台灣高鐵
TAIWAN HIGH SPEED RAIL

2012 ANNUAL REPORT

Fact Sheet

THSRC Milestones

Commencement Date: **May 1998**

Construction Stage: **March 2000–December 2006**

Operation Stage: **Started in January 2007**

Capitalization: **NT$105.3 billion**

Summary Results for 2012:

Train Services: **48,682 train services**

Punctuality Rate(defined as departure within 5 minutes of scheduled time): 99.40%

Annual Ridership: 44.53 million passengers

Annual Revenue: NT$33.98 billion

Loading Factor: 54.59%

Passenger Kilometers: 8.64 billion km

Total Route Length: 345 km

Number of Cities/Counties Passed Through: 11 cities/counties

Maximum Operating Speed: 300 km/hr

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

Stations in Service: 8 (Taipei, Banqiao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying)

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

Note:

Loading Factor=Passenger Kilometers/Seat-Kilometers x 100%

Passenger Kilometers = sum of the mileage traveled by each passenger

Seat Kilometers = ∑ (number of seats per trrainset * sum of the mileage of trains operated in revenue service)

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CHAIRMAN'S LETTER to SHAREHOLDERS

The transformation of ***Taiwan*** *has been started from* ***Taiwan High Speed Rail***

Chin-Der Ou
Chairman

Dear Fellow Shareholders,

2012 marked our sixth year of operation. Over the years, THSR has played a critical role in enhancing people's lives by creating new choices for travel and bringing urban and rural communities closer together. We remain unwavering in our quest for excellence in service, customer satisfaction and corporate responsibility, with the principle of "Go Extra Mile" guiding every action we take.

2012 Results

Since starting operations on the rail line in January 2007, we have carried over 200 million passengers. January 2013 marked our sixth operational anniversary, and we continued our efforts to increase patronage despite the challenges posed by the economic slowdown.

During 2012, our passenger volume rose to 44.53 million, we provided a total of 48,682 train services, and our loading factor was 54.59%, an increase of 2.96 percentage points compared to 51.63% in 2011. Even with this increase in passenger volume, we managed to achieve a punctuality rate of 99.40% and a train service reliability rate of 99.98%, excluding factors that are beyond our control.

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

We also made strong progress in marketing and sales with the launches of a number of promotional programs, such as Fun Reading for Family, Early Bird ticketing, discounts for college students, upgraded service to business class, and vacation packages and deals under our T Holiday program. Furthermore, we provided multiple channels for ticket purchasing, including at convenience stores, via smart phone, and using contactless EasyCard. We maximized accessibility to our HSR stations by providing free shuttle bus services to and from downtown areas.

Our financial performance also improved significantly from the prior year. We posted revenues of NT$33.98 billion, a 5.40% increase from 2011. Our profit before tax was 3.96 billion, an increase of 0.77 billion compared to 3.19 billion in 2011. EBITDA reached NT$23.32 billion, a 2.60% increase over 2011.

Based on the figures above, we demonstrated broad-based growth and improvement across our entire operation, from transport volume and passenger revenue to cost control and operational efficiency.

Research & Development

For the stability and safety of our railway operation, we worked to build up our maintenance capability and strived to reduce the cost and delivery risk of spare parts. To meet these objectives, we sought out local suppliers for spare parts and built the capability of our repair works for electronic equipment. We conducted extensive research into the control of corrosion of OCS (overhead catenary system), the protection of light indicators for turnout switches, the improvement of track functions, bridge structure diagnosis and management system development. We also launched a study into MES (main earthquake sensor) bypass devices, among others.

Looking Forward

(1)Management Objective

Thanks to our efforts over the past six years, high speed rail has become the most important means of travel along Taiwan's western corridor, serving as a catalyst for growth in the regional economies and enhancing the lives of those we serve.

Looking ahead to 2013, we will bring more innovative services to our customers, in addition to our long-standing commitment to safety, reliability and ease of travel. We will continue delivering profitable growth by expanding proceeds from station area development and affiliated businesses. Concurrently, we will continue giving back to the communities in which we live, work and serve.

(2)Top-line Growth

The Directorate-General of Budget, Accounting and Statistics of the Executive Yuan in February forecast Taiwan's GDP growth at 3.59% for 2013. We are keen to seize the opportunities the growth trend presents, driving sales on an estimated passenger volume of 47.85 million in 2013.

(3)Main Marketing Initiatives

Since the commencement of our operation, we have investigated all aspects of passenger behavior and researched their needs and satisfaction levels. We tailor our services to surpass passenger expectations and to stay competitive against other transportation methods, to fulfill our goal of gaining market share and growing revenue. The main marketing initiatives we plan for 2013 include:

A.Ensure safe and stable transport

B.Plan innovative services

C.Broaden the breadth and depth of our services through working with our partners across the industry

D.Make booking and paying tickets easier and more convenient

E.Enable the exchange of transfer information through one common platform

F.Improve the quality of service

G.Advance the development of affiliated businesses

Chin-Der Ou

Chairman

OVERVIEW

Creating a culture of customercentric

innovation

Company Profile

Business Segments

THSRC's business scope covers the operation of the high-speed rail and affiliated businesses, as well as station area development.

A. High-Speed Rail Service

THSRC provides high-speed rail services to each of the major cities along Taiwan's western corridor via eight stations: Taipei, Banqiao, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan and Zuoying. A total of 48,682 train services were delivered in 2012, with maximum traffic volume amounting to as many as 196 services a day during one of the long-holiday weekends. Offering speed, convenience and dependability, THSRC has become the transport of choice for residents and travelers alike.

B. Affiliated Businesses

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

Advertising, both at station sites and on board trains, makes a significant contribution to THSRC revenue, offering passengers within the rail system a unique brand of distinctive artwork and information.

All these commercial outlets and facilities are designed to add value to passengers' high-speed rail experience and demonstrate THSRC's commitment to providing high-quality services in its stations, which play an important role in the communities served by the high-speed railway.

C. Station Area Development

There are five station area developments located in Taoyuan, Hsinchu, Taichung, Chiayi, and Tainan. The unused land and spaces within station premises available for affiliated business development totals 30.14 hectares, with a floor area of 1,200,380 m^2 (approximately 363,000 ping), which can be used for an array of commercial purposes including hotels and restaurants, convention and exhibition space, recreation and amusement venues, office space, retail facilities, and space for financial services, general services, telecommunication services, transportation services, and tourism-related services.

THSRC will work to enhance station area development in support of the government's policy of economic development, and we will align our development efforts with the needs of local communities and market conditions in order to maximize profit.

The main objectives of station area development are as follows:

- Execute and coordinate the Station Area Development Agreement
- Initiate the overall development planning and strategy for station area development
- Evaluate different business models for station area development, such as investing and building for operation by the developer, joint ventures with developers, and land rental
- Attract investments for short-term and /or temporary usage of station area property to utilize the land and create alternative sources of revenue

Business Strategy and Vision

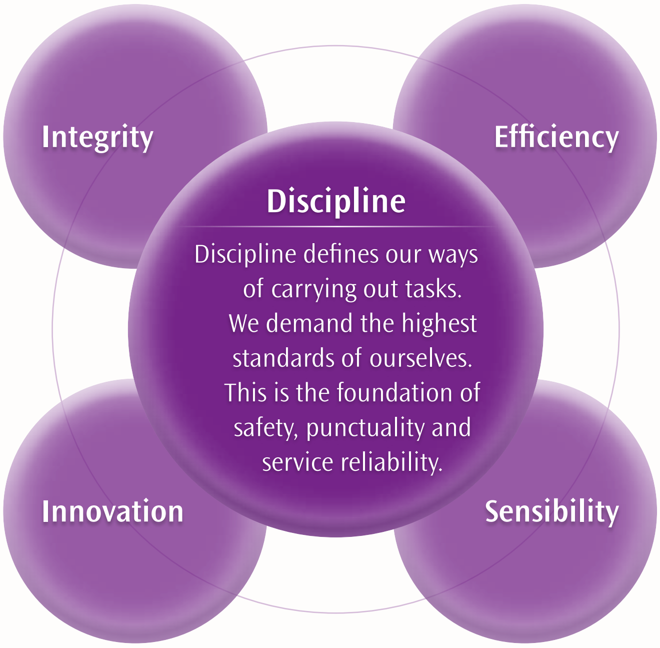
THSRC not only identifies itself as a major participant in Taiwan's transport industry, but also acts as a positive agent for change in the development of Taiwan's commercial and manufacturing industries in areas served by high-speed rail.

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

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

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

Our Core Values



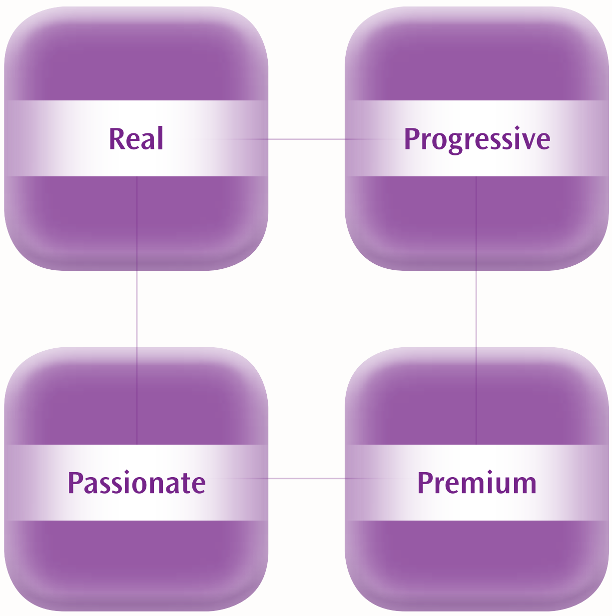
Carrying out our duties in accordance with all relevant Codes and Standards, we are dedicated, in hearts and minds, to meeting the highest standards of probity, in order to deserve the trust of shareholders and customers.

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

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

We strive to understand our customers' needs, through research and systematic assessments, developing standards and facilities accordingly, in our quest for service excellence.

Our Attributes



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.

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

To all endeavours we bring a passionate desire to be successful in making each passenger experience – memorable and encouraging commitment to regular use of high speed rail.

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

Company History

Development Stage

November 1996	The Taiwan High Speed Rail Consortium is established.
September 1997	The Ministry of Transportation and Communications (the "MOTC") awards the Taiwan High Speed Rail Consortium with the concession to build and operate the Taiwan High Speed Rail.
May 1998	Taiwan High Speed Rail Corporation (THSRC) is established.
July 1998	THSRC and MOTC sign the "Taiwan North-South High Speed Rail Construction and Operation Agreement" (the "C&OA"), the "Taiwan North-South High Speed Rail Station Zone Development Agreement" (the "SZDA") and memorandums for the Government obligations and executions.
February 2000	THSRC enters into a syndicated loan agreement with 25 banks, under which THSRC obtains credit facilities totaling NT$323.3 billion. In addition, THSRC, the syndicated banks and MOTC simultaneously sign the Tripartite Agreement.

Construction Stage

March 2000	THSRC begins the construction of the high speed rail project.
December 2000	THSRC enters into the "Core System Supply Contract" and "Core System Integration and Installation Contract" with Taiwan Shinkansen Corporation and Taiwan Shinkansen International Engineering Corporation.
April 2001	The Securities and Futures Bureau authorizes THSRC as a public company.
September 2003	THSRC applies to the Gre Tai Securities Market for permission to list on the Emerging Stock Market.
January 2004	The ceremony for the unveiling of train model THSR 700T is held in the Kawasaki Plant in Kobe, Japan.
October 2005	THSRC test run train reaches a speed of 315 km/hr.
July 2006	THSRC enters into a second syndicated loan agreement with 7 domestic banks, under which THSRC obtains credit facilities totaling NT$40.7 billion.
October 2006	THSRC announces the new Corporate Identity System.

Operation Stage

January 2007	THSRC starts commercial operations from Banqiao Station to Zuoying Station with 38 train services daily.
May 2007	THSRC enters into a second updated syndicated loan agreement with Lehman Brothers Asia Limited and syndicate banks, under which THSRC obtains credit facilities totaling NT$65.5 billion.
September 2007	THSRC increases its operation to 91 train services daily.
	THSRC provides a 24-hour online reservation system.
	The cumulative patronage reaches over 10 million passengers.
November 2007	THSRC increases its operation to 113 train services daily. THSRC launches the non-reserved class.
November 2008	THSRC introduces HSR Dual-Color Fares, under which the Standard reserved seat "Orange Fare" is 35% off the regular ticket price, and the "Blue Fare" is 15% off.
December 2008	THSRC increases its operation to between 130 and 142 services daily. (Based on peak or off-peak days to allow a flexible timetable)
January 2010	THSRC enters into a syndicated loan agreement with eight banks, under which THSRC obtains credit facilities totaling NT$382 billion for refinancing its first and second syndicated loans, excluding Tranche D. In addition, THSRC, the syndicated banks and MOTC simultaneously renew the Tripartite Agreement.
February 2010	THSRC and FamilyMart launch the first railway tickets sold by a convenience store in Taiwan, enabling passengers to book, pay for and collect their tickets at the same time. This new system allows passengers to pass through the HSR ticket barrier directly using the QR code printed on each ticket.
April 2010	7-Eleven stores begin selling high speed rail tickets, and the HSR convenience store ticketing channel expands to more than 7,000 outlets.
May 2010	THSRC used the proceeds of tranches A, B & C of the "Taiwan North-South High Speed Rail Construction and Operation Project NT$382 Billion Syndicated Loan Agreement" to repay the outstanding balance of the "Taiwan North-South High Speed Rail Construction and Operation Project NT$323.3 Billion Syndicated Loan Agreement" and tranches A, B & C of "The Second Syndicated Loan Agreement" on May 4th, 2010.
August 2010	"Taiwan North-South High Speed Rail Project" is awarded the "Outstanding Civil Engineering Project Award" by the Asian Civil Engineering Coordination Council (ACECC).
October 2010	THSRC increases its operation to 915 train services weekly, the Interactive Voice Response service is extended to 24 hours, and a new reservation notification system by SMS is rolled out.
January 2011	THSRC redeems and cancels the "2007 first overseas unsecured convertible bonds;" the total amount is US$26,318,000. Following the cancellation, the outstanding principal balance is US$0.
February 2011	THSRC tops the list of "Taiwan's 100 Best Infrastructure Projects," commissioned by the Public Construction Commission of the Executive Yuan.
August 2011	THSRC attends the 12th Golden Road Award for the first time and wins six awards, including outstanding performance for equipment maintenance of vehicle, signal communications, road, station electrical and mechanical maintenance, depot electrical and mechanical maintenance, and the second prize for the station environment maintenance.
October 2011	THSRC is awarded the "20th ROC Enterprise Environmental Protection Award," which is organized by the Environmental Protection Administration.
	THSRC launches a new ticketing system, the "THSR T Express" Cell Phone Booking Service, which 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.

November 2011

Following FamilyMart, 7-Eleven, and Hi-Life convenience stores, OK convenience stores begin selling HSR tickets, expanding the HSR convenience store ticketing channel to more than 9,700 outlets.

THSRC has been selected by the GTSM(Gre Tai Securities Market) as a winner in the 2011 1st "Golden Laurel Award" for the excellence in emerging market contribution.

April 2012

THSRC and the International Union of Railways (UIC) hold the 2nd UIC World High Speed Interaction Workshop specializing in the maintenance of High Speed Rail Systems, inviting global railway industry experts to share experiences and discuss technical information.

June 2012

Passengers can apply for ticket refunds at any branch of the same convenience store chain up to 30 minutes before departure.

The "T Express from Taiwan High Speed Rail" mobile application for Windows Phones becomes available. Passengers can complete booking and payment, while receiving a QR code, via their smart phone. They can then pass through the ticket barrier by simply scanning the QR code on the electronic reader.

July 2012

THSRC launches "Fun Reading for Family." Passengers can borrow and return quality children's books at different HSR stations.

THSRC wins the No. 1 prize in the overall ranking of the 2012 Golden Service Award Survey sponsored by CommonWealth Magazine.

November 2012

THSRC takes part in the 14th Asia Regional Assembly (ARA) and the 11th Asia Management Committee (AMC) of the International Union of Railways (UIC) in Moscow, and is recognized as a member of the AMC effective from 2013.

THSRC wins the 21st "Annual Enterprise Environmental Protection Award" and is arranged to meet the Taiwan Vice President Wu Den-yih.

THSRC's core business of high speed rail operation, maintenance and passenger service is certified by Lloyd's Register Quality Assurance (LRQA) and is granted an ISO 9001 compliance certificate. All audited items conform to the standards of ISO Quality Management System.

THSRC is selected as "Best Winter Trip 2013" by National Geographic Magazine. Taking the high speed train through Taiwan's western corridor can allow travelers to quickly traverse across the western cities and counties, while providing a gateway to other attractions and scenic spots.

December 2012

THSRC carries its 200 millionth passenger.

The first of four new 700T train sets purchased from Japan arrives in Kaohsiung for remodeling and integrated system testing. The train set will join the existing fleet in operation after acceptance.

January 2013

THSRC holds the ground-breaking ceremony of Yunlin Station.

THSRC holds the ground-breaking ceremony of Miaoli Station.

The second of four new 700T train sets purchased from Japan arrives in Kaohsiung for remodeling, testing and acceptance work.

February 2013

THSRC holds the ground-breaking ceremony of Changhua Station.

For the first time, unreserved cars are collocated in operation during the Chinese New Year holidays, in order to carry the huge volume of passengers.

OUR BUSINESS

Services provided with care and respect,

Safety ensured through relentless

attention to detail

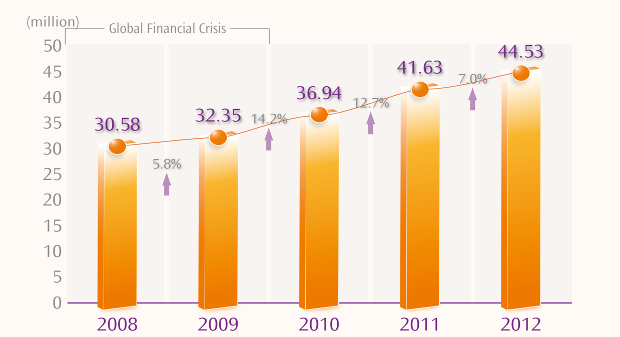
Five Years in Review

We are committed to the highest level of safety and security by harnessing a strong operational discipline and combining technology and innovation.

In the last five-year period, we achieved the following operational successes:

- Provided a total of 235,381 train services and an average service reliability of 99.94%. (service reliability is derived by dividing the total number of operating trains by the total number of scheduled trains over a period of one year)
- Achieved 37.7 billion passenger-kilometers and a loading factor of 49.09%
- Achieved 76.8 billion seat-kilometers and an average service punctuality of 99.39%. (service punctuality is derived by dividing the total number of trains departing within five minutes of scheduled time by the total number of operating trains)

Number of Passengers from 2008 to 2012



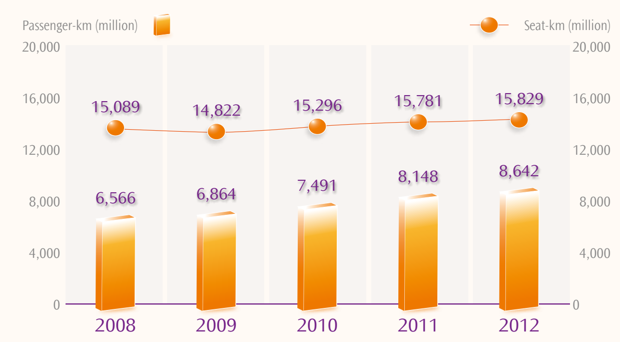
Average Service Reliability, 2008–2012

99.94%

Average Service Punctuality, 2008–2012

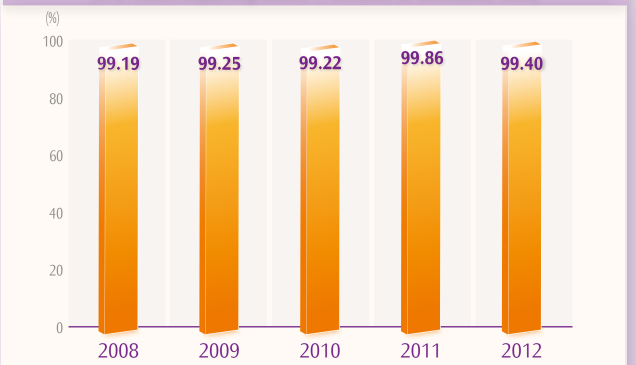
99.39%

Passenger-Kilometers & Seat-Kilometers from 2008 to 2012



Punctuality Rate from 2008 to 2012

(% of trains departing within 5 minutes of scheduled time)



Summary Results, 2008–2012

Key Performance Indicators	Number of Passengers (millions)	Number of Services	Loading Factor (passenger-km/ seat-km)	Service Punctuality (% of trains departing within 5 minutes of scheduled time)	Passenger-km (millions)	Seat-km (millions)
2008	30.58	45,900	43.51%	99.19%	6,566	15,089
2009	32.35	45,286	46.31%	99.25%	6,864	14,822
2010	36.94	46,960	48.97%	99.22%	7,491	15,296
2011	41.63	48,553	51.63%	99.86%	8,148	15,781
2012	44.53	48,682	54.59%	99.40%	8,642	15,829

Results of Operations

2012 Highlight

- A total of 44.53million passengers were served, an increase of 6.97% from 2011.
- Traffic volume was 8,642 million passenger kilometers.
- The total number of train services was 48,682, with a reliability rate of 99.98%.
- The total number of available seat kilometers was 15,829 million, with a punctuality rate of 99.40%.

