserve in accordance with the C&O Agreement. Because 1) the

provision for the stabilization reserve is related to the profitability of the remaining concession period under the C&O Agreement, 2) the reserve amount is material and can vary significantly, depending on the expiration or termination of the C&O Agreement, and 3) the implementation of the FSM involves critical accounting judgments and estimates, the recognition of provision for stabilization reserve is deemed a key audit matter.

Since earnings to be made in the remaining concession period, which will end in the year 2068 or any year where the C&O Agreement might be early terminated, cannot be reliably estimated, the stabilization reserve, totaling NT\$16,084,658 thousand as of December 31, 2019, was provided based on the earnings achieved in 2019 and on the requirements as stipulated in the C&O Agreement.

We evaluated whether the measurement method used by the management for making the accounting estimates related to the abovementioned provision was reasonable. In addition, on a sampling basis, we: (1) reviewed the C&O Agreement related to the movement of the provision, (2) recalculated the amount of the provision to ensure the accuracy of the balance, and (3) inspected the movement of the provision from the balance sheet date to the report date to evaluate whether the balance of the provision at the balance sheet date was appropriately accrued.

### **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 and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the ROC, and for such internal controls 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 ROC 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 performed in accordance with auditing standards generally accepted in the ROC, 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.

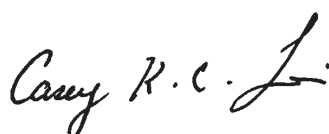
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. 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 the 2019 financial statements and are therefore the key audit matters. We describe these matters in our auditors' 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 Mei-Yen Chiang and Kwan-Chung Lai.



Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 19, 2020

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 independent 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 independent Chinese-language auditors' report and financial statements shall prevail.



## TAIWAN HIGH SPEED RAIL CORPORATION

### BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31			
	2019		2018	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 16,271,676	4	\$ 6,947,850	2
Financial assets at fair value through profit or loss (Note 7)	330,443	-	327,446	-
Notes and accounts receivable (Note 21)	333,092	-	505,565	-
Current tax assets (Note 4)	166,783	-	166,783	-
Inventories (Note 8)	2,056,045	1	2,028,925	1
Other financial assets (Notes 9 and 28)	22,207,764	5	11,881,545	2
Other current assets (Notes 13 and 27)	1,344,333	-	938,435	-
Total current assets	42,710,136	10	22,796,549	5
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Note 10)	125,047	-	98,085	-
Right-of-use assets (Note 11)	628,988	-	-	-
Operating concession asset (Notes 12 and 27)	390,113,063	88	401,168,964	93
Computer software, net (Note 12)	54,413	-	54,245	-
Deferred tax assets (Notes 4 and 23)	7,316,212	2	6,808,133	2
Other financial assets (Notes 9 and 28)	2,102,503	-	2,083,255	-
Other non-current assets (Note 13)	9,240	-	47,838	-
Total non-current assets	400,349,466	90	410,260,520	95
<b>TOTAL</b>	\$ 443,059,602	100	\$ 433,057,069	100

LIABILITIES AND EQUITY	December 31			
	2019		2018	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 64,980	-	\$ 147,865	-
Accounts payable	256,338	-	274,404	-
Operating concession liabilities (Notes 16 and 27)	777,511	-	731,182	-
Other payables (Notes 14 and 18)	3,197,362	1	3,031,763	1
Payable for construction (Note 27)	942,141	-	535,830	-
Current tax liabilities	194,722	-	123,204	-
Provisions (Note 17)	6,367,937	2	283,279	-
Current portion of long-term bills payable (Note 14)	-	-	7,986,870	2
Other current liabilities (Notes 11, 18, 21 and 27)	1,477,915	-	699,649	-
Total current liabilities	13,278,906	3	13,814,046	3
<b>NON-CURRENT LIABILITIES</b>				
Bonds payable (Note 15)	7,990,329	2	-	-
Long-term debt (Notes 14 and 27)	276,100,317	62	276,093,677	64
Provisions (Note 17)	10,000,000	2	9,560,897	2
Lease liabilities (Notes 11 and 27)	447,175	-	-	-
Long-term interest payable (Note 14)	8,450,080	2	8,921,744	2
Operating concession liabilities (Notes 16 and 27)	55,263,201	13	54,914,835	13
Other non-current liabilities (Notes 18 and 19)	452,325	-	338,857	-
Total non-current liabilities	358,703,427	81	349,830,010	81
Total liabilities	371,982,333	84	363,644,056	84
<b>EQUITY (Note 20)</b>				
Capital stock				
Common stock	56,282,930	13	56,282,930	13
Capital surplus	172,981	-	172,981	-
Retained earnings				
Legal reserve	2,469,719	-	1,400,081	-
Unappropriated earnings	12,151,639	3	11,557,021	3
Total retained earnings	14,621,358	3	12,957,102	3
Total equity	71,077,269	16	69,413,013	16
TOTAL	\$ 443,059,602	100	\$ 433,057,069	100

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

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2019		2018	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 21 and 27)	\$ 47,507,390	100	\$ 45,415,007	100
OPERATING COSTS (Notes 22 and 27)	<u>(25,762,687)</u>	<u>(54)</u>	<u>(25,081,394)</u>	<u>(55)</u>
GROSS PROFIT	21,744,703	46	20,333,613	45
OPERATING EXPENSES (Note 22)	<u>(1,232,750)</u>	<u>(3)</u>	<u>(1,188,649)</u>	<u>(3)</u>
INCOME FROM OPERATIONS	<u>20,511,953</u>	<u>43</u>	<u>19,144,964</u>	<u>42</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 22)	162,700	-	106,859	-
Interest expense (Notes 14, 22 and 27)	(6,454,624)	(13)	(6,618,272)	(14)
Stabilization reserve expense (Note 17)	(6,523,761)	(14)	(5,415,046)	(12)
Other gains and losses (Note 22)	<u>78,840</u>	<u>-</u>	<u>93,318</u>	<u>-</u>
Total non-operating income and expenses	<u>(12,736,845)</u>	<u>(27)</u>	<u>(11,833,141)</u>	<u>(26)</u>
INCOME BEFORE INCOME TAX	7,775,108	16	7,311,823	16
INCOME TAX BENEFIT (Note 23)	<u>231,925</u>	<u>1</u>	<u>3,384,558</u>	<u>7</u>
NET INCOME	<u>8,007,033</u>	<u>17</u>	<u>10,696,381</u>	<u>23</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(48,861)	-	(103,820)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	<u>9,772</u>	<u>-</u>	<u>23,323</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(39,089)</u>	<u>-</u>	<u>(80,497)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 7,967,944</u>	<u>17</u>	<u>\$ 10,615,884</u>	<u>23</u>

(Continued)

**TAIWAN HIGH SPEED RAIL CORPORATION**

## STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2019		2018	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 24)				
Basic earnings per share	\$ 1.42		\$ 1.90	

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

(Concluded)

## **TAIWAN HIGH SPEED RAIL CORPORATION**

### STATEMENTS OF CHANGES IN EQUITY

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

	<b>Capital Stock</b>	<b>Capital Surplus</b>
	<b>Common Stock</b>	
BALANCE AT JANUARY 1, 2019	\$ 56,282,930	\$ 172,981
Appropriations of 2018 earnings		
Legal reserve	-	-
Cash dividends to shareholders - NT\$1.12 per share	-	-
	-	-
Net income for the year ended December 31, 2019	-	-
Other comprehensive loss for the year ended December 31, 2019	-	-
Total comprehensive income for the year ended December 31, 2019	-	-
BALANCE AT DECEMBER 31, 2019	\$ 56,282,930	\$ 172,981
BALANCE AT JANUARY 1, 2018	\$ 56,282,930	\$ 172,981
Appropriations of 2017 earnings		
Legal reserve	-	-
Cash dividends to shareholders - NT\$0.75 per share	-	-
	-	-
Net income for the year ended December 31, 2018	-	-
Other comprehensive loss for the year ended December 31, 2018	-	-
Total comprehensive income for the year ended December 31, 2018	-	-
BALANCE AT DECEMBER 31, 2018	\$ 56,282,930	\$ 172,981

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

## Retained Earnings

Legal Reserve		Unappropriated Earnings		Total		Total Equity	
\$	1,400,081	\$	11,557,021	\$	12,957,102	\$	69,413,013
	1,069,638		(1,069,638)		-		-
	-		(6,303,688)		(6,303,688)		(6,303,688)
	1,069,638		(7,373,326)		(6,303,688)		(6,303,688)
	-		8,007,033		8,007,033		8,007,033
	-		(39,089)		(39,089)		(39,089)
	-		7,967,944		7,967,944		7,967,944
\$	2,469,719	\$	12,151,639	\$	14,621,358	\$	71,077,269
\$	866,090	\$	5,696,348	\$	6,562,438	\$	63,018,349
	533,991		(533,991)		-		-
	-		(4,221,220)		(4,221,220)		(4,221,220)
	533,991		(4,755,211)		(4,221,220)		(4,221,220)
	-		10,696,381		10,696,381		10,696,381
	-		(80,497)		(80,497)		(80,497)
	-		10,615,884		10,615,884		10,615,884
\$	1,400,081	\$	11,557,021	\$	12,957,102	\$	69,413,013

## **TAIWAN HIGH SPEED RAIL CORPORATION**

### STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 7,775,108	\$ 7,311,823
Adjustments for:		
Depreciation	202,294	35,921
Amortization	13,798,850	13,740,294
Write-downs (reversal) of inventories	22,650	(87)
Interest expense	6,454,624	6,618,272
Interest income	(162,700)	(106,859)
Loss on foreign currency exchange, net	11,878	4,185
Stabilization reserve expenses	6,523,761	5,415,046
Others	(2,700)	13,765
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(2,997)	(7,461)
Hedging financial instruments	-	5
Notes and accounts receivable	172,473	(158,331)
Inventories	(49,770)	(101,115)
Other current assets	(403,292)	17,726
Other non-current assets	2,571	(6,170)
Accounts payable	(16,575)	24,424
Other payables	150,065	34,429
Other current liabilities	625,036	37,632
Other non-current liabilities	(5,618)	(7,295)
Cash generated from operations	35,095,658	32,866,204
Interest received	149,679	101,781
Interest paid	(5,772,857)	(6,061,159)
Interest paid with respect to operating concession liabilities	(731,182)	(647,850)
Income tax paid	(194,844)	(42,075)
Net cash generated from operating activities	28,546,454	26,216,901

**For the Years Ended  
December 31**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in other financial assets	\$ (10,366,158)	\$ (2,465,579)
Acquisition of property, plant and equipment	(67,192)	(26,361)
Proceeds from disposal of property, plant and equipment	1	182
Acquisition of intangible assets	(2,328,694)	(1,864,550)
Proceeds from disposal of intangible assets	1,266	-
	<u>(12,760,777)</u>	<u>(4,356,308)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net (decrease) increase in short-term borrowings	(79,700)	105,249
Proceeds from issuance of bonds	8,000,000	-
Repayment of long-term debt	-	(10,000,000)
Repayment of long-term bills payable	(8,000,000)	(8,000,000)
Repayment of the principal portion of lease liabilities	(148,863)	-
Increase in other non-current liabilities	70,231	15,468
Cash dividends	(6,303,688)	(4,221,220)
	<u>(6,462,020)</u>	<u>(22,100,503)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>169</u>	<u>(157)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,323,826</b>	<b>(240,067)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>6,947,850</b>	<b>7,187,917</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>\$ 16,271,676</b>	<b>\$ 6,947,850</b>

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



# **TAIWAN HIGH SPEED RAIL CORPORATION**

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(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 (the "C&O Agreement") and the Taiwan North-South High Speed Rail Station Zone Development Agreement (the "SZD Agreement") entered into between the Corporation and the Ministry of Transportation and Communications ("MOTC") on July 23, 1998, the Corporation was granted the authority to construct and operate the high speed rail ("HSR") and relevant ancillary facilities. Under the Fourth Amendment to the C&O Agreement and the Taiwan North-South High Speed Rail Station Zone Development Termination Agreement ("SZD Termination Agreement") entered into between the Corporation and 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 listed and traded on the Taiwan Stock Exchange since October 27, 2016.

### **2. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Corporation's board of directors on February 19, 2020.

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

- a. **Initial application of the 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) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)**

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation's accounting policies:

- **IFRS 16 "Leases"**

IFRS 16 sets out the accounting standards for leases that supersedes IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease" as well as a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Corporation elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases whose payments are recognized as expenses on a straight-line basis. On the statements of comprehensive income, the Corporation will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

The Corporation elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not be restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Corporation applies IAS 36 for assessing impairment of all right-of-use assets.

The Corporation also applies the following practical expedients:

- 1) The Corporation applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Corporation accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Corporation uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 0.86%. The difference between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	\$ 765,427
Less: Recognition exemption for short-term leases	(3,811)
Less: Recognition exemption for leases of low-value assets	<u>(99)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 761,517</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 739,619</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 739,619</u>

The Corporation as lessor

The Corporation does not make any adjustments for leases in which it is a lessor and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	<u>As Originally Stated on January 1, 2019</u>	<u>Adjustments Arising from Initial Application</u>	<u>Adjusted on January 1, 2019</u>
Right-of-use assets	\$ -	\$ 781,422	\$ 781,422
Prepayments - current	901,172	(10,322)	890,850
Prepayments - non-current	31,481	<u>(31,481)</u>	-
Total effect on assets		<u>\$ 739,619</u>	
Lease liabilities - current	-	\$ 152,673	152,673
Lease liabilities - non-current	-	<u>586,946</u>	586,946
Total effect on liabilities		<u>\$ 739,619</u>	

**b. The IFRSs endorsed by the FSC for application starting from 2020**

<u>Effective Date Announced by IASB</u>	<u>New IFRSs</u>
January 1, 2020 (Note 1)	Amendments to IFRS 3 “Definition of a Business”
January 1, 2020 (Note 2)	Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”
January 1, 2020 (Note 3)	Amendments to IAS 1 and IAS 8 “Definition of Material”

Note 1: The Corporation shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Corporation shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Corporation shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, the Corporation evaluated that no significant impact on its financial position and financial performance is anticipated as a result of the initial adoption of the other standards or interpretations.

**c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC**

<u>Effective Date Announced by IASB (Note)</u>	<u>New IFRSs</u>
January 1, 2021	IFRS 17 “Insurance Contracts”
January 1, 2022	Amendments to IAS1 “Classifying Liabilities as Current or Non-current”
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”

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting periods beginning on or after their respective effective dates.

As of the date the financial statements were authorized for issue, the Corporation continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the related standards or interpretations. The related impact will be disclosed when the Corporation completes the evaluation.

## 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 and IFRSs as endorsed and issued into effect 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 the 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 and repurchase agreement collateralized by government bonds 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. Financial asset at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss (FVTPL) when the financial asset is mandatorily classified or it is designated as at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss contains any dividend or interest earned on the financial asset.

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 from customers who purchased tickets and merchandise through credit cards; these receivables are assessed for lifetime Expected Credit Loss (i.e. ECL).

Expected credit loss reflects the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial instrument.

#### **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 measured 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 - 3 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 in the current year.

#### **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 liabilities.

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. Receivable due from shortfall charges with respect to 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 - 10 to 61.5 years; machinery and equipment - 2.5 to 35 years; transportation equipment - 3 to 35 years; other equipment - 5 years; profit sharing payments - 61.5 years; period extension cost (shortfall charge with respect to 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 de-recognition of 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 liabilities**

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 liabilities. 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 liabilities (value of returned superficies for offset of profit sharing payable).

**l. Impairment of assets**

The Corporation estimates the recoverable amount of an 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 currently.

