

2017  
ANNUAL  
REPORT



## Fact Sheet

### THSRC Milestones

Date of Incorporation: May 1998

Construction Stage: March 2000 – December 2006

Operation Stage: Started in January 2007

Capitalization: NT\$56.28 billion

### Key Operating Statistics for 2017

Number of Train Services: 51,751

Punctuality (defined as arrival within five minutes of scheduled time): 99.72%

Annual Ridership: 60.57 million passengers

Annual Revenues: NT\$43.4 billion

Loading Factor: 65.16%

Passenger Kilometers: 11,103 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:

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

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

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

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# Chairman's Letter to Shareholders

**T**HSRC: Connecting People for a Better Way of Life



# Chairman's Letter to Shareholders



## Dear Fellow Shareholders,

Taiwan High Speed Rail Corporation (THSRC) celebrated its first ten-year anniversary of operations on Jan. 5, 2017. Additionally, we provided services for our 400 millionth passenger in December, 2016 and new records for daily ridership were set over the Double Ten vacation (2017) and on New Year's Day (2018). Over the years, we have brought significant changes to people's lifestyles and drawn urban and rural communities closer together. As a high-speed rail operator, we continue to deliver on our commitment to excellence in service, customer satisfaction, and corporate responsibility, adhering to the principle of "Go Extra Mile" for every action we take.

## 2017 Performance

During 2017, our passenger volume increased to 60.57 million, we ran a total of 51,751 trains, and our loading factor was 65.16% (up by 1.64% compared to 63.52% in 2016). Even with this increase in volume, we achieved excellent on-time performance with punctuality and reliability rates of 99.72% and 100.00% respectively, excluding delays due to force majeure.

We are proud of our zero-accident record over the past year – no accidents or injuries to passengers or the general public were caused by train service operations or malfunctions of railway equipment.

In 2017, we continued to offer off-peak promotion packages, expand collaborations with other industries, and provide a good variety of travel and hotel coupons. In addition, we began accepting payments via Apple Pay and Android Pay, and also launched the TGo affiliate program to provide better service to our customers.

In terms of our financial performance, revenues reached NT\$43.44 billion, and gross and operating profit reached NT\$18.82 billion and NT\$17.75 billion, respectively. Profit before tax was NT\$6.48 billion.

## Research & Development

During 2017, we continued to enhance our maintenance capabilities, reducing costs and risks resulting from delayed or failed delivery of spare parts. Local

Chairman *Y. C. Chiang*

suppliers helped to provide spare parts and assisted us in restructuring our maintenance facilities, particularly those used for repairing electronic equipment. Additionally, our extensive research led us to develop solutions for maintaining and managing critical track and signaling assets

## Looking Ahead

### (1) Management objective

THSRC has become the most important means of travel along Taiwan's western corridor, serving as a catalyst for growth in regional economies and enhancing the lives of our customers.

In 2018, we will continue to provide off-peak promotion packages, offer multiple modes of payments, expand collaborations with other industries, and strive to popularize local travel. Furthermore, our digital service and TGo affiliate program will allow us to implement precision marketing and big data analysis, as well as offer rewards to our loyal customers.

### (2) Growth target

We will continue to align our services with customer needs and explore new opportunities for growth. Our annual ridership target for 2018 is 62.27 million.

### (3) Main initiatives

New technologies have made it possible for us to integrate a number of new services, transforming THSRC into an intelligent railway service provider. Online surveys and big data analysis help us to research passenger expectations and adjust our services to increase competitiveness, gain market share, and increase ridership.

In the year ahead, we plan to focus on the following major initiatives:

- Adjustment of train service modes according to ridership and vacation needs
- Provide new products and promotions to attract new passengers
- Promote our "Take HSR, Visit Taiwan" campaign by providing a variety of hotel and travel coupons
- Improve our TGo service to increase purchase frequency and customer loyalty, maximizing the benefits of our customer base
- Accelerate collaboration with affiliated business to develop retail products and expand our sales channels to realize additional revenue



CEO *James J*



# Overview

**M**aking Passenger Travel Safe and Easy  
Providing Best-in-Class Service Experience



# Company Profile

## Business scope

THSRC business scope covers high-speed rail operations and affiliated businesses.

### A. High-speed rail service

THSRC provides high-speed rail services along Taiwan's western corridor via 12 stations: Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan and Zuoying. A total of 51,751 train services were delivered in 2017 with maximum traffic volume reaching as many as 198 daily services on one of the consecutive holidays. Offering speed, convenience and dependability, THSRC has become the transport of choice for residents and travelers alike.

### B. Affiliated businesses

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

In-station and on-board advertising makes a significant contribution to revenues and offers passengers within the rail system a unique blend of distinctive artwork and information.

All commercial outlets and facilities are designed to add value to the high-speed rail experience and demonstrate THSRC's commitment to provision of high-quality in-station services which play an important role in the communities served by the high-speed rail network.



## Business strategy and vision

THSRC identifies itself as a major participant in Taiwan's transport industry and seeks to be a platform for progress and life improvement.

THSRC also strives to play a significant role in improving the quality of life of the entire Taiwanese population, working to identify and meet the needs of those traveling along Taiwan's western corridor. THSRC continually seeks to improve the quality and standard of its services by ensuring that its stations are well connected and accessible via the high-speed rail network and connections with other transport modes.

THSRC adheres to the five core values of Discipline, Integrity, Efficiency, Innovation and Sensibility when establishing and developing long-term partnerships with those choosing to travel by high-speed rail. In addition to these five core values, the four attributes of THSRC's rail service are Real, Progressive, Passionate and Premium. THSRC's corporate culture is founded on these core values and attributes, and our mission can best be exemplified by the guiding principle of "Go Extra Mile", a slogan which aptly describes our commitment to meeting passenger needs and improving performance in all organizational facets.

In future, THSRC will continue to adhere to core values and attributes when developing and improving upon our high-speed rail service, or when responding to the demands and needs of the industries, businesses, and residents in the towns and cities we serve. THSRC remains committed to pursuing these strategic initiatives as we deliver value to passengers, employees, and shareholders.



## Our Core Values

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

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

### Sensibility

### Integrity

### Discipline

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

### Innovation

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

### Efficiency

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

## Our Attributes

### Real

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

### Passionate

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

### Progressive

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

### Premium

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

# Company History

## Development Stage

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

## Construction Stage

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

## Operation Stage

<b>January 2007</b>	THSRC starts operating the rail line between Banqiao and Zuoying with 38 train services a day.
<b>May 2007</b>	Lehman Brothers Asia and the parties to the second syndicated loan agreement agree to raise credit facilities to NT\$65.5 billion.

<b>September 2007</b>	The number of train services run by THSRC increases to 91 a day. THSRC launches an around-the-clock online reservation system. THSRC reaches a major ridership milestone of 10 million passengers since its inception.
<b>November 2007</b>	The number of train services run by THSRC increases to 113 a day. THSRC starts offering non-reserved seats on its trains.
<b>November 2008</b>	THSRC introduces HSR Dual Color Fare. The Orange Fare for a standard reserved seat is 35% off the regular fare and the Blue Fare is 15% off the regular fare.
<b>December 2008</b>	The number of train services run by THSRC increases to a range from 130 to 142 services a day depending on peak or off-peak days of the week.
<b>January 2009</b>	In its second year of operation, THSRC sees ridership reach 46.5 million passengers.
<b>January 2010</b>	THSRC enters into yet another syndicated loan agreement with eight banks, under which THSRC secures NT\$382 billion in credit facilities for refinancing its existing two syndicated loans. THSRC, the syndicate and the MOTC also renew their tripartite agreement.
<b>February 2010</b>	THSRC allows passengers to book, pay for and collect train tickets at partnering convenience stores of FamilyMart. With this new service, passengers can pass through ticket barriers by scanning the QR codes printed on their tickets.
<b>April 2010</b>	The number of convenience stores where passengers can book, pay for and collect train tickets increases to more than 7,000 after THSRC partners with President Chain Store.
<b>May 2010</b>	THSRC draws down the facilities designated as tranches A, B and C of its new loan of NT\$382 billion to repay the outstanding balance of its first syndicated loan of NT\$323.3 billion and tranches A, B and C of its second loan.
<b>August 2010</b>	The Taiwan North-South High Speed Rail Project is honored with the Outstanding Civil Engineering Project Award by the Asian Civil Engineering Coordination Council. THSRC carries its 100 millionth passenger.
<b>October 2010</b>	The number of train services run by THSRC increases to 915 a week. THSRC also improves its interactive voice response system to provide around-the-clock information to callers and allows travelers to receive notification about reservations via text message.
<b>January 2011</b>	THSRC introduces early-bird fares to encourage travelers to start purchasing tickets in advance.
<b>February 2011</b>	THSRC tops an online poll conducted by the Public Construction Commission, Executive Yuan to select Taiwan's most important 100 public works.

<b>March 2011</b>	THSRC claims a top 10 spot in an online poll conducted by the Public Construction Commission, Executive Yuan to select Taiwan's most important 100 public works. The poll is part of a government campaign to mark the launch of an online exhibition of past and current infrastructure projects.
<b>August 2011</b>	THSRC wins a total of six awards in the MOTC's 12th Golden Road Award including: five first place awards in the categories of maintenance of vehicle, maintenance of signal communications equipment, maintenance of route network, maintenance of depot electrical and mechanical equipment and maintenance of station electrical and mechanical equipment; and a second place award in the category of maintenance of yard environment.
<b>October 2011</b>	THSRC receives a Distinguished Award in the 20th R.O.C. Enterprise Environmental Protection Award hosted by the Environmental Protection Administration. THSRC launches T Express, a new ticketing system that enables customers to book and purchase tickets using their smartphones. Tickets are displayed as QR codes on smartphone screens, allowing passengers to pass through ticket barriers.
<b>November 2011</b>	THSRC is recognized for achievement in entrepreneurship by the GreTai Securities Market in the 1st Golden Laurel Award.
<b>April 2012</b>	THSRC and the International Union of Railways (UIC) hold the 2nd UIC World High Speed Interaction Workshop, offering a global platform for the exchange between experts and institutions in the area of high-speed rail system maintenance.
<b>July 2012</b>	THSRC is selected as overall winner across all categories in the 2012 Golden Service Award hosted by Commonwealth Magazine. THSRC launches the Fun Reading for Family initiative, allowing passengers to borrow and return children's books at different HSR stations.
<b>November 2012</b>	THSRC participates in the 14th UIC Regional Assembly for Asia and Oceania and the 11th Asian Management Committee (AMC) in Moscow, and is recognized as a member of the AMC effective from 2013. Vice President of the Republic of China (Taiwan) Wu Den-yih presents a Distinguished Award to THSRC in the 21st Annual Enterprise Environmental Protection Award. Lloyd's Register Quality Assurance issues an ISO 9001 compliance certificate to THSRC's rail operation, maintenance and passenger service. All audited items conform to the standards of ISO 9001 Quality Management System. National Geographic editors select one of THSRC's T Holiday packages as Best Winter Trip for 2013, citing ease of travel with high-speed rail. They note that taking the high speed train through Taiwan's western corridor allows travelers to quickly move between cities and counties while providing a gateway to other attractions and scenic spots.
<b>December 2012</b>	THSRC carries its 200 millionth passenger.
<b>January 2013</b>	THSRC holds groundbreaking ceremonies for new stations planned in Yunlin, Miaoli and Changhua.
<b>July 2013</b>	To celebrate the arrival of its 31st trainset, THSRC gives the train a fun, energetic look by painting it in cartoon characters. A group of children supported by Good Shepherd Social Welfare Services and Children Are Us Foundation are treated to free rides on this new train's first day of service.
<b>August 2013</b>	THSRC wins six first place awards in the MOTC's 14th Golden Road Award in the categories of maintenance of vehicle, maintenance of signal communications equipment, maintenance of route network, maintenance of depot electrical and mechanical equipment, maintenance of station electrical and mechanical equipment and maintenance of yard environment.
<b>October 2013</b>	THSRC raises passenger fares using a formula approved by the MOTC.
<b>November 2013</b>	THSRC receives a Distinguished Award in the 22nd R.O.C. Enterprise Environmental Protection Award hosted by the Environmental Protection Administration.
<b>December 2013</b>	THSRC holds beam-raising ceremonies for new stations planned in Yunlin, Miaoli and Changhua. THSRC and JR Kyushu Railway Company exchange work practices of train attendants so as to expand understanding of the different operating practices and cultures within Taiwanese and Japanese high-speed rail operators.
<b>January 2014</b>	The third of four new 700T trainsets purchased from Japan arrives in Kaohsiung for remodeling, testing and acceptance inspection.
<b>April 2014</b>	THSRC tops the list in the Ground Transportation category in Commonwealth Magazine's Golden Service Award.
<b>May 2014</b>	THSRC and the UIC jointly organize a series of conferences that include the 6th UIC Asia-Pacific Technical Directors Meeting, the 17th Asia-Pacific Regional Assembly and the 1st UIC Conference on Natural Disaster Management of Railway Systems at Le Meridien Taipei. THSRC is honored in the 2013 Occupational Safety Award and receives an Excellence Award for Self Inspection by the Labor Inspection Office of Taipei City Government.
<b>June 2014</b>	THSRC ranks in third place across all categories and tops the Transportation category for a fourth straight year in the 2014 Digital Service Benchmark Enterprise Award hosted by Business Next Magazine.

<b>September 2014</b>	THSRC wins a total of six awards in the MOTC's 15th Golden Road Award including: five first place awards in the categories of maintenance of vehicle, maintenance of signal communications equipment, maintenance of route network, maintenance of depot electrical and mechanical equipment and maintenance of station electrical and mechanical equipment; and a second place award in the category maintenance of yard environment.
<b>October 2014</b>	THSRC's emergency response and management system is selected as recipient of the 2014 ITS Application Award by the Intelligent Transportation Society of Taiwan.
<b>January 2015</b>	THSRC receives a carbon footprint certificate for high-speed rail service from the Environmental Protection Administration, Executive Yuan.
<b>March 2015</b>	<p>THSRC allows passengers who have booked and bought train tickets online via the IRS, T Express and IVR to collect proofs for missing pre-booked trains using their reservation numbers at convenience stores in the event of them missing the trains they wanted to travel on or needing to claim reimbursement of travel expenses.</p> <p>Deliver Love with HSR to Children, a tuition assistance program held jointly with Child Welfare League Foundation, raises over NT\$11 million for 2015, benefiting more than 1,000 school children from disadvantaged backgrounds. Since 2010, THSRC has raised close to NT\$88 million to help more than 17,500 students stay in school.</p>
<b>July 2015</b>	<p>THSRC and the MOTC enter into two agreements including: the Fourth Supplement to Taiwan North-South High Speed Rail Construction and Operation Agreement; and the Termination of Taiwan North-South High Speed Rail Station Zone Development Agreement.</p> <p>THSRC launches a new multi-ride ticket. After reporting a lost or stolen card, the cardholder may choose either to receive a refund or to have a new card issued.</p>
<b>August 2015</b>	The TR34 trainset, the newest addition to THSRC's high-speed train fleet, arrives in Kaohsiung for remodeling, testing and acceptance inspection. This train will begin service when three new train stations open for traffic.
<b>September 2015</b>	THSRC unveils a Muslim prayer room in Taichung HSR Station in order to better cater to Muslim passengers' needs.
<b>October 2015</b>	<p>Three new HSR stations in Miaoli, Changhua and Yunlin pass final inspections and obtain operating permits from the MOTC.</p> <p>THSRC's QR code e-ticket solution receives the 2015 ITS Application Award from the Intelligent Transportation Society of Taiwan.</p>
<b>November 2015</b>	A train carrying the motif of an underglaze blue dragon is launched to mark the start of shuttle bus service connecting Chiayi HSR Station and the Southern Branch of the National Palace Museum.
<b>December 2015</b>	<p>Three new HSR stations in Miaoli, Changhua and Yunlin open for traffic. THSRC also announces schedule adjustments in the same month.</p> <p>Train fares are rolled back to the level they were before a hike was implemented on October 8, 2013.</p>
<b>January 2016</b>	A ceremony is held to celebrate the arrival of a test train coming to the new Nangang HSR Station and the completion of system testing.
<b>February 2016</b>	THSRC experiences record levels of station and passenger traffic on the 228 Peace Memorial Day weekend. Taoyuan HSR Station handles a record 146,000 travelers and passenger volume around the island hits an all-time high of over 267,000 on day two of the three-day long weekend.
<b>March 2016</b>	<p>As part of its High-Speed Endowment Program, THSRC has raised over NT\$12 million to support more than 600 children with developmental disabilities. Since its launch in 2010, the program has received donations of more than NT\$100 million, helping more than 18,000 students pay tuition fees and stay in school.</p> <p>Shareholders, at an extraordinary general meeting, approve plans formulated by the THSRC Board for an initial public offering (IPO).</p> <p>THSRC enters into a Memorandum of Understanding with Central Weather Bureau, MOTC on disaster preparedness collaboration. The bureau will provide THSRC with weather information to ensure timely formulation of emergency response plans in the event of typhoon. THSRC also will receive alerts from the bureau's earthquake early warning system that detects a quake before it hits so that a high-speed train could be slowed down or stopped for safety after it receives an alert 10 seconds before an earthquake hits. THSRC also plans to set up electronic display boards showing the latest weather information within train stations in order to improve the level of passenger service.</p>
<b>April 2016</b>	<p>Changhua HSR Station is named a Popular Choice Winner by the Architizer A+ Awards in the Bus &amp; Train Station category.</p> <p>THSRC wins a Gold Award in the Transportation category in Commonwealth Magazine's 2016 Golden Service Award.</p>
<b>May 2016</b>	THSRC and the International High-Speed Railway Association (IHRA) hold the 5th annual meeting in Taipei.