Service Reliability, 2012

99.98%

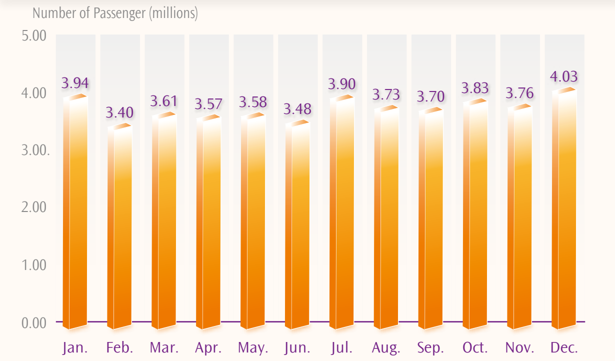
Measures of Transport Performance

	2011	2012	Change
1. Number of services	48,553	48,682	0.27% ↑
2. Number of passengers (millions)	41.63	44.53	6.97% ↑
3. Available seat kilometers (millions)	15,781	15,829	0.30% ↑
4. Passenger kilometers (millions)	8,148	8,642	6.06% ↑
5. Punctuality rate (% of trains departing within 5 minutes of scheduled time)	99.86%	99.40%	0.46% ↓
6. Loading factor (passenger kms/seat kms)	51.63%	54.59%	2.96% ↑

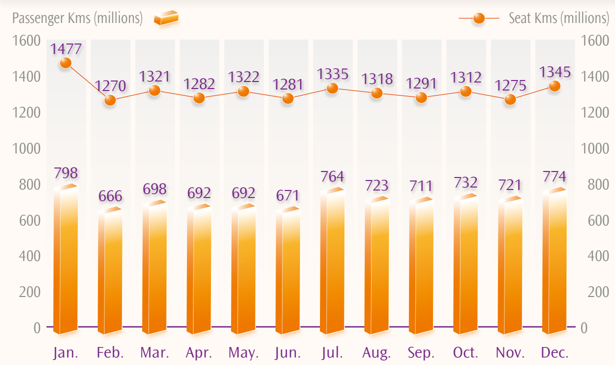
Service Punctuality, 2012

99.40%

Number of Passengers, 2012



Passenger Kilometers and Seat Kilometers, 2012



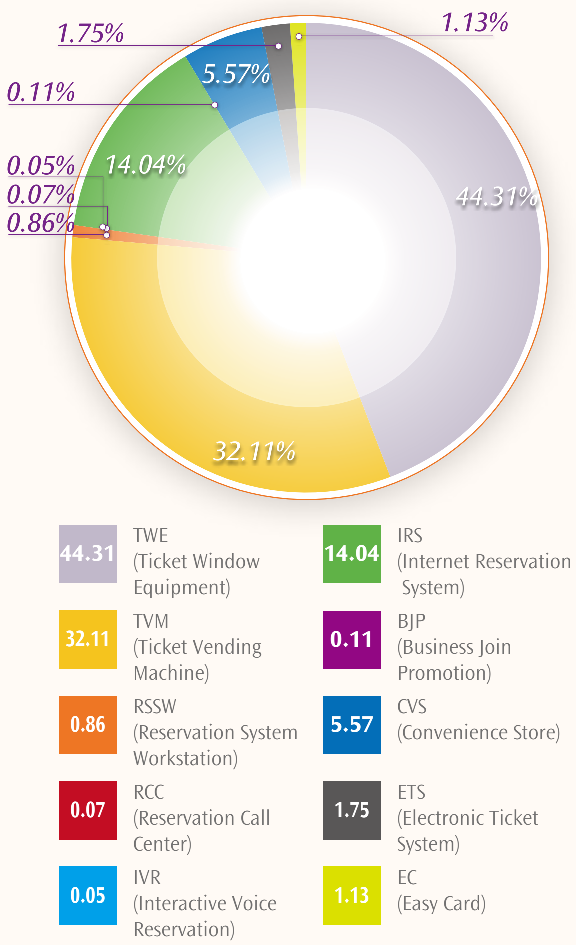
Multiple and Convenient Ticketing Services

We offer a number of ways to make booking and paying for tickets easy and convenient. Passengers can choose to purchase tickets at ticket counters, vending machines and convenience stores or via an Internet reservation system, an interactive voice reservation system, a reservation call center, a group reservation system and a joint ticketing program with airlines. Additionally, we have launched a smartphone ETS (Electronic Ticket System), which allows passengers to purchase and download tickets through a free mobile app, so they can simply pass through ticket barriers by scanning the QR-Code on their smartphones.

Effective December 2011, passengers can also proceed through ticket barriers using their Easy Card, a contactless smartcard.

The share of each ticketing service option is shown below:

Share of Ticketing Service Options, 2012



Station Services

At each of our eight modern, attractively designed stations, we provide a wide range of services and amenities to ensure ease of travel. These include ticket counters and automated ticket vending machines, passenger information systems, customer service desks, disabled facilities, nursery rooms, drinking fountains, convenience stores, bookstores, restaurants and wireless network services.

To provide quick and easy access to and from our eight stations, each station is equipped with parking lots, car rental services, park-and-ride drop-off sites, taxi stations and interchanges with metro, bus and traditional railway services. In addition, we collaborate with express bus companies to run free shuttle bus services. In 2012 we offered a total of 373,975 free shuttle bus services which carried 4,692,989 passengers.

These bus routes are shown below:

Free Shuttle Bus Routes

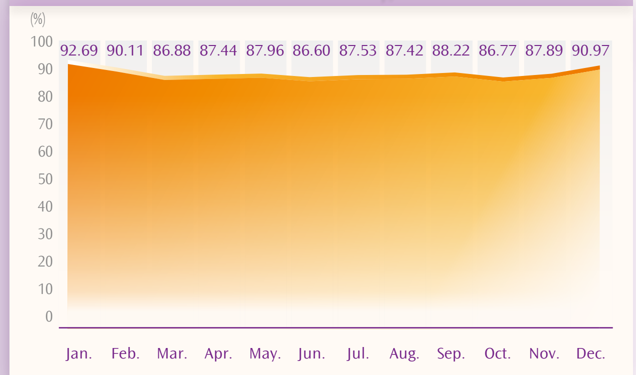
HSR Station	Number of bus routes
Taoyuan	2
Hsinchu	2
Taichung	4
Chiayi	1
Tainan	2

Notes: THSRC stopped providing free shuttle transport between HSR Taichung Station and Kids Arts Museum on February 29, 2012 and later between HSR Hsinchu Station and Dongmen Park on May 31, 2012.

Maintenance

In order to provide passengers a safe and comfortable high-speed rail experience, we ensure all maintenance work carried out is in compliance with the Rolling Stock Maintenance Plan. In 2012, we completed the fifth bogie inspection (BI-5) for 21 trainsets (a total of 504 bogies) at a running distance of three million kilometers. The sixth bogie inspection (BI-6), to be performed at a running distance of 3.6 million, commenced in 2012 and has been completed for 1 trainset (a total of 24 bogies). The second general inspection (GI-2) started in August 2010 and was completed in July 2012. The third general inspection (GI-3) started in September 2012, and by December 2012, four trainsets had been completed. The well-executed maintenance schedule shows that our maintenance personnel reached a successful level of performance in the past year.

Trainset Availability, 2012



The maintenance intervals for rolling stock are as follows:

- Daily Inspection (level 1 inspection): every 2 Days.
- Monthly Inspection (level 2 inspection): every 30 Days or 30,000 km.
- Bogie Inspection (level 3 inspection): every 18 Months or 600,000 km.
- General Inspection (level 4 inspection): every 36 Months or 1,200,000 km.

  Note: The interval is determined by which condition occurs first.

The preventive maintenance works performed in 2012 are as follows:

Preventive Maintenance Works, 2012

System	Preventive Maintenance (Work Order)		
	Planned	Actual	Percentage completed
Rolling Stock	8,208	8,208	100 %
Power Supply System	2,787	2,787	100 %
OCS System	1,460	1,460	100 %
Track	1,275	1,275	100 %
Signaling System	6,809	6,809	100 %
Communications System	5,349	5,349	100 %
Control Center	5,927	5,927	100 %
Total	31,815	31,815	100 %

In 2012, we expanded the scope of our ISO 9001 certification from maintenance to the entire quality management system of THSRC. We completed a four-day surveillance audit with LRQA from November 20, 2012 to November 23, 2012 and were recommended for continual approval on December 11, 2012.

Staff Training

In 2012, we continued to hold safety training classes and required operations and maintenance staff to undertake skill training. A total of 5,609 staff were trained on the High Speed Rail Operations Regulations (HSROR); 15,023 rail, control and station staff received first and recurrent training; 4,099 staff responsible for the maintenance of cars, signals, communications, power, OCS (overhead catenary systems) and tracks received first and recurrent training; 48 trainmasters in active service passed a recurrent skill test required at least once every three years.

Operational Safety

To ensure safe operations, unannounced health examinations are performed periodically to identify potential substance abuse among operations staff. Prior to their duties, train staff must have their blood pressure taken and pass a breathalyzer test.

To provide emergency medical treatment for passenger injuries or illnesses, THSRC has set up nursing centers in every station, where a qualified nurse is available during operating hours to assist passengers with health problems. Starting in 2012, we have also outfitted every station with automated external defibrillators in the event of cardiac emergencies.

Our Commitments

THSRC is committed to providing passengers with world-class high-speed rail service and exemplary customer service. We focus on:

(1) Putting customers first

To fully meet customers' demands and expectations, we review their comments and modify our service policies appropriately.

(2) Creating and maintaining a service-oriented culture

We motivate our employees to develop and sustain a passion for service. We make continual progress on quality and efficiency through engaging our employees and helping them to identify areas for improvement.

Technical Development

THSRC has made it a top priority to deliver safe performance by strengthening its in-house maintenance capabilities, acquiring new maintenance technologies and reducing maintenance costs. The objectives we set for the maintenance of rolling stock, signaling and communication systems and turnout systems are as follow:

(1) Enhancement of inspection and repair capabilities for failed integrated circuit boards and components in our electronics workshop.

(2) Cooperation with Taiwan's Industrial Technology Research Institute (ITRI) and corporations to perform technical studies to find better maintenance solutions for rolling stock in various areas, including reliability improvements for frequently failing parts such as converter/inverters, air conditioning and toilet compartments; the build-up of in-house maintenance capabilities for CI (converter/inverter) modules; the development of high-efficiency air conditioning filters; and local manufacturing of parts and components, including saloon seat cushions and a developed repair kit for toilet disk valves.

(3) The maintenance capabilities and skills of the PWD (Permanent Way Department) are adequate to perform PM (preventive maintenance) and CM (corrective maintenance) works for track, the OCS (overhead catenary system), power and wayside systems, or to improve ride comfort by shimming rails.

(4) The implementation of company policies that localize the manufacturing of component parts to reduce material costs, improve stock management, increase cost effectiveness and secure parts supply in emergency situations.

Looking Ahead

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

Accelerate and Sustain Growth

Despite challenges posed by the global financial crisis in the years following THSRC's launch in 2007, we have still managed to drive passenger volume from a daily average of 43,000 in the beginning to over 120,000 passengers in 2012. The pursuit of growth, however, has never compromised our commitment to quality service and safety. Through meticulous planning, we strive to offer a comfortable, reliable travel experience by high-speed rail by providing easy access to railway stations, on-board service, ticketing and customer support. We also uphold the highest standard of safety to ensure the well-being of our passengers and staff.

Revive Financial Strength

We must continue to negotiate constructively with the Government in order to bolster the capital and liquidity positions of THSRC. Only through remedial actions taken jointly with the Government to restore our financial strength can we consider an initial public offering in the future. The IPO proceeds would allow us to make key investments in the long-term health of our businesses.

Expand Network Coverage

Developing new points of access is another key priority we aim to execute. We are currently constructing three new stations, which will extend high-speed rail service to underserved regions along the western corridor of Taiwan. Additionally, we are procuring new trainsets to meet increased passenger traffic demand and to enhance the frequency of our train services.

As we plan on leveraging passenger traffic and railway assets to develop affiliated businesses, we must be prudent yet proactive in our approach. We will work to transform the areas within and near railway station areas into regional hubs of economic activity, therefore creating fresh revenue streams. Additionally, we will continue to cultivate long-term relations with our global industry peers, whose strength in railway operations, maintenance and ticketing management will inspire and catalyze our own continued development.

One of our missions is to support Taiwan's economic progress. The high-speed railway has closed distances between cities, bringing comfort and speed to tens of millions of travelers a year while making possible new markets and extended trade. The spirit of "Go Extra Mile" will guide us as we make progress on all of our highest priorities, including enhancing operational efficiency, updating technology and infrastructure, improving financial soundness and exploring development opportunities in railway assets.

CORPORATE GOVERNANCE

Corporate Governance Overview

1. Board and its Committees

Board

The Board has the overall responsibility for THSRC's performance and its main duties include regularly reviewing the Company's strategy, planning capital expenditure, internal restructuring and human resources policy. It also appoints, dismisses and supervises the Company's senior management team, chief auditor and chief accountant. The current Board consists of a Chairman, eleven Directors, and three Independent Directors. The current Board was elected on June 22, 2012 for a term of three years. The Board held 12 meetings during 2012. To carry out its duties, the board has delegated certain authority to several committees. The Board currently has five committees.

Corporate Governance Committee

The Corporate Governance Committee recommends candidates to be nominated for election as independent directors at THSRC's shareholders' meeting, consistent with criteria approved by the Board; develops and regularly reviews corporate governance principles and related policies for approval by the Board. The Committee consists of five members and the meeting shall be convened by the independent director.

Quasi Audit Committee

The Quasi Audit Committee assists the Board in fulfilling its responsibilities for generally overseeing the Company's financial reporting processes, the audit of the Company's financial statements, and the Company's compliance with legal and regulatory requirements, the qualifications and independence of the Company's Chief Auditor, the performance of THSRC's internal control function, any conflicts of interest from affiliated parties, and risk assessment and risk management. The Committee consists of four members and the meeting shall be convened by the independent director.

Compensation Committee

The Compensation Committee assists the Board in fulfilling its responsibilities for the compensation policies, systems, standards, and in the evaluation and compensation of THSRC's directors and supervisors of the Board and executives. The Committee consists of four members and the meeting shall be convened by the independent director.

Finance Committee

The Finance Committee assists the Board in fulfilling its responsibilities for planning and reviewing the Company's capital and debt structure, financial and investment policies and financial risk management. The Committee consists of nine members and the independent director currently convenes committee meetings.

Procurement Committee

The Procurement Committee assists the Board in fulfilling its responsibilities for overseeing processes and assessments for major procurements and construction awards. The Committee consists of five members.

2.Corporate Governance Guidance

THSRC's "Guidelines for Corporate Governance", which was approved by the stockholders' meeting, is based upon OECD Principles of Corporate Governance, S&P Corporate Governance Score-Criteria, Methodology and Definitions, NYSE Listed Company Manual Sec303A, Infosys Corporate Governance Report, the international and/or domestic companies' guidance governing corporate governance, the related regulations in Taiwan, rules issued by Taiwan Stock Exchange. The main purposes are to construct the best corporate governance system, protect stockholders' rights and interests, strengthen the structure of the board of directors, build up the supervisors' function and fulfill social obligations.

In addition to "Guidelines for Corporate Governance", THSRC also stipulated "Rules for Proceedings of Board Meetings", "Charter of Corporate Governance Committee", "Charter of Quasi-Audit Committee", "Enforcement Rules of the Quasi-Audit Committee Charter", " Charter of Compensation Committee", "Charter of Procurement Committee", "Information Disclosure Rules", "Code of Conduct & Ethics", etc. These have become the basis for THSRC's corporate governance.

All related regulations and rules governing corporate governance (Chinese version only) are disclosed in the "About Us" section of THSRC's website, and the address is http://www.thsrc.com.tw.

3.Other Important Information Disclosures

According to THSRC's "Guidelines for Corporate Governance", which was approved by the stockholders' meeting on November 1, 2004, THSRC has taken liability insurance to indemnify its directors, supervisors and executive managers against liability while acting for THSRC, and the coverage was US$ 10 million each year. Since November 1, 2010, the renewal of the coverage of the liability insurance was adjusted to US$ 20 million each year.

4. Board of Directors and Supervisors

Chin-Der Ou

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

Other positions held:

- CEO, Taiwan High Speed Rail Corporation
- Director, Asia Cement Corporation

Past positions:

- Chairman, Taipei Smart Card Corporation
- Deputy Mayor, Taipei City Government, Taiwan, R.O.C.
- Minister, Public Construction Commission, Executive Yuan

Ph. D. in Soil Mechanics, Case Western Reserve University

Arthur Chiang

Director (Representative, TSRC Corporation)

Other positions held:

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

Past 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

Theodore M. H. Huang

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

Other positions held:

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

MBA, The Wharton School of the University of Pennsylvania

George Liu

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

Other positions held:

- Chairman, Fubon Land Development Co., Ltd.
- Chairman, Taipei New Horizon Co., Ltd.
- Chairman, Fubon Real Estate Management Co., Ltd.

Ph.D. in Physics, Massachusetts Institute of Technology (MIT)

Lee-Ching Ko

Director (Representative, Evergreen International Corporation)

Other positions held:

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

Past position:

- The Second Vice Group Chairman , Evergreen Group

Sharon Fong

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

Other position held:

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

Bachelor's degree in International Finance, Kent State University

Chung-Yi Lin

Director (Representative, China Steel Corporation)

Other positions held:

- Vice President, Finance Division, China Steel Corporation
- Supervisor, Aerospace Industrial Development Corporation

B.A. in Economics, Soochow University

Chao-Yih Chen

Director (Representative, Taiwan Sugar Corporation)

Other position held:

- Chairman, Taiwan Sugar Corporation

Past positions:

- Vice President, State-Owned Enterprise Commission, Ministry of Economic Affairs, R.O.C.
- Director General, Industrial Development Bureau, Ministry of Economic Affairs, R.O.C.

Ph. D. in Agricultural Chemistry, National Taiwan University

I-Hsi Ho

Director (Representative, Development Fund, Executive Yuan)

Other position held:

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

Past position:

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

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

Yu-Hern Chang

Director (Representative, Development Fund, Executive Yuan)

Other positions held:

- Dean, College of Management, National Cheng Kung University
- Chairman, Aviation Safety Council

Past positions:

- Director General, Civil Aeronautics Administration, Ministry of Transportation and Communications, R.O.C.
- Director General, Institute of Transportation, Ministry of Transportation and Communications, R.O.C.