**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 contract liabilities.

Sales of tickets that grant reward credits to customers under the Corporation's reward 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 reward credits granted. The transaction price of the reward credits is allocated to the contract's performance obligations based on the relatively separate sales price. Such consideration is not recognized as revenue at the time of the initial sale transaction but is recognized as contract liabilities; revenue is recognized when the reward credits are redeemed and the Corporation's obligations have been fulfilled.

**p. Lease**

2019

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. For a contract that contains a lease component and non-lease components, the Corporation allocates the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

1) The Corporation as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2) The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms. Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any re-measurement of the lease liabilities.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms.

2018

1) The Corporation as lessor

Rental income from operating leases is recognized over the term of the relevant lease.

2) The Corporation as lessee

Operating lease payments are recognized as expenses over the lease term.

**q. 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.

**r. Government grants**

Government grants are not recognized until there is reasonable assurance that the Corporation will comply with the conditions attached to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Corporation recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognized in profit or loss in the period in which they become receivable.

#### s. 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.

#### t. 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 5% of unappropriated earnings is provided for as income tax in the year the shareholders approve 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.



## 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. Controversial overtime

As of December 31, 2019 and 2018, the Corporation recognized a provision for controversial overtime both in the amount of \$283,279 thousand. The estimated provision could differ from the actual amount payable which is subject to the result of the administrative judgment or the agreement to be signed with the employees. Refer to Note 17 for further information.

### b. Stabilization reserve

As of December 31, 2019 and 2018, the Corporation recognized a provision for stabilization reserve in an amount of \$16,084,658 thousand and \$9,560,897 thousand, respectively, 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 earlier if so terminated. Refer to Note 17 and Note 29 a. 3) for further information.

### c. 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, 2019 and 2018, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$7,316,212 thousand and \$6,808,133 thousand, respectively. As of December 31, 2019, the deductible temporary differences remained unchanged at \$1,181,032 thousand, and were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

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

In the commercial operation of the transportation system, the Corporation has accumulated extensive experience, including the skills of self-maintenance. From this extensive experience, the Corporation is able to assess the anticipated beneficial usage, external economic changes, scheduling of railcar maintenance and impair and other factors. The Corporation has assessed that the amortization lives of certain operating concession asset as previously estimated need revision. In order to reasonably reflect future economic benefits and appropriately amortize the cost of the assets, the Corporation held a meeting of the Asset Review Committee on September 6 and December 4, 2018. The Committee thereby decided to modify the estimated amortization lives of certain operating concession asset. After the resolution of the Corporation's board of directors on January 23, 2019, the revised estimated amortization lives became effective on January 1, 2019. The adjustment of the estimated amortization lives of certain operating concession asset will increase the amortization expense by \$716,166 thousand and \$691,150 thousand, respectively, for the years ended December 31, 2019 and 2020.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Cash on hand	\$ 88,890	\$ 148,780
Checking accounts	10	10
Demand deposits	481,618	113,952
Time deposits	8,158	8,108
Repurchase agreement collateralized by government bonds	15,693,000	6,677,000
	<u>\$ 16,271,676</u>	<u>\$ 6,947,850</u>

The interest rate intervals of cash and cash equivalents at the end of the reporting periods were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Demand deposits	0.001%-0.33%	0.001%-0.50%
Time deposits	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.50%-0.56%	0.51%-0.62%

## 7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Open-end money market funds	\$ 330,443	\$ 327,446

The financial assets at FVTPL are mandatorily classified as FVTPL.

## 8. INVENTORIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Spare parts and supplies	\$ 2,044,649	\$ 2,021,109
Merchandise	11,396	7,816
	<u>\$ 2,056,045</u>	<u>\$ 2,028,925</u>

As of December 31, 2019 and 2018, allowance for inventory valuation losses amounted to \$642,848 thousand and \$620,198 thousand, respectively.

## 9. OTHER FINANCIAL ASSETS

	December 31	
	2019	2018
Repurchase agreement collateralized by government bonds	\$ 20,433,000	\$ 10,130,000
Time deposits	3,848,118	3,812,847
Demand deposits	24,901	17,107
Other performance guarantee	4,248	4,846
	<u>\$ 24,310,267</u>	<u>\$ 13,964,800</u>
Current	\$ 22,207,764	\$ 11,881,545
Non-current	<u>2,102,503</u>	<u>2,083,255</u>
	<u>\$ 24,310,267</u>	<u>\$ 13,964,800</u>

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

	December 31	
	2019	2018
Repurchase agreement collateralized by government bonds	0.53%-0.58%	0.51%-0.62%
Time deposits	0.15%-2.65%	0.15%-3.10%
Demand deposits	0.03%-0.08%	0.05%-0.08%

b. Refer to Note 28 for the information of other financial assets pledged as collateral.

## 10. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2019	2018
Land	\$ 28	\$ 28
Machinery and equipment	69,091	44,286
Transportation equipment	-	-
Office equipment	11,846	11,435
Leasehold improvements	710	1,053
Other equipment	<u>43,372</u>	<u>41,283</u>
	<u>\$ 125,047</u>	<u>\$ 98,085</u>

(Continued)

	<u>Land</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Other Equipment</u>	<u>Total</u>
<u>Cost</u>							
Balance at January 1, 2019	\$ 28	\$ 275,437	\$ 155	\$ 121,048	\$ 80,448	\$ 252,813	\$ 729,929
Additions	-	47,573	-	4,449	80	15,090	67,192
Disposals	-	(5,801)	(68)	(5,579)	-	(1,902)	(13,350)
Transfer	-	-	-	(308)	-	-	(308)
Balance at December 31, 2019	<u>28</u>	<u>317,209</u>	<u>87</u>	<u>119,610</u>	<u>80,528</u>	<u>266,001</u>	<u>783,463</u>

Accumulated depreciation

Balance at January 1, 2019	\$ -	\$ 231,151	\$ 155	\$ 109,613	\$ 79,395	\$ 211,530	\$ 631,844
Depreciation	-	22,743	-	4,038	423	13,001	40,205
Disposals	-	(5,776)	(68)	(5,579)	-	(1,902)	(13,325)
Transfer	-	-	-	(308)	-	-	(308)
Balance at December 31, 2019	<u>-</u>	<u>248,118</u>	<u>87</u>	<u>107,764</u>	<u>79,818</u>	<u>222,629</u>	<u>658,416</u>
	<u>\$ 28</u>	<u>\$ 69,091</u>	<u>\$ -</u>	<u>\$ 11,846</u>	<u>\$ 710</u>	<u>\$ 43,372</u>	<u>\$ 125,047</u>

Cost

Balance at January 1, 2018	\$ 28	\$ 263,048	\$ 242	\$ 122,805	\$ 79,370	\$ 251,241	\$ 716,734
Additions	-	18,069	-	3,924	1,168	3,200	26,361
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(403)	-	28	-	657	282
Balance at December 31, 2018	<u>28</u>	<u>275,437</u>	<u>155</u>	<u>121,048</u>	<u>80,448</u>	<u>252,813</u>	<u>729,929</u>

Accumulated depreciation

Balance at January 1, 2018	-	216,979	242	111,770	79,326	201,063	609,380
Depreciation	-	19,458	-	3,552	159	12,752	35,921
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(9)	-	-	-	-	(9)
Balance at December 31, 2018	<u>-</u>	<u>231,151</u>	<u>155</u>	<u>109,613</u>	<u>79,395</u>	<u>211,530</u>	<u>631,844</u>
	<u>\$ 28</u>	<u>\$ 44,286</u>	<u>\$ -</u>	<u>\$ 11,435</u>	<u>\$ 1,053</u>	<u>\$ 41,283</u>	<u>\$ 98,085</u>

(Concluded)

## 11. LEASE ARRANGEMENTS

### a. Right-of-use assets - 2019

	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
<u>Cost</u>					
Balance at January 1, 2019	\$ 251,857	\$ 497,473	\$ 30,659	\$ 1,433	\$ 781,422
Additions	3,008	-	6,595	52	9,655
Balance at December 31, 2019	<u>254,865</u>	<u>497,473</u>	<u>37,254</u>	<u>1,485</u>	<u>791,077</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2019	-	-	-	-	-
Depreciation	81,897	61,881	17,321	990	162,089
Balance at December 31, 2019	<u>81,897</u>	<u>61,881</u>	<u>17,321</u>	<u>990</u>	<u>162,089</u>
	<u>\$ 172,968</u>	<u>\$ 435,592</u>	<u>\$ 19,933</u>	<u>\$ 495</u>	<u>\$ 628,988</u>

### b. Lease liabilities - 2019

	Lease Term	Discount Rate	December 31, 2019
Buildings	2-10 years	0.66%-0.87%	\$ 169,049
Machinery and equipment	2-9 years	0.59%-0.87%	410,876
Transportation equipment	3-5 years	0.59%-0.73%	19,983
Other equipment	1.5-3 years	0.59%	497
			<u>600,405</u>
Less: Recognized as current lease liabilities			<u>(153,230)</u>
Lease liabilities - non-current			<u>\$ 447,175</u>

### c. Material lease terms

The Corporation leased an office building from Century Development Corporation with the lease term from January 2018 to December 2020.

The Corporation leased a parking lot for rental business in Zuoying Station from Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC with the lease term from January 2017 to January 2027.

The Corporation leased a host of automatic ticketing system for operating from IBM Taiwan Corporation with the lease term from February 2018 to January 2027.

## d. Other lease information

	<u>2019</u>
Expenses relating to short-term leases	\$ 4,060
Expenses relating to low-value asset leases	\$ 277
Total cash outflows for leases	\$ (158,791)

The Corporation leases certain space which qualifies as short-term leases and certain office equipment and other equipment which qualify as low-value asset leases. The Corporation has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

## 12. INTANGIBLE ASSETS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Operating concession asset	\$ 390,113,063	\$ 401,168,964
Computer software, net	54,413	54,245
	<u>\$ 390,167,476</u>	<u>\$ 401,223,209</u>

## a. Movements of the intangible assets

	<u>Operating Concession Asset</u>					<u>Computer Software, Net</u>	<u>Total</u>
	<u>Operating Assets</u>	<u>Profit Sharing Payments</u>	<u>Period Extension Cost</u>	<u>Construction in Progress</u>	<u>Total</u>		
<u>Cost</u>							
Balance at January 1, 2019	\$473,162,271	\$69,972,043	\$12,701,819	\$ 1,355,857	\$557,191,990	\$ 428,411	\$557,620,401
Additions	328,170	-	-	2,393,311	2,721,481	16,706	2,738,187
Disposals	(379,352)	-	-	-	(379,352)	-	(379,352)
Transfer	3,011,186	-	-	(3,010,052)	1,134	1,460	2,594
Balance at December 31, 2019	<u>476,122,275</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>739,116</u>	<u>559,535,253</u>	<u>446,577</u>	<u>559,981,830</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2019	139,599,984	15,640,464	782,578	-	156,023,026	374,166	156,397,192
Amortization	12,437,907	1,097,607	240,792	-	13,776,306	17,998	13,794,304
Disposals	(377,450)	-	-	-	(377,450)	-	(377,450)
Transfer	308	-	-	-	308	-	308
Balance at December 31, 2019	<u>151,660,749</u>	<u>16,738,071</u>	<u>1,023,370</u>	<u>-</u>	<u>169,422,190</u>	<u>392,164</u>	<u>169,814,354</u>
	<u>\$324,461,526</u>	<u>\$53,233,972</u>	<u>\$11,678,449</u>	<u>\$ 739,116</u>	<u>\$390,113,063</u>	<u>\$ 54,413</u>	<u>\$390,167,476</u>

	Operating Concession Asset						
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress	Total	Computer Software, Net	Total
<u>Cost</u>							
Balance at January 1, 2018	\$472,404,197	\$69,972,043	\$12,701,819	\$ 551,084	\$555,629,143	\$ 412,868	\$556,042,011
Additions	294,933	-	-	1,477,114	1,772,047	11,584	1,783,631
Disposals	(162,040)	-	-	-	(162,040)	(3,584)	(165,624)
Transfer	625,181	-	-	(672,341)	(47,160)	7,543	(39,617)
Balance at December 31, 2018	<u>473,162,271</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>1,355,857</u>	<u>557,191,990</u>	<u>428,411</u>	<u>557,620,401</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2018	127,378,129	14,542,855	541,786	-	142,462,770	358,701	142,821,471
Amortization	12,378,258	1,097,609	240,792	-	13,716,659	19,040	13,735,699
Disposals	(156,403)	-	-	-	(156,403)	(3,584)	(159,987)
Transfer	-	-	-	-	-	9	9
Balance at December 31, 2018	<u>139,599,984</u>	<u>15,640,464</u>	<u>782,578</u>	<u>-</u>	<u>156,023,026</u>	<u>374,166</u>	<u>156,397,192</u>
	<u>\$333,562,287</u>	<u>\$54,331,579</u>	<u>\$11,919,241</u>	<u>\$ 1,355,857</u>	<u>\$401,168,964</u>	<u>\$ 54,245</u>	<u>\$401,223,209</u>

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

	December 31	
	2019	2018
<u>Operating assets, net</u>		
Land improvements	\$ 165,016,977	\$ 168,450,930
Buildings	27,558,084	28,121,114
Machinery and equipment	27,012,524	29,283,877
Transportation equipment	104,848,364	107,691,997
Other equipment	25,577	14,369
	<u>\$ 324,461,526</u>	<u>\$ 333,562,287</u>
<u>Construction in progress</u>		
Prepayments for equipment	<u>\$ 739,116</u>	<u>\$ 1,355,857</u>

### c. Operating concession- rental

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 and pays the rental every year, including routes, maintenance bases, and stations. 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 the future reported price of public-owned land and usage of such public-owned land and other relevant factors. The Corporation prepays the rental for the following year by the end of each year, and if the reported price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of December 31, 2019, 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. 0419-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such acquired superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

## 13. OTHER ASSETS

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Other current assets</u>		
Prepayments	\$ 1,290,402	\$ 901,172
Others	53,931	37,263
	<u>\$ 1,344,333</u>	<u>\$ 938,435</u>
<u>Other non-current assets</u>		
Prepayments	\$ -	\$ 31,481
Others	9,240	16,357
	<u>\$ 9,240</u>	<u>\$ 47,838</u>

## 14. BORROWINGS

### a. Short-term borrowings

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Japanese yen (“JPY”) letters of credit	\$ 64,980	\$ 147,865

The range of interest rates at the end of the reporting periods was as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
JPY letters of credit	0.62%-0.74%	0.61%-0.66%



**b. Long-term debt**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Syndicated loan		
Tranche A1 Facility	\$ 120,000,000	\$ 120,000,000
Tranche A2 Facility	156,205,117	156,205,117
	<u>276,205,117</u>	<u>276,205,117</u>
Less: Unamortized cost of long-term debt	<u>(104,800)</u>	<u>(111,440)</u>
	<u>\$ 276,100,317</u>	<u>\$ 276,093,677</u>

The Corporation entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (the “Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the NT\$382 billion Syndicated Loan Agreement with respect to Taiwan North-South High Speed Rail Construction and Operation Project (the “Syndicated Loan Agreement”) with a group of eight syndicated banks. The Corporation entered into the First Amendment of the Tripartite Agreement and the Second Amendment of the Syndicated Loan Agreement on August 3, 2015. The Corporation also entered into the Third Amendment of the Syndicated Loan Agreement on February 15, 2017, and the Second Amendment of the Tripartite Agreement on April 7, 2017, respectively. The Corporation entered into the Fourth Amendment of Syndicated Loan Agreement on October 13, 2017. The syndicated banks of the Syndicated Loan Agreement consist 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 with respect to the aforementioned credit facilities 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. Tranches A1, A2, C and D are credit facilities, Tranche A3 corporate bond guarantee facility, and Tranche B is performance guarantee facility. Tranche A3, C and D were fully redeemed and cannot be issued afterwards.
- 2) The Corporation provided assets (refer to assets to be transferred to the MOTC under the C&O Agreement) as collateral for the syndicated loan (the Corporation’s assets are not required to be registered with the syndicated banks for creating rights attached to the Corporation’s such assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with Bank of Taiwan and the MOTC for solutions. However, if an agreement cannot be reached within 45 days after the date of the negotiation notice issued by the Bank of Taiwan, the Corporation should redeem the difference immediately. The aforementioned collateral is inspected in May and November every year. The re-assessment mechanism for collateral value is inactive when Tranche B Facility is not utilized.
- 3) According to the Syndicated Loan Agreement, the Corporation opened a capital account and a reserve account at the Bank of Taiwan for deposits and financial instruments. The Corporation is free to use the capital account; however, the reserve account is restricted and pledged as collateral to the Bank of Taiwan, and is recorded as other financial assets. Refer to Notes 9 and 28 for further information.