<b>July 2016</b>	<p>A new HSR station opens in Nangang District of Taipei City.</p> <p>Passengers booking their tickets via THSRC's online ticketing system can choose their preferred seat, be it window or aisle.</p> <p>The new Yunlin HSR station is awarded the Gold Level Green Building Certificate by the MOI and receives a green building placard.</p>
<b>August 2016</b>	<p>The new Miaoli HSR station is awarded the Diamond Level Green Building Certificate by the MOI and receives a green building placard.</p> <p>The new Changhua HSR station is awarded the Gold Level Green Building Certificate by the MOI and receives a green building placard.</p>
<b>September 2016</b>	THSRC adds a new feature to its T-Shop app, allowing passengers to shop by scanning the QR codes printed in THSRC's on-board magazine.
<b>October 2016</b>	<p>THSRC is presented with ITS World Congress Hall of Fame Award at the 2016 ITS World Congress in Melbourne, Australia.</p> <p>THSRC becomes the first listed rail operator in Taiwan with its stock market debut on the Taiwan Stock Exchange.</p>
<b>November 2016</b>	<p>THSRC's Main Workshop in Yanchao is recognized for outstanding water conservation efforts by the Water Resources Agency, Ministry of Economic Affairs.</p> <p>THSRC is honored with ITS Application Award in the Maintenance Access Scheduling and Depot Management System categories at the 2016 Annual Meeting and the Intelligent Transport Systems Conference held by the Intelligent Transportation Society of Taiwan.</p> <p>THSRC receives Silver Award for its delivery of three new station projects from the 2016 Enterprise Project Management Benchmarking Awards.</p>
<b>December 2016</b>	<p>THSRC is recognized by the Department of Health, Taipei City Government for its workplace wellness program that helps employees lower their cancer risks.</p> <p>THSRC carries its 400 millionth passenger.</p>
<b>January 2017</b>	<p>The THSR Museum is inaugurated in the Operation Management Center in Taoyuan City.</p> <p>THSRC hosts a signing ceremony marking the issuance of NT\$20-billion two-year commercial paper managed by Mega Bills Finance Co. and nine other financial institutions.</p>
<b>March 2017</b>	THSRC and Taiwan Forestry Research Institute and Wutong Foundation jointly organize the "Travel with Saplings in 2017" campaign. A total of 1,000 Taiwan native saplings are gifted to passengers and planting tips are provided by volunteers.
<b>April 2017</b>	Multiple E-Ticket Reader is established to provide passengers with multiple ticketing options and convenient service.
<b>June 2017</b>	THSRC holds a press conference for the Magic Theater Parent-Child Train at Nangang Station.
<b>July 2017</b>	Lloyd's Register Quality Assurance issues a TOSHMS and OHSAS 18001 dual compliance certificate to THSRC. THSR stations, depots, facilities along the line and offices were verified.
<b>August 2017</b>	<p>A total of 4 lectures on railway culture are held every Saturday afternoon at THSR Museum in Taoyuan.</p> <p>iTaiwan free WiFi is made available along HSR line.</p> <p>THSRC hosts the "Business Opportunity Seminar for Taiwan Track Industry Localization" in the Main Workshop of Yanchao. MOTC Minister Tan Ho-Chen and MOEA Vice Minister Wei-Fuu Yang are invited to give opening addresses. Several hundred manufacturers join the seminar.</p>
<b>September 2017</b>	THSRC wins 6 awards at the 2017 Golden Road Awards, including Outstanding Performance for Equipment Maintenance of Rolling Stock, Signal & Communications Maintenance, Route Maintenance, Depot Building Service Maintenance, Station Building Service Maintenance, and first prize for Station Environment Maintenance.
<b>October 2017</b>	<p>THSRC wins the first Transportation Award of Service hosted by Next Magazine.</p> <p>THSRC launches "TGo" and the THSRC App.</p>
<b>November 2017</b>	THSRC wins the Five-Star Service Award in Global Views Magazine.
<b>December 2017</b>	<p>ITS of Taiwan hosts the 2017 ITS Taiwan Awards, and THSRC wins the ITS Application Award by Smart Timetable &amp; Driving Supplementary System.</p> <p>THSRC wins the 13th Art &amp; Business Award of the Ministry of Culture.</p> <p>Wuri Depot wins the outstanding water conservation efforts 2017 held by the Water Resources Agency, MOEA.</p>
<b>January 2018</b>	<p>THSRC ran a total of 811 trains over the New Year vacation and passenger volume on January 1 reached 285 thousand, the highest daily passenger volume on record since we began operations.</p> <p>THSRC signed a Jiejie Rail Travel Memorandum of Understanding with the MOTC Tourism Bureau and Taiwan Railways Administration.</p>
<b>February 2018</b>	Initiated Hualien Earthquake Relief Program, allowing earthquake relief workers to apply for free travel on THSR. THSRC also donated 5 million NTD to express care and comfort for the Hualien earthquake victims.
<b>March 2018</b>	The TGo Limited Night Train 25% Discount promotion package was launched to celebrate our THSRC TGo Program achieving the half-million membership milestone.



# Our Business

Leading the Way in Innovation and Growth

## Five Years in Review



- This section provides a review of THSRC's operations and performance over the past five years (ending December 31, 2017).
- THSRC ran a total of 252,715 trains and achieved an average reliability rate of 99.97%. The reliability rate was derived by dividing the total number of operating trains by the total number of scheduled trains over the period of one year.
- Achieved 49.6 billion passenger-kilometers and a loading factor of 60.66%
- Achieved 81.8 billion seat-kilometers and an average punctuality rate of 99.56%. The punctuality rate was derived by dividing the total number of trains arriving within five minutes of scheduled time by the total number of operating trains.

### Average Service Reliability, 2013 – 2017

# 99.97%

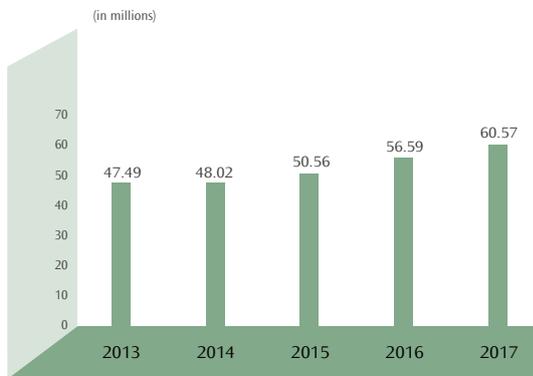
### Average Punctuality, 2013 – 2017

# 99.56%

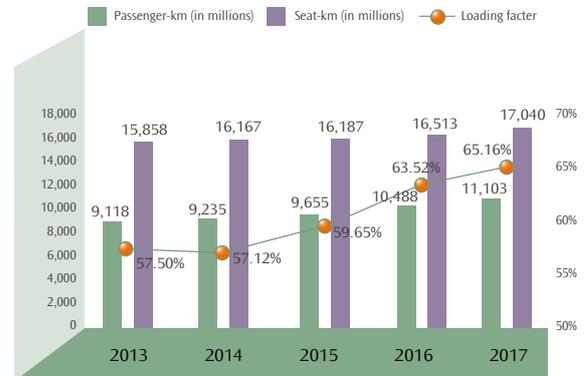
### Key Operating Statistics, 2013 – 2017

Key Performance Indicators	Total ridership (in millions)	Train services per year	Loading factor (passenger-km/seat-km)	Punctuality rate (% of trains arriving within five minutes of scheduled time)	Passenger-kilometers (in millions)	Seat-kilometers (in millions)
2013	47.49	48,859	57.50%	99.38%	9,118	15,858
2014	48.02	50,467	57.12%	99.61%	9,235	16,167
2015	50.56	50,532	59.65%	99.66%	9,655	16,187
2016	56.59	51,106	63.52%	99.43%	10,488	16,513
2017	60.57	51,751	65.16%	99.72%	11,103	17,040

### Total Ridership, 2013– 2017



### Passenger-Kilometers, Seat-Kilometers, and Loading Factor, 2013 – 2017



### Punctuality rate, 2013 – 2017

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



### Transportation Performance Parameters, 2016-2017

	2016	2017	Change
1. Number of train services	51,106	51,751	1.26% ↑
2. Number of passengers (in millions)	56.59	60.57	7.03% ↑
3. Seat-kilometers (in millions)	16,513	17,040	3.19% ↑
4. Passenger-kilometers (in millions)	10,488	11,103	5.86% ↑
5. Punctuality (as % of trains arriving within five minutes of scheduled time)	99.43%	99.72%	0.29% ↑
6. Loading factor (passenger-km/seat-km)	63.52%	65.16%	1.64% ↑



# Operational Performance

## 2017 Highlights

In 2017, THSRC carried over 60 million passengers, 7% over the prior year.

- Total passenger-kilometers were 11,103 million.
- Total seat-kilometers were 17,040 million.
- The overall service reliability (excluding force majeure events) and punctuality rates were 100% and 99.72%, respectively.



### Service Reliability in 2017

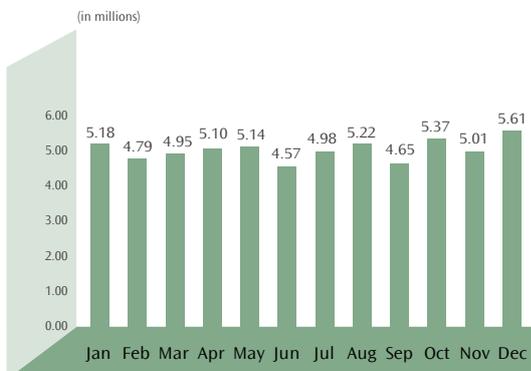
100%

### Punctuality in 2017

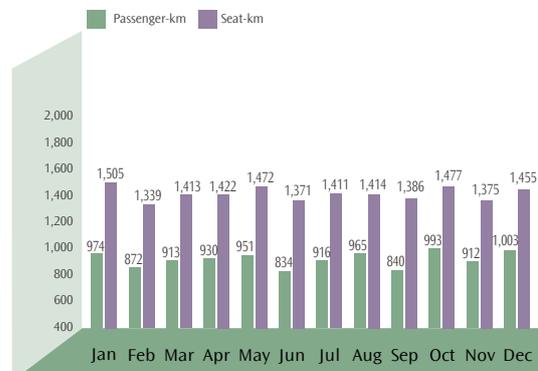
99.72%



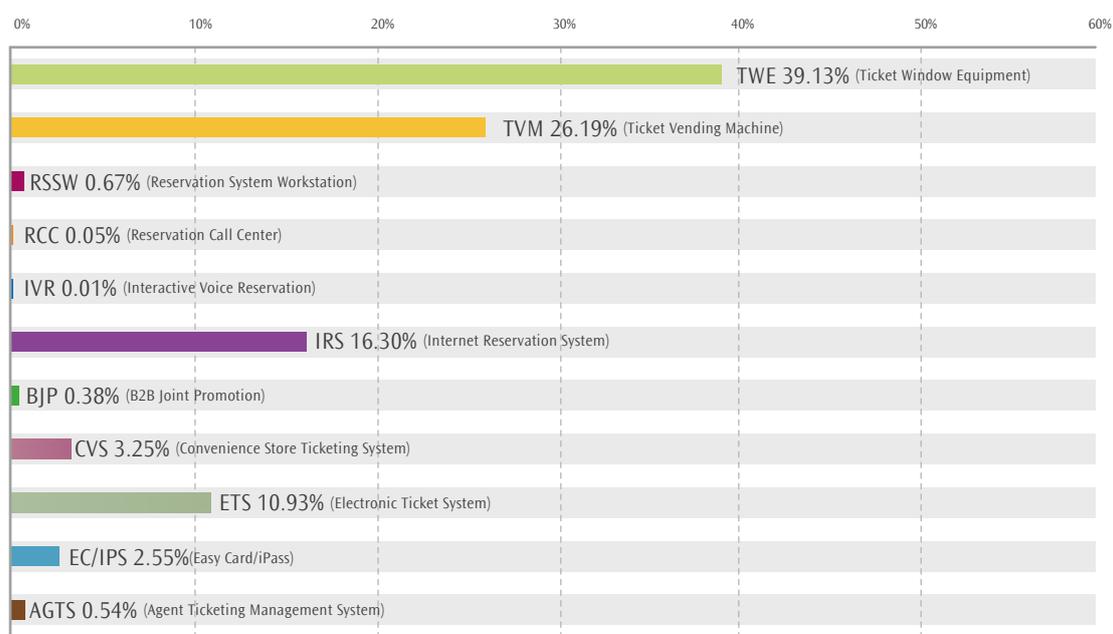
### Ridership in 2017



### Passenger-Kilometers and Seat-Kilometers in 2017



## Booking and Ticket Purchases for 2017 (by Channel)



### Multiple booking and ticketing options

We offer a number of booking and payment channels for ease and convenience of ticket purchasing. Passengers can choose to purchase tickets at ticket counters, vending machines, convenience stores, online, on smartphones, by phone (via the interactive voice reservation system or the reservation call center), through group reservation systems, on our joint ticketing program integrated with airline tickets, or through a travel agent. Passengers can also board trains using their EasyCard or iPass cards.

### Station services and facilities

Each of our 12 artfully designed stations provide a wide range of services and amenities to ensure ease of travel. Facilities include ticket counters, automated ticket vending machines, passenger information systems, information desks, disabled facilities, breastfeeding rooms, drinking fountains, convenience stores, restaurants, as well as free Wi-Fi access in station waiting areas.

To provide quick and easy access to and from our 12 stations, each station is equipped with parking lots, car rental services, park-and-ride drop-off sites, taxi stands, and metro, bus, and train interchanges. Additionally, we collaborate with express bus companies to run free shuttle bus services. In 2017, we offered 393,819 free shuttle bus rides to 4,959,428 passengers. The following is a summary of bus routes operated in 2017:

### Free Shuttle Bus Routes

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

## Maintenance

In order to provide a safe and comfortable travel experience, we ensure that all repair and maintenance progress comply with a comprehensive Rolling Stock Maintenance Plan. A summary of the bogie inspections (BI) conducted in 2017 is as follows:

1. The BI-1 inspection for 1 trainsets (a total of 24 bogies) ;
2. The BI-3 inspection for 3 trainsets (a total of 72 bogies) ;
3. The BI-8 inspection for 3 trainsets (a total of 72 bogies) ;
4. The BI-9 inspection for 16 trainsets (a total of 384 bogies) ;
5. The BI-10 inspection for 9 trainsets (a total of 216 bogies) ;

We commenced the 5th General Inspection (GI-5) in February 2017 after cumulative running distance reached 6.0 million kilometers. Inspections of 15 trainsets were completed in 2017. Our disciplined approach to maintenance ensures that rolling stock is maintained at reliable and safe operating conditions.

## Trainset Availability in 2017



The maintenance cycle for rolling stock is as follows:

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

Note: Maintenance frequency is determined by the first-occurring condition

Preventive maintenance work performed in 2017 was as follows:

System	Preventive maintenance (listed by time of maintenance)		
	Planned	Actual	Percentage completed
Building Service System	55,199	55,199	100%
Rolling Stock	9,172	9,172	100%
Signaling System	11,594	11,594	100%
Communication System	6,357	6,357	100%
Operation Control Center	2,718	2,718	100%
Power Supply System	2,497	2,497	100%
OCS System	1,712	1,712	100%
Track System	1,661	1,661	100%
Total	90,910	90,910	100%

In 2017, our ISO 9001 certificate was renewed after we completed a surveillance audit with LRQA from August 22 to August 25.

## Training

Various training initiatives have been put in place to ensure that our operations and maintenance staff possess proper competencies and knowledge. Participation rates of training courses in 2017 were as follows: 7,178 employees and external partners received general training on High Speed Rail Operations Regulations (HSROR); 28,228 employees attended training for control, train, and station staff; and 10,867 employees attended training for staff responsible for maintenance of rolling stock, signaling and communications, power, overhead catenary systems (OCS), and tracks.

## Operational safety

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

In 2017, we conducted 86 emergency drills to test different scenarios. Our goals are to enhance preparedness and minimize

operational impacts in the event of unforeseen circumstances such as rail accidents or large-scale natural disasters.

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

### Our service commitment

We strive to provide passengers best-in-class experience through exemplary customer service. We focus on:

#### (1) Putting customers first

We regularly review customer suggestions and modify our service policy as appropriate in order to meet the demands and expectations of our customers.

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

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

### Capability and skill development

Safety is our top priority and we are committed to strengthening our in-house maintenance capabilities while acquiring new maintenance technologies and reducing maintenance costs. The primary goals we set for the maintenance of rolling stock, signaling and communication systems, and turnout systems are:

(1) Enhancement of alternative solution development for wayside control bay of turnout;

(2) Collaboration with National Chung-Shan Institute of Science and Technology, National Kaohsiung First University of Science and Technology, and the Industrial Technology Research Institute to find better maintenance solutions for rolling stock (including enhancement of electromagnetic compatibility, reduction of electromagnetic interference, and development of computer-controlled press machines) through technical studies.

## Looking to the future

Our five core values of Discipline, Integrity, Efficiency, Innovation, and Sensibility have guided our operations since the very beginning. Going forward, the following strategic objectives will define our future development and ensure future success:

### Accelerate and sustain growth

Despite challenges from the industry environment in the years following our launch of rail service, we were still able to increase daily average passenger volume from 43,000 in 2007 to more than 165,948 in 2017. However, we have never compromised our commitment to quality service and safety during our pursuit of growth. Meticulous planning allows us to enhance passenger comfort by providing easy and speedy access to railway stations, on-board services, ticket purchases, and customer support, ensuring that we have the best interests of passengers and staff members at heart.

### Expand 4T

THSRC seeks to be a platform for life improvement by implementing the 4T campaign: Transportation, Technology, Taiwan, and Touch.

1. Transportation: To build professional transportation system that provides high quality service and products.
2. Technology: To implement Intelligent Transportation that improves operational efficiency and quality, as well as service, safety, and emergency responses.
3. Taiwan: To combine local culture and scenery in a multicultural platform.
4. Touch: To build the THSRC brand, improve our skill and efficiency, and participate in social activities and environment protection.



# Corporate Governance

**S**trengthening Corporate Governance Through Teamwork

# Overview

## (1) Board of Directors and Committees

### Board of Directors

The Board is responsible for the Company's performance, and main Board duties include regular reviews of Company strategy, capital expenditure plans, internal restructuring, and human resources policies. The Board also appoints, dismisses, and supervises the Company's senior management team, chief auditors, and chief accountants. Specific responsibilities are delegated to four Committees which assist the Board in carrying out its duties. The current Board was elected on May 24, 2017 for a term of three years, and is composed of one Chairman, nine Directors, and three Independent Directors. A total of 15 Board meetings were held in 2017.

### Corporate Governance & Nomination Committee

The Corporate Governance & Nomination Committee is primarily responsible for nominating Directors and Independent Directors for election at shareholders' meetings; reviewing Company compliance with corporate governance regulations, guidelines, and principles; and recommending appropriate changes for approval by the Board. The Committee is composed of five to seven members and its meetings are overseen by the Chairman.

### Audit Committee

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

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

### Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its responsibilities for setting compensation policies, systems and standards, and evaluating performance and compensation of Company Board Directors and executives. The Committee is composed of three to five members and its meetings are overseen by an Independent Director.

### Special Committee

The Special Committee assists the Board in fulfilling its responsibilities in advising and overseeing Company practices relating to significant legal and contract disputes



or corporate actions, and overseeing procurement processes and practices for major projects. The Committee is composed of five to seven members and its meetings are overseen by an Independent Director.

## (2) Corporate governance guidelines

THSRC's shareholder-approved Guidelines for Corporate Governance are based on OECD Principles of Corporate Governance, S&P Corporate Governance Scores and Evaluations, NYSE Listed Company Manual Sec303A, Infosys Corporate Governance Report, corporate governance guidelines for international and domestic companies, corporate governance-related laws and regulations in Taiwan, and regulations published by the Taiwan Stock Exchange. THSRC strives to establish an optimal corporate governance system that protects shareholder rights and interests, strengthens Board operations, and fulfills social obligations.

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

THSRC corporate governance documents are available on the Investor Relations section of the company website, which can be found at <http://www.thsrc.com.tw>.

## (3) Additional important disclosures

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

## (4) Board of Directors

### Chiang, Yao-Chung

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

#### Other position held:

- Independent Director, Radiant Opto-Electronics Corporation

#### Previous positions:

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

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

### Liu, Min-Ching

Director (Representative, Ministry of Transportation and Communications, R.O.C.)

#### Other position held:

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

#### Previous position:

- Deputy Director, Ministry of Health and Welfare.