Ph. D. in Transportation Management, Civil Engineering, University of Pennsylvania

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

Earle Jen-Shyong Ho

Director (Representative, Tung Ho Steel Enterprise Corporation)

Other position held:

- Chairman, Tung Ho Steel Enterprise Corporation

M.A. in Economics, Indiana University

Wenent P. Pan

Director (Representative, CTCI Foundation)

Other positions held:

- Chairman, CTCI Foundation
- Chairman, Gintech Energy Corporation

Past position:

- Chairman, Chinese Petroleum Corporation, Taiwan

Ph. D. in Chemical Engineering, University of Wyoming

Chen-Kuo Lin

Independent Director

Other position held:

- Independent Director, High Tech Computer Corporation

Past positions:

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

Research and study in Economics, Oklahoma State University

Research and study in Economics, Harvard University

B.A. in Economics, National Taiwan University

George S.Y. Chen

Independent Director

Other positions held:

- Division Convener, Sustainable Development Division, National Policy Foundation
- Independent Director, TransAsia Airways Corporation
- Director, The China Road Federation

Past position:

- Acting Minister and Executive Vice-Minister, Ministry of Transportation and Communications, R.O. C

Research, Study and co-authorship of a book with Professor Krowne at the Graduate School of System Management, University of Southern California

M.S. in Transportation Engineering, Asian Institute of Technology (AIT)

Victor W. Liu

Independent Director

Other positions held:

- President, Chung Hua University
- Chairman, Taiwan Assessment and Evaluation Association

Past positions:

- Chairman, International Bills Finance Co., Ltd.
- Chairman, Waterland Financial Holdings Co., Ltd.
- Chairman, Aviation Safety Council, Executive Yuan
- President, National Sun Yat-sen University

Ph. D. and M.S. in Business Administration, The Kellogg Graduate School of Management of Northwestern University

Jiming Lu Tang

Supervisor (Representative, Walsin Lihwa Corporation)

Other position held:

- Special Assistant to Chairman of Walsin Lihwa Corporation

MBA, Indiana University

C.T. Wang

Supervisor

Other position held:

- Independent Director, Mirle Automation Corporation

M.S. in Accountancy, College of Business, University of Illinois at Urbana-Champaign

5. Senior Management Team

Chin-Der Ou

CEO

Other position held:

- Director, Asia Cement Corporation

Past positions:

- Chairman, Taipei Smart Card Corporation.
- Deputy Mayor, Taipei City Government, Taiwan, R.O.C.
- Minister, Public Construction Commission, Executive Yuan

Ph.D.in Soil Mechanics, Case Western Reverse University

Ricardo Tan

Senior Vice President, Corporate Planning Office

Past position:

- Supervising Engineer, RSEA Engineering Corporation

Diploma of Science degree in Aviation Mechanical Engineering, Air Force College of Mechanical Engineering, R.O.C.

Alex Chang

Chief Operation Officer, Railway Operation Division

Past position:

- Vice President, Taipei Rapid Transit Corporation.

Master of Management Science, National Chiao Tung University

Executive MBA, National Taiwan University of Science and Technology

B.C. Yen

Vice President, Station Area Development Division

Past position:

- President, Kaohsiung Rapid Transit Corporation.
- Vice President, Taipei Rapid Transit Corporation.

M.S. in Civil Engineering, Texas University

Ted Chia

Secretariat- General, Secretariat Division of Board of Directors

Past position:

- City Editor and Editor-in-Chief, Super Television Corporation

Master's degree in Political Science, Institute of Interdisciplinary Studies for Social Sciences, National Sun Yat-Sen University

Eleanore New

Vice President, Finance Division

Past position:

- Vice President, Taishin International Bank

MBA, New York Institute of Technology

CF Chen

Vice President, Human Resource Division

Past positions:

- Vice President, Human Resource & Administration of Lite-On (Taiwan)
- Assistant Vice President, Human Resource of Taiwan High Speed Rail Corporation

M.A. in Journalism, National Chengchi University

Rae-Fang Chung

Vice President, Marketing Division

Past position:

- Marketing Manager, Taiwan Branch of Fonterra Brands (New Young) Pte Ltd.

B.A. in Economics, Tamkang University

Min Chen

Vice President, Information Technology Division

Past position:

- IT Director, Chinatrust Commercial Bank

M.S. in Computer Science, Ohio University

Tim Fu

Chief Auditor, Corporate Audit Office

Past positions:

- Training Specialist, Training Center, Bureau of Employment and Vocational Training, Council Of Labor Affairs, Executive Yuan
- Manager, Pfizer Inc.

B.S. in Computer Science, Tamkang University

Barret Wang

Assistant Vice President, Legal Office

Past position:

- Attorney-at-Law, Chun He Law Firm

Bachelor of Law, National Taiwan University

Yan-Ping Tien

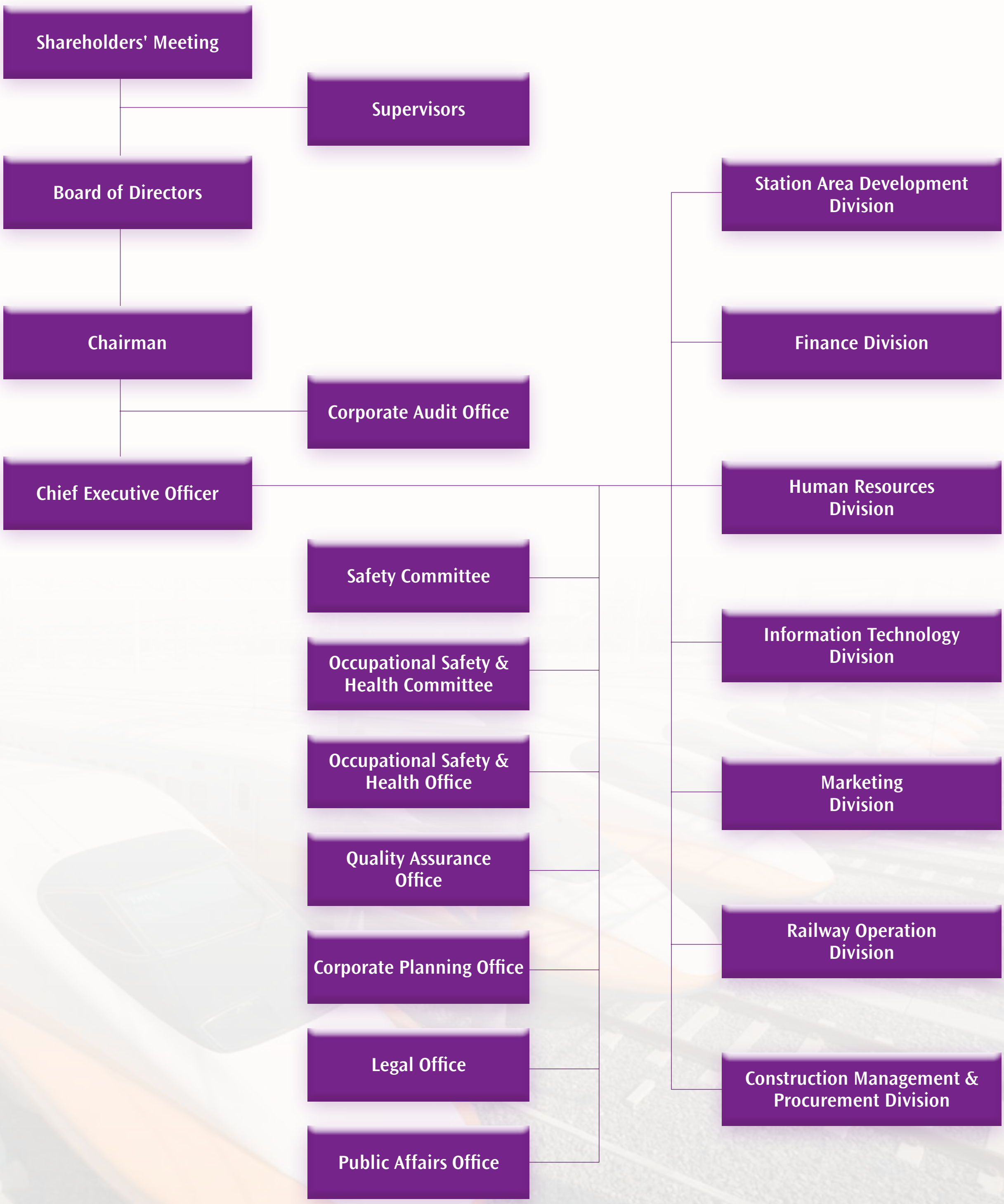
Assistant Vice President, Public Affairs Office

Past position:

- Director of South District, National Security Bureau, R.O.C.

B.A. in Political Science, Fu Hsing Kang College

6. Organization Structure



Internal Control

1. Statement of Internal Control System

Taiwan High Speed Rail Corporation
Statement of Internal Control System

Date: April 26, 2013

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 to December 31, 2012:

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 of financial reporting, and (3) compliance with applicable laws and regulations.

2. An internal control system has its inherent limitations. No matter how perfectly 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 of environment or circumstances. Nevertheless the internal control system of THSRC contains self-monitoring mechanisms, and THSRC takes corrective actions whenever a deficiency is identified.

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 (herein below, the “Regulations”). The criteria adopted by 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 items. 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 finding of the evaluation mentioned in the preceding paragraph, THSRC believes that during the year 2012, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.

6. This Statement will be an integral part of THSRC’s Annual Report for year 2012 and Prospectus, and will be made public. 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 meeting held on April 25, 2013, with fourteen of the attending directors all affirming the content of this Statement.

Taiwan High Speed Rail Corporation

Chairman of the Board of Directors:

CEO:

2. The Disclosure of the external auditors' opinion on THSRC's Internal Control: None

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

Units: Thousand Shares; %

Name (Note 1)	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
China Steel Corporation	605,370	5.75	-	-	-	-	-	-	THSRC Director
Chung-Yi Lin	-	-	-	-	-	-	-	-	Representative of China Steel Corporation
Taiwan Sugar Corporation	500,000	4.75	-	-	-	-	-	-	THSRC Director
Chao-Yih Chen	-	-	-	-	-	-	-	-	Representative of Taiwan Sugar Corporation
China Aviation Development Foundation	483,920	4.59	-	-	-	-	-	-	THSRC Director
Chin-Der Ou	326	0.00	-	-	-	-	-	-	Representative, China Aviation Development Foundation
Teco Electric & Machinery Co.,Ltd.	475,151	4.51	-	-	-	-	-	-	THSRC Director
Theodore M.H.Huang	-	-	-	-	-	-	-	-	Representative of Teco Electric & Machinery Co., Ltd.
Continental Engineering Corporation	402,585	3.82	-	-	-	-	Continental Development Corporation	Continental Engineering Corporation and Continental Development Corporation are the subsidiaries of Continental Holdings Corporation	-
Nita Ing	-	-	-	-	-	-	-	-	Chairman of Continental Engineering Corporation
Mega International Commercial Bank	400,000	3.80	-	-	-	-	-	-	-
Mckinney Tsai	-	-	-	-	-	-	-	-	Chairman of Mega International Commercial Bank.

Units: Thousand Shares; %

Name (Note 1)	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Shareholders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Continental Development Corporation	349,785	3.32	-	-	-	-	Continental Engineering Corporation	Continental Development Corporation and Continental Engineering Corporation are the subsidiaries of Continental Holdings Corporation	-
Christopher Chang	-	-	-	-	-	-	-	-	Chairman of Continental Development Corporation
Pacific Electric Wire & Cable Co., Ltd.	343,364	3.26	-	-	-	-	-	-	-
Jun-Tang Fan	-	-	-	-	-	-	-	-	Chairman of Pacific Electric Wire & Cable Co., Ltd.
CTCI Foundation	322,580	3.06	-	-	-	-	-	-	THSRC Director
Wenent P. Pan	200	0.00	-	-	-	-	-	-	Representative of CTCI Foundation
Development Fund of Executive Yuan	300,000	2.85	-	-	-	-	-	-	THSRC Director
I-Hsi Ho, Yu-Hen Chang	-	-	-	-	-	-	-	-	Representative of Development Fund of Executive Yuan

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

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

CORPORATE ACTIVITIES

Commitment to corporate social

responsibilities

Public Relations

Events

"Transformation: Creating Mobile Competitiveness" – 2012 THSR Trend Forum

Since beginning operations, THSR has become the most important means of public transportation along Taiwan's western corridor, changing people's lives and providing a new and better option for recreational travel. It also has closed distances between north and south Taiwan, allowing a return journey to be made within one day, while promoting tourism as it increases mobility of the population. On December 19, 2012, we and the Commonwealth Magazine jointly organized the 2012 THSR Trend Forum at the Howard Civil Service International House with the theme of "Transformation: Creating Mobile Competitiveness." Joining THSRC Chairman Ou Chin-der, opinion leaders from industry, government and academia including Chairman of Commerce Development Research Institute Hsu Chung-jen, Hotel Royal Group CEO Winston Shen and renowned economist Ma Kai together explored the changing landscape of Taiwan's industries and shared their views on the sustainable development of THSRC.

The Second High-Speed Railway Systems Maintenance Seminar

In April 2012, we hosted the "Second High-speed Railway Systems Maintenance Seminar" with the International Union of Railway (UIC), attracting fellow railway operators from across the world to exchange information and share insights on high-speed train, track, construction, permanent facilities and signaling system maintenance and technology development. One highlight of the event invited participants to visit our operation control center in Taoyuan and main workshop in Yenchao, providing them a better understanding of our commitment to maintenance and operational safety. This is the first seminar of its kind organized by UIC in Taiwan, allowing THSRC to tap into the knowledge and expertise of the international railway industry.

Ride THSR and Join the Book Exhibition for Free

In order to promote a national reading culture, since 2009, we have organized the “Ride THSR and Join the Book Exhibition for Free” event. To date, we have offered close to 40,000 THSR passengers with valid tickets VIP admission to the Taipei International Book Exhibition.

In addition to continuing the “Ride THSR and Join the Book Exhibition for Free” events to encourage public attendance of book fairs, we also sponsor return tickets for students from remote areas to join the event, introducing them to the joy of reading through the ease of high-speed rail travel. Through this event, we hope to help students expand and live their life visions while contributing towards bridging the knowledge gap between urban and rural communities.

Photography Competition: The Story of THSR and Me

In an effort to encourage the public to share the friendly, warm and heart-moving experiences that occur as they travel with THSR, a photography competition named “The Story of THSR and Me” was organized in September 2012, including categories for cameras and camera phones. Photographers can enter images either through mail or the Internet, with three finalists selected for each category. The competition drew 44,140 visits to its official website with 166 and 375 contestants vying in the camera and camera phone categories, respectively. The goal of this competition was to convey the beauty of THSR through the camera lens.

THSR Camp

Since THSRC began operations, a series of THSR camps were planned together with the Railway Cultural Society of Taiwan, the National Chiao Tung University Railway Research Society and the China Youth Corps. Between 2009 and 2012, 58 THSR camps were organized and divided into a wide range of levels, including college/university, senior high school/vocational high school, junior high school, and elementary school levels. We also tailor courses and lectures for students that are similar in age and knowledge.

We will continue holding THSR camps to impart knowledge of high-speed rail systems and THSRC, confident that the participating students will one day act as ambassadors of THSRC.

Enchanting Melody & Abundant Journey – International A Cappella Performance at THSR

Since 2010, we have sponsored the Taiwan Choral Music Center (TCMC) to organize the “Taiwan International A Cappella Festival” and “The Spring Concert,” which feature performances by award-winning international a cappella groups at THSR stations. The performances are well received by passengers, with fans even forming groups to catch a glimpse of the singers at various stations.

In 2012, a cappella groups from Austria, Germany and Hungary again showed the unique power of live performance with their enchanting voices at THSR stations, an experience that enriched and delighted passengers’ high-speed rail rides.

Visits

In an effort to allow the public to gain a deeper understanding about THSR, we provide station tour guides who educate visitors about THSR’s operations and services. In addition, professional organizations are also permitted to visit the depots and Operational Management Center to gain hands-on knowledge about THSR. In 2012, we received 41 groups with a total of 900 people.

We also continue to actively conduct experience sharing with our fellow railway transportation operators to enhance the quality of public transportation and create better planning, design and services. By engaging with industry peers, we can pinpoint areas of improvement, with the continual aim of providing high-quality services to our passengers.

Corporate Social Responsibility (CSR)

Since the inception of THSRC, we have been dedicated to the CSR initiatives of promoting public welfare, advocating environmental protection and supporting disadvantaged groups. With our service as a building block of Taiwan's economy and quality of life, we continue to exert positive influence to the society at large.

Social Philanthropy

(1) Deliver Love with HSR to Children

Since 2010, along with World Vision Taiwan, we have offered a tuition assistance program to underprivileged children. We invited passengers to support our philanthropic effort, and together we raised over NT$50 million over the past four years, which was used to help more than 15,000 underprivileged students pay their tuition fees. We are highly appreciative of passengers' support, and to earn their trust, we will expand assistance to more underprivileged students to advance their prospects for a better future.

(2) THSRC Smile Program

In cooperation with various nonprofit organizations, since 2008 we have organized the THSRC Smile Program, which offers minority groups and families the chance to experience the comfort and convenience of high-speed rail rides. Our THSRC Smile Program gave its first ride on January 23, 2008 to children, social workers and parents from the Fushan branch of the Taiwan Fund for Children and Families. As of the end of 2012, 16,501 people in total, comprising 307 underprivileged groups and families, have participated in the THSRC Smile Program.

(3) Spreading Love through THSR – Deliver Warmth to Remote Townships

In 2012, coinciding with their school graduation trip, we sponsored teachers and students from Nanfeng Elementary School in Nantou County for a one-day trip to Taipei City, as well as sponsoring the trip for graduates of Houying Elementary School, Jinsha in Tainan City. By extending care to schools in remote areas, we hope to call to attention the scarcity of educational resources there and enlist the support of the public to reduce the rural-urban disparity, thereby enabling every child in Taiwan to happily learn and grow.

Nanfeng Elementary School is located in Nanfeng Village of Renai Township, Nantou County and attended by 91 children from the Sediq indigenous tribe. Most of the students come from single-parent families or are raised by their grandparents. Financially strapped with limited educational resources, few students have the opportunity to travel, much less ride the high-speed rail. Similarly, Houying Elementary School, Jinsha in Tainan City is a mini elementary school with only 29 students. In order to allow the students to experience the stable, speedy, and convenient rides offered by THSRC, something they could only dream of, we sponsored round-trip travel for the teachers and students of these schools.

In the future, we will continue to organize more philanthropic events while extending our reach to all corners of Taiwan. Our goal is to let children from remote areas not only feel the joy of high-speed trains, but also get a glimpse of THSRC's blessings for them.

(4) Melody in THSR Station – a Heart-moving Performance by Disadvantaged Children

In order to improve the physical and mental well-being of financially disadvantaged students, as well as to motivate them to learn, Nei Ding Elementary School in Taoyuan County has offered extracurricular courses throughout the years, in addition to regularly held presentations and field trips. During the 2013 summer vacation, in a move recognizing these talented, hard-working students, we arranged for them to perform rhythm music in the lobby of THSR Taoyuan Station. The students then rode the THSR to Taipei for a field trip in the city.

The children's guileless performance stopped passersby to watch and offer enthusiastic rounds of applause. The children's excitement and joy in being able to ride the high-speed train was palpable in the big smiles on their faces. For THSRC, the reward is far more than we could imagine, and we shall strive to maintain our philanthropic efforts towards children in the future.

Environmental Protection

(1) "Roots and Shoots" Program

Since 2001, we have sponsored Roots & Shoots, a program of the Jane Goodall Institute Taiwan. Support is given to Roots & Shoots teams to promote their studies of the ecology of Taiwan and of environmental conservation, with additional efforts targeting the areas the HSR passes through. There are presently 705 teams active in Taiwan.

Seed Giveaway: A Green Lifestyle

In a move underscoring our commitment to ecological education and the communities we serve, the "Seed

Giveaway: A Green Lifestyle" event was held during March 2012, wherein "Roots and Shoots" teams gave away seeds of local native plants to passengers. The teams packaged a total of 6,000 seeds into 1,000 sachets for each THSR station, in an aim to promote plantation of local native plants and awareness of ecological conservation.

(2) Pheasant-Tailed Jacana Preservation

For more than 10 years, we have been devoted to the preservation of the pheasant-tailed jacana, a type of bird that is considered endangered in Taiwan. With over NT$50 million invested, the first artificial habitat recovery project was completed in collaboration with the government, development organizations and non-governmental organizations. The pheasant-tailed jacana population in Taiwan, which at one point numbered less than 50, has increased to more than 300. In 2007, we officially renamed the recovery habitat Jacana Park and opened the park to the public, with a total of 96,080 visitors recorded to date. We have also helped to create tour devices, galleries and interactive displays to present the results of our native species restoration efforts.

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

(3) Hsinchu Old Tree and Earth Deity

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

(4) Environmental Labor Day

Beginning in July 2009, THSRC has designated the 22nd day of each month "Environmental Labor Day." On this day, we promote energy saving programs and other environmental protection practices in all our activities. Lights are switched off during lunch breaks in the headquarters offices, maintenance works, THSR stations and Operational Management Center, while exterior, decorative and partial indoor lighting inside station premises are turned off without compromising the quality and safety of service. Other activities include setting air conditioner temperatures at reasonably comfortable and energy-efficient levels, paying special attention to reducing, recycling and reusing and implementing other environmentally sound measures across all our facilities. In 2012, we transitioned to electronic documents throughout THSRC to minimize the use of paper.

