

2018
ANNUAL
REPORT



Fact Sheet

THSRC Milestones

Date of Incorporation: **May 1998**

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

Operation Stage: **Started in January 2007**

Capitalization: **NT\$56.28 billion**

Key Operating Statistics for 2018

Number of Train Services: **52,437**

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

Annual Ridership: **63.96 million passengers**

Annual Revenues: **NT\$45.42 billion**

Loading Factor: **67.01%**

Passenger Kilometers: **11,559 million km**

Total Route Length: **350 km**

Number of Cities/Counties Passed Through: **11**

Maximum Operating Speed: **300 km/hr**

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

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

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

Note:

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

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

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



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Letter to Shareholders







Chairman

Y. C. Chiang

Business Report and Future Prospects

The Taiwan High Speed Rail Corporation (THSRC) celebrated its 20th anniversary in 2018. Since its establishment, HSR has become the transportation backbone of Taiwan's western corridor. We welcomed our 500 millionth passenger in 2018 and new records for daily ridership were set over the Mid-Autumn Festival consecutive holiday. Over the years, we have brought significant changes to people's life and drawn urban and rural communities closer together.

As a high-speed rail operator, we will continue to deliver on our commitment to excellence in service, customer satisfaction, and corporate responsibility, adhering to the principle of "To be the platform for advancement and enjoyment" for every action we take.

1. Business Report for 2018

(1) Operational Performance

1) Rail Operations

In 2018, THSRC celebrated its 12th year of operations. A total of 52,437 train services were provided during the course of the year 2018, an increase of 686 train services compared to 51,751 trains in 2017. Daily maximum train services reached to 162 north- and south-bound trains and this number was increased to 202 train services per day during consecutive holidays. Our loading factor was 67.01% (up by 1.85% compared to 65.16% in 2017) and passenger volume increased to 63.96 million, up by 3.39 million compared to 60.57 million in 2017. Our total passenger-kilometers were 11,559 million km, up by 4.11% compared to 11,103 million km in 2017. Average daily ridership reached 175,000 passengers, an increase of 9,000 passengers compared to 166,000 passengers in 2017.



President

James 

In terms of operational safety, we are proud of our zero-accident record, no accidents or injuries to passengers the general public were caused by train service operations in 2018. Our average punctuality rate (arrival within five minutes of scheduled time) was 99.43%, slightly lower than our target of 99.50%, and our average reliability rate (excluding delays due to force majeure) was 100%, exceeding our target of 99.60%.

Operational Statistics

Indicators	2017	2018	Change
1. Train Services	51,751	52,437	+1.33%
2. Ridership (in millions)	60.57	63.96	+5.60%
3. Seat-Kilometers (in millions)	17,040	17,250	+1.23%
4. Passenger-Kilometers (in millions)	11,103	11,559	+4.11%
5. Punctuality (as % of trains arriving within five minutes of scheduled time)	99.72%	99.43%	-0.29%
6. Loading Factor (Passenger-km/Seat-km)	65.16%	67.01%	+1.85%

2) Marketing and Passenger services

Services and activities launched in 2018:

- A. To increase membership and collection of passenger information, we continued to recruit TGo members through exclusive member benefits, cross-industry promotions, and ticket discounts.
- B. We launched business member promotion packages during off-peak hours to fill available seats.

- C. In response to advances in mobile payment, we added a “Samsung Pay” option to our station ticketing counters and ticket vending machines, and a “Taiwan Pay” option to our online booking system in 2018.
- D. Free wireless internet access was made available in all HSR public service areas via the iTaiwan Wi-Fi network.
- E. We cooperated with “Hami Book City” to provide “Fixed-Point Reading” services at all HSR stations and on all trains beginning on July 1, 2018, so that passengers can enjoy the fun of reading while taking HSR.
- F. We launched the Taiwan High Speed Rail ART program, allowing passengers to experience art during their HSR ride.

(2) Budget Implementation

In 2018, our estimated operating revenue was NT\$44.5 billion and actual operating revenue was NT\$45.42 billion. Budget achievement rate was 102.1% and our actual net income was NT\$10.7 billion.

(3) Revenue, Expenditure, and Profitability Analysis

In 2018, our revenue was NT\$45.42 billion and income before tax was NT\$7.31 billion, up by 4.6% and 12.8% compared to 2017. Net income reached NT\$10.7 billion due to the recognition of income tax benefits.

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

Financial Data

Indicators	Financial Data	
	2017	2018
Operating Revenue	43.44	45.42
Gross Profit	18.82	20.33
Operating Income	17.75	19.14
Income Before Income Tax	6.48	7.31
Income Tax Benefits (Expenses)	(1.14)	3.38
Net Income	5.34	10.7

NT\$ in billions

(4) Research and Development

Research and Development in 2018:

1) Facility Engineering:

- A. Assessment of possible impacts of Type 1 active faults and seismic design enhancements of HSR structures.
- B. Use of artificial intelligence drones for inspection of HSR viaducts.
- C. Relevant research on seismic displacement after damper was placed on viaducts in the Kaohsiung section.
- D. Research on seismic response on viaducts, especially amplification responses at different parts of the structure in the Chiayi section.

2) Signaling and Communications:

- A. Establishment of Turnout Monitoring System on refuge sidings.
- B. Research on improvements of turnout controller reliability.
- C. Research on self-developed Passenger Information System.