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

a) Term of loan and repayment method

	<u>Term of Loan</u>	<u>Number of Semi-annual Installment Repayment</u>	<u>Ratio of Repayment</u>
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 (after early repayment of Installments 58-59 made on July 3, 2018, the last installment repayment date is May 4, 2049)	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 (after early repayment of Installments 56-59 made on July 4, 2017, the last installment repayment date is May 4, 2048)	Installments 59	4.0% per installment

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. Due to the step-up spread mechanism, the Corporation shall make up for the deficit arising from interests calculated according to the below the agreed interest rates to the bank syndicate if early redemption occurs. As of December 31, 2019 and 2018, the reference rate remained unchanged at 1.06%.

<u>Syndicated Period</u>	<u>Markup Interest Rates</u>
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, 2040	0.92%
May 4, 2040 - May 4, 2049	1.08%

The Corporation made early repayment of the Tranche A1 Facility in the amount of \$10 billion on July 3, 2018 and repaid interest differences in the amount of \$366,615 thousand due to the early repayment of the loan.

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

a) Effective interest rates

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Tranche A1 Facility	1.91%	1.91%
Tranche A2 Facility	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 212,417	\$ 212,417
Tranche A2 Facility	276,505	276,505
	<u>\$ 488,922</u>	<u>\$ 488,922</u>

c) Long-term interest payable

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 3,870,760	\$ 4,081,969
Tranche A2 Facility	4,579,320	4,839,775
	<u>\$ 8,450,080</u>	<u>\$ 8,921,744</u>

d) Interest expense

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Syndicated loan</u>		
Interest expense	\$ 5,285,003	\$ 5,394,685

c. Long-term bills payable

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Long-term bills payable	\$ -	\$ 8,000,000
Less: Unamortized discount on long-term bills payable	-	(11,795)
Less: Unamortized cost of long-term bills payable	-	(1,335)
	-	7,986,870
Less: Current portion of long-term bills payable	-	(7,986,870)
	<u>\$ -</u>	<u>\$ -</u>

On January 24, 2017, the Corporation (as the issuer), International Bills Finance Corporation (as the lead arranger), and the other 9 financial institutions (as the underwriters) entered into a joint underwriting agreement on the \$20 billion 2-year revolving underwriting facility for the issuance of unsecured commercial paper, with terms ranging from 90 days to 1 year. The utilization of the facility has a validity period of 3 months from the date of agreement, and any remaining unutilized facility will become invalid.

The Corporation issued unsecured commercial papers totaling \$16 billion under the facility on March 1, 2017, and the remaining facility was expired on April 24, 2017. On February 13, 2018 and August 10, 2018, the facility was reduced by \$4 billion each time, and the unsecured commercial paper was also reduced by the same amount. The \$8 billion unsecured commercial paper was fully redeemed on February 27, 2019, and the joint underwriting agreement was expired at the same time. As of December 31, 2018 the effective interest rate of the long-term bills payable was 0.93%.

## 15. BONDS PAYABLE

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Domestic unsecured bond	\$ 8,000,000	\$ -
Less: Unamortized issuance cost	(9,671)	-
	<u>\$ 7,990,329</u>	<u>\$ -</u>

On November 14, 2019, the Corporation issued \$8 billion of 30-year, 1.6% unsecured bonds at par value with interest payable annually and a bullet repayment term. The trustee of the Corporation's creditors is Taishin International Bank.

## 16. OPERATING CONCESSION LIABILITIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Operating concession liabilities	\$ 78,516,696	\$ 77,681,295
Value of returned superficies for offset of profit sharing payable	(22,475,984)	(22,035,278)
	<u>\$ 56,040,712</u>	<u>\$ 55,646,017</u>
Current	\$ 777,511	\$ 731,182
Non-current	55,263,201	54,914,835
	<u>\$ 56,040,712</u>	<u>\$ 55,646,017</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. Refer to Note 29 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 liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. The information about the amortization expense of operating concession asset and the interest expense of operating concession liabilities during the concession period is summarized as follows:

<u>Year</u>	<u>Amortization Expense</u>	<u>Interest Expense</u>	<u>Total</u>
Up to December 31, 2019	\$ 16,738,071	\$ 19,923,685	\$ 36,661,756
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022 (estimate)	1,097,608	1,662,470	2,760,078
2023 (estimate)	1,097,608	1,395,720	2,493,328
2024-2033 (estimate)	10,976,080	11,818,294	22,794,374
2034-2068 (estimate)	37,867,460	-	37,867,460
	<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 that 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 liabilities (profit sharing payable), which is payable to the MOTC at the end of every five years. The estimated offset amount is \$29,784,855 thousand. Refer to Note 29 a. 2) for further details. The information on actual and estimated profit or loss recognized on the value of returned superficies for offset of profit sharing payable within the concession period is summarized as follows:

<u>Year</u>	<u>Other Gain</u>	<u>Deduction of Interest Expense</u>	<u>Total</u>
Up to December 31, 2019	\$ 22,613,234	\$ 1,866,271	\$ 24,479,505
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023 (estimate)	-	391,989	391,989
2024-2033 (estimate)	-	3,537,651	3,537,651
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of December 31, 2019, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$9,375,511 thousand (or accumulated profit sharing payments in the amount of \$11,379,032 thousand less the deductible amount of returned superficies in the amount of \$2,003,521 thousand).

## 17. PROVISIONS

### a. Provisions

	December 31	
	2019	2018
<u>Current</u>		
Provision for controversial overtime pay	\$ 283,279	\$ 283,279
Provision for stabilization reserve	6,084,658	-
	<u>\$ 6,367,937</u>	<u>\$ 283,279</u>
<u>Non-current</u>		
Provision for stabilization reserve	<u>\$ 10,000,000</u>	<u>\$ 9,560,897</u>

### b. Movements in provisions were as follows:

	Balance at January 1, 2019	Addition	Usage	Reversal	Balance at December 31, 2019
<u>Current</u>					
Provision for controversial overtime pay	\$ 283,279	\$ -	\$ -	\$ -	\$ 283,279
Provision for stabilization reserve	-	6,084,658	-	-	6,084,658
	<u>\$ 283,279</u>	<u>\$ 6,084,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,367,937</u>
<u>Non-current</u>					
Provision for Stabilization reserve	<u>\$ 9,560,897</u>	<u>\$ 439,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>
	Balance at January 1, 2018	Addition	Usage	Reversal	Balance at December 31, 2018
<u>Current</u>					
Provision for controversial overtime pay	\$ 286,662	\$ -	\$ (3,383)	\$ -	\$ 283,279
Provision for preferred stock compensation	5,853	-	(4,293)	(1,560)	-
	<u>\$ 292,515</u>	<u>\$ -</u>	<u>\$ (7,676)</u>	<u>\$ (1,560)</u>	<u>\$ 283,279</u>
<u>Non-current</u>					
Provision for Stabilization reserve	<u>\$ 4,145,851</u>	<u>\$ 5,415,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,560,897</u>

1) Controversial overtime pay

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 abovementioned adjusted national holidays and working hours of two consecutive weeks, and 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 abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018, but the Corporation lodged an appeal against the verdict on July 6, 2018.

In October 2019, the Supreme Administrative Court has decided that the original judgment be reversed and remanded to the Taipei High Administrative Court. As of December 31, 2019, the Corporation evaluated the most likely result and recognized the provision for controversial overtime pay in the amount of \$283,279 thousand.

2) Stabilization reserve

Refer to Note 29 a. 3) for recognition of provision for stabilization reserve.

## 18. OTHER LIABILITIES

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Other payables</u>		
Accrued expenses	\$ 2,362,196	\$ 2,234,095
Accrued interest expense	505,382	488,975
Business tax payable	304,910	264,260
Others	24,874	44,433
	<u>\$ 3,197,362</u>	<u>\$ 3,031,763</u>
<u>Other current liabilities</u>		
Contract liabilities (Note 21)	\$ 1,233,056	\$ 665,541
Lease liabilities (Note 11)	153,230	-
Rent received in advance	49,813	-
Receipts under custody	28,929	25,090
Others	12,887	9,018
	<u>\$ 1,477,915</u>	<u>\$ 699,649</u>

(Continued)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<u>Other non-current liabilities</u>		
Net defined benefit liability (Note 19)	\$ 256,562	\$ 210,698
Guarantee deposits received	189,868	119,643
Deferred revenue	5,895	8,516
	<u>\$ 452,325</u>	<u>\$ 338,857</u>
		(Concluded)

## 19. 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 plans under the Labor Standards Law, 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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Present value of defined benefit obligation	\$ (844,479)	\$ (782,888)
Fair value of plan assets	587,917	572,190
Net defined benefit liability	<u>\$ (256,562)</u>	<u>\$ (210,698)</u>

Movements in net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2018	\$ (662,674)	\$ 551,121	\$ (111,553)
Current service cost	(12,791)	-	(12,791)
Net interest income (expense)	(9,734)	8,210	(1,524)
Recognized in profit or loss	(22,525)	8,210	(14,315)
Remeasurement			
Return on plan assets	-	14,016	14,016
Actuarial loss - experience adjustments	(107,949)	-	(107,949)
Actuarial loss - changes in financial assumptions	(9,887)	-	(9,887)
Recognized in other comprehensive income	(117,836)	14,016	(103,820)
Contributions from the employer	-	18,990	18,990
Benefits paid	20,147	(20,147)	-
Balance at December 31, 2018	(782,888)	572,190	(210,698)
Current service cost	(13,714)	-	(13,714)
Net interest income (expense)	(10,827)	7,999	(2,828)
Recognized in profit or loss	(24,541)	7,999	(16,542)
Remeasurement			
Return on plan assets	-	17,845	17,845
Actuarial loss - experience adjustments	(42,224)	-	(42,224)
Actuarial loss - changes in financial assumptions	(24,482)	-	(24,482)
Recognized in other comprehensive income	(66,706)	17,845	(48,861)
Contributions from the employer	-	19,539	19,539
Benefits paid	29,656	(29,656)	-
Balance at December 31, 2019	<u>\$ (844,479)</u>	<u>\$ 587,917</u>	<u>\$ (256,562)</u>

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:

	<b>Measurement Date</b>	
	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate	1.15%	1.40%
Expected salary growth rate	2.25%	2.25%

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.

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Discount rate		
Increase 0.5%	\$ (47,993)	\$ (47,819)
Decrease 0.5%	\$ 52,067	\$ 52,021
Expected salary growth rate		
Increase 0.5%	\$ 51,587	\$ 51,655
Decrease 0.5%	\$ (48,047)	\$ (47,969)

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
The expected contributions to the plan for the next year	\$ 45,398	\$ 19,125
The average duration of the defined benefit obligation	10.6 years	11.4 years

- c. Refer to Note 22 a. for the expenses of defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income for the years ended December 31, 2019 and 2018.

## 20. EQUITY

### a. Capital stock

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Number of shares authorized (in thousands)	12,000,000	12,000,000
Shares authorized	\$ 120,000,000	\$ 120,000,000
Number of shares issued and fully paid (in thousands)	5,628,293	5,628,293
Share capital issued and outstanding	\$ 56,282,930	\$ 56,282,930

A holder of issued common stock with par value of \$10 is entitled to vote and to receive dividends.

On November 26, 2015, the Corporation conducted capital injection and issued 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 aforementioned privately placed common stock are the same as other common stock issued, except that such common stock has not yet been applied to be listed and traded on the Taiwan Stock Exchange.

**b. Capital surplus**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Issuance of common stock	\$ 171,885	\$ 171,885
Forfeited employee share options	1,096	1,096
	<u>\$ 172,981</u>	<u>\$ 172,981</u>

The capital surplus generated from shares issued in excess of par may be used to offset a deficit, if any; in addition, when the Corporation has no accumulated 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 an accumulated deficit.

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

Under the dividend policy set forth in the Articles, 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 after-tax 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.

For the information on the appropriation policy, actual distributions of employees' compensation and remuneration to directors, refer to Note 22 a.

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on May 30, 2019 and May 24, 2018, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For Fiscal Year 2018</b>	<b>For Fiscal Year 2017</b>	<b>For Fiscal Year 2018</b>	<b>For Fiscal Year 2017</b>
Legal reserve	\$ 1,069,638	\$ 533,991		
Cash dividends	<u>6,303,688</u>	<u>4,221,220</u>	\$ 1.12	\$ 0.75
	<u>\$ 7,373,326</u>	<u>\$ 4,755,211</u>		

Information on the appropriations of earnings, which is resolved by the board of directors and shareholders, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 21. REVENUE

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Revenue from contracts with customers		
Railroad transportation revenue	\$ 46,107,656	\$ 44,098,796
Other operating revenue	1,399,734	1,316,211
	<u>\$ 47,507,390</u>	<u>\$ 45,415,007</u>

### a. Contract balances

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Notes and accounts receivable	\$ 333,092	\$ 505,565	\$ 347,275
Contract liabilities			
Railroad transportation revenue	\$ 1,163,968	\$ 534,736	\$ 468,193
Customer loyalty programmer	62,629	120,467	49,762
Others	6,459	10,338	3,983
	<u>\$ 1,233,056</u>	<u>\$ 665,541</u>	<u>\$ 521,938</u>

The changes in the balances of contract liabilities primarily result from the timing difference between the Corporation's performance and the customer's payment.

Revenue of the current year recognized from the beginning balance of contract liability is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
From the beginning balance of contract liability		
Railroad transportation revenue	\$ 529,513	\$ 463,965
Customer loyalty programmer	108,738	40,494
Others	10,336	3,983
	<u>\$ 648,587</u>	<u>\$ 508,442</u>

### b. Revenue from contracts with customers

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

**c. Partially completed contracts**

For the performance obligations that are not fully satisfied, the expected timings for recognition of revenue are as follows:

	<u>December 31, 2019</u>
Railroad transportation revenue	
In 2020	\$ 1,159,582
In 2021	4,386
	<u>1,163,968</u>
Customer loyalty programmer	
In 2020	47,271
In 2021	15,358
	<u>62,629</u>
Others	
In 2020	6,459
	<u>\$ 1,233,056</u>

## 22. INCOME BEFORE INCOME TAX

Income before income tax was as follows:

**a. Employee benefits expense**

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Post-employment benefits		
Defined contribution plan	\$ 188,484	\$ 175,141
Defined benefit plan	16,542	14,315
	<u>205,026</u>	<u>189,456</u>
Short-term employee benefits		
Payroll	4,253,680	3,990,757
Insurance	358,744	333,439
Others	196,479	190,462
	<u>4,808,903</u>	<u>4,514,658</u>
	<u>\$ 5,013,929</u>	<u>\$ 4,704,114</u>
An analysis of employee benefits expense by function		
Operating costs	\$ 4,156,369	\$ 3,907,755
Operating expenses	857,560	796,359
	<u>\$ 5,013,929</u>	<u>\$ 4,704,114</u>

As of December 31, 2019 and 2018, the number of employees of the Corporation was 4,608 and 4,475, respectively. As of December 31, 2019 and 2018, the number of professional service employees was 6 and 10, respectively. For the years ended December 31, 2019 and 2018, the professional service fee was \$5,677 thousand and \$9,725 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any after-tax profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated based on income before income tax (net of the employees' compensation and remuneration to directors) according to the above policy. For the years ended December 31, 2019 and 2018, the estimated employees' compensation in cash was \$159,489 thousand and \$149,986 thousand, and the estimated remuneration to directors in cash was \$39,872 thousand and \$37,497 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.