Hsinchu Old Camphor Tree Preservation Project

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

FINANCIAL REPORT

We achieved profitability for a second straight year, ending 2012 with a net income of

NT$3.58 billion

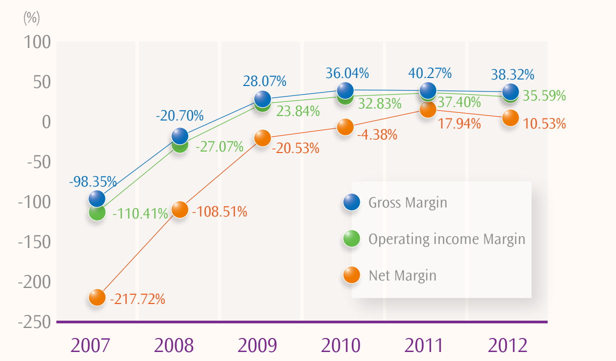
Financial Highlights

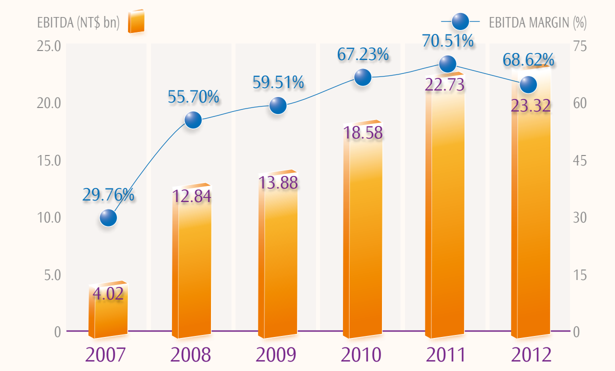
Since commencing operations in 2007, THSRC has been a building block of Taiwan's economic strength and quality of life, contributing to mobility by allowing people to make cross-Taiwan return trips within one day. Over the years, we have worked tirelessly to raise passenger volumes and enhance profitability against the backdrop of a low-growth environment.

Defying the slow pace of economic recovery in 2012, THSRC managed to grow revenue and income before tax by 5.4% and 24.2%, respectively, due primarily to effective sales and marketing programs.

The highlights of the 2012 results are presented below:

(NT$ bn)	2007	2008	2009	2010	2011	2012
Operating revenues	13.50	23.05	23.32	27.64	32.24	33.98
Gross profit(loss)	(13.28)	(4.77)	6.55	9.96	12.98	13.02
Income (loss) from operation	(14.91)	(6.24)	5.56	9.07	12.06	12.10
Income (loss) before tax	(29.40)	(25.01)	(4.79)	(1.21)	3.19	3.96
Net income (loss)	(29.40)	(25.01)	(4.79)	(1.21)	5.78	3.58





Looking ahead to 2013, the economic headwinds remain stiff at home and abroad, which may negatively impact THSRC's operational results. However, we remain unwavering in our quest for excellence in service, customer satisfaction and corporate responsibility, with the principle of "Go Extra Mile" guiding every action we take.

Financial Positioning

Condensed Balance Sheet

NTD (thousands)

Item	2012	2011	Change Amount	Change %
Current Assets	37,639,282	36,052,568	1,586,714	4.40
Fixed Assets	376,927,709	385,544,813	(8,617,104)	(2.24)
Intangible Assets	52,649	27,537	25,112	91.19
Other Assets	3,410,432	3,410,937	(505)	(0.01)
Total Assets	418,030,072	425,035,855	(7,005,783)	(1.65)
Current Liabilities	7,435,956	18,377,377	(10,941,421)	(59.54)
Long-term Liabilities	376,952,781	377,809,033	(856,252)	(0.23)
Other Liabilities	1,257,043	42,790	1,214,253	2,837.70
Total Liabilities	385,645,780	396,229,200	(10,583,420)	(2.67)
Capital Stock	105,322,243	105,322,243	-	-
Capital Surplus	1,293,910	1,293,910	-	-
Accumulated Deficits	(64,169,155)	(67,745,991)	(3,576,836)	(5.28)
Unrealized Gain on Financial instruments	1,793	992	801	80.75
Prepaid Preferred Stock Dividends	(10,064,499)	(10,064,499)	-	-
Total Stockholders' Equity	32,384,292	28,806,655	3,577,637	12.42

Explanation of significant changes (over 20%) compared with the previous year:

1. The increase in intangible assets was mainly due to the acquisition of computer software.
2. The decrease in current liabilities was mainly due to the repayment of long-term debts and payment for the profit sharing return and construction expenditures.
3. The increase in other liabilities was mainly due to the accrual of profit sharing return liabilities.
4. The increase in unrealized gain on financial instruments was mainly due to revaluation gains of financial instruments.

Condensed Income Statement

NTD (thousands)

Item	2012	2011	Change Amount	Change %
Operating Revenues	33,984,137	32,236,505	1,747,632	5.42
Operating Costs	(20,961,652)	(19,255,676)	1,705,976	8.86
Gross Profit	13,022,485	12,980,829	41,656	0.32
Operation Expenses	(927,256)	(922,424)	4,832	0.52
Income from operations	12,095,229	12,058,405	36,824	0.31
Non-operating Income and Gains	633,040	248,318	384,722	154.93
Non-operating Expenses and Losses	(8,771,441)	(9,120,890)	(349,449)	(3.83)
Income before income tax	3,956,828	3,185,833	770,995	24.20
Income Tax Benefit (Expense)	(379,992)	2,597,914	(2,977,906)	(114.63)
Net Income	3,576,836	5,783,747	(2,206,911)	(38.16)

Explanation of significant changes (over 20%) compared with the previous year:

1. The increase in non-operating income and gains was mainly due to the increase in interest income and foreign exchange gains.
2. The increase in income before income tax was mainly due to the increase in non-operating income and gains.
3. The decrease in income tax benefit was due to the reversal of the valuation allowance for deferred income tax assets in 2011, as the Company achieved profitability for the first time.
4. The decrease in net income was due to the decrease in income tax benefit, although the Company exhibited an increase of income before income tax in 2012.

Capital

In thousands of shares (as of April 27, 2013)

Type of Stock	Authorized Share Capital			Remarks
	Issued Shares	Unissued Shares	Total	
Common Stock	6,513,232	1,467,776	12,000,000	Public Offering
Convertible Preferred Stock	4,018,992			Public Offering

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

Composition of Shareholders

In thousands of shares (as of April 27, 2013)

Common Stock

Type of Shareholders	Government agencies	Government-owned institutions	Financial institutions	Other corporate investors	Individuals	Foreign institutions and natural individuals	Total
Shareholding	300,100	500,000	498,017	3,018,257	1,929,896	266,962	6,513,232
Percentage (%)	4.61%	7.68%	7.64%	46.34%	29.63%	4.10%	100.00%

Preferred Stock

Type of Shareholders	Government agencies	Financial institutions		Other corporate investors	Individuals	Foreign institutions and natural individuals	Total
		Government-owned institutions	Private institutions				
Shareholding	0	450,000	2,047,426	1,393,502	35,600	92,464	4,018,992
Percentage (%)	0.00%	11.20%	50.95%	34.67%	0.88%	2.30%	100.00%

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

a. Sole government ownership

b. Joint government and private ownership with the government holding an over 50 percent share

c. Reinvestment by the enterprises described in A and B above 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, 2012 and 2011 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Taiwan High Speed Rail Corporation

We have audited the accompanying balance sheets of Taiwan High Speed Rail Corporation as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 23 c. to the financial statements, the Corporation has adopted a strategy to improve its financial condition and decrease deficit.

Deloitte & Touche

April 18, 2013

Notice to Readers

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

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

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

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

The accompanying notes are an integral part of the financial statements. (With Deloitte & Touche audit report dated April 18, 2013)

	2012		2011	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Note 4)	$ 1,442,109	-	$ 1,555,812	-
Available-for-sale financial assets (Note 5)	647,142	-	628,094	-
Hedging derivative assets (Note 6)	-	-	1,081	-
Notes and accounts receivable	361,070	-	249,717	-
Inventories (Note 7)	3,006,533	1	3,124,582	1
Deferred income tax assets - current (Note 16)	86,162	-	464,569	-
Restricted assets (Note 20)	31,631,729	8	29,555,061	7
Prepayments and other current assets (Note 21)	464,537	-	473,652	-
Total current assets	37,639,282	9	36,052,568	8
PROPERTIES (Notes 8 and 19)				
Cost				
Land improvements	217,172,205	52	217,071,872	51
Buildings	30,632,899	8	30,629,058	7
Machinery and equipment	55,528,993	13	55,289,655	13
Transportation equipment	147,543,244	35	147,308,728	35
Office equipment	115,502	-	119,357	-
Leasehold improvements	76,002	-	78,777	-
Other equipment	336,943	-	318,966	-
Total cost	451,405,788	108	450,816,413	106
Less: Accumulated depreciation	(77,536,154)	(19)	(66,377,505)	(15)
	373,869,634	89	384,438,908	91
Construction in progress and prepayments for equipment	3,058,075	1	1,105,905	-
Properties, net	376,927,709	90	385,544,813	91
INTANGIBLE ASSETS				
Computer software, net (Note 9)	52,649	-	27,537	-
OTHER ASSETS				
Refundable deposits	14,153	-	14,223	-
Deferred income tax assets - non-current (Note 16)	2,132,107	1	2,133,382	1
Restricted assets (Note 20)	1,241,657	-	1,228,141	-
Others (Note 13)	22,515	-	35,191	-
Total other assets	3,410,432	1	3,410,937	1
TOTAL	$ 418,030,072	100	$ 425,035,855	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT LIABILITIES				
Short-term debt (Note 10)	$ 136,641	-	$ 1,033,752	-
Accounts payable	402,195	-	551,182	-
Accrued expenses (Note 21)	2,674,938	1	4,106,800	1
Payable for construction - related parties (Note 19)	-	-	1,623	-
Payable for construction	1,132,694	-	3,929,201	1
Current portion of long-term debt (Note 11)	2,563,682	1	7,896,774	2
Other current liabilities	525,806	-	858,045	-
Total current liabilities	7,435,956	2	18,377,377	4
LONG-TERM LIABILITIES				
Bonds payable (Note 12)	9,259,239	2	13,256,031	3
Long-term debt (Note 11)	362,863,384	87	361,402,389	85
Long-term interest payable (Note 11)	4,830,158	1	3,150,613	1
Total long-term liabilities	376,952,781	90	377,809,033	89
OTHER LIABILITIES (Note 21)	1,257,043	-	42,790	-
Total liabilities	385,645,780	92	396,229,200	93
STOCKHOLDERS' EQUITY (Note 14)				
Capital stock - $10 par value, authorized 12,000,000 thousand shares				
Common stock - issued 6,513,233 thousand shares	65,132,326	15	65,132,326	15
Preferred stock - issued 4,018,992 thousand shares	40,189,917	10	40,189,917	10
Total capital stock	105,322,243	25	105,322,243	25
Capital surplus	1,293,910	-	1,293,910	-
Retained earnings (accumulated losses)				
Legal reserve	40,285	-	40,285	-
Deficit	(64,209,440)	(15)	(67,786,276)	(16)
Total retained earnings (accumulated losses)	(64,169,155)	(15)	(67,745,991)	(16)
Unrealized gain on financial instruments	1,793	-	992	-
Prepaid preferred stock dividends	(10,064,499)	(2)	(10,064,499)	(2)
Total stockholders' equity	32,384,292	8	28,806,655	7
TOTAL	$ 418,030,072	100	$ 425,035,855	100

TAIWAN HIGH SPEED RAIL CORPORATION

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

The accompanying notes are an integral part of the financial statements. (With Deloitte & Touche audit report dated April 18, 2013)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES (Note 19)	$ 33,984,137	100	$ 32,236,505	100
OPERATING COSTS (Notes 15 and 19)	(20,961,652)	(61)	(19,255,676)	(60)
GROSS PROFIT	13,022,485	39	12,980,829	40
OPERATING EXPENSES (Note 15)	(927,256)	(3)	(922,424)	(3)
INCOME FROM OPERATIONS	12,095,229	36	12,058,405	37
NON-OPERATING INCOME AND GAINS				
Interest income	244,726	1	146,740	1
Gain on disposal of financial instruments, net	3,772	-	3,324	-
Foreign exchange gain, net	346,073	1	-	-
Others	38,469	-	98,254	-
Total non-operating income and gains	633,040	2	248,318	1
NON-OPERATING EXPENSES AND LOSSES				
Interest expense (Note 8)	(8,737,156)	(26)	(8,854,892)	(27)
Foreign exchange loss, net	-	-	(224,409)	(1)
Others (Note 12)	(34,285)	-	(41,589)	-
Total non-operating expenses and losses	(8,771,441)	(26)	(9,120,890)	(28)
INCOME BEFORE INCOME TAX	3,956,828	12	3,185,833	10
INCOME TAX BENEFIT (EXPENSE) (Note 16)	(379,992)	(1)	2,597,914	8
NET INCOME	$ 3,576,836	11	$ 5,783,747	18

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 17)				
Basic earnings per share	$ 0.31	$ 0.25	$ 0.19	$ 0.59
Diluted earnings per share				$ 0.55

TAIWAN HIGH SPEED RAIL CORPORATION

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

The accompanying notes are an integral part of the financial statements. (With Deloitte & Touche audit report dated April 18, 2013)

	Capital Stock (Note 14)		Capital Surplus (Notes 12 and 14)			
	Common Stock	Preferred Stock	Treasury Stock	Stock Options	Others	Total
BALANCE, JANUARY 1, 2012	$ 65,132,326	$ 40,189,917	$ 114,751	$ -	$ 1,179,159	$ 1,293,910
Net income for 2012	-	-	-	-	-	-
Changes in unrealized gain on financial instruments	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2012	$ 65,132,326	$ 40,189,917	$ 114,751	$ -	$ 1,179,159	$ 1,293,910
BALANCE, JANUARY 1, 2011	$ 65,132,326	$ 40,189,917	$ -	$ 116,219	$ 1,179,159	$ 1,295,378
Redemption of convertible bonds	-	-	114,751	(116,219)	-	(1,468)
Distribution of preferred stock dividends resolved by the stockholders on June 24, 2011	-	-	-	-	-	-
Distribution of preferred stock dividends due to a court's final judgment	-	-	-	-	-	-
Net income for 2011	-	-	-	-	-	-
Changes in unrealized gain on financial instruments	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2011	$ 65,132,326	$ 40,189,917	$ 114,751	$ -	$ 1,179,159	$ 1,293,910

Retained Earnings (Accumulated Losses) (Note 14)			Unrealized Gain on Financial Instruments	Prepaid Preferred Stock Dividends (Note 14)	Total Stockholders' Equity
Legal Reserve	Deficit	Total			
$ 40,285	$ (67,786,276)	$ (67,745,991)	$ 992	$ (10,064,499)	$ 28,806,655
-	3,576,836	3,576,836	-	-	3,576,836
-	-	-	801	-	801
$ 40,285	$ (64,209,440)	$ (64,169,155)	$ 1,793	$ (10,064,499)	$ 32,384,292
$ 40,285	$ (73,570,023)	$ (73,529,738)	$ 972	$ (9,512,240)	$ 23,576,615
-	-	-	-	-	(1,468)
-	-	-	-	(29,077)	(29,077)
-	-	-	-	(523,182)	(523,182)
-	5,783,747	5,783,747	-	-	5,783,747
-	-	-	20	-	20
$ 40,285	$ (67,786,276)	$ (67,745,991)	$ 992	$ (10,064,499)	$ 28,806,655

TAIWAN HIGH SPEED RAIL CORPORATION

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

The accompanying notes are an integral part of the financial statements. (With Deloitte & Touche audit report dated April 18, 2013)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,576,836	$ 5,783,747
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,206,236	10,647,252
Amortization	17,049	21,909
Other income	(26,954)	-
Gain on disposal of financial instruments, net	(3,772)	(3,324)
Transfer of properties to other expenses	3,770	676
Loss on disposal of properties	30,777	669
Amortization of discount on bonds	-	6,148
Amortization of bonds issuance cost	3,208	9,740
Loss on redemption of convertible bonds	-	35,910
Interest paid for overseas convertible bonds	-	(239,538)
Foreign exchange loss on overseas convertible bonds	-	2,186
Amortization of cost of long-term debt	27,903	30,170
Deferred income tax	379,682	(2,597,951)
Changes in operating assets and liabilities		
Hedging derivative financial instruments	1,081	18,771
Notes and accounts receivable	(111,353)	(136,864)
Inventories	104,720	93,700
Prepayments and other current assets	9,115	41,320
Other assets - others	11,240	9,256
Accounts payable	(148,987)	(461,490)
Accrued expenses	(1,431,862)	281,564
Other current liabilities	(332,239)	552,652
Long-term interest payable	1,679,545	1,763,992
Other liabilities	1,204,358	-
Net cash provided by operating activities	16,200,353	15,860,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(645,000)	(865,000)
Proceeds from disposal of available-for-sale financial assets	630,525	727,723
Acquisition of properties	(5,387,621)	(1,093,732)
Proceeds from disposal of properties	916	62
Acquisition of computer software	(35,546)	(12,043)
Decrease (increase) in refundable deposits	70	(6,814)
Increase in deferred charges	-	(700)
Increase in restricted assets	(2,090,184)	(14,201,868)
Net cash used in investing activities	(7,526,840)	(15,452,372)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term debt	$ (897,111)	$ 24,385
Redemption of bonds	(4,000,000)	(13,464,932)
Proceeds from long-term debt	4,000,000	13,728,801
Repayment of long-term debt	(7,900,000)	-
Increase in guarantee deposits received	9,895	4,730
Preferred stock dividends	-	(552,259)
Net cash used in financing activities	(8,787,216)	(259,275)
NET INCREASE (DECREASE) IN CASH	(113,703)	148,848
CASH, BEGINNING OF YEAR	1,555,812	1,406,964
CASH, END OF YEAR	$ 1,442,109	$ 1,555,812
SUPPLEMENTARY INFORMATION		
Cash paid for interest	$ 7,172,549	$ 7,052,503
Less: Capitalized interest	(28,989)	(9,369)
	$ 7,143,560	$ 7,043,134
Cash paid for income tax	$ 24,355	$ 12,132
NON-CASH INVESTING ACTIVITIES		
Transfer of inventories to properties	$ 14,012	$ 197,283
Transfer of properties to inventories	$ 683	$ -
Transfer of properties to intangible assets	$ 8,260	$ -
Transfer of intangible assets to properties	$ 2,987	$ -
INVESTING ACTIVITIES INVOLVING BOTH CASH AND NON-CASH ITEMS		
Acquisition of properties	$ 2,589,491	$ 747,496
Decrease in payable for construction (including related parties)	2,798,130	346,236
Cash paid for acquisition of properties	$ 5,387,621	$ 1,093,732

01. GENERAL

Taiwan High Speed Rail Corporation (the "Corporation") commenced the preparation for its incorporation on May 3, 1997, and 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 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. On January 5, 2007, the Corporation started its commercial operations from the Banqiao Station to the Zuoying Station. When the railway service at the Taipei Station began on March 2, 2007, the Corporation started its service for the entire line.

The Corporation's stock has been registered as an emerging market stock in the GreTai Securities Market since September 5, 2003.

As of December 31, 2012 and 2011, the number of employees of the Corporation was 3,222 and 3,246, respectively.

02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail.

Significant accounting policies are summarized as follows:

Foreign-currency Translations

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.

Accounting Estimates

The preparation of financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of impairment of receivables, allowance for loss on inventory, depreciation of properties, impairment of assets, income tax, pension cost, contingencies, and estimated number of passengers of the concession period that are inherently uncertain. The actual results may differ from management's estimates.

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.

Cash Equivalents

Repurchase agreements collateralized by government bonds acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. Their carrying amount approximates fair value.

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 a separate component of stockholders' equity. 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. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

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

Hedging Derivatives

Fair value hedging derivatives are measured at fair value. Changes in fair value of hedging derivatives are recognized in profit or loss for the year.

Impairment of Accounts Receivable

As stated in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34.

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.

Impairment of Assets

When the carrying amount of an asset (including primarily properties) exceeds its recoverable amount, the excess is recognized as an impairment loss.