3) Rolling Stock:

- A. Self-design, testing, and installation of 110V/AC power sockets on disabled access seating areas on trains.
- B. Addition of CCTV surveillance system in train compartments.

4) Information Technology:

- A. Optimization of external ticketing system during peak hours.
- B. Development of new ticket vending machines.
- C. Establishment of network architecture distribution and performance improvement.
- D. Establishment of ticketing mechanism for contactless smart cards.

5) Localization of Maintenance Materials and Equipment:

In order to expand localization of materials and equipment and to enhance development of the local railway industry, we have established a "Railway Industries Localization Project Team," and the following is a brief summary of items successfully localized:

A. Rolling Stock

- (a) Brake disc bolts and wheel tread cleaners
- (b) Evaporators and compressors of train air conditioning systems
- (c) Train pantograph components
- (d) Oil coolers for main transformers and cooling tanks for traction converters
- (e) Air conditioner diffusers for 700T trains
- (f) Paint materials for train bodies

B. Track and Power

- (a) Base plates for track lateral adjustment.
- (b) Domestic production of OCS maintenance vehicles.
- (c) Intelligent rail scooters.

C. Signaling and Communication

- (a) Uninterruptible Power Supply System (UPS) batteries for signaling and communication
- (b) Battery Backup System for trackside TETRA bi-directional amplifiers.
- (c) TEL IP SERVER for Direct Line Telephones

6) Electronic Service Center: We have established an electronic maintenance center, in mid-2008, to reduce dependence on manufacturers and to increase our maintenance capabilities. The number of repairs for circuit boards and components from all systems has increased year over year.

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

- A. Analysis on electromagnetic interference from trains.
- B. Inspection equipment to test abnormal train vibrations and noise.
- C. Temperature monitoring system on train axle boxes.
- D. Electrical control system for underfloor lathe equipment.
- E. Rolling stock automatic vibration measurement system.
- F. Multi-functional remote microphones for public address system.

2. Business Plan for 2019

(1) Management Guidelines

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

(2) Expected Sales Volumes

Due to steady domestic economic growth, increasing convenience of digital ticket purchase services, and promotion of membership services and travel products, we estimate that the annual ridership volume for 2019 will exceed 64.85 million passengers.

(3) Major Production and Marketing Initiatives

Major Initiatives for 2019:

- 1) Facilitation of timely train service adjustments and maintaining adaptability of seating supply and demand in response to growth in passenger numbers, as well as establishment of appropriate train schedules as necessary to meet market demands for transportation services.
- 2) Development of diversified products based on different customer characteristics to increase revenue opportunities and customer loyalty, and to achieve revenue target growth.
- 3) Promotion of the “Journey with THSR, Discover Taiwan” through a variety of integrated THSR holiday packages, and hotel and travel coupons to attract more passengers.
- 4) Enhancement of TGo membership system and related services through data analysis and provision of customer-based recommendations to increase purchase frequency, customer loyalty, ridership, and quality of customer relationships.
- 5) THSRC plans to utilize passenger flows to develop affiliated business such as shops, parking lots, advertising, and so on. We will also continue to develop retail products and expand sales channels to enrich passenger experiences and increase non-ticket revenues.
- 6) Integration of innovative technologies and applications in response to demand for timely and mobile ticket purchasing, making ticketing services available to all.

3. Future Strategies

As THSRC seeks to be a “To be the platform for advancement and enjoyment”, a vision we will continue to implement the strategies of our 4T program: Transportation, Technology, Taiwan, and Touch:

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

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

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

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

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

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

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

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

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

According to domestic economic forecasts released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan on November 30, 2018, Taiwan's export capabilities are on the rise due to advances in semiconductors, high performance computing, smart technology, IoT, automobile electronics, and 5G mobile communications. However, the trade disputes between the U.S. and China may have an impact on some export growth momentum and on private consumption. Rising uncertainty in global economic and financial markets put the expected economic growth rate of 2019 at 2.41%, somewhat lower than the growth rate for 2018 (2.66%). Despite these challenges, we will continue to launch new products and provide high-quality services to achieve ridership and revenue growth targets.

In terms of the legal environment, the Ministry of Transportation and Communications recently amended the Railway Act and a number of sub laws, including Railway Repair, Construction, and Maintenance Rules; Railway Transport Rules; Supervision of Local Railway, Private Railway, and Special Railway Regulations; Railway Train-Control Rules; Regulations for Affiliated Businesses of Local Railway, Private Railway, and Special Railway Institutions; Railway Driver Licenses Regulations for National Railway and Private Railway Drivers; Regulations of Construction Restrictions along Railways; Regulations for Discretionary Management of Train Driver Rating of Private Railways; and Measures of Damages and Subsidies for Accidents by Railway Operators. Additionally, changes made to the Mandatory and Prohibitory Provisions of Standard Form Contract for Railway Passenger Transportation in 2018 also had a positive effect on railway operational safety and passenger rights.

In addition, the government amended the "Protection of Children and Youths Welfare and Rights Act" on November 21, 2018 to add Article 33-3: "Passenger trains should retain a certain number of priority seats for families accompanying pregnant women and children." We plan to adjust our operational processes in order to comply with relevant regulations.