The employees' compensation of \$159,489 thousand and the remuneration to directors of \$39,872 thousand for the year ended December 31, 2019, which are payable in cash, had been resolved by the Corporation's board of directors on January 15, 2020. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2019.

The employees' compensation of \$149,986 thousand and the remuneration to directors of \$37,497 thousand for the year ended December 31, 2018, which are payable in cash, had been resolved by the Corporation's board of directors on February 20, 2019. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2018.

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
An analysis of depreciation and amortization expenses by assets		
Property, plant and equipment	\$ 40,205	\$ 35,921
Right-of-use assets	162,089	-
Intangible assets	13,794,304	13,735,699
Other non-current assets	4,546	4,595
	<u>\$ 14,001,144</u>	<u>\$ 13,776,215</u>
An analysis of depreciation by function		
Operating costs	\$ 179,923	\$ 24,015
Operating expenses	22,371	11,906
	<u>\$ 202,294</u>	<u>\$ 35,921</u>

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
An analysis of amortization by function		
Operating costs	\$ 13,794,118	\$ 13,735,620
Operating expenses	4,732	4,674
	<u>\$ 13,798,850</u>	<u>\$ 13,740,294</u>

**c. Interest income**

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest income of repurchase agreement collateralized by government bonds	\$ 122,118	\$ 69,934
Interest income of bank deposits	40,550	36,895
Others	32	30
	<u>\$ 162,700</u>	<u>\$ 106,859</u>

**d. Interest expense**

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest on bank loans	\$ 5,292,487	\$ 5,401,938
Interest on operating concession liabilities	1,125,877	1,103,802
Interest on bonds payable	16,491	-
Interest on long-term bills payable	13,130	111,729
Others	6,639	803
	<u>\$ 6,454,624</u>	<u>\$ 6,618,272</u>

**e. Other gains and losses**

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Compensation gain	\$ 52,346	\$ 58,228
Foreign exchange gain, net	4,816	7,332
Government grants	3,554	26,669
Amortization of cost for early repayment of long-term debt and bills payable	-	(10,634)
Loss on disposal of intangible assets, net	(636)	(5,455)
Others	18,760	17,178
	<u>\$ 78,840</u>	<u>\$ 93,318</u>

## 23. INCOME TAX

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Current tax		
In respect of the current year	\$ (104,333)	\$ (107,542)
Income tax on unappropriated earnings	(162,152)	(57,745)
Adjustments for prior years	103	1,269,732
Deferred tax		
In respect of the current year	498,307	1,487,726
Adjustments to deferred tax attributable to changes in tax rates and laws	-	792,387
Income tax benefit	<u>\$ 231,925</u>	<u>\$ 3,384,558</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Income tax expense calculated at the statutory rate	\$ (1,555,021)	\$ (1,462,365)
Nondeductible expenses in determining taxable income	(9,590)	(6,601)
Change in unrecognized deductible temporary differences	(1,181,032)	1,171
Income tax on unappropriated earnings	(162,152)	(57,745)
Change in tax rate	-	792,387
Income tax exemption effect	3,119,694	2,841,765
Adjustments for prior years	103	1,269,732
Others	19,923	6,214
Income tax benefit recognized in profit or loss	<u>\$ 231,925</u>	<u>\$ 3,384,558</u>

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. The effect of the change in income tax rate on deferred tax was fully recognized in profit or loss in the period in which the change in income tax rate occurred. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%.

In July 2019, the President of the ROC approved the announcement of the amendments to the Statute of Industrial Innovation, which stipulates that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in certain assets or technologies above a specific amount are allowed as deduction when computing the income tax on unappropriated earnings. However, the related implementation rules are yet to be issued by the Ministry of Finance; thus, the Corporation could not estimate the effect on the current income tax.

According to Article 28 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, the Corporation applied for a five-year income tax exemption. On April 13, 2018, the application for income tax exemption was approved by the Ministry of Finance, and the qualified exemption income is railroad and freight transportation income according to Article 3, Section 1, Item 1 of the Regulations Governing Application of Profit-seeking Enterprise Income Tax Exemption to Private Institutions Participating in Transportation and Communication Infrastructure Projects. The Corporation chose to start and has started its consecutive five-year income tax exemption period from January 1, 2017 according to Article 28, Section 2 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects.



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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax		
Change in tax rates	\$ -	\$ 2,559
In respect of the current year		
Remeasurement of defined benefit plan	9,772	20,764
	<u>\$ 9,772</u>	<u>\$ 23,323</u>

**c. Deferred tax assets and liabilities**

For the year ended December 31, 2019

	<b>Beginning Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Ending Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 4,774,930	\$ 379,361	\$ -	\$ 5,154,291
Provisions	1,968,835	123,721	-	2,092,556
Deferred revenue	24,094	(11,568)	-	12,526
Defined benefit obligation	37,825	-	9,772	47,597
Others	2,449	6,793	-	9,242
	<u>\$ 6,808,133</u>	<u>\$ 498,307</u>	<u>\$ 9,772</u>	<u>\$ 7,316,212</u>

For the year ended December 31, 2018

	<b>Beginning Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Ending Balance</b>
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 3,727,289	\$ 1,047,641	\$ -	\$ 4,774,930
Provisions	753,528	1,215,307	-	1,968,835
Deferred revenue	8,459	15,635	-	24,094
Defined benefit obligation	14,502	-	23,323	37,825
Others	920	1,529	-	2,449
	<u>\$ 4,504,698</u>	<u>\$ 2,280,112</u>	<u>\$ 23,323</u>	<u>\$ 6,808,133</u>

Deferred tax liabilities

Temporary differences				
Others	\$ 1	\$ (1)	\$ -	\$ -

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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Deductible temporary differences Provision	\$ 1,181,032	\$ -

**e. Income tax assessments**

The tax returns through 2016 have been assessed by the tax authorities.

**24. EARNINGS PER SHARE**

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Basic earnings per share (NT\$)	\$ 1.42	\$ 1.90

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

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Earnings attributable to common shareholders	\$ 8,007,033	\$ 10,696,381
Weighted average number of common stock in the computation of basic earnings per share (in thousands)	5,628,293	5,628,293

**25. 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.

## 26. FINANCIAL INSTRUMENTS

### a. Financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 330,443	\$ 327,446
Financial assets at amortized cost		
Other financial assets	24,310,267	13,964,800
Others (Note 1)	16,641,362	7,475,772

### Financial liabilities

Financial liabilities at amortized cost (Note 2)	351,625,069	351,192,835
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Note 1: The balances included financial assets measured at amortized cost, which comprised cash and cash equivalents, notes and accounts receivable, and other receivables (included in other current assets).

Note 2: The balances included financial liabilities measured at amortized cost, which comprised short-term borrowings, accounts payable, operating concession liabilities, other payables, payable for construction, bonds payable, long-term debt, long-term bills payable (including current portion), long-term interest payable and guarantee deposits received (included in other non-current liabilities). 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 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, 2019

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Open-end money market funds	\$ 330,443	\$ -	\$ -	\$ 330,443

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVTPL				
Open-end money market funds	\$ 327,446	\$ -	\$ -	\$ 327,446

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2019 and 2018.

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

The fair values of financial assets and financial liabilities were determined. 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.

**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 control 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. Hedging 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):

	<u>December 31, 2019</u>		
	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>New Taiwan Dollars</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,319	30.106	\$ 671,940
JPY	4,931	0.2770	1,366
<u>Financial liabilities</u>			
Monetary items			
JPY	889,301	0.2770	246,337

	December 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,748	30.733	\$ 668,387
JPY	4,931	0.2782	1,372
<u>Financial liabilities</u>			
Monetary items			
USD	33	30.733	1,029
JPY	1,436,946	0.2782	399,758

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. 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 \$6,719 thousand and \$6,674 thousand, respectively, for the years ended December 31, 2019 and 2018. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$2,450 thousand and \$3,984 thousand for the years ended December 31, 2019 and 2018, respectively.

The significant unrealized exchange gain and loss were as follows:

Foreign Currency	For the Year Ended December 31			
	2019		2018	
	Exchange Rate	Exchange (Loss) Gain, Net	Exchange Rate	Exchange (Loss) Gain, Net
USD	30.106	\$ (20,788)	30.733	\$ 11,728
JPY	0.2770	8,894	0.2782	(15,748)

b) Interest rate risk

As of December 31, 2019 and 2018, the Corporation's syndicated loan with floating interest rates amounted to both \$276,205,117 thousand. 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 both \$2,762,051 thousand, for the years ended December 31, 2019 and 2018.

c) Other price risk

The investments in open-end money market funds (recorded as FVTPL) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax and other comprehensive income before income tax would have decreased by \$3,304 thousand and \$3,274 thousand for the years ended December 31, 2019 and 2018, respectively.

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 financing facilities and ensures compliance with loan covenants.

The following table details the Corporation's remaining contractual maturity for its long-term debt and interest on long-term debt (refer to Note 14 b.), long-term bills payable, and operating concession liabilities, lease liabilities and bonds payable based on the undiscounted cash flows (excluding non-hedging financial liabilities that are to be settled within one year from the balance sheet date).

December 31, 2019

<b>Repayment Period</b>	<b>Long-term Debt</b>	<b>Interest on Long-term Debt</b>	<b>Operating Concession Liabilities</b>	<b>Lease Liabilities</b>	<b>Principal and Interest on Bonds Payable</b>	<b>Total</b>
2020.1.1-2020.3.31	\$ -	\$ 1,638,182	\$ -	\$ 40,536	\$ -	\$ 1,678,718
2020.4.1-2020.12.31	-	4,914,546	777,511	113,297	128,000	5,933,354
2021	9,186,153	9,039,422	731,700	84,745	128,000	19,170,020
2022	9,186,153	8,952,193	7,859,512	74,570	128,000	26,200,428
2023	9,186,153	8,620,899	116,525	74,449	128,000	18,126,026
2024	9,186,153	8,633,009	182,113	74,021	128,000	18,203,296
2025-2033	82,675,382	65,225,341	59,172,273	155,232	1,152,000	208,380,228
2034-2049	156,785,123	47,259,388	-	-	10,048,000	214,092,511
	<u>\$ 276,205,117</u>	<u>\$ 154,282,980</u>	<u>\$ 68,839,634</u>	<u>\$ 616,850</u>	<u>\$ 11,840,000</u>	<u>\$ 511,784,581</u>

December 31, 2018

<b>Repayment Period</b>	<b>Long-term Debt</b>	<b>Long-term Bills Payable (Including Current Portion)</b>	<b>Interest on Long-term Debt</b>	<b>Operating Concession Liabilities</b>	<b>Total</b>
2019.1.1-2019.3.31	\$ -	\$ 8,000,000	\$ 1,749,124	\$ -	\$ 9,749,124
2019.4.1-2019.12.31	-	-	5,247,372	731,182	5,978,554
2020	-	-	8,688,551	700,606	9,389,157
2021	9,186,153	-	9,039,422	161,106	18,386,681
2022	9,186,153	-	8,952,193	8,507,011	26,645,357
2023	9,186,153	-	8,620,899	116,525	17,923,577
2024-2033	91,861,535	-	73,858,350	59,354,386	225,074,271
2034-2049	156,785,123	-	47,259,388	-	204,044,511
	<u>\$ 276,205,117</u>	<u>\$ 8,000,000</u>	<u>\$ 163,415,299</u>	<u>\$ 69,570,816</u>	<u>\$ 517,191,232</u>

## 27. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interests in the Corporation's outstanding common stock. Under IAS 24, the Corporation is a government-related entity which is significantly influenced by the central government. The Corporation is a related party with the government-related entities (e.g., government-owned businesses) which are controlled by the Executive Yuan. 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 29, 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

<u>Related Party</u>	<u>Relationship with the Corporation</u>
MOTC	An investor with significant influence over the Corporation
Bank of Taiwan and seven other syndicated banks	A government-related entity controlled by the central government
China Steel Corporation	A legal entity as director of the Corporation
Century Development Corporation	An entity controlled by the legal entity as directors of the Corporation
InfoChamp Systems Corporation	An entity controlled by the legal entity as directors of the Corporation
Others	Individual and legal entity as directors of the Corporation, and individuals and entities controlled by the directors, key management personnel and their relatives, and related parties in substance

### b. Operating revenue

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 general public passengers.

### c. 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 net income 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 liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. Refer to Note 16 and Note 29 a. 2) for further information.

## 2) Operating concession - rental

The transactions between the Corporation and the MOTC were as follows, and, as for the nature, refer to Note 12 c. for further details:

## a) Rental expense

	<b>For the Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Railway Bureau, MOTC	\$ 786,036	\$ 787,298
Taiwan Railways Administration, MOTC	48,346	48,303
	<u>\$ 834,382</u>	<u>\$ 835,601</u>

## b) Prepaid rentals (included in other current assets)

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Railway Bureau, MOTC	\$ 785,906	\$ 786,036
Taiwan Railways Administration, MOTC	48,325	48,303
	<u>\$ 834,231</u>	<u>\$ 834,339</u>

**d. Non-operating income and expenses - interest expense**

Refer to Note 16 for the interest expense recognized on the operating concession liabilities, and the deduction of interest expense recognized on the value of returned superficies for offset of profit sharing payable using the effective interest method due to termination of the SZD Agreement.

**e. Long-term debt**

The Corporation has entered into the Tripartite Agreement with the MOTC and Bank of Taiwan. In addition, the Corporation has entered into the Syndicated Loan Agreement with Bank of Taiwan and seven other syndicated banks. 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. Refer to Note 14 b. for further information on the major terms, the term of loan, repayment method, interest rates, and early repayment of loan with respect to the Syndicated Loan Agreement.

**f. Procurement contract**

In August 2018, the Corporation entered into the "OCS Maintenance Vehicle Manufacturing and Supply Procurement Contract" with China Steel Corporation, and the total amount of the contract (business tax included) was \$1,232,000 thousand.

As of December 31, 2019, payments for the contract amounted to \$29,333 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

In December 2017, the Corporation entered into the "Ticket Vending Machine Renovation and Maintenance Project" with InfoChamp Systems Corporation, and the total amount of the contract (business tax included) was \$271,721 thousand. As of December 31, 2019, payments for the contract amounted to \$32,073 thousand and unpaid payments (included in payable for construction) were \$160,932 thousand. The Corporation has obtained the operating concession asset under intangible assets in amount of \$193,005 thousand.



**g. Lease arrangements**

The transactions between the Corporation with Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC and Century Development Corporation for the year 2019 are as follows:

<u>Line Item</u>	<u>Related Party</u>	<u>December 31, 2019</u>	
Lease liabilities (Note 11)	Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC	\$	93,000
	Century Development Corporation		<u>53,243</u>
		\$	<u>146,243</u>

The Corporation entered into a parking lease contract of Zuoying Station with Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC, which is rented under operating lease in 2018. As of December 31 2018, the carrying amount of prepaid rentals (included in other current assets) was \$1,021 thousand. For the year ended December 31, 2018, the rental expense was \$11,230 thousand.