M.B.A. of Emporia State University

### Huang, Mao-Hsiung

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

#### Other positions held:

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

MBA, The Wharton School, University of Pennsylvania

### Liu, Kuo-Chih

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

#### Other position held:

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

Ph.D. in Physics, Massachusetts Institute of Technology

### Tsai, Huang-Liang

Director (Representative, China Aviation Development Foundation)

#### Other positions held

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

M.S. in EMBA, National Taiwan University

**Wong, Chao-Tung**

Director (Representative, China Steel Corporation)

**Other position held:**

- Chairman, China Steel Corporation

Ph. D. in Resources Engineering, National Cheng Kung University

**Chiang, Chin-Shan**

Director (Representative, TSRC Corporation)

**Other positions held:**

- Senior Advisor, Wei-Dar Development Co., Ltd.
- Chairman, Metropolis Property Management and Maintenance Corporation
- Director, TSRC Corporation

**Previous positions:**

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

Master of Public Administration, National Chengchi University

**Kwan, Tao-I**

Director (Representative, Taiwan Sugar Corporation)

**Other positions held:**

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

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

**Kao, Shien-Quey**

Director (Representative, National Development Fund, Executive Yuan)

**Other position held:**

- Deputy Minister, National Development Council

M.S. in Economics, National Taiwan University

**Ko, Lee-Ching**

Director (Representative, Evergreen Steel Corporation)

**Other positions held:**

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

**Ding, Kung-Wha**

Independent Director

**Previous positions:**

- Minister, Financial Supervisory Commission, R.O.C.
  - Chairman, Taipei Exchange.
  - Chairman, Taiwan Depository & Clearing Corporation
- M.S. in Public Finance, National Chengchi University

**Chiu, Huang-Chuan (Kenneth)**

Independent Director

**Other position held:**

- Managing partner, Kew & Lord.

**Previous position:**

- Partner, Taiwan Commercial Law Offices

M.S. of Law, University of Cambridge

**Poo, Da-Wei (David)**

Independent Director

**Other position held:**

- President, Mega Trans International Corporation.

**Previous positions:**

- Consultant, Kaohsiung Rapid Transit Corporation
- Executive Director, THI Consultants Inc.
- Director General, Taipei Transportation Bureau

M.S., Civil Engineering (Transportation), University of Illinois at Urbana-Champaign

M.S., Public Policy and Administration, Harvard University

## (5) Senior management team

### James Jeng

Chief Executive Officer

**Previous positions:**

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

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

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

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

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

### John Chen

Chief Operation Officer

Senior Vice President, Information Technology Division

Senior Vice President, Operation Safety Office

**Previous position:**

- Director, Muzha Division, Taipei Rapid Transit Corporation

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

B.S. in Civil Engineering, National Central University

### Barret Wang

Secretary General, Secretariat Division of Board of Directors

**Previous position:**

- Attorney-at-Law, Chun He Law Firm

Bachelor of Law, National Taiwan University

### Bryan Chou

Vice President, Engineering Technology Division

**Previous position:**

- Assistant Director, EVA Airways Corporation

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

### Eleanore New

Vice President, Finance Division

**Previous positions:**

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

MBA, New York Institute of Technology

### Johnson Sun

Vice President, Business Division

**Previous position:**

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

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

### Anthony Wu

Vice President, Human Resource Division

**Previous positions:**

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

Master in Education, Wright State University

### Rae Chung

Vice President, Corporate Planning Office

**Previous position:**

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

B.A. in Economics, Tamkang University

### James Shi

Assistant Vice President, Operation Division

**Previous positions:**

- Assistance Vice President, Head of Maintenance Division, Taiwan High Speed Rail Corporation
- Deputy Director of Maintenance Department, Taipei Rapid Transit Corp.
- Director of Marketing Department, Taipei Rapid Transit Corp.

M.S. in Electrical Engineering, Northeastern University, Boston Massachusetts, USA

**Andy Lu**

Assistant Vice President, Maintenance Management Division

**Previous positions:**

- Assistant Vice President, Operation Sub-Division, Taiwan High Speed Rail Corporation
- Assistant Manager, EVA Airways Corporation

Executive MBA, College of Management, National Sun-Yat-sen University

Executive MBA (Asia-Pacific), The Chinese University of Hong Kong

**Elaine Tsou**

Assistant Vice President, Public Affairs Office

**Previous position:**

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

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

**Tim Fu**

Assistant Vice President, Procurement Division

**Previous positions:**

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

B.S. in Computer Science, Tamkang University

**Max Liu**

Assistant Vice President, Quality Assurance Office

**Previous positions:**

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

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

**Roger Chu**

Manager, Corporate Audit Office

**Previous position:**

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

B.A. in Accounting, National Chengchi University

**Chris Lee**

Senior Manager, Occupational Safety & Health Office

**Previous positions:**

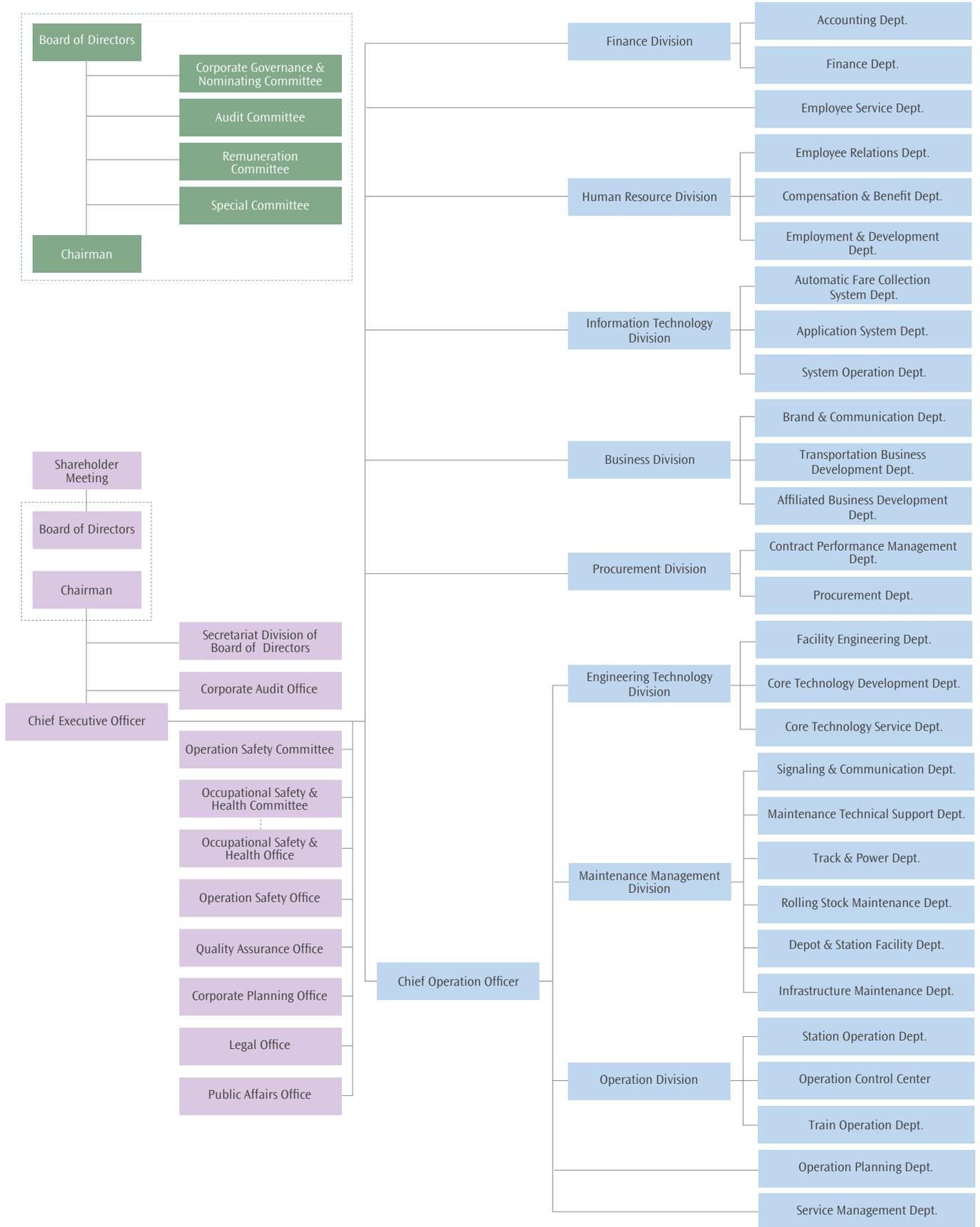
- Engineer Director, Environment Protection Section, Taiwan High Speed Rail Corporation
- Commissioner, Fuban Land Inc.
- Engineer, Kajima Eng. & Construction Inc. in U.S.A
- Deputy Engineer, Taiwan Building and Urban Developing Bureau

M. Sc. in Construction Management at USC, U.S.A

M. Sc. in Environmental Engineering at National Taiwan University R.O.C



### (6) Organizational structure



# Internal Control

## Statement of Internal Control System

Taiwan High Speed Rail Corporation  
Statement of Internal Control System

Date: Feb 13, 2018

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, 2017 to December 31, 2017:

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, 2017 to December 31, 2017, 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, 2017 to December 31, 2017, 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 13, 2018, with the contents of this Statement affirmed by all the 13 members present in the meeting.

## Taiwan High Speed Rail Corporation

Chairman of the Board of Directors:



CEO:



### Notice to Readers

For the convenience of readers, the Statement has been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language Statement shall prevail.

## Disclosure of Relationships between Top 10 Stockholders, including Related Parties, Second-Degree Relatives, or Spouses

Thousands of shares; % (as of March 26, 2018)

Name (Note 1)	Shareholding		Spouses & children (minors)		Shareholding by nominee arrangement		Relationship between the Company's top ten shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Ministry of Transportation and Communications	2,420,000	43.00	-	-	-	-	-	-	Director of the Board of THSRC
Liu, Min-Ching	-	-	-	-	-	-	-	-	Representative of Ministry of Transportation and Communications
China Aviation Development Foundation	260,040	4.62	-	-	-	-	-	-	Director of the Board of THSRC
Chiang, Yao-Chung Tsai, Huang-Liang	-	-	-	-	-	-	-	-	Representative of China Aviation Development Foundation
China Steel Corporation	242,148	4.30	-	-	-	-	-	-	Director of the Board of THSRC
Wong, Chao-Tung	-	-	-	-	-	-	-	-	Representative of China Steel Corporation
Taiwan Sugar Corporation	200,000	3.55	-	-	-	-	-	-	Director of the Board of THSRC
Kwan, Tao-I	-	-	-	-	-	-	-	-	Representative of Taiwan Sugar Corporation
Teco Electric & Machinery Co., Ltd.	190,060	3.38	-	-	-	-	-	-	Director of the Board of THSRC
Huang, Mao-Hsiung	-	-	-	-	-	-	-	-	Representative of Teco Electric & Machinery Co., Ltd.

Name (Note 1)	Shareholding		Spouses & children (minors)		Shareholding by nominee arrangement		Relationship between the Company's top ten shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Pacific Electric Wire & Cable Co., Ltd.	127,626	2.27	-	-	-	-	-	-	Institutional shareholder of THSRC
Yuan, Jun-Tang	-	-	-	-	-	-	-	-	Chairman of Pacific Electric Wire & Cable Co., Ltd.
National Development Fund of Executive Yuan	120,000	2.13	-	-	-	-	-	-	Director of the Board of THSRC
Kao, Shien-Quey	-	-	-	-	-	-	-	-	Representatives of National Development Fund of Executive Yuan
Taiwan Shinkansen Corporation	96,000	1.71	-	-	-	-	-	-	Institutional shareholder of THSRC
Michihiro Nose	-	-	-	-	-	-	-	-	President of Taiwan Shinkansen Corporation
Taiwan Fixed Network Co., Ltd.	90,212	1.60	-	-	-	-	-	-	Institutional shareholder of THSRC
Tsai, Ming-Chung	-	-	-	-	-	-	-	-	Chairman of Taiwan Fixed Network Co., Ltd.
Mega International Commercial Bank Co., Ltd.	71,100	1.26	-	-	-	-	-	-	Institutional shareholder of THSRC
Chang, Chao-Shun	-	-	-	-	-	-	-	-	Chairman of Mega International Commercial Bank Co., Ltd.

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

Note 2: The percentage of stockholdings are calculated based on the total shares held by the shareholder, spouses, minors, and nominee arrangements.



# Corporate Activities

Creating Social Value through Working with Communities

# Corporate Social Responsibility

Since our establishment, we have embedded values of inclusion, respect, collaboration, communication, and care into our company culture. As part of our corporate social responsibility, we support social, environmental, and ecological causes in partnership with the government, non-profit organizations, and social service agencies. We are committed to meeting the demands and expectations of society and are constantly exploring ways to make a meaningful impact on local communities.

## Social Benefit

### High-Speed Educational Endowment Program

THSRC has promoted the High-Speed Educational Endowment Program since 2010, collaborating with the “World Vision Society”, the “Child Welfare League Foundation”, the “Eden Social Welfare Foundation” and other social services agencies, and inviting the public to participate through donations made through seat pocket donation envelopes, station donation boxes, and QR codes.

Over the past nine years, the High-Speed Educational Endowment Program has raised a total of almost NT\$119.43 million, helping more than 21,000 children from disadvantaged populations and children with developmental delays. In 2018, THSRC collaborated with the “Taiwan Afterschool Association” to provide the “Smile Program” at 100 locations throughout Taiwan. The program provides free after school tutoring to more than 3,000 elementary and middle school children from financially disadvantaged families, giving them life and academic guidance outside of school and a happy learning environment. THSRC also donated a year’s worth of complimentary tickets to the Taiwan Afterschool Association, making it easier for association members to meet with tutors and enhance the care given to disadvantaged children.

Additionally, THSRC collaborated with the Taoyuan Metro Corporation and Taoyuan International Airport to bring 600 children supported by the Association to visit the Taoyuan HSR Station, the THSR Museum, the traffic control center, the Taoyuan Metro headquarters, Taoyuan International Airport, and other major traffic infrastructure sites, in hopes of providing an intellectually inspiring trip where the children could experience warmth and support from all sectors of the community.

### THSRC Smiling Train Program

In cooperation with local governments and various non-profit organizations, the THSRC Smiling Train Program has been in place since 2008, allowing children from minority and disadvantaged backgrounds and their families a chance to experience the comfort and convenience of high-speed train rides. As of year-end 2017, 683 groups comprising of 129,158 individuals have benefited from this program.

### Kaohsiung Municipal Baolai Junior High School Celestial Choir

The Kaohsiung Baolai Junior High School Celestial Choir is made up of only a few dozen students. Students from the Bunun tribe account for 40% of Kaohsiung Baolai Junior High School’s school population, and the remaining student population are composed of the newly recognized Saaroa, Pingpu, Minnan tribes, and the Hakka people. The school is a cultural melting pot of five ethnicities. With budgetary support from the Education Bureau’s Distinctive Course Development for Rural Elementary Schools, the Baolai Junior



High School Celestial Choir was formed to help students respect the cultures of others. The choir conductor and accompanist is not a teacher from the school, but rather a dentist (Jun-Chi Chen) who hopes to promote indigenous culture and sounds of nature through music. In November 2017, THSRC sponsored the choir's journey to the "Music of Love, Light of Taiwan" charity concert organized by the National Taiwan University EMBA Alumni Association, giving the members of the choir an opportunity to realize their dreams.



#### Winter Camp for Children With Down Syndrome

In February 2017, THSRC sponsored the "Ocean Sunfish Winter Camp for Children with Down Syndrome", jointly organized by the Down Syndrome Foundation, the Down Syndrome Caregivers Association, and the Taipei City and New Taipei City Down Syndrome Parents Associations. The winter camp aimed to strengthen the independence and social skills of youths with Down syndrome, helping children with Down syndrome learn to interact with their peers, experience challenging tasks, develop independent living and social skills, and apply eco-conservation knowledge into their daily lives.

#### ANDREW Charity Association--Life Camp

In July 2017, THSRC sponsored a 5-day Life Camp organized by the ANDREW Charity Association for elementary and middle school children from low income families in remote areas. Courses such as "Service Learning", "Character Education", and "Empathy" were provided during the camp. It is hoped that these educational activities, role modeling by counselors, and visits to businesses can motivate children from disadvantaged families to pursue personal growth, strengthen character, and expand horizons, opening a window for them to discover their interests and valuable wisdom.

#### Wings of Angels Tandem Team-South Taiwan Tour

In October 2017, to encourage outdoor activities for the visually impaired, THSRC sponsored the Wings of Angels Tandem Team on their Southern Taiwanese tour. The Wings of Angels Tandem Team are the first visually impaired tandem bicycle team in Taiwan. This activity encouraged more visually impaired people to get out of their homes and experience the beauty of Taiwan on tandem bicycles, opening a new era in outdoor recreation for the visually impaired.

In appreciation of THSRC's support, the Wings of Angels Tandem Team formed the Wings of Angels Choir, launching the tour with 6 touching renditions of songs including "Watching the Spring Winds", "Love Never Fails", and "Springtime in the North" at the Zuoying HSR Station, brightening the lives of the visually impaired.



### Tinfun Lukang Trip Sponsorship—Spreading Love with THSRC

According to Kuo-Chung Hsieh, the president of the Tinfun Home for Individuals with Developmental Disabilities, the Tinfun Home has striven to improve the rights of disabled individuals through a variety of activities and training since 1998, creating opportunities for interaction between disabled individuals and the general public, and helping these individuals to blend into society. Under this vision, the Tinfun Home hosts biannual parent-child travel activities to broaden the horizons of the disabled. The Tinfun Home expressed gratitude to THSRC for sponsoring the ride from Taoyuan to Taichung, and giving the attendees an opportunity to experience the culture and foods of Lukang.

### THSRC-Sponsored Activities for the Intellectually Disabled

The Hsinchu County Intellectual Barrier Welfare Association was established in 1989 by 300 parents of intellectually disabled children. The Association is composed of around 400 people. As the intellectually disabled suffer from brain defects making it impossible for them to express their rights and needs, their parents have stepped up to fight for the schooling, employment, fostering, adult placement, and marriage rights of their children. THSRC sponsored Association trips to the Yunlin Xinglong Towel Factory and the Beigang Dynasty Temple, and Director General Yan-Zhu Luo expressed his gratitude for the active care and generosity of THSRC, which allowed the members of the association to travel via high-speed rail. This activity encouraged the families of intellectually disabled children to break through their fear of the outside world and become part of the community as they experience the convenience and comfort of the high-speed rail community circle, helping them to demonstrate dignity and a love of life. This activity brought joy and new experiences to many intellectually disabled children.

### THSRC Makes Dreams Come True for the Elderly on the Double Nine Festival

In celebration of the Double Nine Festival, the Taichung HSR Station invited elderly people and volunteers from the Elderly Care Service Center of the Stella Matutina Social Welfare Foundation to take a trip to Kaohsiung. On the day of departure, the elderly people provided a rendition of the song “We Are Family” under the guidance of volunteers. THSRC hopes to continue providing fast, reliable, and comfortable rail services to the elderly in future.

### THSRC Delivered Love to the Oneheart Disability Care Center at Christmas

THSRC actively participates in public welfare matters to provide opportunities for the disadvantaged. HSR Chiayi Station Director Marks Mao donated HSR tickets to the Oneheart Care Center, and the disabled members hosted an event to express their gratitude. We look forward to providing these individuals with more wonderful HSR experiences.

### THSRC Donated Tickets to Youths with Cerebral Palsy

Many youths affected by cerebral palsy supported by the Tainan City Cerebral Palsy Association had wanted to travel by high-speed rail but were unable to do so due to lack of funding and their own disabilities. HSR Tainan Station Director Edward Yen donated HSR tickets to the association so that these youths could take a trip to Taipei and enjoy new life experiences.





### The Zuoying HSR Station Donated Free HSR Tickets to Handicapped Patients

To achieve its corporate social responsibilities, the Zuoying HSR Station donated free HSR tickets to the Fu Hwei Foundation in May, allowing 41 handicapped patients to realize their dream of taking a trip to Taipei. Zuoying Station Director Grant Sun hosted an event to donate the tickets to Director Lee of the Fu Hwei Foundation, and also organized a tour to the Nangang HSR Station. In return, the handicapped patients showed their gratitude by performing a song at Zuoying HSR Station, which received a round of applause from station passengers. THSRC was instrumental in creating a beautiful and unforgettable memory for these handicapped patients.