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



2

Company
Profile



1. Business Strategy and Vision

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

As a trusted long-term transportation provider for the general public, THSRC adheres to the five core values of “Discipline, Integrity, Efficiency, Innovation, and Sensibility” and the four attributes of “Real, Progressive, Passionate, and Premium” as we strive for sustainable management and innovation. THSRC’s corporate culture is founded on these core values and attributes, and our mission can be best exemplified by the guiding principle of “Go Extra Mile,” a slogan which aptly describes our commitment to meeting passenger needs and improving performance in all organizational facets.

THSRC strives to keep pace with modern advances and works with the general public in hopes of building a brighter and better future that can help us to achieve our vision--

“To be the platform for advancement and enjoyment”

Our Values

Discipline

Discipline is the cornerstone of our work habits. Discipline binds individuals and teams to rigorous safety standards, and demands adherence to standardized processes and regulations when completing tasks.

Integrity

Integrity means compliance with ethical, moral, professional, and corporate principles, courage to bear responsibilities and do the right thing, and displaying behaviors consistent with corporate values even when faced with pressures or challenges.

Efficiency

Efficiency means appropriate time management and resource utilization, using quick and flexible methods to complete tasks, and ensuring performance.

Innovation

Innovation means thinking outside the box, using new methods to solve problems, and generating value for both internal and external clients.

Sensibility

Sensibility starts with a humane approach, paired with rational thinking and communication, to bring warmth during interactions with others.

Our Attributes

Real

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

Progressive

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

Passionate

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

Premium

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

2. Historical Milestones

Incorporated on May 11, 1998

Development Stage

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

Construction Stage

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

October 2006 THSRC launches a new corporate identity system.

Operation Stage

January 2007	THSRC starts operating the rail line between Banqiao and Zuoying.
May 2007	Lehman Brothers Asia and the parties to the second syndicated loan agreement agree to raise credit facilities to NT\$65.5 billion.
September 2007	THSRC launches a 24-hour online reservation system.
November 2007	THSRC starts offering non-reserved seats on its trains.
January 2010	THSRC enters into another syndicated loan agreement with eight banks, under which THSRC secures NT\$382 billion in credit facilities for refinancing its existing two syndicated loans. THSRC, the syndicate, and the MOTC also renew their tripartite agreement.
February 2010	THSRC allows passengers to book, pay for, and collect train tickets at partnering convenience stores.
May 2010	THSRC draws down the facilities designated as tranches A, B, and C of its new loan of NT\$382 billion to repay the outstanding balance of its first syndicated loan of NT\$323.3 billion and tranches A, B, and C of its second loan.
August 2010	The Taiwan North-South High Speed Rail Project is honored with the Outstanding Civil Engineering Project Award by the Asian Civil Engineering Coordination Council. THSRC carries its 100 millionth passenger.
February 2011	THSRC tops an online poll conducted by the Public Construction Commission, Executive Yuan to select Taiwan's most important 100 public works.
October 2011	THSRC launches T Express, a new ticketing system that enables customers to book and purchase tickets using their smartphones.
November 2011	THSRC is recognized for its achievements in entrepreneurship by the Gre Tai Securities Market at the 1st Golden Laurel Awards.

April 2012	THSRC and the International Union of Railways (UIC) hold the 2nd UIC World High Speed Interaction Workshop, offering a global platform for exchanges between experts and institutions in the area of high-speed rail system maintenance.
July 2012	THSRC is selected as an overall winner across all categories in the 2012 Golden Service Awards hosted by CommonWealth Magazine.
November 2012	THSRC participates in the 14th UIC Regional Assembly for Asia and Oceania and the 11th Asian Management Committee (AMC) in Moscow, and is recognized as a member of the AMC effective from 2013. Lloyd's Register Quality Assurance issues an ISO 9001 compliance certificate for THSRC's rail operation, maintenance, and passenger service. All audited items were found to conform to the standards of ISO 9001 Quality Management System. National Geographic editors select one of THSRC's T Holiday packages as Best Winter Trip for 2013.
January 2013	THSRC holds groundbreaking ceremonies for new stations in Yunlin, Miaoli, and Changhua.
October 2013	THSRC raises passenger fares using a formula approved by the MOTC.
November 2013	THSRC receives the R.O.C. Enterprise Environmental Protection Award hosted by the Environmental Protection Administration for the third consecutive year.
December 2013	THSRC and the JR Kyushu Railway Company host a work practices exchange for train attendants to observe and learn different service cultures.
April 2014	THSRC tops the list in the Ground Transportation category of CommonWealth Magazine's Golden Service Awards.
May 2014	THSRC and the UIC jointly organize a series of conferences that include the 6th UIC Asia-Pacific Technical Directors Meeting, the 17th Asia-Pacific Regional Assembly, and the 1st UIC Conference on Natural Disaster Management of Railway Systems at Le Meridien Taipei.
January 2015	THSRC receives a carbon footprint certificate for high-speed rail service from the Environmental Protection Administration, Executive Yuan.
July 2015	THSRC and the MOTC enter into two agreements: the Fourth Supplement to Taiwan North-South High Speed Rail Construction and Operation Agreement, and the Termination of Taiwan North-South High Speed Rail Station Zone Development Agreement.
September 2015	THSRC establishes a Muslim prayer room at Taichung HSR Station in order to better cater to the needs of Muslim passengers.
December 2015	Three new HSR stations in Miaoli, Changhua, and Yunlin open for traffic. THSRC also announces schedule adjustments in the same month. Train fares are rolled back to the level they were before a hike was implemented.
March 2016	Shareholders, at an extraordinary general meeting, approve plans formulated by the THSRC Board for an initial public offering (IPO).
April 2016	Changhua HSR Station is named a Popular Choice Winner by the Architizer A+ Awards in the Bus & Train Station category. THSRC wins a Gold Award in the Transportation category by CommonWealth Magazine's 2016 Golden Service Awards.
May 2016	THSRC and the International High-Speed Railway Association (IHRA) hold the 5th annual meeting in Taipei.
July 2016	A new HSR station opens in Nangang District of Taipei City. The new Yunlin HSR station is awarded the Gold Level Green Building Certificate by the MOI and receives a green building placard.
August 2016	The new Miaoli HSR station is awarded the Diamond Level Green Building Certificate by the MOI and receives a green building placard. The new Changhua HSR station is awarded the Gold Level Green Building Certificate by the MOI and receives a green building placard.