The Corporation entered into Nangang Software Park Phase 3 office lease contract with Century Development Corporation, which is rented under operating lease in 2018. As of December 31 2018, the carrying amount of prepaid rentals (included in other current assets) was \$4,856 thousand. For the year ended December 31, 2018, the rental expense was \$58,275 thousand.

**h. Compensation of key management personnel**

Compensation of key management personnel was as follows:

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 103,008	\$ 99,124
Post-employment benefits	<u>878</u>	<u>854</u>
	\$ <u>103,886</u>	\$ <u>99,978</u>

## 28. PLEDGED ASSETS

Pledged Assets	Pledged to Secure	December 31	
		2019	2018
Other financial assets - current:			
Repurchase agreement collateralized by government bonds	Syndicated loan	\$ 1,577,000	\$ 1,572,000
Time deposits	Guarantee for customs duties	22,442	-
Time deposits	Guarantee for office lease	16,278	954
Time deposits	Guarantee for project subsidy	10,520	-
Time deposits	Trust deposit of unearned revenue	-	68,000
Demand deposits	Trust deposit of unearned revenue	21,676	15,654
Demand deposits	Project subsidy	2,001	-
Demand deposits	Syndicated loan	1,224	1,453
		<u>1,651,141</u>	<u>1,658,061</u>
Other financial assets - non-current:			
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000
Time deposits	Trust deposit of unearned revenue	68,000	-
Time deposits	Guarantee for customs duties	20,000	42,378
Time deposits	Guarantee for parking lease	7,134	7,067
Time deposits	Guarantee for oil purchase	3,120	3,120
Time deposits	Guarantee for office lease	-	15,324
Time deposits	Guarantee for project subsidy	-	10,520
		<u>2,098,254</u>	<u>2,078,409</u>
		<u>\$ 3,749,395</u>	<u>\$ 3,736,470</u>

## 29. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

### a. Construction and operation agreement

The 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 net income before income tax 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. Refer to Note 16 for the recognition of profit sharing payments as operating concession liabilities.

- 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 that 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 (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 of the accumulated stabilization reserve equals zero.
- c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") at 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 before 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, 2019 and 2018, the amount of the aforementioned performance bond remained unchanged at \$2 billion, and was recognized as other financial assets.

**b. As of December 31, 2019, unused letters of credit amounted to JPY3,668,813 thousand.**

**c. 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 time, 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 with the ruling and filed an appeal to Miaoli District Court. On November 23, 2018, Miaoli District Court declared that the Corporation won the first instance, and the defendant has filed an appeal on December 11, 2018. The Taiwan High Court ( the Taichung Branch Court) has dismissed the appeal on December 4, 2019, and the Corporation has appealed the case before the statutory deadline. On December 17, 2018, the residents filed a claim under the same reason, and requested for a payment of \$5,700 thousand. The Miaoli District Court has dismissed the appeal of accuser on December 12, 2019 and the accuser has appealed the case before the statutory deadline.**

**d. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY5,123,358 thousand and NT\$495,547 thousand. As of December 31, 2019, payments for the contract amounted to JPY4,460,593 thousand and NT\$387,643 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.**

In July 2019, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY2,626,531 thousand and NT\$120,955 thousand. As of December 31, 2019, payments for the contract amounted to JPY134,027 thousand and NT\$13,826 thousand were recognized as construction in progress of the operating concession asset under intangible assets.

**e. In response to the aging equipment such as 700T train electronic control, the Corporation expects to update the equipment during the train maintenance period from 2021 to 2023 and purchase the relevant components. Therefore, the Corporation entered into a procurement contract “700T Spare Parts of 7G1” with Toshiba Electronic Components Taiwan Corporation, Ltd (subsidiary of Toshiba Corporation in Taiwan) in July 2019 and the total amounts of the contract (business tax and import tariffs excluded) were JPY11.6 billion. As of December 31, 2019, payments for the contract made were JPY1.16 billion.**

### **30. SIGNIFICANT EVENTS AFTER REPORTING PERIOD**

Except for those separately disclosed in other notes, the Corporation had the following significant events after the reporting period:

On February 19, 2020, the board of directors approved the procurement of “high-speed railway passenger card purchase ticket cash flow receipt service contracts” for the period from March 2022 to April 2027.

### **31. 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, refer to Note 26, c.

### **32. SEPARATELY DISCLOSED ITEMS**

Except for Tables 1 and 2 as attached, there were no other significant transactions, information on 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.

## **TAIWAN HIGH SPEED RAIL CORPORATION**

### MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item
The Corporation	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss
	Franklin Templeton Sinoam Money Market Fund	-	"
	Yuanta De-Li Money Market Fund	-	"
	Prudential Financial Money Market Fund	-	"
	Central Government Bonds 2018-11	-	Cash and cash equivalents
	Central Government Bonds 2016-11	-	"
	Central Government Bonds 2016-8	-	"
	Central Government Bonds 2015-12	-	"
	Central Government Bonds 2013-B 1st	-	"
	Central Government Bonds 2012-9	-	"
	Central Government Bonds 2011-9	-	"
	Central Government Bonds 2005-8	-	"
	Central Government Bonds 2004-9	-	"
	Central Government Bonds 2004-6	-	"
	Central Government Bonds 2001-4	-	"
	Central Government Bonds 2001-8	-	"
	Central Government Bonds 2001-B-1st	-	"
	Central Government Bonds 2000-13	-	"
	Central Government Bonds 2000-7	-	"
	Central Government Bonds 2000-B-1st	-	"
	Central Government Bonds 2017-9	-	Other financial assets - current
	Central Government Bonds 2016-11	-	"
	Central Government Bonds 2015-12	-	"
	Central Government Bonds 2012-9	-	"
	Central Government Bonds 2011-9	-	"
	Central Government Bonds 2011-7	-	"
	Central Government Bonds 2011-5	-	"
	Central Government Bonds 2010-8	-	"
	Central Government Bonds 2010-7	-	"
	Central Government Bonds 2004-6	-	"
	Central Government Bonds 2003-3	-	"
	Central Government Bonds 2002-7	-	"
	Central Government Bonds 2001-8	-	"
	Central Government Bonds 2001-4	-	"
	Central Government Bonds 2001-2	-	"
	Central Government Bonds 2001-B 1st	-	"
	Central Government Bonds 2000-13	-	"
	Central Government Bonds 2000-B 1st	-	"

TABLE 1

December 31, 2019					Note
Units/Face Value (In Thousands)	Carrying Amounts	Percentage of Ownership	Fair Value		
3,907	\$ 60,019	-	\$ 60,019		
9,671	100,372	-	100,372		
6,538	107,032	-	107,032		
3,968	63,020	-	63,020		
\$ 100,000	108,000	-	108,000		
1,500,000	1,583,000	-	1,583,000		
55,000	60,000	-	60,000		
2,052,400	2,280,333	-	2,280,333		
108,000	120,000	-	120,000		
419,000	442,000	-	442,000		
142,200	158,000	-	158,000		
954,900	1,061,000	-	1,061,000		
92,000	100,000	-	100,000		
1,297,700	1,441,889	-	1,441,889		
523,800	582,000	-	582,000		
3,790,000	3,967,778	-	3,967,778		
637,000	649,000	-	649,000		
1,051,500	1,065,000	-	1,065,000		
189,000	210,000	-	210,000		
1,778,500	1,865,000	-	1,865,000		
1,230,000	1,308,000	-	1,308,000		
3,797,000	4,066,000	-	4,066,000		
636,300	707,000	-	707,000		
805,000	861,000	-	861,000		
110,000	120,000	-	120,000		
705,600	784,000	-	784,000		
819,900	911,000	-	911,000		
252,900	281,000	-	281,000		
877,500	975,000	-	975,000		
847,800	942,000	-	942,000		
133,000	140,000	-	140,000		
1,609,200	1,788,000	-	1,788,000		
665,000	670,000	-	670,000		
176,000	176,000	-	176,000		
1,127,000	1,137,000	-	1,137,000		
2,521,200	2,550,000	-	2,550,000		
234,000	260,000	-	260,000		
2,547,900	2,757,000	-	2,757,000		



## TAIWAN HIGH SPEED RAIL CORPORATION

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, 2019

(In Thousands of New Taiwan Dollars)

Company	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
The Corporation	Central Government Bonds 2017-9	Note	-	-	\$ -	\$ -
	Central Government Bonds 2017-4	"	-	-	-	-
	Central Government Bonds 2016-11	"	-	-	6,835,000	7,429,000
	Central Government Bonds 2015-12	"	-	-	1,236,600	1,374,000
	Central Government Bonds 2015-6	"	-	-	-	-
	Central Government Bonds 2014-6	"	-	-	401,400	446,000
	Central Government Bonds 2013-10	"	-	-	-	-
	Central Government Bonds 2013-6	"	-	-	435,600	484,000
	Central Government Bonds 2012-9	"	-	-	-	-
	Central Government Bonds 2012-5	"	-	-	477,000	530,000
	Central Government Bonds 2012-2	"	-	-	-	-
	Central Government Bonds 2012-B 2nd	"	-	-	-	-
	Central Government Bonds 2012-B 1st	"	-	-	-	-
	Central Government Bonds 2011-9	"	-	-	-	-
	Central Government Bonds 2011-7	"	-	-	334,800	372,000
	Central Government Bonds 2011-5	"	-	-	-	-
	Central Government Bonds 2010-7	"	-	-	-	-
	Central Government Bonds 2010-4	"	-	-	133,200	148,000
	Central Government Bonds 2008-5	"	-	-	353,700	393,000
	Central Government Bonds 2005-8	"	-	-	-	-
	Central Government Bonds 2004-6	"	-	-	382,500	425,000
	Central Government Bonds 2004-3	"	-	-	-	-
	Central Government Bonds 2003-3	"	-	-	-	-
	Central Government Bonds 2002-7	"	-	-	-	-
	Central Government Bonds 2001-8	"	-	-	-	-
	Central Government Bonds 2001-5	"	-	-	-	-
	Central Government Bonds 2001-4	"	-	-	-	-
	Central Government Bonds 2001-2	"	-	-	-	-
	Central Government Bonds 2001-B 1st	"	-	-	-	-
	Central Government Bonds 2000-13	"	-	-	3,526,000	3,526,000
	Central Government Bonds 2000-7	"	-	-	-	-
	Central Government Bonds 2000-B 1st	"	-	-	1,152,000	1,152,000

Note: The above repurchase agreement collateralized by government bonds is included in cash and cash equivalents and other financial assets - current.

TABLE 2

Acquisition		Disposal				Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
\$ 1,230,000	\$ 1,308,000	\$ -	\$ -	\$ -	\$ -	\$ 1,230,000	\$ 1,308,000
8,094,000	8,803,200	8,094,000	8,815,082	8,803,200	11,882	-	-
13,121,500	14,100,600	14,659,500	15,901,743	15,880,600	21,143	5,297,000	5,649,000
5,686,600	6,318,333	4,234,500	4,711,303	4,705,000	6,303	2,688,700	2,987,333
1,676,000	1,811,000	1,676,000	1,813,419	1,811,000	2,419	-	-
831,600	924,000	1,233,000	1,371,944	1,370,000	1,944	-	-
1,749,500	1,943,889	1,749,500	1,946,482	1,943,889	2,593	-	-
369,000	410,000	804,600	895,124	894,000	1,124	-	-
1,224,000	1,303,000	-	-	-	-	1,224,000	1,303,000
-	-	477,000	530,637	530,000	637	-	-
674,100	749,000	674,100	749,999	749,000	999	-	-
595,800	662,000	595,800	662,914	662,000	914	-	-
351,900	391,000	351,900	391,485	391,000	485	-	-
577,100	639,000	324,900	361,502	361,000	502	252,200	278,000
975,600	1,084,000	604,800	672,879	672,000	879	705,600	784,000
1,462,500	1,625,000	642,600	714,890	714,000	890	819,900	911,000
1,916,100	2,129,000	1,038,600	1,155,451	1,154,000	1,451	877,500	975,000
701,100	779,000	834,300	928,131	927,000	1,131	-	-
403,200	448,000	756,900	842,053	841,000	1,053	-	-
954,900	1,061,000	-	-	-	-	954,900	1,061,000
2,573,000	2,858,889	810,000	901,140	900,000	1,140	2,145,500	2,383,889
1,780,200	1,978,000	1,780,200	1,981,062	1,978,000	3,062	-	-
1,562,300	1,699,000	1,429,300	1,561,153	1,559,000	2,153	133,000	140,000
1,609,200	1,788,000	-	-	-	-	1,609,200	1,788,000
6,092,000	6,442,778	1,637,000	1,807,552	1,805,000	2,552	4,455,000	4,637,778
457,200	508,000	457,200	508,698	508,000	698	-	-
1,300,100	1,425,000	600,300	667,865	667,000	865	699,800	758,000
3,935,000	4,257,000	2,808,000	3,124,174	3,120,000	4,174	1,127,000	1,137,000
4,547,800	4,743,000	1,389,600	1,546,077	1,544,000	2,077	3,158,200	3,199,000
5,634,500	5,674,000	7,875,000	7,884,844	7,875,000	9,844	1,285,500	1,325,000
3,736,400	4,101,667	3,547,400	3,896,961	3,891,667	5,294	189,000	210,000
8,485,500	9,014,333	5,311,100	5,551,790	5,544,333	7,457	4,326,400	4,622,000

## **TAIWAN HIGH SPEED RAIL CORPORATION**

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SCHEDULE 1

**TAIWAN HIGH SPEED RAIL CORPORATION**

## STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Cash		
Cash on hand		\$ 88,890
Checking accounts		10
Demand deposits	Interest rate: 0.001%-0.33%	481,618
Time deposits		
New Taiwan dollars	Expired in January 2020; interest rate: 0.62%	8,158
Cash equivalents		
Repurchase agreement collateralized by government bonds	Can be redeemed between January and March 2020; interest rate: 0.50%-0.56%	15,693,000
		<u>\$ 16,271,676</u>

SCHEDULE 2

**TAIWAN HIGH SPEED RAIL CORPORATION**

## STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Funds	Units (In Thousands)	Acquisition Cost	Net Value (NT\$)	Total Amount
Open-end money market funds				
Franklin Templeton Sinoam Money Fund	9,671	\$ 100,000	10.3791	\$ 100,372
Yuanta De-Li Money Market Fund	6,538	107,000	16.3699	107,032
Prudential Financial Money Market Fund	3,968	63,000	15.8817	63,020
FSITC Taiwan Money Market Fund	3,907	60,000	15.3630	60,019
		<u>\$ 330,000</u>		<u>\$ 330,443</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

## STATEMENT OF INVENTORIES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Spare parts and supplies	\$ 2,687,442
Merchandise	11,451
	<u>2,698,893</u>
Less: Allowance for inventory valuation losses	<u>(642,848)</u>
	<u>\$ 2,056,045</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

## STATEMENT OF SHORT-TERM BORROWINGS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

<u>Type of Loans</u>	<u>Name of Creditors</u>	<u>Ending Balance</u>	<u>Credit Period</u>	<u>Interest Rate (%)</u>	<u>Loan Commitments</u>	<u>Collateral</u>
JPY letters of credit						
	Bank of Taiwan	\$ 36,686	2019.12.18-2020.3.17	0.63	\$ 1,505,300	None
	Cathay United Bank	13,232	2019.12.4-2020.3.18	0.62-0.7	903,180	None
	Taiwan Business Bank	12,134	2019.12.2-2020.3.1	0.74	481,696	None
	Chang Hwa Commercial Bank	2,828	2019.12.6-2020.3.24	0.63	903,180	None
	E.SUN Commercial Bank	<u>100</u>	2019.11.27-2020.2.25	0.65	451,590	None
		<u>\$ 64,980</u>				

Note: The credit line is recorded at the exchange rate of JPY1:0.2770 at December 31, 2019.