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.

Properties

Properties are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of properties are capitalized as part of the cost of those assets. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently.

The related cost and accumulated depreciation of an item of properties are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in non-operating gains or losses in the year of disposal.

Before January 1, 2009, depreciation was provided using the straight-line method. For the purpose of more closely reflecting the expected pattern of consumption of the future economic benefits embodied in the asset, with the approval of Rule No. 0970069714 issued by the Financial Supervisory Commission (FSC), commencing from January 1, 2009, the Corporation changed the depreciation method from the straight-line method to the units of throughput method based on ridership for properties (including land improvements, buildings, machinery and equipment, transportation equipment, and parts of other equipment) directly related to transport volume. Depreciation under the units of throughput method based on ridership was calculated by the proportion of the higher of estimated number of passengers or actual number of passengers to the total estimated number of passengers of the remaining concession period. When there is a significant gap between estimated number of passengers and actual number of passengers, the Corporation adjusts its depreciation over the remaining concession period in accordance with a revised transport volume study. According to the transport volume report prepared by an external expert in July 2009, the estimated number of passengers in 2012 and 2011 was 45 million and 39 million, respectively. The actual number of passengers in 2012 and 2011 was 45 million and 42 million, respectively.

The major service lives and depreciation methods of properties are summarized as follows:

	Major Service Lives	Major Depreciation Methods	Estimated Number of Passengers (Note 2) (In Millions)
Land improvements	26.5 years (Note 1)	The units of throughput method based on ridership	2,074
Buildings	26.5 years (Note 1)	The units of throughput method based on ridership	2,074
Machinery and equipment	10-26.5 years (Note 1)	The units of throughput method based on ridership	391-2,074
Transportation equipment	26.5 years (Note 1)	The units of throughput method based on ridership	2,074
Office equipment	5-11 years	Straight-line method	-
Leasehold improvements	2-5 years	Straight-line method	-
Other equipment	4-22 years	The units of throughput method based on ridership and straight-line method	262-293

Note 1: The service lives were subject to the remaining concession period (26.5 years) of the C&O Agreement on January 5, 2007.

Note 2: The estimated number of passengers each year is based on the transport volume report prepared by an external expert in July 2009 covering the years in the major service lives of the assets.

Intangible Assets

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

Convertible Bonds

The Corporation first determines the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component, then determines the carrying amount of the equity component, representing the equity conversion option, by deducting the fair value of the liability component from the fair value of the convertible bonds as a whole. The liability component (excluding embedded derivatives) is measured at amortized cost using the effective interest method. Transaction costs of convertible bonds, net of related income tax benefit, are allocated to the liability and equity components in proportion to their initial carrying amounts. Upon conversion, the Corporation uses the aggregate carrying amount of the liability and equity components of the bonds at the time of conversion as a basis to record the common shares issued.

When bondholders exercise the put option, cash paid is considered the redemption of the liability component of the convertible bonds, and the equity component is regarded as abandoned. The difference between cash paid and the book value of the liability component of convertible bonds is recorded in profit or loss. The equity component which is recognized initially as capital surplus - stock options is transferred to capital surplus - others.

When the Corporation redeems the bonds, the redemption price is allocated to the liability and equity components pro rata on the basis of the fair value. The difference between the redemption price and the book value of the liability component of convertible bonds is recognized in profit or loss. The difference between the redemption price and the book value of the equity component of convertible bonds is recognized as capital surplus - treasury stock.

Pension Cost

Pension cost under a defined contribution pension plan is recognized based on the amount of the contributions made to employees' pension accounts during the period in which employees render services. Pension cost under a defined benefit pension plan is recognized based on actuarial calculations.

Preferred Stock

The preferred stock issued before January 1, 2006, regarded as equity in the legal form but as liabilities in the economic substance, was recognized as a separate component of stockholders' equity. However, on or after January 1, 2006, the preferred stock may be treated as a new issue when there are major changes in the terms of the original issue and divided into financial liability and equity components in accordance with the economic substance.

Income Tax

Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforwards and unused investment tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or non-current based on the expected length of time before it is realized or settled.

Investment tax credits arising from personnel training expenditures are recognized using the flow-through method. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Additional income tax at 10% of undistributed earnings is recorded when the amount is determinable, namely, when the retention of earnings is resolved by the stockholders.

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.

03. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Corporation adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions included loans and receivables originated by the Corporation under the scope of SFAS No. 34. This accounting change did not have a significant effect on the Corporation's financial statements as of and for the year ended December 31, 2011.

04. CASH

	December 31	
	2012	2011
Cash on hand and petty cash	$ 206,727	$ 140,250
Checking account deposits	657	755
Demand deposits	137,460	113,276
Time deposits	1,097,265	1,301,531
	$ 1,442,109	$ 1,555,812

As of December 31, 2012 and 2011, time deposits with maturities of over one year amounted to $7,807 thousand and $610 thousand, respectively.

05. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Open-end money market funds	$ 647,142	$ 628,094

06. HEDGING DERIVATIVE ASSETS

	December 31	
	2012	2011
Forward exchange contracts	$ -	$ 1,081

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 December 31, 2011, outstanding forward exchange contracts were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2011			
Buy	US$/JPY	January 2012	JPY 625,342
	NT$/US$	January 2012	US$ 8,016

07. INVENTORIES

	December 31	
	2012	2011
Spare parts and supplies	$ 3,002,905	$ 3,120,995
Merchandise	3,628	3,587
	$ 3,006,533	$ 3,124,582

As of December 31, 2012 and 2011, allowance for loss on inventories amounted to $7 thousand and $476 thousand, respectively.

08. PROPERTIES

	December 31	
	2012	2011
Accumulated depreciation		
Land improvements	$ 31,484,365	$ 27,151,939
Buildings	4,557,549	3,956,479
Machinery and equipment	14,424,869	12,108,215
Transportation equipment	26,597,189	22,715,426
Office equipment	101,833	100,647
Leasehold improvements	75,654	78,505
Other equipment	294,695	266,294
	$ 77,536,154	$ 66,377,505

Capitalized interest amounted to $28,989 thousand and $9,369 thousand for the years ended December 31, 2012 and 2011, respectively. The interest rates of capitalized interest were 2.16%-2.34% and 1.95%-2.34%, respectively.

On January 1, 2009, the Corporation changed the depreciation method from the straight-line method to the units of throughput method based on ridership for properties (including land improvements, buildings, machinery and equipment, transportation equipment, and parts of other equipment) directly related to transport volume.

Starting in 2013, the Corporation will prepare financial statements in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations, and related guidance approved by the FSC. Under IFRSs, majority of properties directly related to the C&O Agreement and the operation of HSR should be reclassified to intangible assets - HSR operating concession. Please refer to Note 26 for the intangible assets - HSR operating concession and related amortization expense of the remaining concession period.

09. INTANGIBLE ASSETS

	Year Ended December 31	
	2012	2011
Computer software		
Cost		
Balance, beginning of year	$ 295,729	$ 283,686
Acquisition	35,546	12,043
Reclassification	4,629	-
Balance, end of year	335,904	295,729
Accumulated amortization		
Balance, beginning of year	268,192	248,120
Amortization	15,707	20,072
Reclassification	(644)	-
Balance, end of year	283,255	268,192
	$ 52,649	$ 27,537

10. SHORT-TERM DEBT

	December 31	
	2012	2011
JPY letters of credit, interest at 1.02%-1.09% in 2012 and 0.94%-1.42% in 2011	$ 136,641	$ 1,033,752

11. LONG-TERM DEBT

	December 31	
	2012	2011
Syndicated Loan		
Tranche A1 Facility, which was initially utilized on May 4, 2010, repayable in twenty-one semi-annual installments from May 4, 2022, interest at 2.18%-2.19% in 2012 and 1.95%-2.19% in 2011	$ 130,000,000	$ 130,000,000
Tranche A2 Facility, which was initially utilized on May 4, 2010, repayable in thirty-one semi-annual installments from May 4, 2017, interest at 2.16%-2.17% in 2012 and 1.95%-2.16% in 2011	166,945,117	162,945,117
Tranche C Facility, which was initially utilized on May 4, 2010, repayable in nine semi-annual installments from May 4, 2016, interest at 2.25% in 2012 and 2.02%-2.25% in 2011	49,259,381	49,259,381
Tranche D Facility, which was initially utilized on May 13, 2010, repayable in nine semi-annual installments from May 4, 2013, interest at 2.25% in 2012 and 2.02%-2.25% in 2011	11,543,134	11,543,134
The second syndicated loan		
Tranche D (seven years) Facility, which was initially utilized on August 15, 2007, repayable on August 15, 2014, interest at 4.32%-4.89%	7,900,000	7,900,000
Tranche D (five years) Facility, which was initially utilized on August 15, 2007, repayable on August 15, 2012, interest at 4.02%-4.57%	-	7,900,000
	365,647,632	369,547,632
Less: Unamortized cost of long-term debt	(220,566)	(248,469)
	365,427,066	369,299,163
Less: Current portion (including unamortized cost of long-term debt)	(2,563,682)	(7,896,774)
	$ 362,863,384	$ 361,402,389

In order to improve financial condition, 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 8 banks. The significant terms are as follows:

a. 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. On May 4, 2010, the Corporation utilized the Tranche A1 Facility amounting to $130,000,000 thousand, Tranche A2 Facility amounting to $150,245,117 thousand, Tranche A3 Facility amounting to $26,566,942 thousand, Tranche B Facility amounting to $4,000,000 thousand, and Tranche C Facility amounting to $49,259,381 thousand under the Syndicated Loan Agreement to repay all of the first syndicated loan, as well as the Tranche A, B and C Facilities of the second syndicated loan agreement. On May 13, 2010 and January 25, 2011, the Corporation redeemed the unsecured overseas convertible bond (including interest premium) of US$367,589 thousand with the Tranche D Facility amounting to $10,514,333 thousand and $1,028,801 thousand, respectively. On October 7, 2011, December 19, 2011, and May 7, 2012, the Corporation utilized the Tranche A2 Facility to repay the $6,700,000 thousand, the $6,000,000 thousand, and the $4,000,000 thousand secured domestic corporate bonds payable issued in October, December 2008 and May 2007, respectively, and extinguished the Tranche A3 Facility’s $17,125,700 thousand guarantees given for repayment of the aforementioned domestic bonds (including interest premium).

b. The Corporation provided assets (refer to assets transferred to the MOTC under the C&O Agreement) and a portion of the superficies (see Note 23) 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 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. According to the Tripartite Agreement, MOTC will be responsible for paying off the remaining debt of Tranche A facility of the Syndicated Loan Agreement for early termination of the C&O Agreement.

Note: 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 responsible bank for the Tranche D facility of the second syndicated loan was Lehman Brothers Commercial Corporation Asia Limited (Lehman Brothers). The High Court of Hong Kong according to the Law of Hong Kong appointed a liquidator to be responsible for the liquidation procedure of Lehman Brothers. The liquidator of Lehman Brothers appointed and authorized Chien Yeh Law Offices to be fully in charge of Lehman Brothers’ performance of loan contracts and debt collection in Taiwan.

The interests of Tranche A1 and A2 of the Syndicated Loan Agreement and Tranche D of the Second Syndicated Loan Agreement were calculated based on the contracts. The Corporation computes the interest expense based on effective interest method. The interest payment that is due longer than one year is recognized as long-term interest payable according to the contracts. As of December 31, 2012 and 2011, the carrying amount of long-term interest payable was $4,830,158 thousand and $3,150,613 thousand, respectively.

Pursuant to the Syndicated Loan Agreement, the Corporation opened accounts at Bank of Taiwan for deposits and financial instruments, of which the accounts designated for loan repayment and for acquisition and replacement of assets, and for financial instruments pledged as collateral to Bank of Taiwan are recognized as restricted assets.

As of December 31, 2012, long-term debt (including the current portion) by year of repayment was as follows:

Year of Repayment	Amount
2013	$ 2,565,141
2014	10,465,141
2015	2,565,141
2016	13,511,670
2017	20,576,355
2018 and after	315,964,184
	$ 365,647,632

12. BONDS PAYABLE

The Corporation had issued bonds to finance the construction costs and operating expenses of the HSR system and stations. The bonds were as follows:

	December 31	
	2012	2011
Secured domestic corporate bonds		
Issued in January 2010, repayable in January 2013, and interest payable annually at 1.65%	$ 3,500,000	$ 3,500,000
Issued in May 2007, repayable in May 2012, and interest payable annually at 2.07%	-	4,000,000
Issued in April 2007, repayable in April 2013, and interest payable annually at 2.12%	3,000,000	3,000,000
Issued in April 2007, repayable in April 2014, and interest payable annually at 2.17%	2,760,000	2,760,000
	9,260,000	13,260,000
Less: Unamortized bonds issuance cost	(761)	(3,969)
	$ 9,259,239	$ 13,256,031

The Corporation utilized the Tranche A3 Facility and had completed the refinancing arrangement in 2010, and utilized Tranche A2 to pay off secured domestic corporate bonds. Therefore, the secured domestic corporate bonds payable issued in April and May 2007, and January 2010 were classified as long-term liabilities. After completion of the refinancing arrangement which is in accordance with the Syndicated Loan Agreement, the annual interest rate and interest payment date are the same as the long-term debt under Tranche A2 Facility, which is repayable in thirty-one semi-annual installments commencing from May, 2017.

On May 15, 2007, the Corporation issued five-year zero coupon overseas convertible bonds with a face value of US$300 million and applied for permission to list on the Singapore Stock Exchange. The bondholders may convert the convertible bonds into the Corporation's common stock during the period from June 15, 2007, to April 30, 2012 (barring the year in which registration of share transfer is suspended). The initial conversion price is $10 per common share; however, future adjustment of conversion price may be made according to a formula. The bondholders may request the Corporation to redeem bonds on May 15, 2010 at 124.72% of face value. When over 90% of the bonds had been redeemed, bought back or converted, the Corporation may redeem the remaining bonds at a price calculated by a predetermined formula. Upon maturity, the Corporation should redeem the remaining bonds at 144.5% of their face value.

As of December 31, 2011, bonds with par value of US$6,660 thousand had been converted into 22,168 thousand shares of common stock.

On May 15, 2010, a number of bondholders requested the Corporation to redeem bonds with a face value of US$267,022 thousand. The Corporation utilized credit facilities amounting to US$333,030 thousand (including interest premium of $2,073,834 thousand) from the Syndicated Loan and redeemed the bonds. The unamortized issuance cost and discounts of the bonds, amounting to $52,479 thousand and $599,375 thousand, respectively, were written off and recognized as other loss. The expired conversion right of the convertible bonds amounting to $1,179,159 thousand was transferred from capital surplus - stock options to capital surplus - others.

On January 27, 2011, the Corporation redeemed bonds at a yield rate of 7.5% which was calculated on a semi-annual period basis. The Corporation utilized credit facilities of US$34,559 thousand (including interest premium of $239,538 thousand) from the Syndicated Loan and redeemed the bonds. The unamortized issuance cost and discounts of the bonds, amounting to $3,448 thousand and $32,461 thousand, respectively, were written off and recognized as other loss. The difference of $114,751 thousand between the redeemed amount allocated to the equity component and the book value of the equity component was transferred from capital surplus - stock options to capital surplus - treasury stock.

As of December 31, 2011, all of the aforementioned bonds had been converted into common stock, bought back or redeemed by the Corporation.

13. PENSION PLANS

The pension mechanism under the Labor Pension Act is deemed a defined contribution pension plan. The Corporation makes monthly contributions at 6% of each employee's monthly salary to employees' individual pension accounts.

Based on the defined benefit pension plan under the Labor Standards Law, 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, which is administered by the employees' pension fund committee and deposited in the committee's name with the Bank of Taiwan. Information about the defined benefit pension plan was summarized as follows:

a. Components of net periodic pension cost

	Year Ended December 31	
	2012	2011
Service cost	$ 20,115	$ 20,014
Interest cost	9,919	10,330
Projected return on plan assets	(9,608)	(9,390)
Amortization	9,232	8,716
Net periodic pension cost	$ 29,658	$ 29,670

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

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ (56,567)	$ (47,417)
Non-vested benefit obligation	(381,404)	(342,447)
Accumulated benefit obligation	(437,971)	(389,864)
Additional benefit based on future salaries	(123,671)	(116,109)
Projected benefit obligation	(561,642)	(505,973)
Fair value of plan assets	501,050	482,082
Funded status	(60,592)	(23,891)
Unrecognized service cost	76,847	85,911
Unrecognized net loss (gain)	3,695	(30,997)
Unrecognized net transition obligation	1,181	1,349
Prepaid pension (included in other assets - other)	$ 21,131	$ 32,372

	December 31	
	2012	2011
c. Vested benefit	$ 60,415	$ 52,017

d. Actuarial assumptions

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

The pension information for 2012 and 2011 was as follows:

	Year Ended December 31	
	2012	2011
Recognized as operating cost and expenses		
Defined contribution plan	$ 112,874	$ 110,320
Defined benefit plan	28,884	29,102
	$ 141,758	$ 139,422
Recognized as construction in progress		
Defined contribution plan	$ 1,090	$ 717
Defined benefit plan	774	568
	$ 1,864	$ 1,285

14. STOCKHOLDERS' EQUITY

a. Preferred Stock comprised:

Item	Issue Date	Issued Shares (In Thousands)	Issued Period	Par Value December 31 2012	Par Value December 31 2011	Issuance Amount
Class A Convertible Preferred Stock	January 27, 2003	2,690,000	January 27, 2003 to February 26, 2010	$ 26,900,000	$ 26,900,000	$ 26,900,000
Less: Converted into common stock				(890,000)	(890,000)	
				26,010,000	26,010,000	
Class B Convertible Preferred Stock	September 9, 2003	134,250	September 9, 2003 to October 8, 2010	1,342,495	1,342,495	1,342,495
Less: Converted into common stock				(1,002,000)	(1,002,000)	
				340,495	340,495	
Class C Convertible Preferred Stock						
C1	January 20, 2004	161,300	January 20, 2004 to January 19, 2008	1,613,000	1,613,000	1,500,090
C2	February 27, 2004	151,400	February 27, 2004 to February 26, 2008	1,514,000	1,514,000	1,408,020
C3	March 24, 2004	74,600	March 24, 2004 to March 23, 2008	746,000	746,000	693,780
C4	April 23, 2004	107,620	April 23, 2004 to April 22, 2008	1,076,200	1,076,200	1,000,866
C5	August 18, 2004	637,077	August 18, 2004 to August 17, 2008	6,370,770	6,370,770	5,924,816
C6	September 7, 2004	64,500	September 7, 2004 to September 6, 2008	645,000	645,000	599,850
C7	November 17, 2004	37,010	November 17, 2004 to November 16, 2008	370,100	370,100	344,193
C8	April 28, 2005	645,900	April 28, 2005 to April 27, 2009	6,459,000	6,459,000	6,006,870
C9	September 30, 2005	806,500	September 30, 2005 to September 29, 2009	8,065,000	8,065,000	7,500,450
				26,859,070	26,859,070	
Less: Converted into common stock				(13,019,648)	(13,019,648)	
				13,839,422	13,839,422	
				$ 40,189,917	$ 40,189,917	

The rights and obligations of preferred stock are as follows:

1. Class A and Class B preferred stock

a) Preferred stock shall be issued at par value per share. The dividend yield is payable at the rate of 5% based on par value per annum. Dividends are payable in cash on a yearly basis. If, in any given year, the Corporation generates no profit or insufficient profits for the distribution of preferred stock dividends, dividends are accumulated and are given preference over the dividends to be distributed to the holders of common stock in the year when the Corporation generates sufficient profits. Upon the maturity date of the Preferred Stock, the Corporation shall prioritize the payment in full of the undistributed dividends in a particular year or each year thereafter.

b) If the preferred stockholders fail to convert the shares during the conversion period, the Corporation shall redeem the preferred stock at par value on the maturity date. If the Corporation is prevented by laws and regulations from redeeming the preferred stock in whole or in part on the maturity date, the rights and obligations associated with the unredeemed preferred stock shall continue in accordance with the terms and conditions for issue until they are redeemed.

c) Other than the dividends on preferred stock, the preferred stockholders are not entitled to participate in the distribution of profits and capital surplus to the common stockholders.

d) The preferred stockholders have preference over the common stockholders in the distribution of the residual assets; however, the assets to be distributed to them shall not exceed the total issue price of the preferred stock.

e) The preferred stockholders have no voting rights in the common stockholders' meetings, including the election of directors and supervisors, but may be elected as directors or supervisors.

f) The preferred stockholders have the same preemptive rights as the common stockholders in capital-raising.

g) Commencing from the day following a full three years after the issuance of preferred stock and ending three months prior to the maturity date, the preferred stockholders may at any time make a one-time request to the Corporation for converting all their preferred stock into common shares newly issued by the Corporation at a 1:1 ratio. Preferred stockholders are not entitled to receive the preferred dividends in the year of conversion, but shall receive the common dividends appropriated from profits and the distribution of capital reserve in the year of conversion. The rights and obligations of the preferred stockholders after conversion shall be identical to those of the Corporation's common stockholders unless otherwise restricted by laws.