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

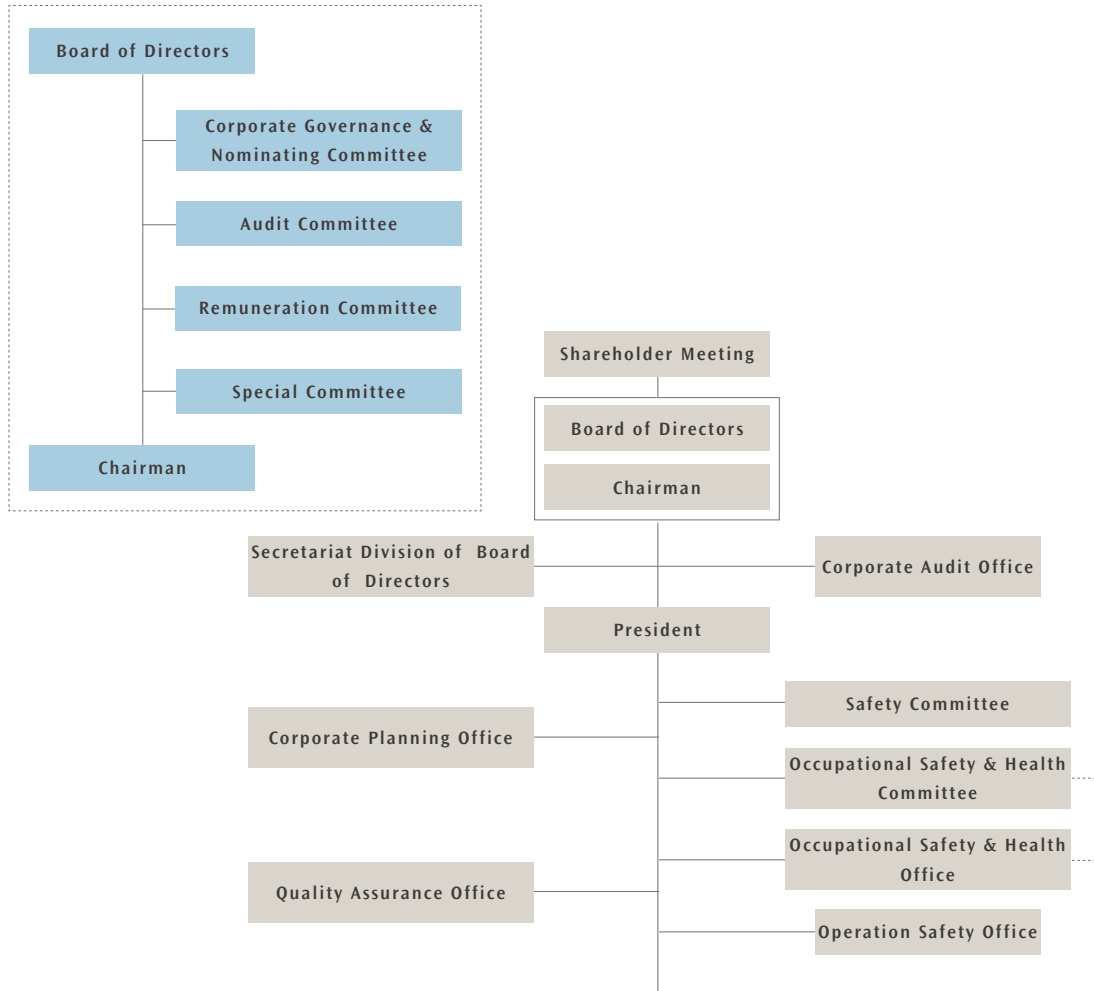


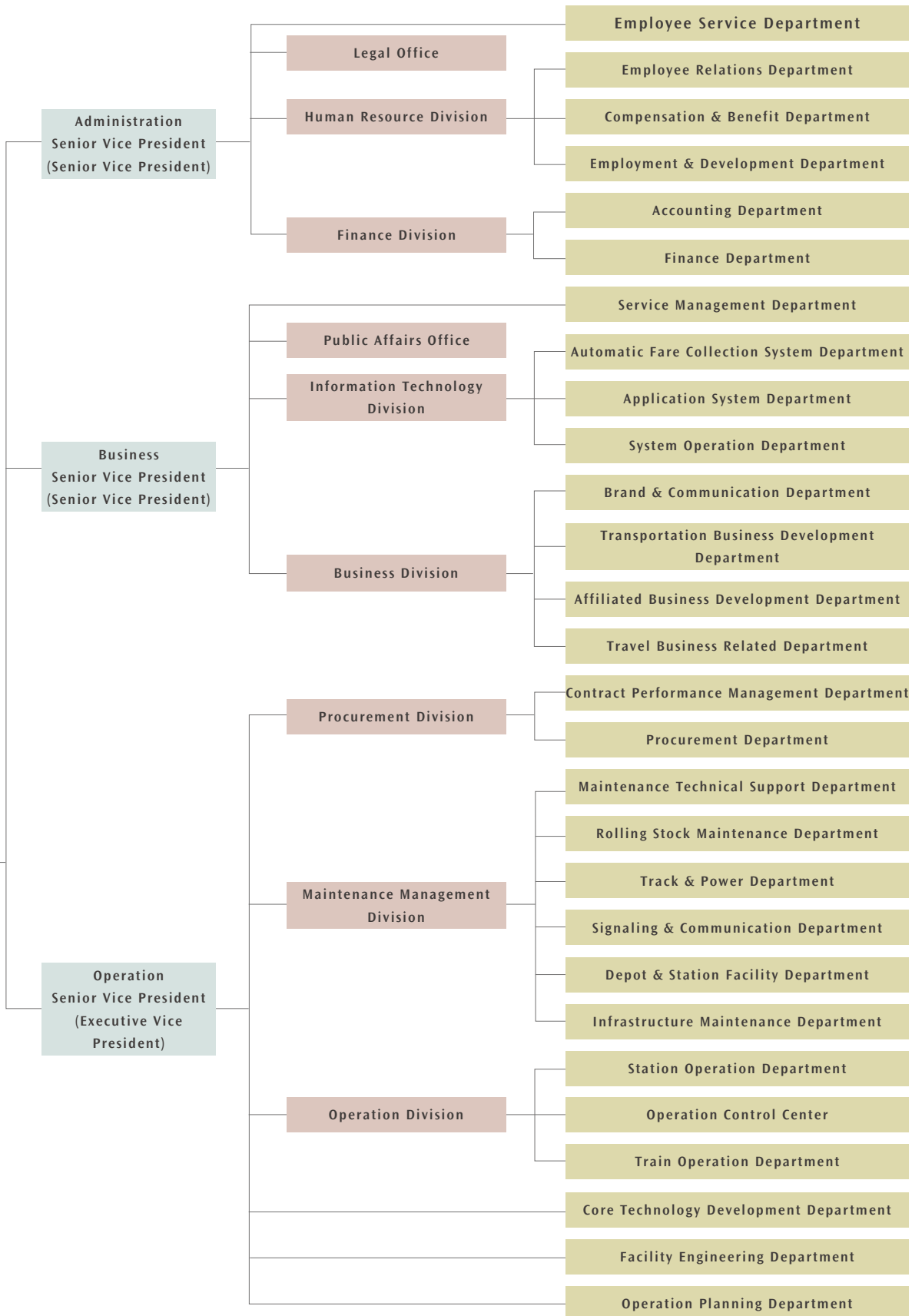
3

Corporate
Structure

1. Organizational Structure

(1) Corporation Organizational Structure





(2) Business Operations of Major Departments

Main duties of functional committees overseen by the Board of Directors

1) Corporate Governance & Nomination Committee

- A. Confirm qualifications of independent and non-independent directors considering varied measures such as professional and technical knowledge, experience, and gender as well as impartiality.
- B. Plan composition of the Board and functional committees, and assess performance of the Board and functional committees.
- C. Nominate independent directors and non-independent directors.
- D. Identify and evaluate independent directors and potential independent director candidates.
- E. Plan and review overall execution of directorship and functional committees.
- F. Plan and review liability insurance for directors and officers.
- G. Review the status of information disclosure.
- H. Review the planning, suggestion and implementation effectiveness of corporate governance system and review relevant by-laws.
- I. Review the effectiveness of corporate governance implementation.
- J. Other duties as required by Articles of Incorporation, guidelines for corporate governance, or resolutions of Board of Directors.

2) Audit Committee

- A. Formulate or revise internal control system as required by Article 14-1 of the Securities and Exchange Act.
- B. Evaluate the effectiveness of the Corporation's internal control system.
- C. Formulate or revise, as required by Article 36-1 of the Securities and Exchange Act, the procedures for major financial business conduct regarding acquisition or disposal of assets, undertaking of derivatives transactions, lending of capital, endorsement, or provision of guarantee for others.
- D. Approve items involving directors' own interests.
- E. Approve major asset and derivatives transactions.
- F. Approve major lending of capital, endorsement, or provision of guarantee.
- G. Review marketable securities offering/issuance, or the private placement of securities of equity characteristics.
- H. Assess appointment, discharge, or compensation of the Certified Public Accountant.
- I. Evaluate the Corporation's financial, accounting, or internal audit director's appointment, dismissal and performance.
- J. Review annual and semi-annual financial statements.
- K. Review Q1 and Q3 financial statements.
- L. Review the Corporation's accounting system/financial condition.
- M. Evaluate the Corporation's risk management policies and risk measurement standards.
- N. Approve procedures for major financial/business conduct.
- O. Assess, examine, and oversee existing or potential risks in the Corporation.
- P. Examine corporate's compliance to law and regulations.