SCHEDULE 5

**TAIWAN HIGH SPEED RAIL CORPORATION**

STATEMENT OF ACCOUNTS PAYABLE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

<u>Supplier Name</u>	<u>Amount</u>
Toshiba Electronic Components Taiwan Corporation	\$ 24,718
Kawasaki Heavy Industries, Ltd.	20,229
Kaohsiung Airport Catering Services	17,075
Shin Goang International Corporation	13,305
Others (Note)	181,011
	<u>\$ 256,338</u>

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

SCHEDULE 6

**TAIWAN HIGH SPEED RAIL CORPORATION**

STATEMENT OF PAYABLE FOR CONSTRUCTION

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

<u>Supplier Name</u>	<u>Amount</u>
InfoChamp Systems Corporation	\$ 160,932
Kyosan Electric Manufacturing Co., Ltd. Taiwan Branch (Japan)	96,637
Industrial Technology Research Institute	91,330
Mitac Information Technology Corporation	81,907
Taiwan Shinkansen Corporation	69,977
Taiwan Hitachi Asia Pacific Co., Ltd.	58,946
Others (Note)	382,412
	<u>\$ 942,141</u>

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

**TAIWAN HIGH SPEED RAIL CORPORATION**

STATEMENT OF OPERATING REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>
Railroad transportation revenue	11,994 million passenger - kilometers; 67.41 million passengers	\$ 46,107,656
Others		1,399,734
		<u>\$ 47,507,390</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

STATEMENT OF OPERATING COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Amortization expense	\$ 13,794,118
Employee benefit expense	4,156,369
Electricity fee	1,838,201
Spare parts and supplies	1,306,469
Repair and maintenance expense	1,139,321
Others	3,528,209
	<u>\$ 25,762,687</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

STATEMENT OF OPERATING EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019  
(In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Employee benefit expense	\$ 857,560
Advertisement expense	82,544
Professional service expense	76,763
Repair and maintenance expense	47,394
Others	168,489
	<u>\$ 1,232,750</u>

**TAIWAN HIGH SPEED RAIL CORPORATION**

## STATEMENT OF SUMMARY OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION EXPENSE BY FUNCTION

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

	2019			2018		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefit expense						
Payroll	\$ 3,549,937	\$ 652,553	\$ 4,202,490	\$ 3,335,786	\$ 603,711	\$ 3,939,497
Insurance	308,428	50,316	358,744	288,142	45,297	333,439
Pension	172,066	32,960	205,026	161,429	28,027	189,456
Remuneration to directors	-	53,797	53,797	-	53,701	53,701
Other personnel expense	125,938	67,934	193,872	122,398	65,623	188,021
	<u>\$ 4,156,369</u>	<u>\$ 857,560</u>	<u>\$ 5,013,929</u>	<u>\$ 3,907,755</u>	<u>\$ 796,359</u>	<u>\$ 4,704,114</u>
Depreciation expense	<u>\$ 179,923</u>	<u>\$ 22,371</u>	<u>\$ 202,294</u>	<u>\$ 24,015</u>	<u>\$ 11,906</u>	<u>\$ 35,921</u>
Amortization expense	<u>\$ 13,794,118</u>	<u>\$ 4,732</u>	<u>\$ 13,798,850</u>	<u>\$ 13,735,620</u>	<u>\$ 4,674</u>	<u>\$ 13,740,294</u>

Note 1: The number of employees for December 31, 2019 and 2018 was 4,608 and 4,475, respectively, while the number of non-employee directors was 12 and 13, respectively.

Note 2: The amount of average employee benefit expense for the years ended December 31, 2019 and 2018 was \$1,079 thousand and \$1,042 thousand, respectively. The amount of average payroll for the years ended December 31, 2019 and 2018 was \$914 thousand and \$883 thousand, respectively. The average payroll has increased by 3.51% in 2019 compared with 2018.



(2) Consolidated Financial Statements and Independent Auditors' Report: None.

**5. In the Event That the Company or Its Affiliates Have Experienced Financial Difficulties in the Most Recent Fiscal Year or During the Current Fiscal Year Up to the Date of Publication of the Annual Report, Said Annual Report Shall Explain How Said Difficulties Will Affect the Company's Financial Situation: None.**

## **6. Review of Financial Conditions, Financial Performance, and Risk Management**

### (1) Analysis of Financial Status

Unit: NT\$ thousands

Item	Year	2019	2018	Difference	%
Current Assets		42,710,136	22,796,549	19,913,587	87.35
Property, Plant and Equipment		125,047	98,085	26,962	27.49
Operating Concession Asset		390,113,063	401,168,964	(11,055,901)	(2.76)
Other Assets		10,111,356	8,993,471	1,117,885	12.43
Total Assets		443,059,602	433,057,069	10,002,533	2.31
Current Liabilities		13,278,906	13,814,046	(535,140)	(3.87)
Non-Current Liabilities		358,703,427	349,830,010	8,873,417	2.54
Total Liabilities		371,982,333	363,644,056	8,338,277	2.29
Capital Stock		56,282,930	56,282,930	-	-
Capital Surplus		172,981	172,981	-	-
Retained Earnings		14,621,358	12,957,102	1,664,256	12.84
Total Equity		71,077,269	69,413,013	1,664,256	2.40

Analysis of differences over 20%:

1. The increase in current assets was mainly due to increase of repurchase agreement collateralized by government bonds recorded as cash and cash equivalents, and other financial assets.
2. The increase in property, plant and equipment was mainly due to increase of machinery and equipment, and other equipment.

## (2) Analysis of Financial Performance

Unit: NT\$ thousands

Item	Year	2019	2018	Difference	%
Operating Revenue		47,507,390	45,415,007	2,092,383	4.61
Operating Costs		25,762,687	25,081,394	681,293	2.72
Gross Profit		21,744,703	20,333,613	1,411,090	6.94
Operating Expenses		1,232,750	1,188,649	44,101	3.71
Income from Operations		20,511,953	19,144,964	1,366,989	7.14
Non-Operating Income and Expenses		(12,736,845)	(11,833,141)	(903,704)	7.64
Income Before Income Tax		7,775,108	7,311,823	463,285	6.34
Income Tax Benefit		231,925	3,384,558	(3,152,633)	(93.15)
Net Income		8,007,033	10,696,381	(2,689,348)	(25.14)
Other Comprehensive Income		(39,089)	(80,497)	41,408	(51.44)
Total Comprehensive Income for the Year		7,967,944	10,615,884	(2,647,940)	(24.94)

Analysis of differences over 20%:

1. The decrease in income tax benefit was mainly due to the effect of the change in income tax rate and the application for income tax exemption was approved in 2018.
2. The decrease in net income and total comprehensive income were mainly due to decrease of income tax benefit.
3. The variation in other comprehensive income was mainly due to the adjustment of remeasurement of defined benefit plans based on actuarial calculations in 2019.

## (3) Analysis of Cash Flow

1) Cash flow analysis for the current year:

A. Net cash generated by operating activities was NT\$ 28,546,454 thousand, mainly from cash inflows provided by operating activities and partially offset by payments of interests and profit sharing.

B. Net cash used in investing activities was NT\$ 12,760,777 thousand, mainly from increase of other financial assets and purchase of operating concession asset.

C. Net cash used in financing activities was NT\$ 6,462,020 thousand, mainly from cash dividend payments.

2) Improvement plan for insufficient liquidity: Not applicable.

3) Cash flow analysis for the coming year:

Unit: NT\$ thousands

Beginning Balance (1)	Estimated Net Cash Flow from Annual Operating Activities (2)	Estimated Annual Cash Outflow (3)	Estimated Cash Surplus (Insufficient) Amount (1)+(2)-(3)	Expected Remedies for Insufficient Cash	
				Investment Plan	Financial Plan
16,271,676	21,153,000	36,624,676	800,000	-	-

#### (4) The Impact of Recent Major Capital Expenditures on Financial Operations

##### 1) The utilization of major capital expenditures and sources of funding

Unit: NT\$ thousands

Project	Actual or Expected Source of Funding	Actual or Expected Completion Date	Total Funds Required	Actual or Scheduled Use Of Funds		
				1997-2018	2019	2020
High-speed rail project	Private funds and bank loans	2006.12	481,618,556	474,405,862	2,328,694	4,884,000

Note: The high-speed rail corporation was completed and began officially operating in January 2007. Major capital expenditures for the year 2019 and 2020 were mainly equipment replacement and spare parts maintenance. The above capital expenditure does not include non-capitalization cost during the construction period.

##### 2) Expected benefits generated:

The Taiwan North-South High-Speed Railway commenced operations on January 5, 2007; the number of passengers broke the benchmark of 500 million on July 23, 2018, and the number of passengers continued to grow: as of December 31, 2019, a total of more than 596 million passenger travel services were provided. Also, we transported 67.41 million passengers in 2019, and an average of 185 thousand passengers travelled the western corridor of Taiwan via high-speed rail every day. The Corporation is market-oriented, and adopts marketing strategies to adjust train frequencies to promote revenue growth based on passengers' demand. We will also strive to implement various plans for cost reduction; moreover, in order to live up to the expectations of the public, the Corporation will continue improving operation quality to offer passengers with safe, reliable, comfortable, and convenient travel services.

In addition to providing fast and safe transportation services, the construction and operation of high-speed rail projects has external benefits such as saving time and costs, increasing government revenue, creating employment opportunities, integrating community development, and maintaining environmental resources.

#### (5) The Most Recent Annual Investment Policy, the Main Reason for Its Profit or Loss, the Improvement Plan and the Investment Plan for the Next Year: None.

## 7. Analysis of Risk Management

#### (1) Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

##### 1) Interest rates

In terms of domestic interest rates, our interest rates policy for 2019 were not affected by US interest rate policies, and rediscount rates remained at 1.375% for the whole year, as of March 20, 2020, it changed to 1.125%. The Corporation is engaged in the capital-intensive construction and operation of public infrastructure, and our operations are regulated by related concession contracts. Interest payments for bank loans in 2019 were NT\$ 5,292,487 thousand, accounting for 11.14% of the Corporation's operating revenue. Looking forward, the short-term interest rate of the NT dollar still remains at a relatively low level, which is conducive to reduction of interest burdens for financing loans. The Corporation also continues to decrease liabilities and interest expenses through various measures. In future, we will make timely adjustments to utilization of funds according to changes in interest rates.

##### 2) Foreign exchange rates

Market predictions state that the interest rate policies of the US Federal Reserve Board (FED) are likely to affect exchange rates against the US dollar and the Japanese yen, so are worthy of continued observation. It is expected that exchange

rates for the NT dollar will continue to be influenced by the US dollar, the Korean won, and the Chinese RMB. In 2019, the Corporation's ratio for foreign currency exchange profit (loss) to operating revenue was 0.01%, indicating that exchange rate changes have little impact on our revenue and operations. In line with foreign currency payments required by various contracts, the Corporation uses forward exchange contracts to reduce exchange rate risks. In future, we will continue to seek favorable opportunities to reduce debt and interest expenses, and will make timely adjustments to fund utilization according to changes in exchange rates.

### 3) Inflation

In terms of current inflation conditions, the Directorate-General of Budget, Accounting, and Statistics estimated that the annual growth rate of the consumer price index (CPI) in Taiwan for 2019 was 0.56%, and domestic prices for relevant products are holding stable. The Corporation's fares are adjusted in accordance with inflation rates, and therefore the impacts of inflation are low.

## (2) Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-Risk, High-Leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

The Corporation so far has not been involved in the lending of funds to others; our sole endorsement guarantee involves guarantees of customs duties handled by the Corporation itself, and our balance as of December 31, 2018 was NT\$ 42,000 thousand, while our balance as of March 31, 2020 was NT\$ 42,000 thousand.

The Corporation's transactions in derivative products adhere to our internal management regulations ("Procedures for the Handling of Derivative Transactions") and are used for hedging purposes. We do not engage in speculative financial operations and each transaction is audited by certified public accountants. We will continue to deal in derivative products when it is appropriate to hedge risks.

## (3) Future Research & Development Projects and Corresponding Budget

In future, we plan to continue investment in development of various systems. In terms of facility construction projects, we cooperated with the ITRI to build a service platform for inspection of HSR viaducts using artificial intelligence drones, conduct research and place dampers on viaducts in the Kaohsiung section to prevent seismic displacement, and conduct research on amplification of seismic response at viaducts in the Chiayi section. We hope these measures can help to provide a better understanding of drone technology and facilitate the use of drones in future inspection and maintenance of high-speed rail facilities and for disaster prevention and surveillance purposes; reduce lateral relative displacement between differing structural constructs on specific viaducts and prevent repeated earthquake damage to ensure operational safety; and assist in selection of viaduct positions with structural constructs that display differing vertical forces for installation of accelerometers to check validity of anti-lifting devices and serve as a basis for improvement.

Our developments in communication systems include localization of our TEL IP Server for Direct Line Telephone System and localization of our trackside radio battery backup system, which we hope can help us establish self-reliant maintenance capabilities and promote local industries.

For our rolling stock system, we are working with the NCSIST to study train EMI interference problems, and are also working in collaboration with national universities and local companies to develop maintenance equipment. Our localization of maintenance equipment not only reduces costs and single-sourcing risks, but also helps to improve inventory management efficiency, enhance timeliness of emergency component purchase, and facilitate technology transfers to local manufacturers. For our track and power system, we are continuing to work with the NCSIST on the development of an automatic measurement system for rolling stock vibrations, and with the CSC on OCS maintenance vehicles manufactured locally in Taiwan.