2. Class C preferred stock

a) Preferred stock shall be issued at $9.3 per share. The dividend yield is payable at the rate of 9.5% per annum for the initial two years, and 0% thereafter. Dividends are payable in cash on a yearly basis. If, in any given year, the Corporation generates no profit or insufficient profits for the distribution of preferred stock dividends, dividends are accumulated and are given preference over the dividends to be distributed to the holders of common stock in the year when the Corporation generates sufficient profits. Upon the maturity date of the Preferred Stock, the Corporation shall prioritize the payment in full of the undistributed dividends in a particular year or each year thereafter.

b) Preferred stock shall mature four years after the initial issue date. The Corporation shall redeem all preferred stock at issuance value on the maturity date. If legal restrictions prevent the Corporation from redeeming all or part of the preferred stock, the unredeemed preferred stock is entitled to payment of interest at the rate of 4.71% based on the issuance value of such unredeemed stock. The unredeemed preferred stock is entitled to the same rights and obligations stated in the Corporation's articles of incorporation until such unredeemed stock is fully redeemed.

c) Other than the dividends on preferred stock, the preferred stockholders are not entitled to participate in the distribution of profits and capital surplus to the common stockholders.

d) The preferred stockholders have preference over the common stockholders in the distribution of the residual assets; however, the assets to be distributed to them shall not exceed the total issue price of the preferred stock.

e) The preferred stockholders have no voting rights in the common stockholders' meetings, including the election of directors and supervisors, but may be elected as directors or supervisors.

f) The preferred stockholders have the same preemptive rights as the common stockholders in the capital raising.

g) Commencing from the day following a full three years after the issuance of preferred stock and ending three months prior to the maturity date, the preferred stockholders may at any time make a one-time request to the Corporation for converting all their preferred stock into common shares newly issued by the Corporation at a 1:1 ratio. Preferred stockholders are not entitled to receive the preferred dividends in the year of conversion, but shall receive the common dividends appropriated from profits and the distribution of capital reserve in the year of conversion. The rights and obligations of the preferred stockholders after conversion shall be identical to those of the Corporation's common stockholders unless otherwise restricted by laws.

b. Capital surplus and appropriation of earnings

The Corporation's Articles of Incorporation provide that the annual income shall be appropriated as follows:

1) To pay all taxes and duties;
2) To make up for deficit;
3) To set aside 10% of the profits as legal reserve;
4) To set aside special reserve in addition to the legal reserve where necessary;
5) To pay dividends on preferred stocks.

Thereafter, an amount representing 1% of the remaining profits is set aside as bonus to directors and supervisors and at least 1% of the remaining profits as bonus to employees. Any remaining profits and undistributed retained earnings are distributed as dividends to common stockholders based on the resolution drawn up by the board of directors and approved by the stockholders during their meeting.

The Corporation's policy on dividend and bonus appropriation is based on the principles of stability and equity, balancing stockholder value, and the Corporation's long-term financial plans and impact thereof on the business operations of the Corporation.

As of December 31, 2011 and 2010, the Corporation had a deficit as shown on the balance sheets; therefore, no bonus to employees and bonus to directors and supervisors for 2011 and 2010 were paid.

As of December 31, 2012 and 2011, the Corporation still had a deficit as shown on the balance sheets; therefore, the accruals for bonus to employees and bonus to directors and supervisors for the years ended December 31, 2012 and 2011 were all nil.

c. Preferred stock dividends

During the development stage, after obtaining government approval, the Corporation was allowed to declare dividends to preferred stockholders regardless of the restrictions outlined above. However, the Corporation is required to account for the prepayment of dividends to preferred stockholders in its balance sheet under the stockholders' equity; where the annual appropriations for dividends and bonuses exceed 6% of the Corporation's paid-in capital, the excess is offset against prepaid dividends to preferred stockholders.

On June 22, 2012 and June 24, 2011, the stockholders resolved to make up for or accumulate deficit for the years ended December 31, 2011 and 2010, respectively. In addition, on June 24, 2011, the stockholders resolved to distribute preferred stock dividends of $29,077 thousand accumulated from January 1, 2007 to January 4, 2007.

On March 27, 2009, China Technical Consultants, Inc. (CTCI) filed a civil action in the Shihlin District Court to compel the Corporation to distribute dividends of $212,383 thousand on Class C9 preferred stock that had accumulated from January 1, 2007 to September 29, 2007, with 5% interest accumulated from January 1, 2009 to the discharge date. On September 18, 2009, the Shihlin District Court ruled against the Corporation. The Corporation appealed to the Supreme Court, and the Supreme Court made a final judgment rejecting the appeal on April 28, 2011. In September 2011, the Corporation had paid the preferred stock dividends (including preferred stock dividends of $3,123 thousand accumulated from January 1, 2007 to January 4, 2007, which was included in the preferred stock dividends of $29,077 thousand mentioned above) and interest expense.

On March 11, 2011, China Aviation Development Foundation (CADF) filed a civil action in the Shihlin District Court to compel the Corporation to distribute dividends of $313,922 thousand on Class C9 preferred stock that had accumulated from January 5, 2007 to September 29, 2007, with 5% interest accumulated from January 1, 2009 to the discharge date. On August 12, 2011, the Shihlin District Court ruled against the Corporation. The Corporation appealed to the Taiwan High Court. However, CADF and CTCI are both Class C preferred stockholders of the Corporation; thus, they should be treated the same way due to the identical terms of issuance and investment convention. The Corporation withdrew the appeal on December 7, 2011. In December 2011, the Corporation has paid the above preferred stock dividends and interest expense.

On December 5, 2012, CADF filed a civil action in the Shihlin District Court to compel the Corporation to redeem the capital of $8,556 thousand on Class C9 preferred stock and to distribute dividends of $54,009 thousand on Class C9 preferred stock that had accumulated from September 30, 2009 to December 31, 2009, with 5% interest accumulated from January 1, 2011 to the discharge date. CADF reserves the right to obtain the remaining capital and dividends on Class C9 preferred stock. On December 12, 2012, the Corporation received the notice of mediation from Shihlin District Court, and began the mediation process with CADF on January 3, 2013. On February 7, 2013, CADF had revoked the aforementioned civil action filed in the Shihlin District Court.

During February to April 2013, China Development Industrial Bank (CDIB), Fubon Life Insurance Co., Ltd. (FLIC), Fubon Insurance Co., Ltd. (FIC), ShinKong Insurance Co., Ltd. (SKIC), China Steel Corporation (CSC), and an individual stockholder A each filed a civil action in the Shihlin District Court. CDIB filed to compel the Corporation to redeem the capital of $4,892 thousand on Class C5 preferred stock and to distribute dividends of $17,501 thousand on Class C5 preferred stock that had accumulated from August 18, 2008 to December 31, 2008, with 5% interest accumulated to the discharge date. CDIB reserves the right to obtain the remaining capital and dividends on Class C5 preferred stock. FLIC filed to compel the Corporation to distribute dividends of (1) $23,529 thousand on Class C8 preferred stock that had accumulated from January 5, 2007 to April 27, 2007, and (2) $49,452 thousand on Class A preferred stock that had accumulated from January 5, 2007 to December 31, 2007, with 5% interest accumulated to the discharge date. FIC filed to compel the Corporation to distribute dividends of $2,941 thousand on Class C8 preferred stock that had accumulated from January 5, 2007 to April 27, 2007, with 5% interest accumulated to the discharge date. SKIC filed to compel the Corporation to distribute dividends of (1) $4,485 thousand on Class C1 preferred stock that had accumulated from January 20, 2008 to December 31, 2008, and (2) $9,945 thousand on Class A preferred stock that had accumulated from January 5, 2007 to December 31, 2007, with 5% interest accumulated to the discharge date. CSC filed to compel the Corporation to distribute dividends of (1) $99,452 thousand on Class B preferred stock that had accumulated from January 5, 2007 to December 31, 2008, (2) $26,324 thousand on Class C5 preferred stock that had accumulated from August 18, 2008 to December 31, 2008, and (3) $91,615 thousand on Class C8 preferred stock that had accumulated from January 5, 2007 to April 24, 2007, with 5% interest accumulated to the discharge date. The individual stockholder A filed to compel the Corporation to distribute dividends of $5,055 thousand on Class C2 preferred stock that had accumulated from February 27, 2008 to December 31, 2011, with 5% interest accumulated to the discharge date. The Corporation had received notices of mediation for aforementioned civil actions from Court, and begun the mediation processes with aforementioned parties. Information for the civil actions is available on the Market Observation Post System website of the Taiwan Stock Exchange.

After the Corporation launched operations, the estimated preferred stock dividends for the years ended December 31, 2012 and 2011 were both $1,923,733 thousand. The estimated preferred stock dividends will be recognized as liabilities when the stockholders resolve to distribute these dividends. As of December 31, 2012 and 2011, estimated unpaid accumulated preferred stock dividends amounted to $10,164,630 thousand and $8,240,897 thousand, respectively.

15. PERSONNEL COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2012		
	Operating Costs	Operating Expenses	Total
Personnel cost			
Payroll	$ 1,986,253	$ 407,384	$ 2,393,637
Professional service	80,174	25,840	106,014
Pension	117,711	24,047	141,758
Insurance	177,446	30,202	207,648
Others	67,500	45,747	113,247
	$ 2,429,084	$ 533,220	$ 2,962,304
Depreciation	$ 11,195,234	$ 11,002	$ 11,206,236
Amortization	$ 13,212	$ 3,837	$ 17,049
Personnel cost			
Payroll	$ 1,916,674	$ 381,134	$ 2,297,808
Professional service	91,772	22,816	114,588
Pension	116,046	23,376	139,422
Insurance	170,338	28,863	199,201
Others	66,441	36,533	102,974
	$ 2,361,271	$ 492,722	$ 2,853,993
Depreciation	$ 10,604,594	$ 42,658	$ 10,647,252
Amortization	$ 21,833	$ 76	$ 21,909

16. INCOME TAX

	Year Ended December 31	
	2012	2011
Tax on income before income tax at statutory rate	$ 672,661	$ 541,592
Tax effects on adjusting items:		
Permanent differences	5,477	11,603
Temporary differences	(179,821)	71,719
Loss carryforwards used	(498,317)	(624,914)
Others	178	37
Current income tax	178	37
Deferred income tax		
Interest of convertible bonds	-	41,600
Loss carryforwards	497,646	624,914
Accrual for profit sharing	68,000	(70,345)
Adjustment to valuation allowance	(299,163)	(3,161,773)
Others	113,199	(34,500)
Adjustments to prior years' income tax	132	2,153
Income tax expense (benefit)	$ 379,992	$ (2,597,914)

Deferred income tax assets comprised:

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Accrual for profit sharing	$ 67,259	$ 340,000
Unrealized foreign exchange losses	12,747	118,334
Investment tax credits	2,093	3,451
Others	6,156	6,235
	88,255	468,020
Valuation allowance	(2,093)	(3,451)
	$ 86,162	$ 464,569
Non-current		
Deferred income tax assets		
Loss carryforwards	$ 10,232,410	$ 10,730,056
Accrual for profit sharing	204,741	-
Other assets - other	120,011	126,166
Investment tax credits	4,689	4,709
	10,561,851	10,860,931
Valuation allowance	(8,429,744)	(8,727,549)
	$ 2,132,107	$ 2,133,382

The Corporation's income tax returns through 2010 have been examined by the tax authorities.

Tax effects of unused loss carryforwards and investment tax credits of the Corporation as of December 31, 2012 comprised:

Loss Carryforwards	Investment Tax Credits	Year of Expiry
$ -	$ 2,093	2013
-	2,616	2014
-	2,073	2015
532,363	-	2016
4,857,361	-	2017
3,849,678	-	2018
726,381	-	2019
266,627	-	2020
$ 10,232,410	$ 6,782	

The above investment tax credits arose from personnel training expenditures and were granted under the Statute for Upgrading Industries and Statute for Encouragement of Private Participation in Transportation Infrastructure Projects (the "Encouragement Statute").

As of December 31, 2012 and 2011, stockholders' imputed tax credits amounted to $72,928 thousand and $72,750 thousand, respectively.

17. EARNINGS PER SHARE

	Amount		Number of Shares (In Thousands)	Earnings Per Share (NT$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Year ended December 31, 2012					
Income for the year	$ 3,956,828	$ 3,576,836			
Less: Dividends on preferred stock	(1,923,733)	(1,923,733)			
Basic earnings per share					
Earnings attributable to common stockholders	$ 2,033,095	$ 1,653,103	6,513,233	$ 0.31	$ 0.25
Year ended December 31, 2011					
Income for the year	$ 3,185,833	$ 5,783,747			
Less: Dividends on preferred stock	(1,923,733)	(1,923,733)			
Basic earnings per share					
Earnings attributable to common stockholders	$ 1,262,100	3,860,014	6,513,233	$ 0.19	$ 0.59
Diluted earnings per share					
Effect of dilutive potential convertible preferred stock		1,923,733	4,018,992		
Income for the year attributable to common stockholders plus effect of potential convertible preferred stock		$ 5,783,747	10,532,225		$ 0.55

The Corporation's convertible preferred stock is potential common stock. However, the preferred shares had an anti-dilutive effect in the calculation of before and after income tax diluted earnings per share for the year ended December 31, 2012 and had an anti-dilutive effect in the calculation of before income tax diluted earnings per share for the year ended December 31, 2011; therefore, they were not considered in the calculation of diluted earnings per share.

18. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Available-for-sale financial assets	$ 647,142	$ 647,142	$ 628,094	$ 628,094
Hedging derivative assets	-	-	1,081	1,081
Liabilities				
Bonds payable	9,259,239	9,254,962	13,256,031	13,216,233
Long-term debt (tranche D facility of the second syndicated loan, including current portion)	7,893,746	7,944,757	15,786,570	15,889,811
Long-term debt (excluding tranche D facility and its current portion of the second syndicated loan)	357,533,320	357,533,320	353,512,593	353,512,593

b. Methods and assumptions used in the determination of fair values of financial instruments

1) The aforementioned financial instruments do not include cash, receivables, restricted assets, refundable deposits, short-term debt and payables. The carrying amounts of these financial instruments approximate their fair values because of their short maturities or their carrying amounts approximate the current amounts receivable or payable.
2) The fair values of available-for-sale financial assets, open-end funds are determined using their market values.
3) The fair values of derivative financial instruments are determined using valuation techniques because no market prices are available. The estimates and assumptions used in the valuation techniques are consistent with those that market participants would use in setting prices for financial instruments and are attainable by the Corporation.
4) The fair value of bonds payable is estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar long-term debt (e.g., similar maturities). Discount rate was 2.24% and 2.28% for the years ended December 31, 2012 and 2011, respectively.
5) The fair values of long-term debt and long-term interest payable are estimated using the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar long-term debt (e.g., similar maturities).

c. Unrealized gain (recorded as adjustments to stockholders' equity) on available-for-sale financial assets amounted to $801 thousand and $20 thousand for the years ended December 31, 2012 and 2011, respectively.

d. As of December 31, 2012 and 2011, financial assets exposed to fair value interest rate risk amounted to $33,915,491 thousand and $31,991,511 thousand, respectively; financial liabilities exposed to fair value interest rate risk amounted to $17,289,626 thousand and $30,076,353 thousand, respectively; financial liabilities exposed to cash flow interest rate risk amounted to $357,533,320 thousand and $353,512,593 thousand, respectively.

e. Information about financial risk

1) Market risk

Market risk includes fair value risk arising from the fluctuation of interest rates and price risk. The short-term debt, bonds payable and the second syndicated loan carried fixed interest rate. The fair values are affected by changes in market interest rates. The fluctuations in prices of open-end money market funds would result in changes in their fair values.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counterparties or third parties breached the contracts. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. The Corporation only transacts with financial institutions and companies with good credit ratings; thus, no material credit risk is anticipated.

3) Liquidity risk

The Corporation has enough funds to meet its cash needs upon maturity of short-term debt and current portion of long-term debt; thus, no liquidity risk with respect to breach of such contracts is anticipated. The investments in open-end funds could be redeemed quickly at prices approximating fair values because they are traded in an active market or are redeemable; thus, no material liquidity risk is anticipated.

4) Cash flow interest rate risk

As of December 31, 2012, the Corporation's Syndicated Loan with floating interest rates amounted to $357,747,632 thousand. When the market interest rate increases by 1%, the cash outflow of the Corporation will increase by $3,577,476 thousand a year.

19. RELATED PARTY TRANSACTIONS

a. Related parties and relationships:

Related Party	Relationship with the Corporation
TECO Electric and Machinery Co., Ltd. (TECO)	Director of the Corporation
Taipei Fubon Commercial Bank Co., Ltd. (Taipei Fubon Bank)	Director of the Corporation
Directors, supervisors, CEO and vice presidents	Directors, supervisors and key management of the Corporation

b. Significant transactions with related parties:

1) Operating revenue

The ticket sales transactions with related parties were not different from those with non-related parties. Because the ticket sales transactions with related parties recognized as operating revenue cannot be separated from the total ticket sales transactions, the Corporation was unable to disclose the separate amount of operating revenue with related parties.

2) Operating cost

Taipei Fubon Bank provided services for the Corporation's passenger ticket sales. The related bank charges were as follows:

	Year Ended December 31	
	2012	2011
Taipei Fubon Bank	$ 6,543	$ 6,335

3) Acquisition of properties

	Year Ended December 31	
	2012	2011
TECO	$ -	$ (514)

As of December 31, 2011, the contract with the related party regarding the above properties is summarized as follows:

			Contract Price *	
Effective Year	Nature of Contract	Related Party	Original	Amended
2004	Train Wash System Contract	TECO-Vector Systems - China Steel JV	$ 53,704	$ 57,064

* The contract price was determined by TECO's percentage of joint venture ("JV").

4) Payable for construction

	December 31	
	2012	2011
TECO	$ -	$ 1,623

The transactions with related parties were conducted on normal commercial terms.

c. Compensation of directors, supervisors, CEO and vice presidents:

	Year Ended December 31	
	2012	2011
Salaries	$ 42,800	$ 39,230
Incentives	7,413	3,682
Special compensation	1,645	916
	$ 51,858	$ 43,828

20. RESTRICTED ASSETS

		December 31	
Pledged assets	Pledged to secure	2012	2011
Restricted assets - current:			
Time deposits	Guarantee for commodity sale	$ 500	$ 1,000
Time deposits	Guarantee for office lease	954	16,277
Time deposits	Guarantee for station land lease	2,615	2,562
Time deposits	Guarantee for oil purchase	-	1,000
Time deposits	Guarantee for customs duties	130,000	-
Time deposits	Trust deposit of unearned revenue	27,000	-
Demand deposits	Trust deposit of unearned revenue	30,031	37,562
Demand deposits	Syndicated loan	25,129	55,660
Repurchase agreement collateralized by government bonds	Syndicated loan	31,415,500	29,441,000
		31,631,729	29,555,061
Restricted assets - non-current:			
Time deposits	Guarantee for commodity sale	440	-
Time deposits	Guarantee for office lease	16,267	-
Time deposits	Guarantee for development of station	1,192,368	1,192,368
Time deposits	Guarantee for station land lease	7,751	12,268
Time deposits	Guarantee for oil purchase	4,320	3,000
Time deposits	Guarantee for customs duties	20,511	20,505
		1,241,657	1,228,141
		$ 32,873,386	$ 30,783,202

The Corporation provided a portion of superficies (see Note 23) as collateral to secure the second syndicated loan and syndicated loan.