- Q. Review corporate capital, financing, and credit plans.
- R. Assess corporate tax planning and compliance with tax regulations.
- S. Other major matters as required by competent authorities.
- T. Other duties as required by Articles of Incorporation or resolutions of Board of Directors.

3) Remuneration Committee

- A. Formulate and regularly review policies, systems, standards, and composition of performance evaluation and compensation of directors and officer.
- B. Regularly evaluate and formulate directors' and officers' compensation.

4) Special Committee

- A. Provide counsel and suggestions on major legal or contractual disputes and important institutional changes approved by the Board of Directors.
- B. Supervise procurement proposals made to the Board of Directors by functional managers.
- C. Other duties as required by Articles of Incorporation or resolutions of Board of Directors.

Main operational scope and duties of each department/unit

1) Secretariat Division of the Board of Directors

The Secretariat Division of the Board of Directors provides relevant resources or assistance to the Board of Directors and supporting committees to help them perform their duties and facilitate smooth operation of the Corporation's corporate governance system.

2) Corporate Audit Office

The Corporate Audit Office is responsible for planning and implementing annual audit plans, issuing audit reports in accordance with the Corporation's Internal Audit Procedures and related laws and regulations, and executing project audits according to instructions from the Board or board-appointed authorities.

3) Corporate Planning Office

The Corporate Planning Office is responsible for planning, analysis, and business integration of overall corporate operations, as well as management of major business projects.

4) Legal Office

The Legal Office is responsible for providing legal advice for all aspects of Corporation business; recording, classifying, storing, disseminating, and updating relevant legal documents; planning, promoting, and executing corporate governance systems and conducting corporate governance assessments; overseeing application, maintenance, protection, and authorized use of intellectual property rights; reviewing corporate contracts and formulating and revising contract templates; establishing and promoting the compliance system; planning and coordinating engineering, operational, and asset insurance, claims, or third-party claims cases; providing advice on insurance related matters and insurance policies.

5) Public Affairs Office

The Public Affairs Office is responsible for building communication channels to accurately convey corporate messages to internal and external stakeholders and planning and implementing corporate image projects, major milestone events, celebration ceremonies, and charity events.

6) Quality Assurance Office

The Quality Assurance Office is responsible for planning and management of the Corporation's quality management system (which adheres to ISO9001 international quality management standards and EN50126 European railway applications) and

full implementation and continuous improvement of Corporation quality policies and objectives. The main operations include quality management, government audit coordination, form management, system assurance, and internal control.

7) Operational Safety Committee

The Operational Safety Committee is responsible for handling all issues and risks relating to internal and external operations, formulating and promoting various policies and strategies relating to work safety, obtaining and coordinating relevant resources needed for work, monitoring performance and progress in various safety indicators, reviewing the response and inspection of all abnormal events, and following up on all correctional measures for “personnel, processes, and equipment”. The main operations are to ensure the safety of passengers and the HSR system, as well as the security of corporate information and the protection of personal data.

8) Occupational Safety and Health Committee

The Occupational Safety and Health Committee is responsible for making recommendations relating to occupational safety and health policies and self-management plans; preparation of safety and health management plans, indicators, and reports; and preparation of occupational hazard investigation reports. The committee has to convene at least once every three months and keep records of the meetings in accordance with relevant laws and regulations.

9) Occupational Safety and Health Office

The Occupational Safety and Health Office is responsible for formulating and promoting safety and health management matters; guiding implementation of relevant departments; identifying, analyzing, and managing occupational disasters; planning and implementing health checks, health management, health promotional measures, and occupational disease prevention procedures; establishing occupational safety audit procedures; and implementing occupational safety and health audits to ensure effective operations and continuous improvement of operating procedures.

10) Operational Safety Office

The Operational Safety Office is responsible for formulating the Corporation’s safety management system, management policies and management systems for personal information, safety policies, and safety objectives, and assessing the effectiveness of safety management procedures based on the “Railway Act”, the “Disaster Prevention and Protection Act”, the “All-out Defense Mobilization Readiness Act” and related laws and regulations. The main operations of the Operational Safety Office include three main aspects: investigation, operation maintenance, and disaster prevention.

11) Finance Division

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

12) Human Resource Division

The Human Resources Division is responsible for integrated management and planning of human resources; drafting of relevant policies; establishing and reviewing salary profit structure to maintain salary competitiveness and incentives; optimizing human resources structures, and policies relating to salaries, promotions, and performance appraisals; organizational management, integration of human resource requirements, and procedures relating to hiring and firing of human resources; establishment of career development systems, training programs, and implementation of annual training programs; establishment and maintenance of internal communication systems; maintenance and promotion of labor-management and union relations; and the establishment and implementation of employee care service systems.

13) Information Technology Division

The Information Technology Division is responsible for the planning, development, operation, and maintenance of the

Corporation's overall information system, including: research on information systems development strategies, information system architecture planning, evaluation and introduction of application systems, maintenance and management of automatic toll collection systems, server maintenance, education and training of information systems, management of information security, and other information management operations.

14) Business Division

The Business Division is mainly responsible for market research and analysis, planning of transport products and services, development and promotion of tourism products, planning and management of affiliated services, and management of corporate branding and communications to ensure maximization of Corporation revenues.

15) Operation Division

The Operation Division is responsible for planning and executing procedures relating to train maintenance, train operations, traffic monitoring, station management, passenger services, ticketing operations, and trolley sales.