R&D projects and expenditures for 2020 are as follows:

Category	R&D project	R&D project content	Benefits of R&D benefits	Current progresses	Expected Future Investments (NT\$ in Thousands)
Facility Construction Research	Use of artificial intelligence drones for inspection of HSR viaducts	Cooperated with ITRI on development project which will be implemented in three phases over three years.	Provide a better understanding of drone technology and facilitate the use of drones in future inspection and maintenance of high-speed rail facilities and for disaster prevention and surveillance purposes.	The second stage of this development project was carried out in 2019.	2020: 1,118
	Conduct research and place dampers on viaducts in the Kaohsiung section to prevent seismic displacement	This project is composed of two stages: planning and design, and installation and construction.	Reduce lateral relative displacement between differing structural constructs on specific viaducts and prevent repeated earthquake damage to ensure operational safety.	The planning and design stage, as well as contracting procedures for the installation and construction stage, were completed in 2019. Construction is expected to start in 2020, with an estimated construction period of 15 months.	2020: 18,661
	Conduct research on amplification of seismic response at viaducts in the Chiayi section	Measure vibrations on ground surface, viaduct piers, and viaduct deck to study the amplification effect on upper and lower viaduct structures in the event of an earthquake.	Select viaduct positions with structural constructs that display differing vertical forces for installation of accelerometers to check validity of anti-lifting devices and serve as a basis for improvement.	Installation of measuring instruments was completed in 2019, and we have since commenced a three-year automated measuring period.	2019~2022: 4,142
Communication System Research	Localization of TEL IP Server for Direct Line Telephone system	Localization to replace products purchased from Germany.	Maintains system function while reducing maintenance costs.	Function tests of local equipment.	1,680
	Localization of battery backup system for trackside radio	Seek local contractors to manufacture equipment replacements.	Maintains system function while reducing maintenance costs.	Function tests of local equipment.	800
	R&D on Intelligent Passenger Information System (PIS)	We conducted R&D on Passenger Information System (PIS) to reduce the technology reliance on an overseas vendor, to enhance passenger riding experience and corporate operation efficiency.	This project, when completed, will enhance passenger riding experience and corporate operation efficiency with new technologies & products.	The first & 2nd phases are undergoing Factory Acceptance Test (FAT). The 3rd and 4th phases just kicked off (on 2019/12/11), with a target to upgrade the PIS for 8 stations in the 2nd half of 2021.	2020: 138,500 2021: 199,910 2022: 4,994 2023: 4,994
	Development for Wi-Fi service on THSRC trains	We developed & started to provide Wi-Fi service on THSRC trains and in all 12 stations.	This project is enhancing overall passenger service quality.	THSRC Wi-Fi service contract was signed in 2018.	2020: 10,000 2021: 10,000

Category	R&D project	R&D project content	Benefits of R&D	Current progresses	Expected Future Investments (NT\$ in Thousands)
Signaling System Research	Research to improve the reliability of railway turnout controller	We conducted R&D on alternative PLC turnout controllers using new technologies & components to raise controller reliability.	This will enhance the reliability of existing turnout controllers to reduce impact to customer service.	A contract to develop a prototype Programmable Logic Controlled (PLC) Turnout Controller for test & validation was signed in Jan. 2018. A separate contract was awarded by our Quality Assurance Office in June 2018 and has completed the Independent Verification and Validation (IV&V) on the prototype. The prototype was installed at Zuoying Station (replacing a Siemens Turnout Controller) in April 2019 to observe its stability for a year till April 2020. It's stable so far.	2020: 596
Rolling Stock Improvement	Installation of CCTV on train luggage racks area	Install CCTV system at each end of each train car.	Improve passenger satisfaction.	Installation on all trains expected to be completed in 2020.	78,500
Localization of Materials	Compressor	Commissioned from local manufacturers	Reduction of costs and expansion of local supplier sources.	Production design and validation testing in Progress	509
	EID / IID	Commissioned from local manufacturers	Commissioned from local manufacturers	In preparation.	2,700
	Diesel locomotive	Commissioned from local manufacturers	Improvement of maintenance efficiency and shortening of repair/rescue time in the event of accidents.	Project in progress.	355,795
	Automatic painting equipment for Yanchao Maintenance Depot	Commissioned from local manufacturers	Increase ridership and train availability.	Accepting bids for localized equipment.	733,237
	BRT (Bogie Running Tester)	Commissioned from local manufacturers	Improve maintenance efficiency and shortening of repair/rescue time in the event of accidents.	Project in progress.	371,290
Track & Power System	Collaboration with NCSIST on development of automatic measurement system for rolling stock vibrations	Rolling stock automatic vibration measurement and report system	Measurement data can automatically be delivered via internet to offices for real-time monitoring of track alignment conditions.	Projects completed in 2019: (1) Cable laying for all 34 rolling stock; (2) Completed validation testing and submitted reports.	2019: 8,637 2020: 5,449
	Localization of OCS maintenance vehicles	8 MV type vehicles and 2 sets of CS vehicles (4 vehicles).	Combine and integrate 6 existing Japanese/Germany vehicle types to 2 types, resulting in less investment and improvement of maintenance efficiency and safety.	Layout design and manufacturing of model cars in 2019.	(2018~2024) 1,232,000

#### **(4) Effects and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

In terms of major policy, the government is emphasizing the development of railway transportation and transportation safety in order to improve regional resource circulation efficiency and reduce regional gaps. The recent establishment and operation of the "Railway Bureau, MOTC," "Taiwan Transportation Safety Board," and "Railway Technology Research and Certification Center" have effectively concentrated authority, integrated resources, accelerated scientific and technological development, and promoted accident investigation and prevention; in addition, the continued implement of the 38 railway infrastructure plans stipulated in the 5 main schemes of the "Forward-Looking Railway Infrastructure Project" also have specific benefits on formulating the HSR and TRA railway transit networks; strengthening transfer services and regional integration, improving traffic volume and transport capacity, and expanding limits of our operations. Thus, these major policies are all creating a favorable environment for our operations.

In terms of regulation changes, amendments made to laws and regulations relevant to our operating activity include the "Act for Establishment of Railway Technology Research and Certification Center," "Organic Act of the Taiwan Transportation Safety Board," "Transportation Occurrence Investigation Act," all of which have had positive effects on improving the development of the railway industry and ensuring transportation safety. Amendments on children and youth welfare related regulations, including "The Protection of Children and Youth Welfare and Rights Act" and the "Public Breastfeeding Act" also have made significant strides in promoting creation of mother-infant friendly environments in public places and in guaranteeing the rights of children and youth.

All units should identify applicable laws, compilation, and conform to all relevant laws and regulations in compliance with our "Law Compliance Management Regulation," and continue track policies trends. We are able to detect all major policies and statutory changes so as to get immediate response. Over the past year, all these changes have no significant adverse impacts to our business operations.

#### **(5) Effects and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales**

Technological Changes:

We have integrated new technologies into various facets of passenger service since commencement of operations. The convenience store ticketing system launched in February 2010, our Seat Management Information System was launched in March 2011, and the T Express mobile ticketing app was also released in October that same year. Support for mobile payments was launched in November 2017, allowing passengers to pay via Apple Pay and Google Pay, and support for Samsung Pay at station ticketing counters and ticket vending machines were launched in February 2018. In November of the same year, the Taiwan Pay payment option was added to our online reservation system. Additionally, in March 2019, we also launched ticket pick-up services for senior and disabled concession tickets on our mobile ticketing app and from automatic ticketing machines, and also launched our AI Booking Service on Facebook Messenger. These services show that we not only adapt well to technological changes, but also have the ability to develop passenger services using new technologies. In future, we will continue to keep abreast of technological changes to optimize our cloud management and transportation efficiency, and we plan to expand our 4T (Transportation, Technology, Taiwan, and Touch) program to provide better services to the public and establish ourselves as a creative lifestyle services provider.

Industrial Changes:

The Corporation is entering into its 14th year of operation. Our convenient, comfortable, safe, high-quality, efficient, and punctual services have completely revolutionized transport in Taiwan's western corridor. HSR now serves as the main form of transport for passengers travelling over long distances, and is used in combination with TRA, buses, taxis, or rental cars. HSR

has shortened the distance between the northern and southern regions, and continues to see steady increases in ridership. In the future, we will continue to improve our systems and equipment to provide better services for our passengers. In addition, we will adhere to all safety regulations and procedures and implement appropriate risk evaluation and safety management mechanisms to minimize potential passenger injuries or operational accidents.

**(6) The Impact of Changes in Corporate Image on Corporate Risk Management, and the Corporation's Response Measures**

THSRC's core business of transportation adheres to the highest standards of safety. We have established transparent channels for external communication through our corporate website, spokesperson, and public email address, and we periodically publish corporate social responsibility reports to maintain a good corporate image and convey important information to domestic and foreign mass media, consumers, our shareholders, governmental units, and other stakeholders. Additionally, we assimilate relevant information to fully understand potential crises and to fulfill our duties of prevention and warning. As of the publication of this annual report, there have been no incidents jeopardizing our corporate image.

**(7) Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: None.**

**(8) Expected Benefits, Possible Risks and Response Measures for Plant Expansion: None.**

**(9) Risks and Countermeasures in the Concentration of Incoming Goods or Sales: None.**

**(10) Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%**

Over the past year, there were no incidences where a major quantity of shares belonging to a director or shareholder holding more than a 10 percent stake in the Corporation was transferred.

**(11) Expected Impacts, Possible Risks, and Response Measures for Changes in Management Rights:**

Over the past year, there were no incidences relating to changes in management rights.

The Corporation has a stable equity structure, and has appointed a sufficient number of independent directors, adopted the candidate nomination system, implemented diversity of directors, and ensured effective functioning of the Board and all committees in accordance with laws and regulations, our Articles of Incorporation, Guidelines for Corporate Governance, and other relevant regulations. We have also implemented comprehensive internal control and risk management policies, which help establish a sound corporate governance system, and protect and promote shareholder participation. Therefore, we are able to avoid significant adverse impacts due to changes of Board members or operating rights.



(12) Litigious and Non-Litigious Matters. List Major Litigious, Non-Litigious or Administrative Disputes (That Have Been Concluded by Means of A Final and Unappealable Judgment, or are Still Under Litigation) That Involve the Company and/or Any Company Director, the General Manager, Any Person with Actual Responsibility for the Firm, Any Major Shareholder Holding A Stake of Greater Than 10 Percent, and/or Any Company or Companies Controlled by the Company; Where Such A Dispute Could Materially Affect Shareholders' Equity or the Prices of the Company's Securities, the Annual Report Shall Disclose the Facts of the Dispute, Amount of Money at Stake in the Dispute, the Date of Litigation Commencement, the Main Parties to the Dispute, and the Status of the Dispute As of the Date of Publication of the Annual Report.

1) List of current open lawsuits, non-litigation disputes, or administrative proceedings:

No.	Year	Parties Involved	Case Summary	Case Status	Impact on Corporation Finances
1	2014	Plaintiff: THSRC Defendant: Wu and 26 others	Public nuisance dispute lawsuit with Wu and 54 other residents of Chengbei, Tongxiao Township, Miaoli. A public ruling by the EPA found that 26 people had been impacted from the period of February 2007 to August 2014 and ordered THSRC to pay compensation of NT\$ 8,338,000. THSRC disagreed with the ruling and filed an appeal of declaratory judgment counterclaim for invalidity on July 14, 2015.	<ol style="list-style-type: none"> <li>1. The Taiwan Miaoli District Court confirmed the invalidity of claims filed by local residents on November 19, 2018, finding in favor of THSRC and ruling that litigations costs should be borne by the defendants.</li> <li>2. Defendants filed appeal on December 10, 2018.</li> <li>3. The case was adjudicated by Taiwan High Court Taichung Branch Court under 2019 Zhong-Shang-Zi No. 9.</li> <li>4. Taiwan High Court Taichung Branch Court dismissed the appeal on December 4, 2019 and ruled that the costs of the case shall be borne by the appellant.</li> <li>5. The appellant filed an appeal within the statutory period.</li> </ol>	None.
2	2015	Plaintiff: THSRC Defendant: Taipei City Government	The Taipei City Government found THSRC in violation of laws relating to overtime pay and vacation days and imposed a fine of NT\$ 300,000 (and order to publish names of disciplined persons) on March 3, 2015. THSRC disagreed with the ruling and filed an appeal which was later rejected. THSRC filed administrative proceedings in November 2015.	<ol style="list-style-type: none"> <li>1. Currently in trial at the Taipei High Administrative Court.</li> <li>2. The Taipei High Administrative Court rejected plaintiff's appeal under 2016 Su-Zi No. 342 June 7, 2018.</li> <li>3. THSRC filed an appeal on July 6, 2018.</li> <li>4. The Supreme Administrative Court reversed the decision by Taipei High Administrative Court on October 17, 2019 and remanded the case to the same court.</li> </ol>	None.
3	2018	Plaintiff: Wu and 26 others Defendant: THSRC	Plaintiffs filed civil tort claims against THSRC for damages of NT\$ 5,700,000 due to infringements caused from the period of September 2014 to October 2018 based on the 2014 public nuisance dispute lawsuit filed against the residents of Chengbei, Tongxiao Township, Miaoli.	<ol style="list-style-type: none"> <li>1. The case was adjudicated by the Taiwan Miaoli District Court under 2018 Su-Zi No. 586.</li> <li>2. The Taiwan Miaoli District Court dismissed the case on December 12, 2019.</li> <li>3. The plaintiff filed an appeal within the statutory period.</li> </ol>	None.

2) Concluded or ongoing major litigious, non-litigious, or administrative disputes that may have significant impact upon shareholder interests or share prices that involve Corporation directors, general managers, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the Corporation that occurred over the past two years and up the publication date of our prospectus:

Current list of major lawsuits, non-litigation disputes or administrative proceedings concerning juristic-person directors of THSRC (Source: taken from 2018 and 2019 Q2 financial reports of the relevant juristic-person directors).

## Juristic-person director: Taiwan Sugar Corporation:

Parties involved	Case summary and amount under dispute	Case status
1. Taiwan Cooperative Bank	Taiwan Sugar Corporation was involved in a contractual dispute with Celerity Pacemaker Logistics Inc. (hereinafter "Celerity") and requested the return of fines, royalties, rent, default fines, and unjust enrichment equivalent to rent. Taiwan Sugar Corporation was awarded damages in March 2012 so sought to recover its claims from Celerity. The Taiwan Cooperative Bank filed a subrogation lawsuit against Taiwan Sugar Corporation for nonpayment of "system usage fees" to Celerity and requested return of NT\$ 114,027,000 in "system usage fees" from the period of June 2001 to April 2003 and NT\$ 7,500,000 in performance bonds.	<ol style="list-style-type: none"> <li>Following defeat in the court of second instance, Taiwan Sugar Corporation filed an appeal to the Supreme Court. On October 13, 2016, the Supreme Court reversed the previous ruling and remanded the case to the Taiwan High Court.</li> <li>On May 2, 2017, the Taiwan High Court rejected Taiwan Sugar Corporation's appeal in a remanded trial and ruled that Celerity should pay NT\$ 590,400,054 to Taiwan Sugar Corporation. Simultaneously, Taiwan Sugar Corporation should pay NT\$ 121,527,053 to Celerity, of which annual interest rates of 5% would be calculated starting on January 19, 2004 for NT\$ 114,027,053, and starting on March 30, 2013 for the remaining NT\$ 750,000; payment would be collected by the Taiwan Cooperative Bank based on its subrogation right. Both parties filed an appeal to the Supreme Court.</li> <li>The Supreme Court reversed and remanded the previous ruling on July 20, 2018.</li> <li>On August 13, 2019, the Taiwan High Court dismissed the appeal and ruled that Celerity should pay NT\$ 590,400,054 to Taiwan Sugar Corporation. Simultaneously, Taiwan Sugar Corporation should pay NT\$ 121,527,053 to Celerity, of which annual interest rates of 5% would be calculated starting on January 19, 2004 for NT\$ 114,027,053, and starting on March 30, 2013 for the remaining NT\$ 750,000; payment would be collected by the Taiwan Cooperative Bank based on its subrogation right. The case is currently pending in the Supreme Court.</li> </ol>
2. Dept. of Environmental Protection, New Taipei City Government	The Dept. of Environmental Protection, New Taipei City Government announced on September 11, 2013 that land held by a company acquired by Taiwan Sugar Corporation in 1984 (portions of said land were sold in 1989) constituted part of a soil pollution control zone. Taiwan Sugar Corporation was therefore identified as a "polluter" and was requested to propose follow-up measures.	On November 7, 2013, The EPA ordered Taiwan Sugar Corporation to comply with the proceedings announced by the Dept. of Environmental Protection, New Taipei City Government. Taiwan Sugar Corporation disagreed with the order and filed an appeal to the Supreme Court which was dismissed on December 11, 2014. Taiwan Sugar thereafter filed administrative proceedings on April 12, 2019 seeking to revoke the previous administrative action, and the case is currently pending in the Taipei High Administrative Court. Pollution investigation and evaluation plans must be reviewed and approved by the Dept. of Environmental Protection, New Taipei City Government, and pollution remediation plans must be submitted for approval based on investigation results. Therefore, as of June 30, 2019, it is not yet possible to estimate the costs of remediation.

Since the aforementioned juristic-person directors are financially independent from the Corporation, all the aforementioned litigation, non-litigation, or administrative disputes do not have significant impact on the Corporation's shareholder equity or share prices.

- 3) In the past two years and as of the publication date of our prospectus, were there any directors, supervisors, managers, and major shareholders holding more than 10% of shares in violation of the provisions in Article 157 of the Securities and Exchange Act, and if yes, the response measures taken by the company: None.