21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

a. Significant contracts

On July 23, 1998, the Corporation entered into the C&O Agreement and SZD Agreement with the MOTC. The significant provisions of these contracts are as follows:

1) The C&O Agreement covers the building, operation and transfer (BOT) of the HSR between Taipei (Xizhi) and Kaohsiung (Zuoying). In addition, the contract includes the transfer of stations built by the Corporation and station facilities co-built by the Corporation with the Taiwan Railroad Administration and Taipei Rapid Transit Corporation.
2) The station contract covers the plan, design and construction of the Taoyuan (Chingpu), Hsinchu (Liujia), Miaoli, Taichung (Wuri), Changhua, Yunlin, Chiayi (Taibao), Tainan (Shaluen) and Kaohsiung (Zuoying) stations as well as any required modifications and engineering equipment for the Taipei and Banqiao stations.
3) The SZD Agreement covers the development, operation, return of the land, and transfer of assets of five stations along the Taiwan HSR line: Taoyuan (Chingpu), Hsinchu (Liujia), Taichung (Wuri), Chiayi (Taibao), and Tainan (Shaluen).
4) The duration of the concession agreement for the HSR, including the construction period and operating period, is 35 years from the contract date.
5) The concession agreement for the stations also includes the following:
   a) The right to develop and operate the station land for 35 years from the contract date.
   b) The concession agreement to operate businesses on the land neighboring the stations for 50 years after the land is transferred to the Corporation.
6) Any changes to the Corporation's articles of incorporation, organization by-laws, directors and supervisors should be reported to the MOTC within 15 days of the change.
7) The ratio of the Corporation's stockholders' equity to its total assets shall be maintained at 25% or more during the concession period. On January 7, 2009, the Corporation obtained the consent from the MOTC to delay the start of compliance with this ratio until the year following the first year in which the Corporation's deficit becomes earnings.
8) During the operating period, the Corporation undertakes to return by profit sharing 10% of the operating profit before tax (representing the profit after deduction of all costs and expenses necessary for operating from revenues) to the MOTC each year for use in projects associated with HSR development, provided, however, that if the total amount of the Corporation's cumulative profit sharing return is less than the amount listed in the table below, the Corporation undertakes to follow the table below:

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 the expiration of the concession period	108 billion

For the years ended December 31, 2012 and 2011, the accrual for profit sharing returns was $1,600,000 thousand and $413,793 thousand, respectively, recognized as operating cost. As of December 31, 2012 and 2011, accrued profit sharing return amounted to $1,600,000 thousand and $2,000,000 thousand, respectively, which was recorded as accrued expenses (current portion) and other liabilities.

Starting in 2013, the Corporation will prepare financial statements in accordance with IFRSs approved by the FSC. Under IFRSs, the minimum commitment to profit sharing return of $108 billion under the C&O Agreement will be retroactively recognized as intangible assets - HSR operating concession asset and operating concession liability. The HSR operating concession asset will be amortized by the units of throughput method, whereas interest expense will be calculated based on effective interest method for the HSR operating concession liability. Please refer to Note 26 for the related amortization expense and interest expense of the remaining concession period.

9) Assets which are purchased with the consent of the MOTC during the five-year period immediately preceding the expiration of the concession period and are not yet completely depreciated and are still available for normal operation and use upon the expiration of the concession period shall be transferred to the MOTC or other party designated by the MOTC with compensation based on the carrying value of these assets upon the expiration of the concession period, and depreciated using the declining balance method over minimum useful lives prescribed by Executive Yuan. Except for those operating facilities of ancillary business and the land acquired by the Corporation, all operating assets shall be transferred to the MOTC or other party designated by the MOTC without compensation.

10) Transfer of ownership prior to the expiration of the concession period

The operating assets will be examined and evaluated by impartial and professional appraisal organizations before the transfer.

11) Agreement guarantee

a) The C&O Agreement

The Corporation provided a $5 billion performance bond at the start of the contract as a guarantee for fulfilling its operating responsibility. After the start of railway operations, if there is no breach of the contract, the MOTC will return $0.5 billion each year; however, the total returnable amount shall not exceed $3 billion. The deadline for returning the remaining performance bond is the earlier of six months after the end of the concession period, or six months after early termination of the agreement.

As of December 31, 2012 and 2011, the remaining performance bond provided amounted to $2.5 billion and $3 billion, respectively.

b) The SZD Agreement

As of December 31, 2012 and 2011, the Corporation provided time deposits both amounting to approximately $1.2 billion as guarantee for the development of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations.

12) Liabilities in breach of contract and the consequences under the Corporation's C&O Agreement with the MOTC

a) Any of the following events attributable to the Corporation shall constitute a breach of contract:

i. Material delay in work schedule.

ii. Material default in quality control of the works.

iii. A material default during the operating period in relation to traffic safety, service quality, or the relevant management as determined by the Authority in Charge.

iv. Other events which have a material impact on the construction or operation of the HSR and for which the situation is serious as determined by the MOTC or the Authority in Charge.

b) Consequences of breach of contract

If it confirms that the Corporation has breached the contract, the MOTC may take the following action:

i. Suspend the construction or operation of the HSR.

ii. Revoke the permit for construction or operation of the HSR.

iii. Terminate the C&O Agreement. Upon revocation of the Corporation's permit for construction or operation of the HSR by the Authority in Charge, the C&O Agreement shall be terminated automatically. Where there are operating assets and works in progress which are necessary and useful, the Corporation shall apply to the Authority in Charge for a compulsory take-over of such assets and works.

b. In accordance with the C&O Agreement, SZD Agreement and the Protocol of Taipei Main Station and Tunnel, the MOTC leased land, Taipei Main Station and tunnel to the Corporation for HSR use. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Encouragement Statute, and is determined by future price of public-owned land and usage and other factors. The Corporation pays the rental for the following year by the end of each year. The rental expenses amounted to $371,033 thousand and $362,212 thousand for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, prepaid rental amounted to $370,369 thousand and $364,613 thousand, respectively, and was recognized as prepayment and other current assets.

c. As of December 31, 2012, the Corporation had obtained credit line facilities in the form of letters of credit from several banks, of which JPY5,646,707 thousand was unused.

d. In May 2012, the Corporation entered into a purchase agreement for type 700T rolling stock with Kawasaki Heavy Industries Ltd. and Toshiba Digital Media Network Taiwan Corporation. According to the agreement, the Corporation shall acquire four sets of type 700T rolling stock in the total amount of JPY18,392,000 thousand (excluding tariff and business tax). Furthermore, the Corporation can make 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 (excluding tariff and business tax) by March 2014. As of December 31, 2012, the Corporation had paid the amount of JPY4,138,200 thousand, recognized as construction in progress and prepayments for equipment.

e. In November 2012, December 2012, and January 2013, the Corporation's board of directors resolved the construction and purchase agreements of Yunlin, Miaoli and Changhua stations and the contract prices including business tax were $1,588,800 thousand, $1,551,680 thousand and $1,596,600 thousand, respectively.

22. SUBSEQUENT EVENTS

Certain preferred stockholders filed civil actions against the Corporation. Please refer to Note 14 under the sub-section "c. Preferred stock dividends."

23. OTHERS

a. Superficies

Pursuant to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation further secured superficies from the MOTC over the transportation infrastructure land such as route land, maintenance bases, station land, etc. As of December 31, 2012, superficies had been procured over the land from Lot 0837-0000 Kuanghua Section, Hsinchuang, New Taipei City, in the north to Lot 0421-0002, Subsection 6, Hsinchuang Section, Zuoying, Kaohsiung, in 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.

Pursuant to the SZD Agreement, the Corporation also procured from the MOTC superficies of ancillary business land of station zones within the designated areas of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan stations. The superficies cover an area of 46.49 hectares. In addition, the MOTC and the Corporation reached an agreement: In order to reflect and improve the value of assets and financial structure of the Corporation by promoting the use of the land and representing the real value of superficies, and further, to attract professionals to develop the ancillary business land by providing a guarantee institution for superficies, the Corporation shall have the right to dispose of the superficies over the ancillary land for business development purposes, transfer the superficies to others for development and operation, and create liens over the superficies. The MOTC entered into an Agreement on the Principles of Handling Superficies over Ancillary Business Land in Taiwan North-South High Speed Rail Station Zones ("Superficies Agreement") with the Corporation on March 9, 2006, and approved the aforementioned matters. However, the terms and conditions of the contracts covering the actual disposal and transfer of and creation of liens over these superficies shall be consented to by the MOTC.

As of December 31, 2012, the Corporation had secured the right to develop and conduct business on the ancillary land of the Taoyuan, Hsinchu, Taichung, Chiayi and Tainan station zones, the concession periods were as follows:

Ancillary Land of Stations	Concession Period
Taoyuan	July 1, 2006 to July 1, 2056
Hsinchu	August 22, 2007 to August 22, 2057
Taichung	August 22, 2007 to August 22, 2057
Chiayi	February 2, 2004 to February 2, 2054
Tainan	June 1, 2005 to June 1, 2055

The Corporation provided a portion of these superficies with a total area of 30 hectares as collateral to secure the second syndicated loan and the Syndicated Loan.

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

	December 31					
	2012			2011		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	$ 20,177	29.136	$ 587,891	$ 19,887	30.290	$ 602,388
EUR	1	38.532	33	40	39.107	1,574
JPY	1,892	0.3382	640	1,892	0.390	738
Financial liabilities						
Monetary items						
USD	2,558	29.136	74,518	5,237	30.290	158,615
EUR	778	38.532	29,963	2,320	39.107	90,746
JPY	2,672,248	0.3382	903,754	9,382,630	0.390	3,659,226
AUD	-	-	-	109	30.732	3,346
HKD	47	3.759	177	-	-	-
CHF	16	31.884	509	-	-	-

c. As of December 31, 2012, the deficit amounted to $64,209,440 thousand. The Corporation promotes the ridership and reduces the operation costs continually. In order to reduce the heavy burden of depreciation and interest expense, the Corporation had changed the depreciation method of part of properties from the straight-line method to the units of throughput method based on ridership commencing from January 1, 2009, with the prior approval of the FSC. On January 8, 2010, the Corporation entered into the Tripartite Agreement with the MOTC and Bank of Taiwan, and the Syndicated Loan Agreement with a bank syndicate consisting of 8 banks. On May 4 and 13, 2010, the Corporation utilized the above credit facilities. After the Corporation adopted the aforementioned measures and improved the operating status, the Corporation's net income before tax amounted to $3,956,828 thousand and $3,185,833 thousand for the years ended December 31, 2012 and 2011, respectively.

24. ADDITIONAL DISCLOSURES

The Corporation entered into forward exchange contracts mainly to hedge the risk of exchange rate fluctuations of foreign-currency accounts payable. As of December 31, 2012, all forward exchange contracts had expired or been settled.

Except for Tables 1 and 2 and information of the preceding paragraph, there are no significant transactions, information of investees and investments in Mainland China required for disclosure.

25. OPERATING SEGMENT FINANCIAL INFORMATION

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

26. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the FSC on February 2, 2010, the Corporation's pre-disclosure information on the adoption of IFRSs for the year ended December 31, 2012 was as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting in 2013, companies with shares listed on the Taiwan Securities Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and IFRSs approved by the FSC. To comply with this framework, the Corporation has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Chief Executive Officer, Mr. Chin-Der Ou. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2012 were as follows:

Contents of Plan	Responsible Department	Status of Execution
Develop IFRS conversion plan (from December 2009 to December 2010)		
1) Establish the IFRSs taskforce	Chief executive officer	Completed
2) Set up a work plan for IFRSs adoption	Accounting department	Completed
3) Complete the identification of GAAP differences and impact	Accounting department	Completed
Design and implementation (from December 2010 to December 2011)		
1) Perform analyses of elements of financial statements, decide accounting policies under IFRSs and proper action plans	Accounting department	Completed
2) Adjust related systems	Accounting department and information technology division	Completed
3) Communicate with concerned parties	Finance division and legal office	Completed
Conversion (from January 2012 to December 2012)		
1) Complete the preparation of a balance sheet as of the beginning of the comparative period in which IFRSs are applied for the first time	Accounting department	Completed
2) Improve from the first experience in preparing IFRSs financial statements	Accounting department	Completed
3) Communicate with concerned parties	Finance division and legal office	Completed
Adjustment and improvement (from January 2013 to March 2013)		
1) Continuously watch the effect of newly issued IFRSs on the financial statements and procedures to prepare these financial statements, and take actions accordingly	Accounting department	Unexecuted
2) Communicate with concerned parties	Finance division and legal office	Unexecuted

b. As of December 31, 2012, the material differences and effects between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

1) Reconciliation of balance sheet as of January 1, 2012

	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Current assets	$ 36,052,568	$ (464,569)	$ 35,587,999	5) h)
Non-current assets				
Property, plant and equipment	385,544,813	(385,452,707)	92,106	5) b), c)
Intangible assets	27,537	473,401,054	473,428,591	5) b)-d), f)
Deferred income tax assets	2,133,382	1,322,789	3,456,171	5) d), f)-h)
Other non-current assets	1,277,555	12,236	1,289,791	5) e)
Total assets	$425,035,855	$ 88,818,803	$513,854,658	
Current liabilities				
Accrued expenses	$ 2,106,800	$ 89,558	$ 2,196,358	5) f)
Operating concession liability	2,000,000	-	2,000,000	5) d)
Deferred revenue	-	37,150	37,150	5) g)
Others	14,270,577	-	14,270,577	
Total current liabilities	18,377,377	126,708	18,504,085	
Non-current liabilities				
Deferred income tax liabilities	-	3,937,154	3,937,154	5) c)
Operating concession liability	-	75,254,790	75,254,790	5) d)
Others	377,851,823	-	377,851,823	
Total non-current liabilities	377,851,823	79,191,944	457,043,767	
Total liabilities	396,229,200	79,318,652	475,547,852	
Capital stock	105,322,243	-	105,322,243	
Capital surplus	1,293,910	(1,293,910)	-	5) i)
Legal reserve	40,285	-	40,285	
Deficit	(67,786,276)	10,794,061	(56,992,215)	5) b)-i)
Unrealized gain on available-for-sale financial assets	992	-	992	
Prepaid preferred stock dividends	(10,064,499)	-	(10,064,499)	
Total equity	28,806,655	9,500,151	38,306,806	
Total liabilities and equity	$425,035,855	$ 88,818,803	$513,854,658	

2) Reconciliation of balance sheet as of December 31, 2012

	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Current assets	$ 37,639,282	$ (86,162)	$ 37,553,120	5) h)
Non-current assets				
Property, plant and equipment	376,927,709	(376,839,987)	87,722	5) b), c)
Intangible assets	52,649	462,647,019	462,699,668	5) b)-f)
Deferred income tax assets	2,132,107	846,174	2,978,281	5) d), f)-h)
Other non-current assets	1,278,325	(4,876)	1,273,449	5) e)
Total assets	$418,030,072	$ 86,562,168	$504,592,240	
Current liabilities				
Accrued expenses	$ 2,279,296	$ 89,544	$ 2,368,840	5) f)
Operating concession liability	395,642	-	395,642	5) d)
Deferred revenue	-	36,417	36,417	5) g)
Others	4,761,018	-	4,761,018	
Total current liabilities	7,435,956	125,961	7,561,917	
Non-current liabilities				
Deferred income tax liabilities	-	3,823,377	3,823,377	5) c)
Operating concession liability	1,204,358	75,199,886	76,404,244	5) d)
Others	377,005,466	-	377,005,466	
Total non-current liabilities	378,209,824	79,023,263	457,233,087	
Total liabilities	385,645,780	79,149,224	464,795,004	
Capital stock	105,322,243	-	105,322,243	
Capital surplus	1,293,910	(1,293,910)	-	5) i)
Legal reserve	40,285	-	40,285	
Deficit	(64,209,440)	8,706,854	(55,502,586)	5) b)-i)
Unrealized gain on available-for-sale financial assets	1,793	-	1,793	
Prepaid preferred stock dividends	(10,064,499)	-	(10,064,499)	
Total equity	32,384,292	7,412,944	39,797,236	
Total liabilities and equity	$418,030,072	$ 86,562,168	$504,592,240	

3) Reconciliation of statement of comprehensive income for the year ended December 31, 2012

	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Operating revenues	$ 33,984,137	$ 733	$ 33,984,870	5) g)
Operating costs	(20,961,652)	(537,545)	(21,499,197)	5) c)-f)
Gross profit	13,022,485	(536,812)	12,485,673	
Operating expenses	(927,256)	217	(927,039)	5) e), f)
Income from operations	12,095,229	(536,595)	11,558,634	
Non-operating income and gains (expenses and losses)	(8,138,401)	(1,548,574)	(9,686,975)	5) c), d)
Income before income tax	3,956,828	(2,085,169)	1,871,659	
Income tax expense	(379,992)	12,576	(367,416)	5) c), h)
Net income	$ 3,576,836	$ (2,072,593)	1,504,243	
Other comprehensive income				
Unrealized gain on available-for-sale financial assets			801	
Actuarial loss arising from a defined benefit pension plan			(17,607)	5) e)
Income tax benefit relating to the components of other comprehensive loss			2,993	5) h)
Total comprehensive income for the period			$ 1,490,430	

4) Exemptions from IFRS 1

IFRS 1, “First-time Adoption of International Financial Reporting Standards,” establishes the procedures for the first-time preparation of the Corporation’s financial statements in accordance with IFRSs. According to IFRS 1, the Corporation is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in its opening balance sheet at the date of transition to IFRSs (January 1, 2012; the transition date), except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The effect of the aforementioned exemptions is explained in the following section “5. Notes to the reconciliation of the significant differences”.

5) Notes to the reconciliation of the significant differences

The Corporation had assessed the material differences and the effects, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

a) Preferred stock

Under ROC GAAP, preferred stock issued before January 1, 2006 which was regarded as equity in the legal form but as liabilities in the economic substance, was recognized as stockholders' equity, and therefore was not differentiated between financial liability and equity. Under IFRSs, the preferred stock should be classified into financial liability or equity based on its economic substance. However, according to Rule No. 10000322083 issued by the FSC on July 7, 2011, the Corporation may be exempt from reclassifying the aforementioned preferred stock into financial liability.

b) Service concession arrangements

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". Under IFRSs, the Corporation should calculate the direct cost (mainly the operating assets and profit sharing return) of the acquisition of concession retroactively to the commencement of HSR commercial operation, and use cost model to recognize intangible assets - HSR operating concession which has to be amortized using the units of throughput method based on ridership during the concession period.

c) Service concession arrangements - operating assets

According to the C&O Agreement, the cost of construction of HSR is directly related to the operation of HSR and will be transferred without compensation at the expiration date of the concession period; thus, it is considered as acquisition cost of the concession. Under IFRSs, the HSR construction should be reclassified from properties to intangible assets - HSR operating concession.

Due to the IFRS adjustment to cost model under the above paragraph b) "Service concession arrangements", as of January 1, 2012 and December 31, 2012, intangible assets - HSR operating concession increased by $408,612,437 thousand and $399,330,438 thousand; property, plant and equipment decreased by $385,452,707 thousand and $376,839,987 thousand; and related deferred income tax liabilities increased by $3,937,154 thousand and $3,823,377 thousand, respectively. For the year ended December 31, 2012, operating costs increased by $665,801 thousand, non-operating expenses and losses increased by $3,478 thousand as a result of disposal of assets, and income tax expense decreased by $113,777 thousand.

d) Service concession arrangements - profit sharing return

According to the C&O Agreement, the Corporation is required to pay profit sharing return to the MOTC for the development of related HSR construction, thus profit sharing return is considered as an acquisition cost of the concession. Under IFRSs, the Corporation should discount the minimum commitment to profit sharing return of $108 billion and recognize the amount as intangible assets - HSR operating concession and operating concession liability.

The Corporation discounted and recognized the minimum commitment of $108 billion mentioned in the preceding paragraph retroactively to the commencement of HSR commercial operation. In addition, at the commencement of HSR commercial operation, the Corporation amortized the intangible assets by the units of throughput method based on ridership, and used effective interest method to calculate operating concession liability to the date of IFRSs adoption.

As a result of IFRS adjustment to profit sharing return, as of January 1, 2012, the intangible assets - HSR operating concession and operating concession liability increased by $64,787,612 thousand and $75,254,790 thousand, respectively. As of December 31, 2012, intangible assets - HSR operating concession and operating concession liability increased by $63,313,637 thousand and $75,199,886 thousand, respectively. For the year ended December 31, 2012, the operating costs decreased by $126,025 thousand and interest expense increased by $1,545,096 thousand.