## Giving Back to Society

### Annual Blood Drive

For 6 consecutive years, the THSRC Winter Outreach Blood Drive was held at eleven HSR stations and was warmly received by many THSRC employees and the public. This year, 1,556 people participated in the event and 2,323 bags of blood were donated. To express appreciation for the donations, each donor was given a practical and eco-friendly THSRC foldable backpack as a reminder of their kindness.

### Charity Tickets for Organ Registry and Sharing Center

To support organ donors, THSRC provided free tickets for performers and family members of the Transplant Thanksgiving Memorial Concert held on June 17, 2017. Additionally, THSRC collaborated with the Organ Registry and Sharing Center to produce a short video titled, "Give New Life with Love", to increase public awareness of the important role of HSR rail services during the organ donation process.

To express support for organ donation, THSRC began sponsoring tickets for organ harvest medical teams in September 2017.



#### Concert Sponsorship for the Paper Windmill Cultural Foundation

THSRC collaborated with the “Paper Windmill Children’s Art Project for 368 Towns” on Christmas Eve 2017 to present the “Taiwan Fantasia” concert in Gueiren Elementary School in Tainan City. Children and local residents were invited to enjoy superb theater-standard performances. The outstanding performances were promoted throughout Taiwan to enhance the artistic vision of the next generation. THSRC hopes to not only be a safe and convenient mode of transport, but also a platform for progress and life improvement.



### Environmental Protection

THSRC is the first transportation company to be granted Taiwan Carbon Footprint Label and Carbon Reduction Label certificates. As part of the EPA’s Carbon Footprint Labeling Promotion initiative, we received the Carbon Footprint Label Certificate of High Speed Rail Transportation Services in December of 2014 (Certificate No. 1414910001), and thereafter established a High Speed Rail Transportation Services Carbon Footprint Page on our corporate website and also disclosed our carbon emissions in our on-board magazine T-Life and on the back of our tickets, becoming the first transportation (airline/rail/subway/highway/shipping) carrier in the country to officially receive a carbon footprint labeling certificate in the “Passenger Transport Services (Land and Sea)” category. We were also awarded the “Between-Station Passenger Transport Carbon Footprint” certificate and label by TUV Rheinland Taiwan, certifying our carbon footprints between stations. THSRC was the first high-speed rail provider in Asia to receive a national-level carbon label certificate and independent third-party verification.

To extend our carbon label for another three years, THSRC conducted carbon emission assessments and verifications in 2017 (review period: 2016.1.1 to 2016.12.31), and applied for validity extension 3 months prior to label expiration (2017.12.16). Our Carbon Footprint Label certificate number was updated (No.1714910001), 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).

“Carbon footprint” refers to the direct and indirect greenhouse gas emissions (GHG) of a product during its lifecycle. THSRC places a carbon footprint label on the back of our tickets to show passengers that 34g of CO<sub>2</sub> emissions would be produced for each passenger-kilometer. A comparison with other transportation vehicles showed this emission level to be one-third that of cars, one-half that of buses, and one-fifth that of national airlines. In 2016, THSRC passenger traffic volume was 10,488,339,832 passenger-kilometers, 791,114 fewer tons of carbon emissions compared to car travel over the same passenger-transport volume. This reduction is equivalent to the carbon absorption levels of 2,686 Daan Forest Parks.

THSRC will continue to be active in environment protection and in reducing our environmental impact, and will also disclose and promote these concepts in our “High-Speed Rail Services Carbon Footprint” publication, strengthening consumer consciousness of “green, carbon-reduced travel”, and delivering a green brand image. We hope our passengers can recognize the importance of environmental protection and start reducing carbon emissions by choosing to travel with THSRC.

A comparison of our carbon footprint assessments conducted in inventory years of 2016 and 2013 are shown below:

Inventory Year	2016	2013
Carbon emissions of raw materials (gCO <sub>2</sub> e)	0.15	0.32
Carbon footprint of product cycle		
Carbon emissions of service provision (gCO <sub>2</sub> e)	34.18	37.71
Carbon emissions of waste disposal (gCO <sub>2</sub> e)	0.02	0.04
Product carbon footprint (gCO <sub>2</sub> e)	34.35	38.07
Passenger-Kilometers	10,488,339,832	9,118,060,276
Carbon Footprint Label certificate validity period	Certificate no. 1714910001 2017.12.17~2020.12.16	Certificate no. 1414910001 2014.12.17~2017.12.16

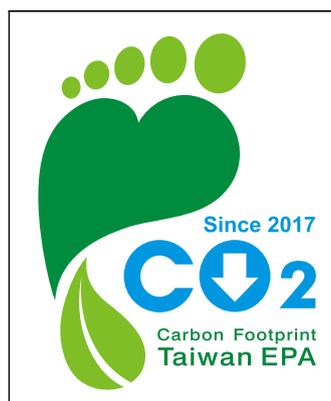
Note: Only 8 stations were in operation when assessments were conducted in 2013. By 2016, an additional 4 stations (Nangang, Miaoli, Changhua, and Yunlin) had commenced operations. For comparison with carbon footprints levels in 2013, the carbon reduction rate of 6.19% in 2016 was calculated using the carbon footprint of 35.61gCO<sub>2</sub>e/passenger-kilometer for the original 8 stations.

Our three new stations received the MOI Green Building Certificate

THSRC wishes to build new, sustainable, green building landmarks, and is especially focused on the four main pillars of “ecology, energy saving, waste reduction, and health”, as well as the nine indicators of green buildings.

THSRC 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, including biodiversity, greenery, soil water content, energy saving, CO<sub>2</sub> emission reduction, water resources, and sewage and garbage improvement, and was awarded a Diamond level certificate from the MOI. Changhua and Yunlin stations applied for 6 indicators, including greenery, soil water content, energy saving, indoor environment, water resources, and sewage and garbage improvement. Both stations were awarded a Gold level certificate from the MOI.



#### Celebration of Arbor Day with Sapling Giveaway

During Arbor Day on March 12, THSRC collaborated with the Executive Yuan Taiwan Forestry Research Institute (TFRI) and the Wutong Foundation to gift 1,000 tree saplings to north- and south-bound passengers travelling from the Taichung HSR station. Sapling types included Blue Japanese Oak, Indian Hawthorn, and fern pine, and experts were available at the station to educate the public about the saplings and explain tree planting techniques, helping passengers transform their carbon footprint into a “green footprint”.

THSRC is an environmentally-friendly mode of transport, and we hope to join our passengers in pursuing a new green way of life, leaving more green mountains and clean water for future generations.

#### Pheasant-Tailed Jacana Preservation

For more than 10 years, we have been devoted to the preservation of the pheasant-tailed jacana, a type of bird that is endangered in Taiwan. To date, we have invested over NT\$50 million and have worked closely with the local government and business community; our artificial habitat recovery project has increased the pheasant-tailed jacana population in Tainan City to 1,487 in 2017 from 9 in 2000. In 2007, we renamed the recovered habitat Jacana Park and opened the park to the public. More than 200,000 visitors have been recorded to date. We created tour devices, galleries, and interactive displays to present the results of our native species restoration efforts.



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

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

Phase	Time	Description
Preservation and incubation	1996~1999	The government originally planned to transplant the tree, but driven by our emphasis on protecting cultural relics, we ultimately decided to preserve the tree at its original site.
Design alteration	1999~2000	Our engineering design was changed to accommodate the Land God Temple and the old tree, increasing engineering costs and subsequent maintenance expenses.
Emergency rescue	2001~2002	The old tree suffered from severe infestation and parts of its trunk showed decay. Mr. Gan-Lin Yang, a tree surgeon trained in Japan, was engaged to restore life to the old tree.
Relocation and change of temple orientation	2003~2004	After completion of the HSR track, it was recommended that the Land God Temple should face the south for a broader field of vision. After several negotiations, the orientation of the Land God Temple was successfully changed and the expenses were covered by THSRC and our contractor.
Management and maintenance	2006~present	In order to maintain the tree's health and in consideration of its wounds, the old camphor tree is regularly trimmed and the surrounding trees are sprayed with pesticides for pest control.



### Preserving Railway Culture - THSR Museum

The THSR Museum is a treasure trove of THSR railway cultural assets and utilizes operational experience accumulated from the construction of a previous museum. The museum officially opened on January 5, 2017 to mark the 10th anniversary of high-speed rail operations. In addition to reviewing the three spatial revolutions in the history of Taiwan's railway industry, a network of exhibits and illustrations details the development of high-speed rail policies, BOT vendor selection and negotiation, the founding of THSR and the five founding shareholders, and the history of THSR construction and operation, allowing visitors to learn about THSR's journey. The museum is now an important public communication platform for THSR.

The featured displays proved very popular with visitors. Nineteen interesting themed exhibitions such as the 1:1 driving cabin, One Day Community Circle 700T dynamic train model, photovoltaic glass public escape room, Intelligent Transportation System (ITS) exhibits, and the high-speed rail cultural assets are showcased using interactive technology detailing railway development in Taiwan and other parts of the world. The museum is Taiwan's first and only corporate image museum for high-speed rail services, and word-of-mouth and Facebook check-ins have attracted people from Taiwan and all over the world. As of 2017, a total of 716 groups and more than 17,641 people have visited the museum.

Apart from being a learning resource for mass transit education, the museum also hosted four special seminars on railway culture during the summer of 2017. Railroad experts from the private sector were invited to lecture on topics such as "Exploring the Natural History of Railway and Vision", "Complete Exploration of Railroad Cultural Relics", "Exploring the History of Taiwan's Railways", and "Exploring the World's High-Speed Railways".

The seminars attracted many railroad research enthusiasts. In his lecture on "Exploring the World's High-Speed Railways", Mr. Chao-Hsu Su talked about Touring the World by Rail and presented pictures of many of the world's most beautiful and historic railways, such as Platform 9 3/4 and trains used as reference for scenes in "Harry Potter" movies. The lecture was not only well attended by THSRC employees but also attracted the general public who were quite enthusiastic in their participation.



## Exchange and Events

### THSRC Camp

During school winter and summer vacations, THSRC hosts the “HSR Camp” to help students interested in railway transportation further understand Taiwan’s high-speed railway. In addition to enhancing their interest, the Camp also passes on the legacy of railroad culture and promotes the mission of education.

In 2017, THSRC hosted a total of 12 camps with up to 226 participants. Age-appropriate content was taught to help students learn about Taiwan’s high-speed rail from different dimensions and facilitate their appreciation of the beauty of railway culture. For the college group, the content focused on high-speed rail technology and hardware equipment. The high school group content emphasized the basics of operation and maintenance, and the junior high and elementary school groups were focused on train etiquette and safety. Since 2017, visits have been scheduled to the THSR Museum to allow students to explore the birth of THSR and the development of the world’s railways, making for an educational and entertaining event.

### THSR ART Together Program

On December 2017, the “THSR Art Together Program” was awarded the “13th Arts and Business Awards” for cultural development by the Ministry of Culture. To better integrate HSR stations with local cultures, we have actively promoted the “THSR Art Together Program” since 2015. By creating space at HSR stations for group or individual artistic performances and exhibitions, the beauty of humanities and culture is displayed to travelers. As of 2017, more than 300 groups have performed at HSR stations.

Beginning in 2018, THSRC will launch the “First Year of HSR Art” project, deepening and integrating more elements of art into all aspects of high-speed rail travel to share the appreciation of art with all passengers. In addition to being a safe and convenient form of transport, THSRC hopes to integrate competitive technology and local culture into our daily services to provide the public with a high-quality and comprehensive experience, making THSRC a platform for progress and life improvement.



#### Hsinchu HSR Station Weaves A Rainbow with Hsinle Elementary School

On November 8, 2017, the “Hsinle Elementary School Indigenous Dance Group” from Jianshi Township, Hsinchu County performed a dance entitled “Weaving a Rainbow” at the Hsinchu HSR Station. The dance utilized a combination of bamboo sieves, bamboo baskets, hunting, weaving and mouth harps and combined elements of traditional Atayal dance and modern dance. Atayal folklores used as backdrops brought cohesion to the entire performance, which received warm applause from the audience. Wen-Liang Kao, the principal of Hsinle Elementary School, said that the 24 elementary school students in the dance group expressed the daily life of the Atayal tribe such as farming, hunting, and weaving through the songs and dance. He also hopes that the performance will help more people understand the history and culture of the Atayal tribe.

#### Taoyuan HSR Station-Bach in the Subways Day

Bach in the Subways Day was initiated by US cellist Dale Henderson who performs in subway stations every year on March 21, the birthday of Bach. By giving the gift of music to the public, he hopes to cultivate interest in classical music. Different cities have participated in the annual event. On March 18, 2017, Bach lovers in Taiwan selected the Taoyuan HSR Station as the venue of their musical performance as they participated in this meaningful global event.

#### Taichung HSR Station--2017 Taichung International Dance Parade and Festival

To promote the “2017 Taichung International Dance Parade and Festival” organized by the Taichung City Government, the Taichung Municipal Wen-Hua Senior High School Dance Class for Talented Students debuted their newly created dance, “Flowers In Taichung” at the Taichung HSR Station on November 21, 2017. Choreographed to the nursery rhyme “Clinking Coins”, the brilliant performance received enthusiastic applause from travelers. The Wen-Hua Senior High School Dance Class is an important training ground for talented dancers. For 10 consecutive years, the group has won outstanding awards at national dance competitions for students, and has also been invited numerous times to the YOSAKOI Festival in Japan. Their fast-paced performance impressed many travelers with its animation and beauty.

#### FRAMEST A Cappella Choir at Hsinchu, Taichung, Chiayi, and Zuoying HSR Stations

To draw the public in central Taiwan closer to the charm of a cappella, THSRC and the New Taipei Choral Foundation jointly promoted the “2017 Taiwan International Contemporary A Cappella Festival”, and invited the world renowned “FRAMEST” A Cappella Choir to perform at Hsinchu, Taichung, Chiayi, and Zuoying HSR Stations on October 26, 2017. Without the accompaniment of any musical instrument, the five members of the choir gave a superb performance using their beautiful voices coupled with animated dance steps. They sang many universally known popular songs, attracting travelers to stop and appreciate their performance, and leading many audience members to clap along and record the performance on their phones.



### Mother's Day Celebration

To celebrate Mother's Day, THSRC organized the HSR Mother's Day Appreciation event in May 2017 at six stations. Professional masseurs from the Eden Social Welfare Foundation were invited to provide mothers with free revitalizing massages to help them relax. Blood pressure measuring services and HSR Holiday Gift activities were also held at the event sites. In recognition of their selfless giving, every participating mother received Schisandra-Sesamin Tablets and a HSR Lollipop.

### Taipei 2017 Universiade

The Taipei 2017 Universiade was Taiwan's largest hosted international competition to date. THSRC was the official event sponsor and provided a 50% discount on nearly 10,000 standard class and business class tickets for Taiwan's competitors and their families and coaches during the event. The tickets provided the Taiwan athletes and their coaches convenient high-speed rail travel services to and from their training base, and also enabled their families to cheer them on at the events. To encourage the public to support the Taiwanese athletes, THSRC also donated free rail tickets as door prize vouchers, inspiring the public to purchase tickets to the event and motivating the athletes to excel at the Taipei 2017 Universiade.

During the pre-event activities and the event itself, THSRC provided Taipei 2017 Universiade with free advertising space on HSR tickets, posters, and multimedia and advertising lightboxes at all 12 HSR stations to facilitate enthusiasm for the event and encourage public participation in the Universiade. THSR also successfully installed Wi-Fi equipment before the opening of the Universiade to ensure that passengers travelling in high-speed trains could enjoy stable and quality wireless network services, and at the same time provide the world's best athletes with a wonderful local experience.

### 2017 Swing Skirts LPGA Championship Taiwan

THSRC aims to be the bridge towards better local living by providing the public with comfortable and convenient travel services as we continue to support the development of various sports and fulfill our corporate social responsibilities. In addition to sponsoring the Universiade in 2017, THSRC also supported the "2017 Swing Skirts LPGA Championship Taiwan". Alongside Taipei 2017 Universiade,



this event was one of the two most important sports events held in Taiwan in 2017. As the official event sponsor, THSRC offered travel assistance and publicity by providing event information on our corporate website, Facebook fan page, trains, scrolling advertising boards, station lightboxes, and wall advertisements to attract public attention and encourage support for the athletes, increasing Taiwan's worldwide presence.

#### Technology Exchange and Internationalization

##### Professional Visitation and Observation

To further public understanding of Taiwan's high-speed rail industry, THSRC provides guided tours of stations, maintenance garages, and operations buildings. In 2017, 49 groups totaling more than 951 individuals have taken our tours.

THSRC actively advances its technology and shares experiences with rail transportation counterparts in Canada, the United States, Japan, India, and other countries. In April 2017, the "44th APEC Transportation Working Group" visited the THSR Operations Building to learn about smart transportation and safety monitoring in high-speed railways, thereby highlighting THSR's superior quality in train operation management.

##### 2017 World Congress on Information Technology

THSRC was invited to represent the Ministry of Transportation and Communications at the "2017 World Congress on Information Technology" held in September 2017. Taiwan's past reputation as a country skilled in OEM for IT hardware was successfully transformed into that of a country known for IT application services and smart technology.

Advances in science and technology are the driving force behind the enhanced quality of Taiwan's high-speed railways. At 2017 World Congress on Information Technology, THSRC showcased five THSRC ITS Smart Railway Services System achievements, namely the "Smart Train Operation", "Smart Safety & Emergency Management", "Smart Ticketing System", "Smart Passenger Service", and "Integrated iTraveling Information", showing the world how the use of smart transportation technology in reservation, ticket purchase, connecting train services, operational safety, and shuttle transfer has resulted in convenient, comfortable, and safe service quality for passengers throughout their journey on "smart transportation".





# Financial Report

**A**chieving Positive Outcomes for All Stakeholders

# Financial Highlights

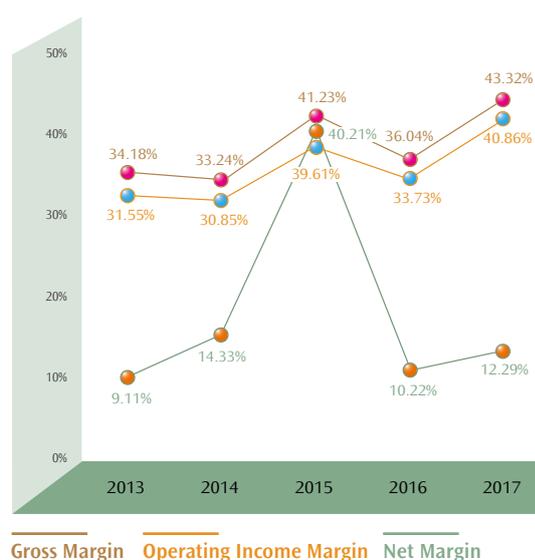
THSRC aims to contribute to the growth and prosperity of Taiwan's western corridor by providing leading-edge rail and station services to customers and communities. Through continuous and steady growth, THSRC's operating revenue for 2017 has reached the amount of NT\$43.4 billion.

The year-end financial reports for 2017 show annual gross profits, operating income, and EBITDA to be NT\$18.8 billion, NT\$17.8 billion, and NT\$31.7 billion, respectively.