16) Maintenance Management Division

The Maintenance Management Division is responsible for maintenance of core electromechanical systems for rolling stock, track, power, signaling and communication systems, as well as infrastructure maintenance and depot and station facilities.

17) Procurement Division

The Procurement Division is responsible for establishing fair and open procurement procedures to improve procurement efficiency and functionality and safeguard procurement quality; ensuring that the establishment/maintenance/management of purchasing policies and strategies are at maximum efficiency for Corporation operations and management; developing supplier sources and managing supplier and material contracts; reducing costs and ensuring stable supply of materials; strengthening material inventory management; and providing assistance and advice on contract management and claims management to contract management units to protect corporate interests.

18) Core Technology Development Department

The Core Technology Development Department is responsible for planning and designing of the core electromechanical systems for new high-speed railway projects, as well as system renewal and improvement.

19) Facility Engineering Department

The Facility Engineering Department is responsible for planning and designing of subsequent station construction work and provision of technical support for environmental assessments and budget management.

20) Employee Service Department

The Employee Service Department is responsible for handling general administrative affairs of the Corporation, documentation, resource integration, formulation of management system, coordination and supervision of administrative work at each station, planning and management of Corporation rules and regulations, and management of seals, archives, and documents.

21) Operational Planning Department

The Operational Planning Department is responsible for strategic evaluation of the transportation, maintenance, engineering, and technology related departments; operational planning; cost and asset management; maintenance management, and planning and management of professional training programs.

22) Service Management Department

The Service Management Department is responsible for handling and responding to customer comments; conducting analysis; managing customer service centers; and representing the Corporation in consumer dispute negotiations with consumers and the private sector.

2. Board of Directors

(1) Directors

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

Thousands of shares; % (as of 2019/04/01)

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

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

Director	R.O.C.	Taipei Fubon Commercial Bank Co., Ltd.	—	2017/05/24	2020/05/23	1998/04/13	20,277	0.36	20,277	0.36
	R.O.C.	Representative: Liu, Kuo-Chih	Male	2017/05/24	2020/05/23	2010/05/24	45	0	45	0

Director	R.O.C.	China Steel Corporation	—	2017/05/24	2020/05/23	2009/11/10	242,148	4.30	242,148	4.30
	R.O.C.	Representative: Wang, Shyi-Chin (Note 1)	Male	2019/01/03	2020/05/23	2019/01/03	0	0	0	0
	R.O.C.	Former Representative: Wong, Chao-Tung (Note 1)	Male	2018/03/31	2019/01/03	2018/03/31	0	0	0	0

R.O.C.	Former Representative: Liu, Jih-Gang (Note 1)	Male	2017/05/24	2018/03/31	2017/01/10	0	0	0	0
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Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
Shares	%	Shares	%			Title	Name	Relation
0	0	0	0	—	—	None	None	None
0	0	0	0	MBA, The Wharton School, University of Pennsylvania Bachelor of Economics, Keio University	<ul style="list-style-type: none"> •Chairman, Century Development Corporation •Director, TECO Electric & Machinery Co., Ltd. •Supervisor, An-Shin Food Services Co., Ltd. •Honorary Chairman, Chinese National Association of Industry & Commerce, Taiwan 	None	None	None
0	0	0	0	—	—	None	None	None
0	0	0	0	Ph.D. in Physics, Massachusetts Institute of Technology <ul style="list-style-type: none"> •President, Taiwan High Speed Rail Corporation •President, Taiwan Aerospace Corp. •Chairman, Fubon Land •Chairman, Fubon Real Estate Management 	<ul style="list-style-type: none"> •Senior Consultant, Fubon Land 	None	None	None
0	0	0	0	—	—	None	None	None
0	0	0	0	Ph. D., Materials and Optoelectronic Science, National Sun Yat-Sen University <ul style="list-style-type: none"> •Vice President, Technical Department, China Steel Corporation 	<ul style="list-style-type: none"> •Executive Vice President, China Steel Corporation •Chairman, Dragon Steel Corporation •Director, China Steel Chemical Corporation 	None	None	None
0	0	0	0	Ph.D. in Resources Engineering, National Cheng Kung University <ul style="list-style-type: none"> •Vice President, China Steel Corporation 	<ul style="list-style-type: none"> •Chairman, China Steel Corporation •Chairman, China Prosperity Development Corporation •Chairman, Ascentek Venture Capital Corporation •Director, Dragon Steel Corporation •Director, China Ecotek Corporation •Director, Gains Investment Corporation •Director, China Steel Chemical Corporation •Director, Chung Hung Steel Corporation 	None	None	None
0	0	0	0	B.A. in Engineering Mechanics, National Taiwan University <ul style="list-style-type: none"> •Deputy Plant Manager, Assistant Vice President of Sales, Vice President, China Steel Corporation •Vice President of Production, President, Chung Hung Steel Corporation •Chairman, China Steel Global Trading Corporation 	—	None	None	None