After transition to IFRSs, information about the amortization expense of intangible assets - HSR operating concession (including profit sharing return) calculated by units of throughput method based on ridership, and interest expense of operating concession liability calculated by effective interest method is summarized as follows:

Year	Amortization Expense of Operating Assets	Amortization Expense of Profit Sharing Return	Interest Expense of Profit Sharing Return	Total
2012 (Actual)	$ 11,827,150	$ 1,473,975	$ 1,545,096	$ 14,846,221
2013	13,316,755	1,662,728	1,535,998	16,515,481
2014	14,901,992	1,867,557	1,566,717	18,336,266
2015	16,478,933	2,084,434	1,598,052	20,161,419
2016	17,940,419	2,307,616	1,630,013	21,878,048
2017-2033	333,634,264	55,391,302	22,869,334	411,894,900
	$ 408,099,513	$ 64,787,612	$ 30,745,210	$ 503,632,335

Note: The amortization expense of operating assets did not include the effects of construction in progress as of January 1, 2012.

e) Employee benefits - pension

Under ROC GAAP, unrecognized net transition obligation from first-adoption of Statement of Financial Accounting Standards (SFAS) No. 18 “Accounting for Pensions” should be amortized using the straight-line method and recorded in net periodic pension cost. The straight-line method is based on average remaining service lives of employees expected to receive pension benefits. After transition to IFRSs, the Corporation is not subject to the transitional requirements under IAS No. 19 “Employee Benefits”, thus the unrecognized net transition obligation should be recognized immediately to retained earnings.

Under ROC GAAP, actuarial gains and losses are recognized under corridor approach. The actuarial gains and losses to be recognized are based on the amortization calculated using average remaining service lives of employees expected to receive pension benefits. After transition to IFRSs, actuarial gains and losses determined based on actuarial calculations under the requirements of IAS No. 19 “Employee Benefits” should be recognized immediately in other comprehensive income and retained earnings in the statement of changes in equity and should not be reclassified to profit or loss in subsequent periods.

Due to the effects of complying with IAS No. 19 “Employee Benefits” and IFRS No. 1 “First-time Adoption of International Financial Reporting Standards”, as of January 1, 2012, prepaid pension cost increased by $12,236 thousand. As of December 31, 2012, prepaid pension cost decreased by $4,876 thousand and intangible assets - HSR operating concession decreased by $12 thousand. For the year ended December 31, 2012, operating costs and operating expenses decreased by $368 thousand and $115 thousand, respectively, and actuarial loss arising from a defined benefit pension plan under other comprehensive income increased by $17,607 thousand.

f) Employee benefits - compensated absences

Employees’ leave days are granted based on the length of their service. Under ROC GAAP, the cost of compensated absences is recognized when the absences occur. Under IFRSs, the compensated absences earned by employees who provided service and could be deferred to next year should be recognized as accumulated compensated absences payable in the balance sheet at the end of reporting period.

As a result of IFRS adjustment to compensated absences, as of January 1, 2012 and December 31, 2012, salaries payable increased by $89,558 thousand and $89,544 thousand, and intangible assets - HSR operating concession increased by $1,005 thousand and $2,956 thousand, respectively. For the year ended December 31, 2012, the operating costs and operating expenses decreased by $1,863 thousand and $102 thousand, respectively.

g) Customer loyalty programs

The Corporation established customer loyalty programs. Under IFRSs, the Corporation should allocate part of the consideration received or receivable from the sales transaction to the award credits and defer the recognition of revenue when providing free or discounted goods or services.

As a result of IFRS adjustment to customer loyalty programs, as of January 1, 2012 and December 31, 2012, deferred revenue increased by $37,150 thousand and $36,417 thousand, respectively. For the year ended December 31, 2012, revenue increased by $733 thousand.

h) Deferred income tax assets/liabilities

Under ROC GAAP, valuation allowance for deferred income tax assets is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred income tax assets are recognized only if the realization of tax benefit is probable, and the valuation allowance account is not used.

Under ROC GAAP, current deferred income tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount; likewise, same rules applied to non-current deferred income tax liabilities and assets.

Under IFRSs, an entity can offset deferred income tax assets and deferred income tax liabilities only if:

i. The entity has a legally enforceable right to offset current income tax assets against current income tax liabilities; and

ii. The deferred income tax assets and the deferred income tax liabilities related to income taxes levied by the same taxation authority.

In addition, under ROC GAAP, a deferred income tax asset and liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRSs, a deferred income tax asset and liability is classified as a non-current asset or liability.

As of January 1, 2012 and December 31, 2012, the amount reclassified from current deferred income tax assets to non-current deferred income tax assets was $464,569 thousand and $86,162 thousand, respectively.

As of January 1, 2012 and December 31, 2012, except for the deferred income tax liability related to the previous paragraph c) "Service concession arrangement - operating assets", the Corporation had assessed the likelihood of realization of deferred income tax assets for the effects of transition to IFRSs, and deferred income tax assets was adjusted for an increase of $858,220 thousand and $760,012 thousand, respectively. For the year ended December 31, 2012, income tax expense and income tax benefit relating to the components of other comprehensive loss was adjusted for an increase of $101,201 thousand and $2,993 thousand, respectively.

i) Euro-convertible bond (ECB)

Under ROC GAAP, if the currency of conversion price for ECB is designated as New Taiwan dollars and the designated exchange rate used upon conversion of ECB is a fixed exchange rate, the conversion will be settled by exchanging a fixed number of ECB with a fixed number of common shares. Therefore, the conversion right of ECB should be classified as equity.

Under IFRSs, the ECB that will be settled by exchanging a fixed number of equity instruments with variable cash due to fluctuation of the exchange rate should be classified as financial liability at fair value through profit or loss.

As of January 1, 2012 and December 31, 2012, the amounts reclassified from capital surplus to retained earnings were both $1,293,910 thousand.

c. The Corporation has prepared the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the Accounting Research and Development Foundation and approved by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and amendments of other regulations regarding the changes of IFRSs. Actual accounting policies adopted under IFRSs in the future may differ from those contemplated during the assessments.

TABLE 1
TAIWAN HIGH SPEED RAIL CORPORATION
MARKETABLE SECURITIES HELD
DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Securities Type and Name	Relationship with the Holding Company
The Corporation	Eastspring Inv Well Pool Money Market Fund	-
	Jih Sun Money Market Fund	-
	Mega Diamond Money Market Fund	-
	Union Money Market Fund	-
	Yuanta Wan Tai Money Market Fund	-
	FSITC Taiwan Money Market Fund	-
	UPAMC James Bond Money Market Fund	-
	Taishin Ta-Chong Money Market Fund	-
	Capital Money Market Fund	-
	Central Government Bonds 1998B 1st	-
	Central Government Bonds 1999-2	-
	Central Government Bonds 2000-3	-
	Central Government Bonds 2000-4	-
	Central Government Bonds 2000-9	-
	Central Government Bonds 2000B 1st	-
	Central Government Bonds 2001-3	-
	Central Government Bonds 2001-6	-
	Central Government Bonds 2001-7	-
	Central Government Bonds 2002-7	-
	Central Government Bonds 2003-10	-
	Central Government Bonds 2003-4	-
	Central Government Bonds 2003-7	-
	Central Government Bonds 2004-4	-

Financial Statement Account	Units/Face Value (In Thousands)	Carrying Value	Percentage of Ownership	Market Value	Note
	December 31, 2012				
Available-for-sale financial assets - current	7,578	$ 100,061	-	$ 100,061	
"	2,806	40,301	-	40,301	
"	8,319	101,117	-	101,117	
"	3,129	40,140	-	40,140	
"	6,821	100,364	-	100,364	
"	6,741	100,059	-	100,059	
"	4,007	65,040	-	65,040	
"	3,628	50,029	-	50,029	
"	3,194	50,031	-	50,031	
Restricted assets - current	$ 58,200	64,600	-	64,600	
"	144,100	158,393	-	158,393	
"	1,209,200	1,249,000	-	1,249,000	
"	250,000	250,000	-	250,000	
"	2,547,700	2,547,700	-	2,547,700	
"	100,000	109,000	-	109,000	
"	802,700	863,000	-	863,000	
"	3,081,600	3,372,607	-	3,372,607	
"	859,500	875,400	-	875,400	
"	398,000	416,000	-	416,000	
"	24,200	24,200	-	24,200	
"	1,887,200	2,094,300	-	2,094,300	
"	789,100	842,300	-	842,300	
"	53,100	59,000	-	59,000	

Holding Company	Marketable Securities Type and Name	Relationship with the Holding Company
The Corporation	Central Government Bonds 2004-8	-
	Central Government Bonds 2005-4	-
	Central Government Bonds 2005-5	-
	Central Government Bonds 2005-7	-
	Central Government Bonds 2005-8	-
	Central Government Bonds 2006-3	-
	Central Government Bonds 2006-6	-
	Central Government Bonds 2007-3	-
	Central Government Bonds 2008-1	-
	Central Government Bonds 2008-4	-
	Central Government Bonds 2008-6	-
	Central Government Bonds 2009-3	-
	Central Government Bonds 2009-4	-
	Central Government Bonds 2009-6	-
	Central Government Bonds 2010-6	-
	Central Government Bonds 2010-7	-
	Central Government Bonds 2010-8	-
	Central Government Bonds 2011-5	-
	Central Government Bonds 2011-6	-
	Central Government Bonds 2011-7	-
	Central Government Bonds 2012-3	-
	Central Government Bonds 2012-5	-
	Central Government Bonds 2012-6	-
	Central Government Bonds 2012-9	-

Financial Statement Account	December 31, 2012 Units/Face Value (In Thousands)	Carrying Value	Percentage of Ownership	Market Value	Note
"	$ 1,122,300	$ 1,180,775	-	$ 1,180,775	
"	206,400	225,081	-	225,081	
"	170,000	184,307	-	184,307	
"	953,800	1,000,800	-	1,000,800	
"	1,161,800	1,290,800	-	1,290,800	
"	137,600	145,420	-	145,420	
"	876,500	972,000	-	972,000	
"	1,154,800	1,280,119	-	1,280,119	
"	889,100	916,800	-	916,800	
"	2,541,600	2,684,825	-	2,684,825	
"	100,000	100,000	-	100,000	
"	450,000	486,000	-	486,000	
"	875,500	941,300	-	941,300	
"	873,900	971,000	-	971,000	
"	912,000	931,600	-	931,600	
"	100,000	110,000	-	110,000	
"	45,000	45,000	-	45,000	
"	314,200	314,200	-	314,200	
"	2,928,800	3,164,600	-	3,164,600	
"	177,000	191,973	-	191,973	
"	112,000	124,400	-	124,400	
"	700,000	774,000	-	774,000	
"	348,000	385,000	-	385,000	
"	70,000	70,000	-	70,000	

TABLE 2

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance	
					Units/ Face Value (In Thousands)	Amount
The Corporation	Taishin Lucky Money Market Fund	Available-for-sale financial assets - current	-	-	7,547	$ 81,000
	FSITC Taiwan Money Market Fund	"	-	-	6,787	100,000
	Yuanta Wan Tai Money Market Fund	"	-	-	6,848	100,000
	Eastspring Inv Well Pool Money Market Fund	"	-	-	-	-
	Central government bonds for major transportation infrastructure project (type A) - 10th issue of bond certificates	Restricted assets - current	-	-	$ 688,300	775,000
	Central Government Bonds 1998-3	"	-	-	767,800	853,000
	Central Government Bonds 1998B 1st	"	-	-	-	-
	Central Government Bonds 1999-2	"	-	-	-	-
	Central Government Bonds 1999-3	"	-	-	-	-
	Central Government Bonds 2000-11	"	-	-	354,000	391,000
	Central Government Bonds 2000-3	"	-	-	1,610,900	1,720,000
	Central Government Bonds 2000-4	"	-	-	200,000	200,000
	Central Government Bonds 2000-9	"	-	-	709,200	784,500
	Central Government Bonds 2000B 1st	"	-	-	-	-
	Central Government Bonds 2001-2	"	-	-	-	-
	Central Government Bonds 2001-3	"	-	-	1,191,100	1,262,000
	Central Government Bonds 2001-6	"	-	-	838,000	899,800
	Central Government Bonds 2001-7	"	-	-	1,958,300	2,026,200
	Central Government Bonds 2002-11	"	-	-	451,900	480,900
	Central Government Bonds 2002-4	"	-	-	208,900	232,000
	Central Government Bonds 2002-7	"	-	-	-	-
	Central Government Bonds 2002-8	"	-	-	2,534,300	2,638,000
	Central Government Bonds 2003-10	"	-	-	190,000	198,100
	Central Government Bonds 2003-4	"	-	-	2,429,300	2,589,000
	Central Government Bonds 2003-7	"	-	-	570,200	591,600
	Central Government Bonds 2004-4	"	-	-	242,000	265,500
	Central Government Bonds 2004-8	"	-	-	510,000	530,900
	Central Government Bonds 2005-4	"	-	-	-	-

Acquisition		Disposal					Ending Balance	
Units/ Face Value (In Thousands)	Amount	Units/ Face Value (In Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Gain (Loss) on Valuation	Units/Face Value (In Thousands)	Amount
9,281	$ 100,000	16,828	$ 181,607	$ 181,000	$ 607	$ -	-	$ -
6,741	100,000	6,787	100,681	100,000	681	59	6,741	100,059
6,821	100,000	6,848	100,398	100,000	398	364	6,821	100,364
10,618	140,000	3,040	40,121	40,000	121	61	7,578	100,061
$ -	-	$ 688,300	775,973	775,000	973	-	$ -	-
2,458,200	2,653,700	3,226,000	3,512,369	3,506,700	5,669	-	-	-
806,200	887,155	748,000	823,866	822,555	1,311	-	58,200	64,600
144,100	158,393	-	-	-	-	-	144,100	158,393
110,000	110,000	110,000	110,162	110,000	162	-	-	-
614,000	663,000	968,000	1,055,268	1,054,000	1,268	-	-	-
4,583,800	4,710,930	4,985,500	5,190,084	5,181,930	8,154	-	1,209,200	1,249,000
850,000	868,000	800,000	819,391	818,000	1,391	-	250,000	250,000
8,440,200	8,685,057	6,601,700	6,931,945	6,921,857	10,088	-	2,547,700	2,547,700
100,000	109,000	-	-	-	-	-	100,000	109,000
527,400	586,000	527,400	586,891	586,000	891	-	-	-
4,574,000	4,892,688	4,962,400	5,299,445	5,291,688	7,757	-	802,700	863,000
5,727,700	6,236,207	3,484,100	3,769,553	3,763,400	6,153	-	3,081,600	3,372,607
7,726,700	8,110,022	8,825,500	9,275,545	9,260,822	14,723	-	859,500	875,400
3,445,900	3,596,200	3,897,800	4,083,735	4,077,100	6,635	-	-	-
-	-	208,900	232,367	232,000	367	-	-	-
634,000	652,000	236,000	236,332	236,000	332	-	398,000	416,000
7,115,300	7,514,500	9,649,600	10,167,369	10,152,500	14,869	-	-	-
733,300	778,200	899,100	953,629	952,100	1,529	-	24,200	24,200
8,494,700	8,797,500	9,036,800	9,307,304	9,292,200	15,104	-	1,887,200	2,094,300
2,549,400	2,695,900	2,330,500	2,449,204	2,445,200	4,004	-	789,100	842,300
812,000	829,870	1,000,900	1,038,046	1,036,370	1,676	-	53,100	59,000
2,495,900	2,563,275	1,883,600	1,916,585	1,913,400	3,185	-	1,122,300	1,180,775
606,800	648,481	400,400	424,070	423,400	670	-	206,400	225,081

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance Units/ Face Value (In Thousands)	Beginning Balance Amount
The Corporation	Central Government Bonds 2005-5	"	-	-	$ 510,000	$ 510,000
	Central Government Bonds 2005-7	"	-	-	1,001,700	1,008,000
	Central Government Bonds 2005-8	"	-	-	-	-
	Central Government Bonds 2006-3	"	-	-	189,000	210,000
	Central Government Bonds 2006-6	"	-	-	1,177,200	1,308,000
	Central Government Bonds 2007-3	"	-	-	1,565,300	1,691,400
	Central Government Bonds 2007-5	"	-	-	470,000	475,000
	Central Government Bonds 2007B 1st	"	-	-	447,200	488,500
	Central Government Bonds 2008-1	"	-	-	236,000	257,000
	Central Government Bonds 2008-4	"	-	-	2,267,500	2,365,800
	Central Government Bonds 2008-6	"	-	-	88,000	88,000
	Central Government Bonds 2009-1	"	-	-	154,000	170,000
	Central Government Bonds 2009-3	"	-	-	-	-
	Central Government Bonds 2009-4	"	-	-	789,400	870,100
	Central Government Bonds 2009-6	"	-	-	977,400	1,086,000
	Central Government Bonds 2010-5	"	-	-	476,100	529,000
	Central Government Bonds 2010-6	"	-	-	174,500	193,400
	Central Government Bonds 2010-7	"	-	-	-	-
	Central Government Bonds 2011-1	"	-	-	-	-
	Central Government Bonds 2011-3	"	-	-	587,000	635,000
	Central Government Bonds 2011-5	"	-	-	227,600	227,600
	Central Government Bonds 2011-6	"	-	-	719,700	739,700
	Central Government Bonds 2011-7	"	-	-	151,000	151,000
	Central Government Bonds 2011-9	"	-	-	-	-
	Central Government Bonds 2012-1	"	-	-	-	-
	Central Government Bonds 2012-3	"	-	-	-	-
	Central Government Bonds 2012-5	"	-	-	-	-
	Central Government Bonds 2012-6	"	-	-	-	-
	Treasury Bills 2011-11	"	-	-	-	-
	Treasury Bills 2011-12	"	-	-	-	-

Acquisition		Disposal				Gain (Loss) on Valuation	Ending Balance	
Units/ Face Value (In Thousands)	Amount	Units/ Face Value (In Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal		Units/Face Value (In Thousands)	Amount
$ 730,000	$ 749,507	$ 1,070,000	$ 1,076,981	$ 1,075,200	$ 1,781	$ -	$ 170,000	$ 184,307
3,073,000	3,173,600	3,120,900	3,185,994	3,180,800	5,194	-	953,800	1,000,800
2,122,500	2,358,244	960,700	1,068,465	1,067,444	1,021	-	1,161,800	1,290,800
356,200	373,120	407,600	438,389	437,700	689	-	137,600	145,420
5,209,000	5,785,889	5,509,700	6,129,600	6,121,889	7,711	-	876,500	972,000
3,331,800	3,678,519	3,742,300	4,096,206	4,089,800	6,406	-	1,154,800	1,280,119
646,000	646,000	1,116,000	1,122,814	1,121,000	1,814	-	-	-
1,463,700	1,541,800	1,910,900	2,033,541	2,030,300	3,241	-	-	-
4,936,300	5,099,500	4,283,200	4,447,004	4,439,700	7,304	-	889,100	916,800
6,614,600	6,997,625	6,340,500	6,689,495	6,678,600	10,895	-	2,541,600	2,684,825
350,000	374,700	338,000	363,293	362,700	593	-	100,000	100,000
3,108,900	3,417,267	3,262,900	3,592,979	3,587,267	5,712	-	-	-
1,024,000	1,060,000	574,000	574,945	574,000	945	-	450,000	486,000
2,793,700	2,982,622	2,707,600	2,916,169	2,911,422	4,747	-	875,500	941,300
2,778,300	3,087,000	2,881,800	3,206,948	3,202,000	4,948	-	873,900	971,000
186,000	204,300	662,100	734,593	733,300	1,293	-	-	-
2,083,000	2,177,500	1,345,500	1,441,628	1,439,300	2,328	-	912,000	931,600
100,000	110,000	-	-	-	-	-	100,000	110,000
2,548,900	2,635,456	2,548,900	2,639,820	2,635,456	4,364	-	-	-
1,286,000	1,409,000	1,873,000	2,047,196	2,044,000	3,196	-	-	-
1,131,000	1,131,000	1,044,400	1,046,072	1,044,400	1,672	-	314,200	314,200
6,657,900	7,197,600	4,448,800	4,780,384	4,772,700	7,684	-	2,928,800	3,164,600
252,000	266,973	226,000	226,372	226,000	372	-	177,000	191,973
214,000	222,000	214,000	222,368	222,000	368	-	-	-
130,700	130,700	130,700	130,916	130,700	216	-	-	-
1,393,800	1,535,400	1,281,800	1,413,175	1,411,000	2,175	-	112,000	124,400
1,411,000	1,503,200	711,000	730,366	729,200	1,166	-	700,000	774,000
348,000	385,000	-	-	-	-	-	348,000	385,000
760,600	757,819	760,600	758,920	757,819	1,101	-	-	-
150,400	150,181	150,400	150,395	150,181	214	-	-	-

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