The highlights from 2013 to 2017 financial outcomes are shown as below:

(NT\$bn)	2013	2014	2015	2016	2017
Operating revenues	36.10	38.51	51.90	40.61	43.44
Gross profit	12.34	12.80	21.40	14.64	18.82
Income from operation	11.39	11.88	20.56	13.70	17.75
Income before tax	2.71	2.66	18.83	5.00	6.48
Net income	3.29	5.52	20.87	4.15	5.34

Note: 2017 showed the second-highest revenues in company history. Excluding NT\$12.1 billion of statutory discount ticket reimbursements, revenues would have been \$39.8 billion for 2015.



Going forward, THSRC will continue to maintain safety and reliability of our rail services, improve customer service, and pursue efficient operations and cost reductions. At the same time, we are steadily strengthening our managerial foundation for various businesses to reduce our long-term debt and payables, so that we may continue to offer stable dividends in the future.

## Financial Status

Amounts in thousands of NT dollars

Item	Year	2017	2016	Difference	%
Current Assets		20,090,816	28,728,282	(8,637,466)	(30.07)
Property, Plant and Equipment		107,354	65,305	42,049	64.39
Operating Concession Asset		413,166,373	426,020,379	(12,854,006)	(3.02)
Other Assets		6,695,914	6,393,406	302,508	4.73
Total Assets		440,060,457	461,207,372	(21,146,915)	(4.59)
Current Liabilities		6,549,408	19,815,494	(13,266,086)	(66.95)
Non-current Liabilities		370,492,700	380,328,197	(9,835,497)	(2.59)
Total Liabilities		377,042,108	400,143,691	(23,101,583)	(5.77)
Capital Stock		56,282,930	56,282,930	-	-
Capital Surplus		172,981	172,981	-	-
Retained Earnings		6,561,953	4,607,077	1,954,876	42.43
Other Equity		485	693	(208)	(30.01)
Total Equity		63,018,349	61,063,681	1,954,668	3.20

### Analysis of differences over 20%

1. The decrease in current assets was mainly due to the decrease of repurchase agreement collateralized by government bonds to repay syndicated debt.
2. The increase in property, plant and equipment was mainly due to the increase of machine equipment and office equipment.
3. The decrease in current liabilities was mainly due to the decrease of syndicated debt due within one year.
4. The increase in retained earnings was mainly due to net income of 2017, partially offset by distribution of 2016 earnings.
5. The decrease in other equity was mainly due to the decrease of the unrealized gain on revaluation of available-for-sale financial assets.

## Operating Results

Amounts in thousands of NT dollars

Item	Year	2017	2016	Difference	%
Operating Revenues		43,435,042	40,610,906	2,824,136	6.95
Operating Costs		24,613,645	25,973,173	(1,359,528)	(5.23)
Gross Profit		18,821,397	14,637,733	4,183,664	28.58
Operating Expenses		1,066,413	938,237	128,176	13.66
Income from Operations		17,754,984	13,699,496	4,055,488	29.60
Non-operating Income and Expenses		(11,276,484)	(8,701,921)	(2,574,563)	(29.59)
Income before Income Tax		6,478,500	4,997,575	1,480,925	29.63
Income Tax Expense		1,138,595	848,477	290,118	34.19
Net Income		5,339,905	4,149,098	1,190,807	28.70
Other Comprehensive Income		(8,261)	(47,679)	39,418	82.67
Total Comprehensive Income for the year		5,331,644	4,101,419	1,230,225	30.00

Analysis of differences over 20%

1. The increase in gross profit, income from operations, income before income tax, net income and total comprehensive income were mainly due to the increase of the ridership.
2. The variation of non-operating income and expenses was mainly due to the increase of stabilization reserve expense related to higher profit in 2017.
3. The increase in income tax expense was mainly due to higher profit in 2017.
4. The variation of other comprehensive income was mainly due to the adjustment of remeasurement of defined benefit plan base on actuarial calculations in 2017.

## Capital

In thousands of shares

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

Note: THSRC went public on Oct 27, 2016

## Composition of Shareholders

Common Stock

In thousands of shares (as of March 26, 2018)

Type of shareholders	Government agencies	Government-owned institutions	Financial institutions	Other corporate investors	Individuals	Foreign institutions and individuals	Total
Number of shareholders	2	1	14	229	87,698	372	88,316
Shareholding	2,540,000	200,000	445,170	1,276,698	712,851	453,574	5,628,293
Percentage (%)	45.13	3.55	7.91	22.68	12.67	8.06	100.00

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

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

# Taiwan High Speed Rail Corporation

Financial Statements for the  
Years Ended December 31, 2017 and 2016 and  
Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Taiwan High Speed Rail Corporation

### **Opinion**

We have audited the accompanying financial statements of Taiwan High Speed Rail Corporation, which comprise the balance sheets as of December 31, 2017 and 2016, 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, 2017 and 2016, 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 the Republic of China.

### **Basis of Opinion**

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of 2017 financial statements are as follows:

#### The Provision for Stabilization Reserve

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

The financial stabilization mechanism was established by the Corporation in 2016 in order to serve the purpose to return main benefit of excess earnings to the country. Starting from 2017, the Corporation reports the execution status to the Ministry of Transportation and Communications ("MOTC"), including provision, contribution, and accumulated balance of the stabilization reserve in accordance with Taiwan North-South High Speed Rail Construction and Operation Agreement. Because the provision of the stabilization reserve is related to the profitability of the remaining concession period of the contract, and the amount is material and can vary depending on the expiration or termination of the contract, and involves critical accounting judgments and estimates, the recognition of provision for stabilization reserve is deemed a key audit matter.

Since the remaining concession period is expected to end in the year 2068 or still many years in the future and an early termination is not anticipated, the profitability is not reliably predictable; nevertheless, the stabilization reserve amounted to NT\$4,145,851 thousand as of December 31, 2017 based on the estimated profitability in 2017 in accordance with Taiwan North-South High Speed Rail Construction and Operation Agreement.

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

### Railroad Transportation Revenue

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

The railroad transportation revenue is the main sources of revenue for the Corporation, and related revenue amounted to NT\$42,221,888 thousand, representing 97% of total operating revenues in 2017. The calculation of railroad transportation revenue is complex; thus, railroad transportation revenue recognition is considered as one of the key audit matters.

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

### **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 Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2017 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 Jui-Hsuan Ho and Kwan-Chung Lai.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 13, 2018

#### Notice to Readers

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

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

**TAIWAN HIGH SPEED RAIL CORPORATION**  
**BALANCE SHEETS**  
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	December 31			
	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 7,187,917	2	\$ 237,457	-
Available-for-sale financial assets (Note 7)	319,985	-	311,693	-
Hedging derivative assets (Note 8)	5	-	225	-
Notes and accounts receivable	347,275	-	550,033	-
Inventories (Note 9)	1,927,723	1	2,005,154	1
Other financial assets (Notes 10 and 27)	9,365,363	2	24,714,305	5
Prepayments and other current assets (Note 13)	942,548	-	909,415	-
Total current assets	20,090,816	5	28,728,282	6
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment (Note 11)	107,354	-	65,305	-
Operating concession asset (Note 12)	413,166,373	94	426,020,379	92
Computer software, net (Note 12)	54,167	-	34,994	-
Deferred tax assets (Note 22)	4,504,698	1	4,285,765	1
Other financial assets (Notes 10 and 27)	2,122,265	-	2,060,388	1
Other non-current assets (Note 13)	14,784	-	12,259	-
Total non-current assets	419,969,641	95	432,479,090	94
<b>TOTAL</b>	<b>\$ 440,060,457</b>	<b>100</b>	<b>\$ 461,207,372</b>	<b>100</b>

LIABILITIES AND EQUITY	December 31			
	2017		2016	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 14)	\$ 39,888	-	\$ 60,130	-
Accounts payable	248,017	-	247,519	-
Operating concession liability (Note 15)	647,850	-	3,180,612	1
Other payables (Notes 14 and 17)	2,950,253	1	2,755,992	1
Payable for construction	605,926	-	889,292	-
Current tax liabilities	1,102,942	1	474,723	-
Provisions (Note 16)	292,515	-	301,701	-
Current portion of long-term debt (Note 14)	-	-	10,944,843	2
Other current liabilities (Note 17)	662,017	-	960,682	-
<b>Total current liabilities</b>	<b>6,549,408</b>	<b>2</b>	<b>19,815,494</b>	<b>4</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term debt (Note 14)	286,082,766	65	316,279,751	69
Long-term bills payable (Note 14)	15,963,546	4	-	-
Provisions (Note 16)	4,145,851	1	280,289	-
Long-term interest payable (Note 14)	9,531,465	2	9,582,166	2
Operating concession liabilities (Note 15)	54,542,215	12	53,990,329	12
Other non-current liabilities (Notes 17, 18 and 22)	226,857	-	195,662	-
<b>Total non-current liabilities</b>	<b>370,492,700</b>	<b>84</b>	<b>380,328,197</b>	<b>83</b>
<b>Total liabilities</b>	<b>377,042,108</b>	<b>86</b>	<b>400,143,691</b>	<b>87</b>
<b>EQUITY (Note 19)</b>				
Capital stock				
Common stock	56,282,930	13	56,282,930	12
Capital surplus	172,981	-	172,981	-
Retained earnings				
Legal reserve	866,090	-	451,180	-
Unappropriated earnings	5,695,863	1	4,155,897	1
Total retained earnings	6,561,953	1	4,607,077	1
Unrealized gain on available-for-sale financial assets	485	-	693	-
<b>Total equity</b>	<b>63,018,349</b>	<b>14</b>	<b>61,063,681</b>	<b>13</b>
<b>TOTAL</b>	<b>\$ 440,060,457</b>	<b>100</b>	<b>\$ 461,207,372</b>	<b>100</b>

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			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 20 and 26)	\$ 43,435,042	100	\$ 40,610,906	100
OPERATING COSTS (Notes 21 and 26)	(24,613,645)	(57)	(25,973,173)	(64)
GROSS PROFIT	18,821,397	43	14,637,733	36
OPERATING EXPENSES (Note 21)	(1,066,413)	(2)	(938,237)	(2)
INCOME FROM OPERATIONS	17,754,984	41	13,699,496	34
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 21)	96,076	-	115,448	-
Interest expense (Notes 14, 21 and 26)	(7,463,329)	(17)	(8,375,559)	(21)
Stabilization reserve expense (Note 16)	(3,865,562)	(9)	(280,289)	(1)
Other gains and losses (Note 21)	(43,669)	-	(161,521)	-
Total non-operating income and expenses	(11,276,484)	(26)	(8,701,921)	(22)
INCOME BEFORE INCOME TAX	6,478,500	15	4,997,575	12
INCOME TAX EXPENSE (Note 22)	(1,138,595)	(3)	(848,477)	(2)
NET INCOME	5,339,905	12	4,149,098	10
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(9,702)	-	(57,611)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	1,649	-	9,794	-
	(8,053)	-	(47,817)	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on available-for-sale financial assets	(208)	-	138	-
Other comprehensive income (loss) for the year, net of income tax	(8,261)	-	(47,679)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 5,331,644	12	\$ 4,101,419	10

**For the Years Ended December 31**

**2017**

**2016**

**Amount**

**%**

**Amount**

**%**

EARNINGS PER SHARE (Note 23)

Basic earnings per share

\$ 0.95

\$ 0.74

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

## TAIWAN HIGH SPEED RAIL CORPORATION

### STATEMENTS OF CHANGES IN EQUITY

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

	Capital Stock	
	Common Stock	Capital Surplus
BALANCE AT JANUARY 1, 2017	\$ 56,282,930	\$ 172,981
Appropriation of prior year's earnings Legal reserve	-	-
Cash dividends to shareholders - NT\$0.6 per share	-	-
	-	-
Net income for the year ended December 31, 2017	-	-
Other comprehensive income (loss) for the year ended December 31, 2017	-	-
Total comprehensive income for the year ended December 31, 2017	-	-
BALANCE AT DECEMBER 31, 2017	\$ 56,282,930	\$ 172,981
BALANCE AT JANUARY 1, 2016	\$ 56,052,930	\$ -
Appropriation of prior year's earnings Legal reserve	-	-
Cash dividends to shareholders - NT\$0.65 per share	-	-
	-	-
Net income for the year ended December 31, 2016	-	-
Other comprehensive income (loss) for the year ended December 31, 2016	-	-
Total comprehensive income for the year ended December 31, 2016	-	-
Issue of common shares for cash (including employee share options)	230,000	172,981
BALANCE AT DECEMBER 31, 2016	\$ 56,282,930	\$ 172,981

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

Retained Earnings			Unrealized Gain/Loss on Available-for-sale Financial Assets	Total Equity
Legal Reserve	Unappropriated Earnings	Total		
\$ 451,180	\$ 4,155,897	\$ 4,607,077	\$ 693	\$ 61,063,681
414,910	(414,910)	-	-	-
-	(3,376,976)	(3,376,976)	-	(3,376,976)
414,910	(3,791,886)	(3,376,976)	-	(3,376,976)
-	5,339,905	5,339,905	-	5,339,905
-	(8,053)	(8,053)	(208)	(8,261)
-	5,331,852	5,331,852	(208)	5,331,644
<u>\$ 866,090</u>	<u>\$ 5,695,863</u>	<u>\$ 6,561,953</u>	<u>\$ 485</u>	<u>\$ 63,018,349</u>
\$ 40,285	\$ 4,108,952	\$ 4,149,237	\$ 555	\$ 60,202,722
410,895	(410,895)	-	-	-
-	(3,643,441)	(3,643,441)	-	(3,643,441)
410,895	(4,054,336)	(3,643,441)	-	(3,643,441)
-	4,149,098	4,149,098	-	4,149,098
-	(47,817)	(47,817)	138	(47,679)
-	4,101,281	4,101,281	138	4,101,419
-	-	-	-	402,981
<u>\$ 451,180</u>	<u>\$ 4,155,897</u>	<u>\$ 4,607,077</u>	<u>\$ 693</u>	<u>\$ 61,063,681</u>

# TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Years Ended December 31	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 6,478,500	\$ 4,997,575
Adjustments for:		
Depreciation	37,137	33,202
Amortization	13,865,570	15,683,785
Loss on inventories valuation and obsolescence	14,322	73,585
Interest expense	7,463,329	8,375,559
Interest income	(96,076)	(115,448)
Loss on foreign currency exchange, net	8,096	27,430
Stabilization reserve expenses	3,865,562	280,289
Others	9,405	423
Changes in operating assets and liabilities		
Derivative financial assets for hedging	220	(225)
Notes and accounts receivable	202,758	(339,845)
Inventories	65,719	77,341
Prepayments and other current assets	(29,152)	(382,943)
Other non-current assets	(6,455)	(9,818)
Accounts payable	1,677	(193,077)
Other payable	234,236	556,079
Payment for provisions - controversial overtime	(9,971)	(221,965)
Payment for provisions - preferred stock compensation	-	(15,155,212)
Other current liabilities	(298,665)	192,246
Other non-current liabilities	(924)	4,331
Cash generated from operations	31,805,288	13,883,312
Interest received	92,008	125,879
Interest paid	(6,381,962)	(6,206,724)
Interest paid with respect to operating concession liabilities	(3,180,612)	(1,883,383)
Income tax refund (paid)	(728,768)	11,342
Net cash generated from operating activities	21,605,954	5,930,426
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(372,500)	(235,000)
Proceeds from disposal of available-for-sale financial assets	365,430	527,426
Decrease in other financial assets	15,274,999	29,736,684
Acquisition of property, plant and equipment	(36,279)	(27,759)
Proceeds from disposal of property, plant and equipment	-	457
Acquisition of intangible assets	(1,354,079)	(2,662,900)
Proceeds from disposal of intangible assets	530	1,610
Net cash generated from investing activities	13,878,101	27,340,518

## TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Years Ended December 31	
	2017	2016
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in short-term borrowings	\$ (19,580)	\$ 16,811
Issuance of long-term bills payable	16,000,000	-
Repayment of long-term debt	(41,160,564)	(31,946,529)
Increase in other non-current liabilities	23,525	5,323
Cash dividends	(3,376,976)	(3,643,433)
Issue of common shares for cash	-	390,801
	<hr/>	<hr/>
Net cash used in financing activities	(28,533,595)	(35,177,027)
	<hr/>	<hr/>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	-	(2,856)
	<hr/>	<hr/>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,950,460	(1,908,939)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	237,457	2,146,396
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 7,187,917	\$ 237,457

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, 2017 AND 2016  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

## 1. GENERAL

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

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

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

## 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized by the board of directors on February 13, 2018.

## 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 FSC.

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers did not have any material impact on the Corporation’s accounting policies.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application effective from 2018 and the amendments to IFRS 9 for early adoption starting from 2018.

Effective Date Announced by IASB	New IFRSs
January 1, 2017	Amendment to IAS 7 “Disclosure Initiative”
January 1, 2017	Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”
January 1, 2017	Annual Improvements to IFRSs 2014-2016 Cycle: Amendment to IFRS 12 “Disclosure of Interests in Other Entities”
January 1, 2018	Annual Improvements to IFRSs 2014-2016 Cycle: Amendment to IAS 28 “Investments in Associates and Joint Ventures”
January 1, 2018	Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”
January 1, 2018	Amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”
January 1, 2018	IFRS 9 “Financial Instruments”
January 1, 2018	Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosure”
January 1, 2018	IFRS 15 “Revenue from Contracts with Customers”
January 1, 2018	Amendment to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”
January 1, 2018	Amendment to IAS 40 “Transfers of Investment Property”
January 1, 2018	IFRIC 22 “Foreign Currency Transactions and Advance Consideration”
January 1, 2019	Amendments to IFRS 9 “Prepayment Features with Negative Compensation”

1) IFRS 9 “Financial Instruments” and related amendments  
Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Corporation’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses are recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above classification and measurement, all other financial assets are measured at fair value through profit or loss. However, the Corporation may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Corporation elects to early adopt the amendments to IFRS 9 “Prepayment Features with Negative Compensation” when it first applies IFRS 9. The amendments stipulated that for the purpose of assessing whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the prepayment amount of a contractual term may include reasonable compensation that shall be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

The Corporation analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the mutual funds classified as available-for-sale and concluded that such mutual funds should be classified as at fair value through profit or loss under IFRS 9 because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The Corporation elects not to restate prior reporting periods when applying IFRS 9 but with the cumulative effect of the initial application recognized at the date of initial application.

The anticipated impact of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Items			
Financial assets at fair value through profit or loss - current	\$ -	\$ 319,985	\$ 319,985
Available-for-sale financial assets - current	319,985	(319,985)	-
Financial assets for hedging - current	-	5	5
Hedging derivative assets - current	5	(5)	-
Total effect on assets		\$ -	

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Retained earnings	\$ -	\$ 485	\$ 485
Unrealized gain on available-for-sale financial assets	485	<u>(485)</u>	-
Total effect on equity		<u>\$ -</u>	

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

Effective Date Announced by IASB	New IFRSs
January 1, 2019	Annual Improvements to IFRSs 2015-2017 Cycle
January 1, 2019	IFRS 16 “Leases”
January 1, 2019	Amendment to IAS 28 “Long-term Interests in Associates and Joint Ventures”
January 1, 2019	IFRIC 23 “Uncertainty over Income Tax Treatments”
January 1, 2019	Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”
January 1, 2021	IFRS 17 “Insurance Contracts”
Effective date to be determined by IASB	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

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

On December 19, 2017, the FSC announced that IFRS 16 “Leases” will take effect starting from January 1, 2019.

1) IFRS 16 “Leases”

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

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

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Corporation should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Corporation concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Corporation should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Corporation should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Corporation has to reassess its judgments and estimates if facts and circumstances change.

The Corporation may elect to apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed by the FSC.