### (13) Other Major Risks:

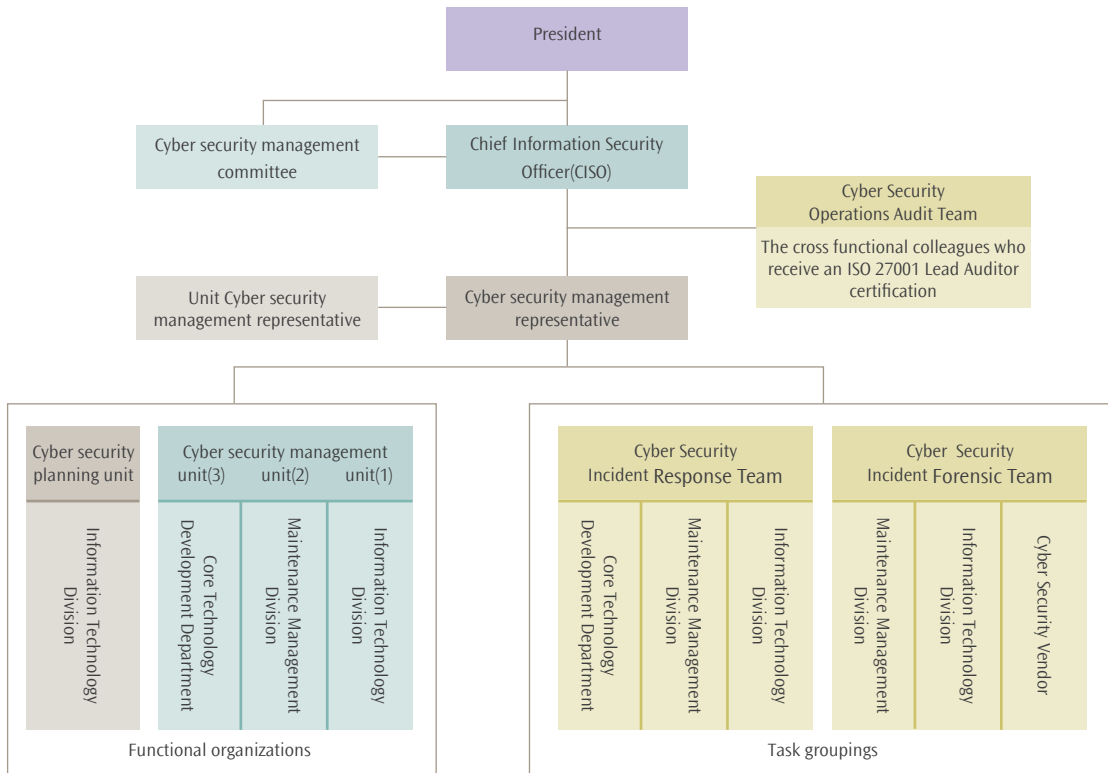
As of March 31, 2020, the COVID-19 (novel coronavirus) pandemic has caused a 18.38% decrease in our operating income for the first quarter of 2020 as compared with the previous year. Net income before tax for the first quarter decreased by 49.98% as compared with the previous year. In order to control the spread of COVID-19, the Corporation continues to deploy advanced prevention measures, details of which can be found on the "Epidemic Prevention" section on our corporate website ([www.thsrc.com.tw](http://www.thsrc.com.tw)).

## 8. Other Important Disclosure Items

### (1) Management measures relating to information security implemented in 2019 were as follows:

- 1) Information Security Management System: In order to enhance management of information security, the Corporation established an "Information Security Management Committee" on October 25, 2017 and designated cross-departmental information security representatives to convene information security management audit meetings and information security representative meetings regularly. The Information Technology Division is then responsible for providing annual reports on implementation performance to the Board of Directors. Implementation results for 2019 are as follows:
  - A. The Corporation President acts as the convener, and the operation senior vice president acts as CISO (Chief Information Security Officer) and the chairman of information security management audit meetings. Regular meetings are held every 6 months to assess information security developments and strategies, ensuring that information security management systems can continue to operate in a stable manner.
  - B. Each office and department unit assigned an information security representative, and the head of the System Maintenance Department in the Information Technology Division acts as the information security management representative. These representatives convened quarterly "Information Security Representative Meetings" in 2019 to report information security plans under development and implementation results, and to promote relevant information security policies and implementation highlights.
  - C. Relevant information security management reports and implementation results were submitted to the 27th meeting of the 8th Board on June 6, 2019.

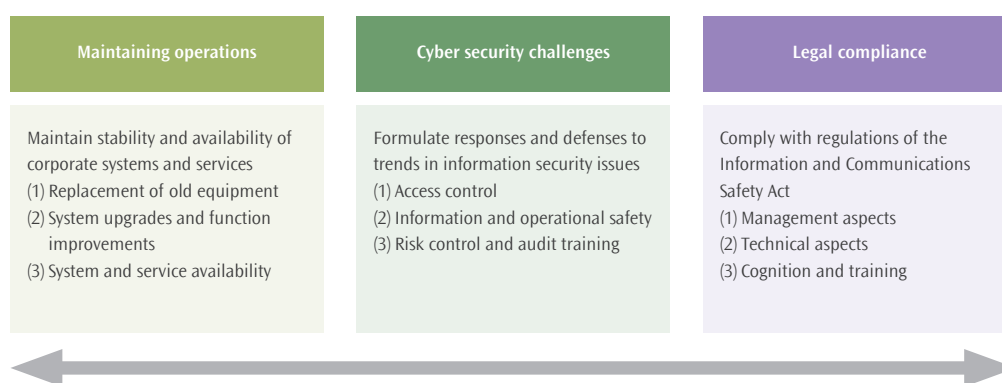
Information Security Management Structure



2) Information Security Policies: The Corporation periodically assesses its information security policies every year. Following approval from our Chairman on May 27, 2019, these policies were published on our corporate website. More details can be found in Chapter 4 of this report.

3) Specific Management Plans:

A. The Corporation has established its "Information Security Management Regulation" to ensure that our hardware, software, data, and personnel adhere to the principles of C (Confidentiality), I (Integrity), A (Accessibility), and C (Legal Compliance). Our information security system is built on the three aspects of Maintaining operations, Information security challenges, and Legal compliance, and we are gradually improving relevant management measures.



B. In 2019, the Corporation took out electronics equipment insurance policies for operational assets relating to maintenance of information systems and network equipment; security monitoring measures were also put in place to prevent incidents of theft and malicious destruction.

C. In light of the fact that cyber-insurance is a new type of insurance policy, and in consideration of all issues relating to insurance scope, claim scope for damages, identification of damages, and qualification of identification institutes, the Corporation plans to initiate benefit evaluations on cyber-insurance in 2020. However, the following strategies have been adopted in response to current challenges such as APT (Advanced Persistent Threat) attacks, DDoS (Distributed Denial of Service) attacks, ransomware, social engineering attacks, and information theft:

- ☑ Continued annual review of trends in information environments and technical information in accordance with our corporate information security policies, and establishment of protective measures and solutions.
- ☑ Implemented annual security checks, information and communication security health checks, and social engineering and information breach scenario exercises to strengthen employee awareness of information security crises and response capabilities, in hopes of efficiently preventing and detecting threats and halting proliferation at the first instance.
- ☑ Conducted quarterly information security training for all employees, monthly social engineering scenario exercises (starting from July 2019), and non-periodic promotional activities for information security to strengthen employee awareness of information security crises and response capabilities.
- ☑ Established cybersecurity incident notification and response protocols to regulate incident notification to external and internal units, creation of incident response teams, assessment of incident impact scope, damage control, and post-incident investigation in the event of a cybersecurity incident, so as to minimize impact on service coverage and service time and prioritize passenger rights.

D. The Corporation passed annual BSI three-year follow-up checks for ISO27001 information security management systems in October 2019.

## (2) Formulation of Intellectual Property Management Plans Related to Operational Goals:

### 1) Intellectual Property Development Strategy:

We set "Transportation, Technology, Taiwan and Touch (4T)" as our vision and strategic goals. In accordance with our "Taiwan" goal, we have implemented multiple business plans to promote localization of the railway industry, enhance local development, and augment local supply capabilities for equipment/materials, dedicating our efforts to research and development of facility construction, rolling stock systems, signaling and communication systems, and information technology systems. We have also established the "Railway Industries Localization Project Team" to promote local production of rolling stock, track and power, and signal and communication systems. We hope to inspire intellectual property achievements through the aforementioned processes, and will manage and protect our outcomes as necessary.

### 2) Intellectual Property Related Risks and Countermeasures:

In an era of globalization and knowledge-based economies, we should focus on the utilization and value-adding effect of intellectual property, and also deal with accompanying risks and challenges. Apart from remedy costs and impairment losses due to illegal infringement, the risks that we may face during the life cycle of intellectual property include the risk that internal and external stakeholders (such as internal officials, employees, external contractors, or industry-academia cooperation institutions) fail to protect newly-produced intellectual property achievements due to ignorance of the importance, timeliness, and essential protection measures that should be adopted for intellectual property, thus affecting the competitiveness or operating performance of the Corporation. In order to prevent the aforementioned risks, we formulated and implemented internal regulations to strengthen horizontal cross-department collaboration among research, management, and maintenance units, so as to centralize and concentrate our corporate resources for maintaining intellectual property achievements (please refer to the following section for details).

### 3) Intellectual Property Management Systems:

In order to manage and protect our intellectual property achievements and respond to aforesaid risks as detailed in the strategic goals described above, the Corporation formulated and implemented the "Regulations for Handling Matters of Intellectual Property" in 2019 to execute management procedures for trademarks and patents (including evaluation, application, maintenance, protection, authorization, and so on) in a prudent, timely, and efficient manner through collaboration between departments requiring trademark/patent applications, our legal office, and external intellectual property firms. Our legal office has also established a trademark/patent database to centralize preservation of certificates and other supporting documents, thus ensuring the validity of intellectual property rights while protecting and maintaining these same rights. Moving forward, we will keep following our previously stated strategic goals and regulations, develop and implement our "Intellectual Property Management Plan," and report the content and implementation status of such plan to the Board at least once a year. Any updates related to the development and implementation of such will be immediately disclosed on our corporate website.

### 4) Intellectual Property Achievements:

To date (as of March 31, 2020), our intellectual property achievements are as follows:

Category	Cases
Patents	44
Trademarks	165
Total Cases	209



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## Special Disclosures

## 1. Information on Affiliated Businesses: None.

## 2. Information on Private Placement of Securities in the most recent year and up to the Publication Date of this Annual Report

Project	Private placement in 2015 Issue date: November 26, 2015				
Private placement securities	Common shares				
Date and amount approved by the shareholders' meeting	September 10, 2015 / No more than 3,000,000 thousand shares				
Basis and rationality of price setting	<ol style="list-style-type: none"> <li>The Board of Directors of the Corporation set November 12, 2015 as the pricing date. According to the resolution of the shareholders' meeting held on September 10, 2015, the private placement price of common stock should not be less than 80% of the reference price.</li> <li>The reference price shall be determined by the higher of the following conditions: (a) The share price calculated as the sum of all transaction amounts of Corporation common shares in the Emerging Stock Computerized Price Negotiation and Click System in each business day for 30 business days prior to the price determination date, divided by the sum of the number of shares traded in each business day, after adjustments for any distribution of stock dividend, cash dividend, or capital reduction; (b) The net worth per share shown on the financial report audited and certified or reviewed by a certified public accountant (CPA) for the period closest to the price determination date.</li> <li>The privately placed common stock reference price is set at NT\$ 10.15, and the issue price is set at NT\$ 10, consistent with the resolution of the shareholders' temporary meeting stating that the private placement price shall not be lower than 80% of the reference price.</li> </ol>				
Selection of qualified persons	The persons or funds selected for this private placement fulfill the qualifications set out by the resolutions of the Legislation Yuan and Paragraph 1, Article 43-6 of the Securities and Exchange Act and Rule No. 091003455 of the Securities and Futures Bureau of Financial Supervisory Commission dated June 13, 2002.				
Necessity for private placement	The percentage of government holdings in the Corporation was increased in order to implement the "High-Speed Rail Financial Resolution Plan" and in accordance with relevant resolutions taken by the Legislative Yuan. Additionally, private placements are characterized by quick and convenient access, and Corporation common shares issued through private placement are not freely transferable within the first three years, ensuring a long-term equity relationship between the Corporation and government entities. The Corporation placed common shares with specific parties according to the provisions of Article 43-6 of the Securities and Exchange Act.				
Payment completion date	November 26, 2015				
Applicants	Private placement entity	Qualifications	Subscription quantity	Relationship with THSRC	Participation in Corporation's operations
	Ministry of Transportation and Communications, R.O.C.	Paragraph 1	2,420,000 thousand shares	Government-related entity	Largest THSRC shareholder and governing authority of THSRC
	China Aviation Development Foundation	Paragraph 3	260,000 thousand shares	THSRC director	THSRC director
	Mega International Commercial Bank	Paragraph 1	71,100 thousand shares	None	None
	First Commercial Bank	Paragraph 1	53,300 thousand shares	None	None
	Hua Nan Commercial Bank	Paragraph 1	53,300 thousand shares	None	None
	Taiwan Corporative Bank	Paragraph 1	53,300 thousand shares	None	None
	Chang Hwa Commercial Bank	Paragraph 1	44,500 thousand shares	None	None
	Taiwan Business Bank	Paragraph 1	44,500 thousand shares	None	None
Actual subscription (or conversion) price	NT\$10 per share				

Project	Private placement in 2015 Issue date: November 26, 2015
The difference between actual subscription (or conversion) price and reference price	The actual subscription price was NT\$ 10 per share, 98.25% of the reference price set at NT\$ 10.15.
Impacts of private placement on shareholders' equity (for example, increase of cumulative losses)	A total of three billion privately placed common stock was issued, generating stock income of NT\$ 30 billion, and bringing paid-in capital to NT\$ 56,052,930,580, which will help the Corporation stabilize its operations and development, and bring positive benefits to shareholders' equity.
Fund utilization of private placement and project implementation progress	Collected private equity funds were used to enrich working capital, purchase machinery and equipment, and implement preferred stock compensation schemes. In the second quarter of 2016, NT\$ 14.3 billion was used to enrich working capital, NT\$ 600 million was used to purchase machinery and equipment, and NT\$ 15.1 billion was used for preferred stock compensation programs.
Private placement benefits	Enrich the Corporation's funds, improve the Corporation's financial structure, aid implementation of preferred stock compensation programs, and stabilize the Corporation's operations and development.

**3. Information on Shares Held or Sold by Subsidiaries in the most recent year and up to Publication Date of Annual Report: None**

**4. Other Supplementary Information Required: None.**

**5. Has the corporation experienced any events as described in Item 2, Paragraph 3, Article 36, of the Securities and Exchange Act that have had major impacts on shareholders' equity or share prices in the most recent year and up to the publication date of this Annual Report: None.**



Headquarters

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Tel: +886-2-8789-2000

THSRC Spokesperson: Johnson Sun

Title: Business Senior Vice President

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

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

THSRC Deputy Spokesperson: Elaine Tsou

Title: Assistant Vice President

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

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

Share Transfer Agent and Registrar

Company: Fubon Securities Transfer Agency Department

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

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

Tel: +886-2-2361-1300

Auditors of Current Financial Report

Auditor Names: Mei-Yen Chiang, Kwan-Chung Lai

Company: Deloitte & Touche

Address: 20F., No.100, Songren Rd., Xinyi District,  
Taipei, Taiwan, R.O.C.

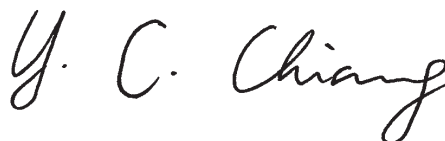
Website: [www.deloitte.com.tw](http://www.deloitte.com.tw)

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Public listings and securities trading in overseas stock  
exchanges: None.

TAIWAN HIGH SPEED RAIL CORPORATION

CHAIRMAN





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