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

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

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

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

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

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

**e. Cash equivalents**

Cash equivalents include time deposits 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. Available-for-sale financial assets**

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

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

**g. Impairment of accounts receivable**

Receivables are mainly generated by customers purchasing tickets and merchandise through credit cards. Allowance for doubtful accounts is provided based on an evaluation of the collectibility of individual account balances. Receivables are assessed for impairment and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected.

**h. Inventories**

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

**i. Property, plant and equipment**

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

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives: machinery and equipment - 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.

## **j. Intangible assets**

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

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

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

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

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

### **2) Computer software**

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

## **k. Operating concession liability**

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

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

## **l. Impairment of assets**

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

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

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

**m. Hedging derivatives**

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

**n. Provisions**

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

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

**o. Revenue recognition**

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

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

**p. Borrowing costs**

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

**q. Retirement benefit costs**

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

#### **r. Taxation**

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

##### 1) Current tax

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

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

#### **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, 2017, the Corporation recognized a provision for controversial overtime in the amount of \$286,662 thousand. The estimated provision could differ from the actual amount payable which is subject to the result of the administrative judgement or the agreement to be signed with the employees. Please refer to Note 16 for further information.

**b. Stabilization reserve**

As of December 31, 2017, the Corporation recognized a provision for stabilization reserve in an amount of \$4,145,851 thousand in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability for the remaining concession period which ends in the year 2068 or for early termination. Refer to Note 16 and Note 28, a., 3) for further information.

**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, 2017 and 2016, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$4,504,698 thousand and \$4,285,765 thousand, respectively. As of December 31, 2017 and 2016, deductible temporary differences remained unchanged at \$995 thousand, and were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

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

**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, as well as external economic changes and other factors. The Corporation has assessed that the useful lives of certain operating concession assets 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 15, 2017. The Committee thereby decided to modify the estimated amortization lives of certain operation concession assets. The revised estimated amortization lives became effective on October 1, 2017. The amortization expense for the three months from October 1, 2017 to December 31, 2017 will increase by \$308,183 thousand due to the revision of the amortization lives of certain operating concession assets.

## 6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand	\$ 187,023	\$ 179,701
Checking accounts	19	19
Demand deposits	89,817	49,729
Time deposits	8,058	8,008
Repurchase agreement collateralized by government bonds	6,903,000	-
	<u>\$ 7,187,917</u>	<u>\$ 237,457</u>

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

	December 31	
	2017	2016
Demand deposits	0.001%-0.30%	0.001%-0.14%
Time deposits	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.40%-0.44%	-

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2017	2016
Open-end money market funds	\$ 319,985	\$ 311,693

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2017	2016
Hedging derivative assets		
Fair value hedges - forward exchange contracts	\$ 5	\$ 225

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

	Currency	Maturity Date	Contract Amount (In Thousands)	
<u>December 31, 2017</u>				
Buy	US\$/JPY	January 2018	JPY	83,929
Buy	NT\$/US\$	January 2018	US\$	742
<u>December 31, 2016</u>				
Buy	US\$/JPY	January 2017	JPY	173,140
Buy	NT\$/US\$	January 2017	US\$	1,689

## 9. INVENTORIES

	December 31	
	2017	2016
Spare parts and supplies	\$ 1,919,058	\$ 1,995,508
Merchandise	8,665	9,646
	<u>\$ 1,927,723</u>	<u>\$ 2,005,154</u>

As of December 31, 2017 and 2016, allowance for loss on inventories amounted to \$620,285 thousand and \$605,963 thousand, respectively.

## 10. OTHER FINANCIAL ASSETS

	December 31	
	2017	2016
Repurchase agreement collateralized by government bonds	\$ 7,655,000	\$ 21,682,200
Time deposits	3,789,902	2,945,641
Demand deposits	37,776	130,463
Performance guarantee for customs duties and others	4,950	16,389
Performance guarantee for the C&O Agreement	-	2,000,000
	<u>\$ 11,487,628</u>	<u>\$ 26,774,693</u>
Current	\$ 9,365,363	\$ 24,714,305
Non-current	2,122,265	2,060,388
	<u>\$ 11,487,628</u>	<u>\$ 26,774,693</u>

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

	December 31	
	2017	2016
Repurchase agreement collateralized by government bonds	0.42%-0.44%	0.30%-0.51%
Time deposits	0.15%-1.95%	0.15%-1.21%
Demand deposits	0.05%-0.08%	0.08%

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

11. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2017	2016
Land	\$ 28	\$ 28
Machinery and equipment	46,069	42,691
Transportation equipment	-	-
Office equipment	11,035	6,695
Leasehold improvements	44	1,114
Other equipment	50,178	14,777
	<u>\$ 107,354</u>	<u>\$ 65,305</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 28	\$ 241,472	\$ 310	\$ 119,082	\$ 79,370	\$ 204,090	\$ 644,352
Additions	-	23,881	-	7,056	-	5,342	36,279
Disposals	-	(2,305)	(68)	(3,369)	-	(1,063)	(6,805)
Transfer	-	-	-	36	-	42,872	42,908
Balance at December 31, 2017	<u>28</u>	<u>263,048</u>	<u>242</u>	<u>122,805</u>	<u>79,370</u>	<u>251,241</u>	<u>716,734</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2017	\$ -	\$ 198,781	\$ 310	\$ 112,387	\$ 78,256	\$ 189,313	\$ 579,047
Depreciation	-	20,503	-	2,752	1,070	12,812	37,137
Disposals	-	(2,305)	(68)	(3,369)	-	(1,063)	(6,805)
Transfer	-	-	-	-	-	1	1
Balance at December 31, 2017	<u>-</u>	<u>216,979</u>	<u>242</u>	<u>111,770</u>	<u>79,326</u>	<u>201,063</u>	<u>609,380</u>
	<u>\$ 28</u>	<u>\$ 46,069</u>	<u>\$ -</u>	<u>\$ 11,035</u>	<u>\$ 44</u>	<u>\$ 50,178</u>	<u>\$ 107,354</u>

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

## 12. INTANGIBLE ASSETS

	December 31	
	2017	2016
Operating concession asset	\$ 413,166,373	\$ 426,020,379
Computer software, net	54,167	34,994
	\$ 413,220,540	\$ 426,055,373

### a. Movements of the intangible assets

	Operating Concession Asset					Computer Software, Net	Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction In Progress	Total		
<u>Cost</u>							
Balance at January 1, 2017	\$ 471,971,397	\$ 69,972,043	\$ 12,701,819	\$ 163,220	\$ 554,808,479	\$ 377,605	\$ 555,186,084
Additions	345,887	-	-	701,599	1,047,486	25,548	1,073,034
Disposals	(174,809)	-	-	-	(174,809)	(1,915)	(176,724)
Transfer	261,722	-	-	(313,735)	(52,013)	11,630	(40,383)
Balance at December 31, 2017	<u>472,404,197</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>551,084</u>	<u>555,629,143</u>	<u>412,868</u>	<u>556,042,011</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2017	115,041,859	13,445,248	300,993	-	128,788,100	342,611	129,130,711
Amortization	12,505,163	1,097,607	240,793	-	13,843,563	18,077	13,861,640
Disposals	(168,964)	-	-	-	(168,964)	(1,915)	(170,879)
Transfer	71	-	-	-	71	(72)	(1)
Balance at December 31, 2017	<u>127,378,129</u>	<u>14,542,855</u>	<u>541,786</u>	<u>-</u>	<u>142,462,770</u>	<u>358,701</u>	<u>142,821,471</u>
	<u>\$ 345,026,068</u>	<u>\$ 55,429,188</u>	<u>\$ 12,160,033</u>	<u>\$ 551,084</u>	<u>\$ 413,166,373</u>	<u>\$ 54,167</u>	<u>\$ 413,220,540</u>
<u>Cost</u>							
Balance at January 1, 2016	\$ 464,442,873	\$ 69,972,043	\$ 12,701,819	\$ 5,958,958	\$ 553,075,693	\$ 364,623	\$ 553,440,316
Additions	231,015	-	-	1,893,522	2,124,537	12,082	2,136,619
Disposals	(370,620)	-	-	-	(370,620)	-	(370,620)
Transfer	7,668,129	-	-	(7,689,260)	(21,131)	900	(20,231)
Balance at December 31, 2016	<u>471,971,397</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>163,220</u>	<u>554,808,479</u>	<u>377,605</u>	<u>555,186,084</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2016	101,041,001	12,347,640	60,200	-	113,448,841	323,385	113,772,226
Amortization	14,324,422	1,097,608	240,793	-	15,662,823	19,226	15,682,049
Disposals	(307,219)	-	-	-	(307,219)	-	(307,219)
Transfer	(16,345)	-	-	-	(16,345)	-	(16,345)
Balance at December 31, 2016	<u>115,041,859</u>	<u>13,445,248</u>	<u>300,993</u>	<u>-</u>	<u>128,788,100</u>	<u>342,611</u>	<u>129,130,711</u>
	<u>\$ 356,929,538</u>	<u>\$ 56,526,795</u>	<u>\$ 12,400,826</u>	<u>\$ 163,220</u>	<u>\$ 426,020,379</u>	<u>\$ 34,994</u>	<u>\$ 426,055,373</u>

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

	December 31	
	2017	2016
<u>Operating assets, net</u>		
Land improvements	\$ 171,900,000	\$ 175,355,929
Buildings	28,781,767	29,323,517
Machinery and equipment	31,343,947	34,120,242
Transportation equipment	112,983,614	118,113,532
Other equipment	16,740	16,318
	\$ 345,026,068	\$ 356,929,538
<u>Construction in progress</u>		
Prepayments for equipment	\$ 551,084	\$ 163,220

**13. OTHER ASSETS**

	December 31	
	2017	2016
<u>Prepayments and other current assets</u>		
Prepayments	\$ 888,350	\$ 853,011
Other receivable	41,791	39,180
Others	12,407	17,224
	\$ 942,548	\$ 909,415
<u>Other non-current assets</u>		
Others	\$ 14,784	\$ 12,259

**14. BORROWINGS**

**a. Short-term debt**

	December 31	
	2017	2016
JPY letters of credit	\$ 39,888	\$ 53,250
USD letters of credit	-	6,880
	\$ 39,888	\$ 60,130

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

	December 31	
	2017	2016
JPY letters of credit	0.58%-0.83%	0.7%-0.79%
USD letters of credit	-	2.6%

**b. Long-term debt**

	December 31	
	2017	2016
Syndicated loan		
Tranche A1 Facility	\$ 130,000,000	\$ 130,000,000
Tranche A2 Facility	156,205,117	176,205,117
Tranche C Facility	-	21,160,563
	<u>286,205,117</u>	<u>327,365,680</u>
Less: Unamortized cost of long-term debt	(122,351)	(141,086)
	<u>286,082,766</u>	<u>327,224,594</u>
Less: Current portion (including unamortized cost of long-term debt)		
Tranche C Facility	-	(10,946,529)
Unamortized cost of long-term debt	-	1,686
	<u>-</u>	<u>(10,944,843)</u>
	<u>\$ 286,082,766</u>	<u>\$ 316,279,751</u>

The Corporation has entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (“Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the Taiwan North-South High Speed Rail Construction and Operation Project NT\$382 billion Syndicated Loan Agreement (“Syndicated Loan Agreement”) with a bank syndicate consisting of eight (8) banks. The Corporation has entered into the First Amendment of Tripartite Agreement, and the Second Amendment of Syndicated Loan Agreement on August 3, 2015. The Corporation has entered into the Third Amendment of Syndicated Loan Agreement on February 15, 2017, and the Second Amendment of Tripartite Agreement on April 7, 2017. The Corporation has entered into the Fourth Amendment of Syndicated Loan Agreement on October 13, 2017. The syndicate of banks of the Syndicated Loan Agreement consists of Bank of Taiwan, Mega International Commercial Bank, Taiwan Cooperative Bank, Land Bank of Taiwan, First Commercial Bank, Taiwan Business Bank, Chang Hwa Commercial Bank, and Hua Nan Commercial Bank. The significant terms are as follows:

- 1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. The main purposes of the agreement are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements of operations.

2) The Corporation provided assets (refer to assets to be transferred to the MOTC under the C&O Agreement) and a portion of the superficies as collateral for the syndicated loan (the Corporation's assets need not be registered by the bank syndicate to create a right attached to the Corporation's assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with the Bank of Taiwan and the MOTC. However, if an agreement is not reached within 45 days after the date of the negotiation notice issued by Bank of Taiwan, the Corporation should redeem the difference immediately. The aforementioned collateral is inspected in May and November every year. The collateral value re-assessment mechanism is inactive when Tranche C and D Facilities are fully redeemed, and Tranche B Facility is not utilized.

3) According to the Syndicated Loan Agreement, the Corporation opened accounts at Bank of Taiwan for deposits and financial instruments, which are designated for loan repayments, acquisitions, and replacement of assets. Please refer to Notes 10 and 27 for further information on financial instruments pledged as collateral to Bank of Taiwan. The pledged financial instruments were recognized as other financial assets.

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

a) Term of loan and repayment method

	Term of Loan	Number of Semi-annual Installment Repayment	Ratio of Repayment
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050 (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
Tranche C Facility	May 4, 2016-May 4, 2020 (repaid on March 2, 2017 before its maturity)	Installments 01-09	Fixed payment per installment
Tranche D Facility	May 4, 2013-May 4, 2017 (repaid on April 13, 2016 before its maturity)	Installments 01-09	Fixed payment per installment

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, effective May 4, 2010 (the first drawdown date). Due to the step-up spread mechanism, the Corporation shall make up for the deficit of the interests below the agreed interest rate to the bank syndicate if early redemption occurs. As of December 31, 2017 and 2016, the reference rate remained unchanged at 1.06%.

Syndicated Period	Markup Interest Rates	
	Fourth Amendment of Syndicated Loan	
	After Effectiveness (Effective on October 13, 2017)	Before Effectiveness
May 4, 2010-May 3, 2012	0.10%	0.10%
May 4, 2012-May 3, 2013	0.20%	0.20%
May 4, 2013-May 3, 2014	0.30%	0.30%
May 4, 2014-May 3, 2015	0.40%	0.40%
May 4, 2015-May 3, 2016	0.50%	0.50%
May 4, 2016-May 3, 2017	0.60%	0.60%
May 4, 2017-May 3, 2018	0.70%	0.70%
May 4, 2018-May 3, 2040	0.92%	1.08%
May 4, 2040-May 4, 2050	1.08%	1.08%

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

The Corporation made early repayments of the Tranche C Facility in the amounts of \$2 billion on July 4, 2016 and \$21,160,563 thousand on March 2, 2017.

The Corporation made early repayment of the Tranche A2 Facility in the amount of \$20 billion on July 4, 2017, and repaid interest differences in the amount of \$719,842 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 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

	December 31	
	2017	2016
Tranche A1 Facility	1.93%	2.07%
Tranche A2 Facility	1.92%	2.08%
Tranche C Facility	-	1.96%

b) Accrued interest expense (included in other payables)

	December 31	
	2017	2016
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 204,547	\$ 192,932
Tranche A2 Facility	245,780	261,505
Tranche C Facility	-	35,187
	<u>\$ 450,327</u>	<u>\$ 489,624</u>

c) Long-term interest payable

	December 31	
	2017	2016
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 4,555,466	\$ 4,268,856
Tranche A2 Facility	4,975,999	5,313,310
	<u>\$ 9,531,465</u>	<u>\$ 9,582,166</u>

d) Interest expense

	For the Year Ended December 31	
	2017	2016
<u>Syndicated loan</u>		
Interest expense	\$ 6,117,711	\$ 7,186,595
Capitalized interest	\$ -	\$ 42,272

c. Long-term bills payable

	December 31, 2017
Long-term bills payable	\$ 16,000,000
Less: Unamortized discount on long-term bills payable	(17,780)
Less: Unamortized cost of long-term bills payable	(18,674)
	<u>\$ 15,963,546</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 decided not to utilize the remaining facility. The effective interest rate of the long-term bills payable was 0.92% on December 31, 2017.

## 15. OPERATING CONCESSION LIABILITY

	December 31	
	2017	2016
Operating concession liabilities	\$ 76,793,279	\$ 80,314,799
Value of returned superificies for offset of profit sharing payable	<u>(21,603,214)</u>	<u>(23,143,858)</u>
	<u>\$ 55,190,065</u>	<u>\$ 57,170,941</u>
Current	\$ 647,850	\$ 3,180,612
Non-current	<u>54,542,215</u>	<u>53,990,329</u>
	<u>\$ 55,190,065</u>	<u>\$ 57,170,941</u>

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities. Please refer to Note 28, a., 2) for further information. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as operating concession asset and operating concession liability, and related amortization expense and interest expense, respectively, are recognized during the concession period. The information about the amortization expense of operating concession asset and the interest expense of operating concession liability during the concession period is summarized as follows:

Year	Amortization Expense	Interest Expense	Total
As of December 31, 2017	\$ 14,542,856	\$ 16,821,236	\$ 31,364,092
2018 (estimate)	1,097,608	1,535,866	2,633,474
2019 (estimate)	1,097,608	1,566,583	2,664,191
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022-2033 (estimate)	13,171,296	14,876,484	28,047,780
2034-2068 (estimate)	<u>37,867,459</u>	<u>-</u>	<u>37,867,459</u>
	<u>\$ 69,972,043</u>	<u>\$ 38,027,957</u>	<u>\$ 108,000,000</u>

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

Year	Other Gain	Deduction of Interest Expense	Total
As of December 31, 2017	\$ 22,613,234	\$ 993,501	\$ 23,606,735
2018 (estimate)	-	432,064	432,064
2019 (estimate)	-	440,706	440,706
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022-2033 (estimate)	-	4,397,320	4,397,320
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of December 31, 2017, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$7,996,479 thousand (or accumulated profit sharing payments in the amount of \$10,000,000 thousand less the deductible amount of returned superificies in the amount of \$2,003,521 thousand).

## 16. PROVISIONS

### a. Provisions

	December 31	
	2017	2016
Current		
Controversial overtime	\$ 286,662	\$ 293,566
Preferred stock compensation	5,853	5,853
Other provisions	-	2,282
	<u>\$ 292,515</u>	<u>\$ 301,701</u>
Non-current		
Stabilization reserve	<u>\$ 4,145,851</u>	<u>\$ 280,289</u>

**b. Movements in provisions were as follows:**

	Balance at January 1, 2017	Addition	Usage	Balance at December 31, 2017
<u>Current</u>				
Controversial overtime	\$ 293,566	\$ -	\$ (6,904)	\$ 286,662
Preferred stock compensation	5,853	-	-	5,853
Other provisions	2,282	198	(2,480)	-
	<u>\$ 301,701</u>	<u>\$ 198</u>	<u>\$ (9,384)</u>	<u>\$ 292,515</u>
<u>Non-current</u>				
Stabilization reserve	<u>\$ 280,289</u>	<u>\$ 3,865,562</u>	<u>\$ -</u>	<u>\$ 4,145,851</u>

	Balance at January 1, 2017	Addition	Usage	Reversal	Balance at December 31, 2016
<u>Current</u>					
Controversial overtime	\$ 596,542	\$ -	\$ (226,854)	\$ (76,122)	\$ 293,566
Preferred stock compensation	2,148,652	-	(2,142,799)	-	5,853
Other provisions	1,562	720	-	-	2,282
	<u>\$ 2,746,756</u>	<u>\$ 720</u>	<u>\$ (2,369,653)</u>	<u>\$ (76,122)</u>	<u>\$ 301,701</u>
<u>Non-current</u>					
Stabilization reserve	<u>\$ -</u>	<u>\$ 280,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 280,289</u>

1) Controversial overtime

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. In regard to the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts shall cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on

the 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.

The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of December 31, 2017, the provision for controversial overtime in the amount of \$286,662 thousand had been recognized.

## 2) Preferred stock compensation

In order to implement the Financial Resolution Plan, the Corporation has redeemed all of the preferred stock on August 7, 2015. The provisions for redemption of preferred stock previously recognized were adjusted to zero. The proposal to pay the accumulated unpaid preferred stock dividends was resolved by the shareholders in the special shareholders' meeting on September 10, 2015. According to the Financial Resolution Plan, the Corporation recognized a provision for preferred stock compensation and a related expenditure each in the amount of \$15,161,065 thousand on October 30, 2015 as the Fourth Amendment of C&O Agreement became effective. The provisions for interest expense on delayed payments and court costs with respect to preferred stock litigations previously recognized were adjusted to zero accordingly. Before the payment of preferred stock compensation, the preferred stock shareholders should waive the claims to the interest expense on delayed payments, court costs and other expenses arising from the litigations, and should reach agreements with the Corporation to settle all of the rights and obligations between them and the Corporation. As of December 31, 2017, the Corporation had entered into agreements with preferred stock shareholders and paid preferred stock compensation in the amount of \$15,155,212 thousand. The Corporation has a remaining provision of \$5,853 thousand for one preferred stock shareholder who is not in agreement with the Corporation's proposal; the information on the shareholder is as follows:

Preferred Stock Shareholder	Type of Preferred Stock	Claimed Amount	Status
Bank of Panhsin	A	To redeem preferred stock of \$10,000 thousand plus interest on delayed payment	The Corporation lost in the trial of second instance and appealed the case to a third instance. Upon adjudication by the civil division of the Supreme Court, the case was remanded to the Taiwan High Court. However, the Corporation has redeemed the preferred stock according to the Financial Resolution Plan.

## 3) Stabilization reserve

Please refer to Note 28, a., 3) for recognition of provision for stabilization reserve.

## 17. OTHER LIABILITIES

	December 31	
	2017	2016
Other payables		
Accrued expenses	\$ 2,208,749	\$ 2,001,271
Accrued interest expense	450,348	489,642
Business tax payable	258,125	236,871
Others	33,031	28,208
	<u>\$ 2,950,253</u>	<u>\$ 2,755,992</u>
Other current liabilities		
Unearned receipts	\$ 472,176	\$ 803,576
Deferred revenue	49,762	35,760
Receipts under custody	24,369	21,621
Others	115,710	99,725
	<u>\$ 662,017</u>	<u>\$ 960,682</u>
Other non-current liabilities		
Net defined benefit liability	\$ 111,553	\$ 104,740
Guaranteed deposits received	104,167	80,643
Deferred revenue	11,136	9,171
Deferred tax liabilities	1	1,108
	<u>\$ 226,857</u>	<u>\$ 195,662</u>

## 18. RETIREMENT BENEFIT PLANS

### a. Defined contribution plan

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

## b. Defined benefit plan

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

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

### 1) Investment risk

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

### 2) Interest risk

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

### 3) Salary risk

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

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

	December 31	
	2017	2016
Present value of defined benefit obligation	\$ (662,674)	\$ (650,217)
Fair value of plan assets	551,121	545,477
Net defined benefit liability	<u>\$ (111,553)</u>	<u>\$ (104,740)</u>

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Asset (Liability)
Balance at January 1, 2016	\$ (612,392)	\$ 560,423	\$ (51,969)
Current service cost	(13,623)	-	(13,623)
Net interest income (expense)	(10,340)	9,587	(753)
Recognized in profit or loss	(23,963)	9,587	(14,376)
Remeasurement			
Return on plan assets	-	(5,719)	(5,719)
Actuarial loss - experience adjustments	(32,274)	-	(32,274)
Actuarial loss - changes in financial assumptions	(19,618)	-	(19,618)
Recognized in other comprehensive income	(51,892)	(5,719)	(57,611)
Contributions from the employer	-	19,216	19,216
Benefits paid	38,030	(38,030)	-
Balance at December 31, 2016	(650,217)	545,477	(104,740)
Current service cost	(14,659)	-	(14,659)
Net interest income (expense)	(9,587)	8,163	(1,424)
Recognized in profit or loss	(24,246)	8,163	(16,083)
Remeasurement			
Return on plan assets	-	(2,816)	(2,816)
Actuarial loss - experience adjustments	12,225	-	12,225
Actuarial loss - changes in financial assumptions	(19,111)	-	(19,111)
Recognized in other comprehensive income	(6,886)	(2,816)	(9,702)
Contributions from the employer	-	18,972	18,972
Benefits paid	18,675	(18,675)	-
Balance at December 31, 2017	\$ (662,674)	\$ 551,121	\$ (111,553)

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	Measurement Date	
	2017	2016
Discount rate	1.50%	1.50%
Expected salary growth rate	2.25%	2.00%

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

	December 31	
	2017	2016
Discount rate		
Increase 0.5%	\$ (37,628)	\$ (38,419)
Decrease 0.5%	\$ 40,873	\$ 41,860
Expected salary growth rate		
Increase 0.5%	\$ 40,362	\$ 41,440
Decrease 0.5%	\$ (37,544)	\$ (38,423)

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

	December 31	
	2017	2016
The expected contributions to the plan for the next year	\$ 27,510	\$ 22,160
The average duration of the defined benefit obligation	11.9 years	12.4 years

c. Please refer to Note 21, a. for the expenses of the defined contribution plan and defined benefit plan recognized as employee benefits expenses in comprehensive income for the years ended December 31, 2017 and 2016. For the years ended December 31, 2016, the defined benefit costs of \$111 thousand was capitalized as operating concession asset - construction in progress.

## 19. EQUITY

### a. Capital stock

	December 31	
	2017	2016
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
Shares issued	\$ 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 October 25, 2016, in its initial offering of shares to the public, the Corporation issued 23,000 thousand shares of common stock at a premium with total proceeds of \$390,801 thousand which comprise \$230,000 thousand (23,000 thousand shares at \$10 par value) and \$160,801 thousand premium. In accordance with Article 267 of the Company Act, the Corporation reserved 3,000 thousand shares of common stock for issue to employees who subscribe. The fair value of the employee share options at the grant date in the amount of \$12,180 thousand was recognized as payroll expense, with a corresponding adjustment to capital surplus - employee share options. For the reserved shares subscribed by employees, related capital surplus - employee share options of \$11,084 thousand was transferred to capital surplus - issuance of common shares. For the forfeited employee share options, related capital surplus - employee share options of \$1,096 thousand was transferred to capital surplus - forfeited employee share options.

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 privately placed common stock are subject to the restrictions prescribed under the Securities and Exchange Act. In addition, the common shares issued through a private placement cannot be traded in the Taiwan Stock Exchange until the application for listing is approved by the authority in charge. The application for listing can only be lodged three years after the delivery of the shares. Except for the abovementioned restrictions, there are no other differences between privately placed common stock and other common stock issued.

#### b. Capital surplus

	December 31	
	2017	2016
Issuance of common shares	\$ 171,885	\$ 171,885
Forfeited employee share options	1,096	1,096
	\$ 172,981	\$ 172,981

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

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

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees.

Under the dividend policy set forth in the Articles amended on March 18, 2016, after the resolution of the board of directors to distribute employees' compensation and remuneration to directors, and payments for all taxes and duties, 10% of the remaining profit is set aside as legal reserve. However, when the legal reserve equals the Corporation's paid-in capital, further appropriation of earnings to legal reserve will no longer be required. Furthermore, after reversal or appropriation of special reserve according to related regulations, the remainder together with any accumulated unappropriated earnings may be distributed to shareholders as proposed by the board of directors and ultimately resolved by the shareholders.

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

For the information on the appropriation policy, actual distributions of employees' compensation and remuneration to directors, please refer to Note 21, a.

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on May 24, 2017 and June 24, 2016, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2016	For Fiscal Year 2015	For Fiscal Year 2016	For Fiscal Year 2015
Legal reserve	\$ 414,910	\$ 410,895		
Cash dividends	3,376,976	3,643,441	\$ 0.60	\$ 0.65
	<u>\$ 3,791,886</u>	<u>\$ 4,054,336</u>		

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

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

	For the Year Ended December 31	
	2017	2016
Balance, beginning of year	\$ 693	\$ 555
Unrealized gain arising on revaluation of available-for-sale financial assets	1,222	1,564
Cumulative gain (loss) transferred to profit or loss on sale of available-for-sale financial assets	(1,430)	(1,426)
Balance, end of year	<u>\$ 485</u>	<u>\$ 693</u>

## 20. REVENUES

	For the Year Ended December 31	
	2017	2016
Railroad transportation revenue	\$ 42,221,888	\$ 39,433,807
Other operating revenue	1,213,154	1,177,099
	<u>\$ 43,435,042</u>	<u>\$ 40,610,906</u>

## 21. INCOME BEFORE INCOME TAX

Income before income tax was as follows:

### a. Employee benefit expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plan	\$ 167,919	\$ 151,757
Defined benefit plan	16,083	14,265
	<u>184,002</u>	<u>166,022</u>
Short-term benefits		
Payroll	3,719,412	3,430,984
Insurance	320,873	285,193
Professional service	24,622	40,265
Others	186,568	174,936
	<u>4,251,475</u>	<u>3,931,378</u>
	<u>\$ 4,435,477</u>	<u>\$ 4,097,400</u>
An analysis of employee benefit expense by function		
Operating costs	\$ 3,702,723	\$ 3,491,052
Operating expenses	732,754	606,348
	<u>\$ 4,435,477</u>	<u>\$ 4,097,400</u>

As of December 31, 2017 and 2016, the number of employees of the Corporation was 4,412 and 4,334, respectively; the number of professional service employees was 11 and 17, respectively.

Under the Corporation's Articles of Incorporation amended on March 18, 2016, if there is any 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 by income before income tax (net of the employees' compensation and remuneration to directors) according to the aforementioned policy. For the years ended December 31, 2017 and 2016, the estimated employees' compensation in cash was \$105,879 thousand and \$50,996 thousand, and the estimated remuneration to directors in cash was \$33,087 thousand and \$50,996 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 \$105,879 thousand and the remuneration to directors of \$33,087 thousand for the year ended December 31, 2017 payable in cash had been resolved by the board of directors on February 13, 2018. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2017.

The employees' compensation of \$81,593 thousand and the remuneration to directors of \$50,996 thousand for the year ended December 31, 2016 payable in cash have been resolved by the board of directors on March 21, 2017, and reported in the shareholders' meeting on May 24, 2017. The employees' compensation of \$50,996 thousand and the remuneration to directors of \$50,996 thousand were accrued in 2016. The differences between the approved amounts and the accrued amounts of \$30,597 thousand and \$0, respectively, were recognized as expense in 2017.

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

#### b. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
An analysis of depreciation and amortization by asset		
Property, plant and equipment	\$ 37,137	\$ 33,202
Intangible assets	13,861,640	15,681,995
Other non-current assets	3,930	1,790
	<u>\$ 13,902,707</u>	<u>\$ 15,716,987</u>
An analysis of depreciation by function		
Operating costs	\$ 27,232	\$ 26,978
Operating expenses	9,905	6,224
	<u>\$ 37,137</u>	<u>\$ 33,202</u>
An analysis of amortization by function		
Operating costs	\$ 13,862,560	\$ 15,681,460
Operating expenses	3,010	2,325
	<u>\$ 13,865,570</u>	<u>\$ 15,683,785</u>

#### c. Interest income

	For the Year Ended December 31	
	2017	2016
Interest income on repurchase agreements collateralized by government bonds	\$ 69,111	\$ 98,148
Interest income on bank deposits	26,965	17,300
	<u>\$ 96,076</u>	<u>\$ 115,448</u>

#### d. Interest expense

	For the Year Ended December 31	
	2017	2016
Interest on bank loans	\$ 6,125,535	\$ 7,198,567
Interest on operating concession liabilities	1,199,736	1,176,212
Interest on long-term bills payable	137,044	-
Others	1,014	780
	<u>\$ 7,463,329</u>	<u>\$ 8,375,559</u>

The information of capitalized interest was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalized interest	\$ -	\$ 44,248
Capitalization rates	-	2.10%-2.25%

#### e. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Foreign exchange loss, net	\$ (38,719)	\$ (68,810)
Handling charge for early repayment of long-term debt and amortization of cost of long-term debt	(11,433)	(13,325)
Loss on disposal of intangible assets, net	(5,315)	(61,792)
Compensation loss	(880)	(29,052)
Gain on disposal of available-for-sale financial assets	1,430	1,426
Others	11,248	10,032
	<u>\$ (43,669)</u>	<u>\$ (161,521)</u>

## 22. INCOME TAXES

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

	For the Year Ended December 31	
	2017	2016
Current tax	\$ (1,356,986)	\$ (487,305)
Deferred tax	218,391	(361,172)
Income tax expense	<u>\$ (1,138,595)</u>	<u>\$ (848,477)</u>

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

	For the Year Ended December 31	
	2017	2016
Income tax expense calculated at the statutory rate (17%)	\$ (1,101,345)	\$ (849,588)
Nondeductible expenses in determining taxable income	(8,041)	(17,738)
Change in unrecognized investment tax credits	-	9,381
Change in unrecognized deductible temporary differences	-	(265)
Income tax on unappropriated earnings	(30,939)	(5,462)
Others	1,730	15,195
Income tax expense recognized in profit or loss	<u>\$ (1,138,595)</u>	<u>\$ (848,477)</u>

The applicable corporate income tax rate used by the Corporation for the years ended December 31, 2017 and 2016 was 17%. According to the Income Tax Act amended in January 2018, the corporate income tax rate has been adjusted from 17% to 20% starting from 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and would increase by \$794,947 thousand in 2018.

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

	For the Year Ended December 31	
	2017	2016
Deferred tax		
Remeasurement of defined benefit plan	<u>\$ 1,649</u>	<u>\$ 9,794</u>

#### c. Deferred tax assets and liabilities

For the year ended December 31, 2017

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
<u>Deferred tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 4,145,509	\$ (418,220)	\$ -	\$ 3,727,289
Provisions	97,943	655,585	-	753,528
Compensated absences	22,877	(22,877)	-	-
Deferred revenue	6,079	2,380	-	8,459
Defined benefit obligation	12,853	-	1,649	14,502
Others	504	416	-	920
	<u>\$ 4,285,765</u>	<u>\$ 217,284</u>	<u>\$ 1,649</u>	<u>\$ 4,504,698</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Others	\$ 1,108	\$ (1,107)	\$ -	\$ 1

For the year ended December 31, 2016

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

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

	December 31	
	2017	2016
Deductible temporary differences	\$ 995	\$ 995

**e. Integrated income tax**

	December 31	
	2017	2016
Imputation credit account	\$ 298,394	\$ 13,657

All of the Corporation's unappropriated earnings were generated after January 1, 1998. The actual creditable ratio for distribution of earnings for the year ended December 31, 2016 was 11.71%. According to the Income Tax Act amended in January 2018, the imputation system of certain integrated income tax and items referred to the imputation credit account established by profit-seeking enterprise were abolished starting from January 1, 2018.

#### f. Income tax assessments

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

### 23. EARNINGS PER SHARE

	For the Year Ended December 31	
	2017	2016
Basic earnings per share (NT\$)	\$ 0.95	\$ 0.74

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

	For the Year Ended December 31	
	2017	2016
Earnings attributable to common shareholders	\$ 5,339,905	\$ 4,149,098
Weighted average number of common shares in the computation of basic earnings per share (in thousands)	5,628,293	5,609,566

### 24. CAPITAL MANAGEMENT

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

### 25. FINANCIAL INSTRUMENTS

#### a. Financial instruments

	December 31	
	2017	2016
<u>Financial assets</u>		
Available-for-sale financial assets	\$ 319,985	\$ 311,693
Hedging derivative assets	5	225
<u>Loans and receivables</u>		
Other financial assets	11,487,628	26,774,693
Others (Note 1)	7,552,436	802,123
<u>Financial liabilities</u>		
Financial liabilities carried at amortized cost (Note 2)	369,294,384	396,719,474

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

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

## b. Fair value of financial instruments

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

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

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

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

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

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

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

#### December 31, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Open-end money market funds	\$ 319,985	\$ -	\$ -	\$ 319,985
Hedging derivative assets				
Forward exchange contracts	\$ -	\$ 5	\$ -	\$ 5

#### December 31, 2016

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

There were no transfers between Levels 1 and Level 2 for the years ended December 31, 2017 and 2016.

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

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

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

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

### c. Financial risk management objectives and policies

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

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

#### 1) Market risk

##### a) Foreign currency risk

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

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

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,249	29.848	\$ 634,227
JPY	3	0.2650	1
<u>Financial liabilities</u>			
Monetary items			
USD	20	29.848	610
JPY	847,777	0.2650	224,661
	December 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 20,947	32.279	\$ 676,136
JPY	3	0.2757	1

	December 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial liabilities</u>			
Monetary items			
USD	1,092	32.279	35,249
JPY	1,206,188	0.2757	332,546

The Corporation was mainly exposed to USD and JPY. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by \$6,336 thousand and \$6,408 thousand, respectively, for the years ended December 31, 2017 and 2016. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$2,024 thousand and \$3,325 thousand, respectively, for the years ended December 31, 2017 and 2016.

The significant unrealized exchange gain and loss were as follows:

Foreign Currency	December 31			
	2017		2016	
	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	29.848	\$ (12,436)	32.279	\$ (31,870)
JPY	0.2650	4,211	0.2757	4,386

b) Interest rate risk

As of December 31, 2017 and 2016, the Corporation's syndicated loan with floating interest rates amounted to \$286,205,117 thousand and \$327,365,680 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by \$2,862,051 thousand and \$3,273,657 thousand, respectively, for the years ended December 31, 2017 and 2016.

c) Other price risk

The investments in open-end money market funds (recorded as available-for-sale financial assets) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, other comprehensive income before income tax would have decreased by \$3,200 thousand and \$3,117 thousand, respectively, for the years ended December 31, 2017 and 2016.

2) Credit risk

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

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

### 3) Liquidity risk

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

The following table details the Corporation's remaining contractual maturity for its long-term debt and interest on long-term debt (please refer to Note 14, b.), long-term bills payable, and operating concession liability based on the undiscounted cash flows (excluding the derivative financial instruments and non-derivative financial liabilities that are to be settled within one year from the balance sheet date).

#### December 31, 2017

Repayment Period	Long-term Debt (Including Current Portion)	Interest on Long- term Bills Payable	Interest on Long- term Debt	Operating Concession Liability	Total
2018.1.1-2018.3.31	\$ -	\$ -	\$ 1,553,750	\$ -	\$ 1,553,750
2018.4.1-2018.12.31	-	-	4,661,250	647,850	5,309,100
2019	-	16,000,000	9,009,809	-	25,009,809
2020	-	-	8,983,815	147,511	9,131,326
2021	9,186,153	-	9,347,843	161,106	18,695,102
2022	9,186,153	-	9,260,614	9,817,138	28,263,905
2023-2033	101,047,688	-	86,161,354	59,445,061	246,654,103
2034-2050	166,785,123	-	54,305,674	-	221,090,797
	<u>\$ 286,205,117</u>	<u>\$ 16,000,000</u>	<u>\$ 183,284,109</u>	<u>\$ 70,218,666</u>	<u>\$ 555,707,892</u>

#### December 31, 2016

Repayment Period	Long-term Debt (Including Current Portion)	Interest on Long- term Debt	Operating Concession Liability	Total
2017.1.1-2017.3.31	\$ -	\$ 1,529,000	\$ -	\$ 1,529,000
2017.4.1-2017.12.31	10,946,529	4,587,000	3,180,612	18,714,141
2018	10,214,034	9,986,162	56,972	20,257,168
2019	-	10,032,596	-	10,032,596
2020	-	10,006,629	147,511	10,154,140
2021	9,186,154	10,390,325	161,106	19,737,585
2022-2033	110,233,842	107,387,171	69,853,078	287,474,091
2034-2050	186,785,121	68,698,542	-	255,483,663
	<u>\$ 327,365,680</u>	<u>\$ 222,617,425</u>	<u>\$ 73,399,279</u>	<u>\$ 623,382,384</u>

## 26. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interest in the Corporation's outstanding common shares. Under IAS 24, the Corporation is a government-related entity which is significantly influenced by the central government. The Corporation 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 28, the names of related parties, relationships, and the nature and amounts of the significant transactions were summarized as follows:

### a. Name of related party and relationship

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

### b. Operating revenues

The Corporation is mainly engaged in the operation of the North-South High Speed Railway. According to the fare rate standard, timing and procedures of fare adjustment as prescribed in the C&O Agreement and regulated by the MOTC, the Corporation's ticket price setting and adjustment shall be reported to the MOTC before they are announced and implemented. The transportation services and ticket prices provided to related parties were the same as those provided to 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 operating profit before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as intangible assets - operating concession asset and operating concession liability, and related amortization expense and interest expense, respectively, are recognized during the concession period. Please refer to Note 15 and Note 28, a., 2) for further information.

#### 2) Rental

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

**d. Non-operating income and expenses - interest expense**

Please refer to Note 15 for the interest expense recognized on the operating concession liability, and the deduction of interest expense recognized on the value of returned 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 and the Syndicated Loan Agreement with the MOTC and Bank of Taiwan. If an early termination of the C&O Agreement occurs, the MOTC shall assume the remaining obligations under Tranche A Facility of the Syndicated Loan Agreement. Please refer to Note 14, b. for further information 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. Compensation of key management personnel:**

Compensation of key management personnel was as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 94,365	\$ 126,187
Post-employment benefits	843	944
	<u>\$ 95,208</u>	<u>\$ 127,131</u>

## 27. RESTRICTED ASSETS

Pledged Assets	Pledged to Secure	December 31	
		2017	2016
Other financial assets - current:			
Repurchase agreements collateralized by government bonds	Syndicated loan	\$ 1,450,000	\$ 21,682,200
Time deposits	Guarantee	27,000	-
Time deposits	Guarantee for office lease	17,232	17,232
Time deposits	Guarantee for oil purchase	3,120	-
Time deposits	Trust deposit of unearned revenue	-	28,500
Time deposits	Syndicated loan	-	4,749
Demand deposits	Project subsidy	27,000	-
Demand deposits	Trust deposit of unearned revenue	9,375	47,705
Demand deposits	Syndicated loan	1,401	82,758
		<u>1,535,128</u>	<u>21,863,144</u>
Other financial assets - non-current:			
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	-
Time deposits	Trust deposit of unearned revenue	68,000	-
Time deposits	Guarantee for customs duties	42,315	42,239
Time deposits	Guarantee for parking lease	7,000	-
Time deposits	Guarantee for oil purchase	-	1,320
		<u>2,117,315</u>	<u>43,559</u>
		<u>\$ 3,652,443</u>	<u>\$ 21,906,703</u>

## 28. 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 superficities returned to the MOTC in the amount of \$22,613,234 thousand. The value of the returned superficities is allowed by the MOTC to offset the profit sharing payments in the amount of \$29,784,855 thousand at the end of every five years as follows:

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

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

3) The Corporation should establish a financial stabilization mechanism starting from 2016.

a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments 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 (please refer to the note below for the definitions of EBT, A1, A2 and A3).

ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:

$$(EBT - A2) \times 50\%$$

iii. If the Corporation's EBT in the current year is higher than A3, the stabilization reserve should be provided in the current year as follows:

$$(A3 - A2) \times 50\% + (EBT - A3) \times 70\%$$

EBT = Income (loss) before income tax, net of the stabilization reserve and the compensation and remuneration set out in Article 235-1 of the Company Act.

$$A1 = \text{Net income of } \$3.5 \text{ billion} \div (1 - \text{the statutory tax rate})$$

$$A2 = \text{Net income of } \$4.0 \text{ billion} \div (1 - \text{the statutory tax rate})$$

$$A3 = \text{Net income of } \$4.5 \text{ billion} \div (1 - \text{the statutory tax rate})$$

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") in Bank of Taiwan.

- i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.
  - ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:
    - i) Fare discount or fare reduction;
    - ii) Construction of HSR infrastructure and facilities; and
    - iii) In compliance with the government's policies.
  - iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.
  - iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.
- d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period
- i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.
  - ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.
  - iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.
  - iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.
- e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.

4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years 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, 2017 and 2016, the amount of the aforementioned performance bond remained unchanged at \$2 billion. In June 2017, the Corporation provided certificate of time deposit in place of cash guarantee, and recognized it as other financial assets.

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

1) Rental expense

	For the Year Ended December 31	
	2017	2016
Bureau of High Speed Rail, MOTC	\$ 756,175	\$ 704,739
Taiwan Railways Administration, MOTC	75,547	-
	<u>\$ 831,722</u>	<u>\$ 704,739</u>

2) Prepaid rentals

	December 31	
	2017	2016
Bureau of High Speed Rail, MOTC	\$ 791,379	\$ 788,578
Taiwan Railways Administration, MOTC	50,365	-
	<u>\$ 841,744</u>	<u>\$ 788,578</u>

3) Rentals payable (included in other payables)

	December 31	
	2017	2016
Bureau of High Speed Rail, MOTC	\$ -	\$ 39,530

c. As of December 31, 2017, unused letters of credit amounted to JPY1,822,095 thousand.

d. In May 2012, the Corporation entered into a purchase agreement for type 700T rolling stock. As of December 31, 2017, the Corporation has acquired four sets of type 700T rolling stock. Furthermore, the Corporation will negotiate with the supplier for additional purchases of type 700T rolling stock up to four sets at the unit price ranging from JPY4,328,424 thousand to JPY4,500,000 thousand (net of customs duties and business tax) before the end of March of 2018.

e. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long 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 in July 2015. As of December 31, 2017, the lawsuit is still under the review of the court.

f. 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, 2017, payments for the contract amounted to JPY497,849 thousand and NT\$81,871 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

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

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

### 30. OTHERS

#### Superficies

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure, including routes, maintenance bases, and stations. As of December 31, 2017, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 0837-0000 of Kuanghua Section, Hsinchuang District, New Taipei City located on the north to Land Lot No. 0421-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

### 31. SEPARATELY DISCLOSED ITEMS

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

### 32. 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, 2017  
(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	-	Available-for-sale financial assets - current
	Jih Sun Money Market Fund	-	"
	Franklin Templeton Sinoam Money Market Fund	-	"
	Eastspring Investments Well Pool Money Market Fund	-	"
	Central Government Bonds 2016-11	-	Cash and cash equivalents
	Central Government Bonds 2015-13	-	"
	Central Government Bonds 2014-6	-	"
	Central Government Bonds 2014-9	-	"
	Central Government Bonds 2014-10	-	"
	Central Government Bonds 2013-10	-	"
	Central Government Bonds 2013-11	-	"
	Central Government Bonds 2013 B 1st	-	"
	Central Government Bonds 2012-5	-	"
	Central Government Bonds 2010-4	-	"
	Central Government Bonds 2010-7	-	"
	Central Government Bonds 2007-2	-	"
	Central Government Bonds 2007-7	-	"
	Central Government Bonds 2004-6	-	"
	Central Government Bonds 2004-9	-	"
	Central Government Bonds 2003-3	-	"
	Central Government Bonds 2001-8	-	"
	Central Government Bonds 2001 B 1st	-	"
	Central Government Bonds 2000-13	-	"
	Central Government Bonds 2016-4	-	Other financial assets - current
	Central Government Bonds 2016-11	-	"
	Central Government Bonds 2015-13	-	"
	Central Government Bonds 2014-9	-	"
	Central Government Bonds 2013-6	-	"
	Central Government Bonds 2013-8	-	"
	Central Government Bonds 2013-10	-	"
	Central Government Bonds 2012-8	-	"
	Central Government Bonds 2012 B 2nd	-	"
	Central Government Bonds 2011-5	-	"
	Central Government Bonds 2011-7	-	"
	Central Government Bonds 2011-9	-	"
	Central Government Bonds 2008-5	-	"
	Central Government Bonds 2007-2	-	"
	Central Government Bonds 2004-6	-	"
	Central Government Bonds 2001-8	-	"
	Central Government Bonds 2000 B 1st	-	"
	Central Government Bonds 1999 B 1st	-	"

December 31, 2017				Note
Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
6,774	\$ 103,020	-	\$ 103,020	
7,104	104,622	-	104,622	
4,899	50,331	-	50,331	
4,585	62,012	-	62,012	
\$ 1,761,000	1,906,000	-	1,906,000	
724,000	783,000	-	783,000	
674,100	749,000	-	749,000	
154,800	172,000	-	172,000	
830,000	900,000	-	900,000	
52,200	58,000	-	58,000	
70,200	78,000	-	78,000	
86,400	96,000	-	96,000	
499,500	555,000	-	555,000	
451,800	502,000	-	502,000	
90,000	100,000	-	100,000	
97,200	108,000	-	108,000	
169,200	188,000	-	188,000	
160,200	178,000	-	178,000	
90,000	100,000	-	100,000	
88,200	98,000	-	98,000	
90,000	100,000	-	100,000	
91,800	102,000	-	102,000	
117,000	130,000	-	130,000	
50,400	56,000	-	56,000	
1,658,000	1,830,000	-	1,830,000	
923,000	1,000,000	-	1,000,000	
411,300	457,000	-	457,000	
210,600	234,000	-	234,000	
283,500	315,000	-	315,000	
369,000	410,000	-	410,000	
99,000	110,000	-	110,000	
680,400	756,000	-	756,000	
504,000	560,000	-	560,000	
342,900	381,000	-	381,000	
131,400	146,000	-	146,000	
53,100	59,000	-	59,000	
99,000	110,000	-	110,000	
202,500	225,000	-	225,000	
287,100	319,000	-	319,000	
510,300	567,000	-	567,000	
108,000	120,000	-	120,000	

## 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, 2017  
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
The Corporation	Central Government Bonds 2016-1	Note	-	-	\$ -	\$ -
	Central Government Bonds 2016-4	"	-	-	-	-
	Central Government Bonds 2016-8	"	-	-	409,500	455,000
	Central Government Bonds 2016-11	"	-	-	-	-
	Central Government Bonds 2016-12	"	-	-	311,400	346,000
	Central Government Bonds 2015-1	"	-	-	-	-
	Central Government Bonds 2015-6	"	-	-	830,000	900,500
	Central Government Bonds 2015-12	"	-	-	-	-
	Central Government Bonds 2015-13	"	-	-	-	-
	Central Government Bonds 2014-2	"	-	-	72,900	81,000
	Central Government Bonds 2014-4	"	-	-	-	-
	Central Government Bonds 2014-6	"	-	-	300,000	333,000
	Central Government Bonds 2014-9	"	-	-	353,800	393,100
	Central Government Bonds 2014-10	"	-	-	-	-
	Central Government Bonds 2014-15	"	-	-	2,677,000	2,920,000
	Central Government Bonds 2013-2	"	-	-	-	-
	Central Government Bonds 2013-6	"	-	-	300,300	333,000
	Central Government Bonds 2013-8	"	-	-	-	-
	Central Government Bonds 2013-10	"	-	-	838,400	931,400
	Central Government Bonds 2013-11	"	-	-	144,000	160,000
	Central Government Bonds 2012-2	"	-	-	63,000	70,000
	Central Government Bonds 2012-5	"	-	-	129,000	140,000
	Central Government Bonds 2012-6	"	-	-	346,000	384,000
	Central Government Bonds 2012-7	"	-	-	100,000	108,000
	Central Government Bonds 2012-8	"	-	-	-	-
	Central Government Bonds 2012-9	"	-	-	177,300	197,000
	Central Government Bonds 2012 B 1st	"	-	-	-	-
	Central Government Bonds 2012 B 2nd	"	-	-	-	-
	Central Government Bonds 2011-5	"	-	-	416,000	460,000
	Central Government Bonds 2011-7	"	-	-	165,000	179,000
	Central Government Bonds 2011-9	"	-	-	1,270,300	1,411,400
	Central Government Bonds 2010-4	"	-	-	667,700	741,800
	Central Government Bonds 2010-5	"	-	-	-	-
	Central Government Bonds 2010-7	"	-	-	92,000	100,000
	Central Government Bonds 2010-8	"	-	-	-	-
	Central Government Bonds 2009-6	"	-	-	-	-
	Central Government Bonds 2008-3	"	-	-	-	-
	Central Government Bonds 2008-5	"	-	-	212,000	229,000
	Central Government Bonds 2008-6	"	-	-	757,400	840,600
	Central Government Bonds 2007-2	"	-	-	-	-

Acquisition		Disposal				Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain (Loss) on Disposal	Face Value	Carrying Amount
\$ 613,800	\$ 682,000	\$ 613,800	\$ 682,548	\$ 682,000	\$ 548	\$ -	\$ -
310,500	345,000	260,100	289,202	289,000	202	50,400	56,000
842,000	933,000	1,251,500	1,388,962	1,388,000	962	-	-
3,831,000	4,183,556	412,000	447,922	447,556	366	3,419,000	3,736,000
-	-	311,400	346,317	346,000	317	-	-
2,178,700	2,420,600	2,178,700	2,421,967	2,420,600	1,367	-	-
2,423,200	2,639,000	3,253,200	3,542,422	3,539,500	2,922	-	-
2,147,300	2,385,300	2,147,300	2,385,801	2,385,300	501	-	-
3,707,000	4,013,500	2,060,000	2,232,520	2,230,500	2,020	1,647,000	1,783,000
285,000	308,000	357,900	389,171	389,000	171	-	-
944,900	1,028,300	944,900	1,028,783	1,028,300	483	-	-
1,337,400	1,486,000	963,300	1,070,406	1,070,000	406	674,100	749,000
1,835,800	2,035,211	1,623,500	1,800,230	1,799,311	919	566,100	629,000
3,128,000	3,381,000	2,298,000	2,482,910	2,481,000	1,910	830,000	900,000
3,145,600	3,434,333	5,822,600	6,360,208	6,354,333	5,875	-	-
1,433,200	1,581,600	1,433,200	1,582,653	1,581,600	1,053	-	-
624,600	694,000	714,300	793,688	793,000	688	210,600	234,000
1,357,900	1,508,778	1,074,400	1,194,230	1,193,778	452	283,500	315,000
1,799,600	1,998,344	2,216,800	2,463,369	2,461,744	1,625	421,200	468,000
331,200	368,000	405,000	450,363	450,000	363	70,200	78,000
709,200	788,000	772,200	858,705	858,000	705	-	-
1,447,400	1,608,156	1,076,900	1,193,836	1,193,156	680	499,500	555,000
666,800	739,500	1,012,800	1,124,186	1,123,500	686	-	-
620,000	684,300	720,000	792,602	792,300	302	-	-
334,800	372,000	235,800	262,260	262,000	260	99,000	110,000
1,535,400	1,705,900	1,712,700	1,904,202	1,902,900	1,302	-	-
1,001,700	1,113,000	1,001,700	1,113,819	1,113,000	819	-	-
1,521,900	1,691,000	841,500	935,301	935,000	301	680,400	756,000
504,000	560,000	416,000	460,358	460,000	358	504,000	560,000
730,800	812,000	552,900	610,627	610,000	627	342,900	381,000
737,100	819,000	1,876,000	2,086,360	2,084,400	1,960	131,400	146,000
2,239,700	2,487,200	2,455,600	2,728,526	2,727,000	1,526	451,800	502,000
2,045,300	2,266,000	2,045,300	2,266,820	2,266,000	820	-	-
1,233,000	1,370,000	1,235,000	1,371,006	1,370,000	1,006	90,000	100,000
825,300	917,000	825,300	917,498	917,000	498	-	-
1,908,900	2,121,000	1,908,900	2,123,801	2,121,000	2,801	-	-
303,700	336,667	303,700	336,842	336,667	175	-	-
838,100	928,000	997,000	1,098,851	1,098,000	851	53,100	59,000
1,350,000	1,500,000	2,107,400	2,342,774	2,340,600	2,174	-	-
990,900	1,101,000	794,700	883,620	883,000	620	196,200	218,000

(Continued)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
The Corporation	Central Government Bonds 2007-7	Note	-	-	\$ -	\$ -
	Central Government Bonds 2006-7	"	-	-	252,000	273,000
	Central Government Bonds 2005-8	"	-	-	-	-
	Central Government Bonds 2004-6	"	-	-	-	-
	Central Government Bonds 2003-3	"	-	-	40,500	45,000
	Central Government Bonds 2002-3	"	-	-	-	-
	Central Government Bonds 2002-7	"	-	-	894,500	993,800
	Central Government Bonds 2001-2	"	-	-	354,200	393,000
	Central Government Bonds 2001-4	"	-	-	965,100	1,071,000
	Central Government Bonds 2001-8	"	-	-	-	-
	Central Government Bonds 2001 B 1st	"	-	-	1,187,200	1,314,000
	Central Government Bonds 2000-7	"	-	-	-	-
	Central Government Bonds 2000-13	"	-	-	3,384,800	3,641,800
	Central Government Bonds 2000 B 1st	"	-	-	467,700	519,000
	Central Government Bonds 1999-3	"	-	-	844,600	938,000
	Central Government Bonds 1999 B 1st	"	-	-	640,900	711,800

Note: The above repurchase agreement collateralized by government bonds is included in cash and cash equivalents and other financial assets - current.

Acquisition		Disposal				Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain (Loss) on Disposal	Face Value	Carrying Amount
\$ 345,600	\$ 384,000	\$ 176,400	\$ 196,144	\$ 196,000	\$ 144	\$ 169,200	\$ 188,000
141,000	153,000	393,000	426,438	426,000	438	-	-
2,610,000	2,900,000	2,610,000	2,901,793	2,900,000	1,793	-	-
1,065,600	1,184,000	702,900	781,397	781,000	397	362,700	403,000
2,278,800	2,488,000	2,231,100	2,437,072	2,435,000	2,072	88,200	98,000
741,600	824,000	741,600	824,145	824,000	145	-	-
1,013,100	1,125,667	1,907,600	2,120,596	2,119,467	1,129	-	-
2,148,700	2,383,000	2,502,900	2,777,427	2,776,000	1,427	-	-
552,700	613,500	1,517,800	1,685,831	1,684,500	1,331	-	-
1,046,100	1,139,000	669,000	720,563	720,000	563	377,100	419,000
1,403,300	1,545,500	2,498,700	2,759,756	2,757,500	2,256	91,800	102,000
1,155,500	1,267,500	1,155,500	1,268,134	1,267,500	634	-	-
1,998,100	2,213,900	5,265,900	5,730,864	5,725,700	5,164	117,000	130,000
600,300	667,000	557,700	619,598	619,000	598	510,300	567,000
1,112,400	1,236,000	1,957,000	2,175,518	2,174,000	1,518	-	-
3,048,000	3,350,200	3,580,900	3,942,972	3,942,000	972	108,000	120,000

(Concluded)



## Headquarters

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### Share Transfer Agent and Registrar

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### Auditors

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