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term	Date First Elected	Shareholding when Elected		Current Shareholding	
							Shares	%	Shares	%
Director	R.O.C.	TSRC Corporation	—	2017/05/24	2020/05/23	2012/06/22	20,000	0.36	10,001	0.18
	R.O.C.	Representative: Chiang, Chin-Shan	Male	2017/05/24	2020/05/23	2009/10/09	19	0	19	0
Director	R.O.C.	Taiwan Sugar Corporation	—	2017/05/24	2020/05/23	2000/06/27	200,000	3.55	200,000	3.55
	R.O.C.	Representative: Kwan, Tao-I	Male	2017/05/24	2020/05/23	2016/09/01	0	0	0	0
Director	R.O.C.	Management Committee of National Development Fund, Executive Yuan	—	2017/05/24	2020/05/23	2009/11/10	120,000	2.13	120,000	2.13
	R.O.C.	Representative: Kao, Shien-Quey	Female	2017/05/24	2020/05/23	2016/10/14	0	0	0	0
Director	R.O.C.	Evergreen Steel Corporation	—	2017/05/24	2020/05/23	2017/05/24	16,000	0.28	16,000	0.28
	R.O.C.	Representative: Ko, Lee-Ching	Female	2017/05/24	2020/05/23	2001/07/13	0	0	0	0

Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
Shares	%	Shares	%			Title	Name	Relation
0	0	0	0	—	—	None	None	None
8	0	0	0	Master's Degree in Public Administration, National Chengchi University • Executive Vice President, China Development Financial Holding Corporation • Vice President, Taiwan High Speed Rail Corporation • Assistant Vice President, ShanghaiMart • Assistant Vice President, Continental Engineering Corporation	• Director, Senior Advisor, Wei-Dar Development Co., Ltd. • Chairman, Metropolis Property Management and Maintenance Corporation • Director, TSRC Corporation	None	None	None
0	0	0	0	—	—	None	None	None
0	0	0	0	M.S. from the Institute of Traffic and Transportation, National Chiao Tung University • Section Chief, Assistant Manager, Deputy Division Chief, CEO, Division Chief, Vice President, Taiwan Sugar Association	• President, Taiwan Sugar Corporation • Director, Foundation of Taiwan Sugar Association	None	None	None
0	0	0	0	—	—	None	None	None
0	0	0	0	M.S. in Economics, National Taiwan University Bachelor's Degree in Economics, National Taiwan University • Secretary General, National Development Council, Executive Yuan • Secretary General, Council for Economic Planning and Development, Executive Yuan • Director, Department of Economics Research, CEPD • Deputy Director, Department of Overall Planning, CEPD	• Deputy Minister, National Development Council, Executive Yuan	None	None	None
0	0	0	0	—	—	None	None	None
0	0	0	0	• Second Vice Group Chairman of Evergreen Group	• Chairman, Evergreen International Corporation • Director, Evergreen Marine Corp. (Taiwan) Ltd. • Director, EVA Airways Corporation • Director, Evergreen International Storage & Transport Corporation • Director, Evergreen Steel Corporation • Director, Evergreen Security Corporation • Director, Shun An Enterprise Corporation • Director, Charng Yang Development Co., Ltd. • Supervisor, Ever Reward Logistics Corporation • Supervisor, Evergreen Air Cargo Services Corporation • Supervisor, Evergreen Airline Services Corporation • Supervisor, Hsin Yung Enterprise Corporation • Supervisor, Ever Ecove Corporation	None	None	None

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

Note 1: Institutional director China Steel Corporation changed its representative to Mr. Wong Chao-Tung on 2018/03/31, and Mr. Liu Jih-Gang was relieved of office on the same day; the representative was changed to Mr. Wang Shyi-Chin on 2019/01/03, and Mr. Wong Chao-Tung was relieved of office on the same day.

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

(2) Major Shareholders of The Institutional Shareholders

List of major shareholders of the institutional shareholders

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)
China Aviation Development Foundation	Non-corporate organization
Ministry of Transportation and Communications, R.O.C.	Government Institution
TECO Electric & Machinery Co., Ltd.	Silchester International Investors International Value Equity Trust (4.50%), Silchester International Investors International Value Equity Group Trust (2.34%), PJ Asset Management Co., Ltd. (2.26%), Edgbaston Asian Equity Trust (2.25%), WGI Emerging Markets Smaller Companies Fund, LLC (1.96%), Silchester International Investors International Value Equity Taxable Trust (1.52%), Tong Kuang Investment Co., Ltd. (1.52%), Chungghwa Post Co., Ltd. (1.50%), Yaskawa Electric Corporation (1.48%), JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.47%).
Taipei Fubon Commercial Bank Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
China Steel Corporation	Ministry of Economic Affairs (20.00%), Employee's Stock Trust of China Steel Corporation under the custody of Mega International Commercial Bank Co., Ltd. (4.22%), Transglory Investment Corporation (1.62%), Vanguard Emerging Markets Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.19%), Vanguard Total International Stock Index Fund under the custody of JP Morgan Chase Bank N.A. Taipei Branch (1.13%), Winning Investment Corporation (1.01%), Labor Insurance Fund (0.97%), Norges Bank Investment Management under the custody of Citibank (Taiwan) Limited (0.94%), Public Service Pension Fund Management Board (0.94%), Fubon Life Insurance Co., Ltd. (0.85%).
TSRC Corporation	Panama Banco industrial company (8.4%), Hao Ran Foundation (7.3%), Wei Dah Development Co., Ltd. (6.5%), Formosa Plastics Marine Corporation (5%), Cathay Life Insurance Co., Ltd. (4.9%), CITI bank Taiwan branch in custody for Government of Singapore Investment Fund (4.4%), Tameton Group Limited (4.2%), Fubon Life Insurance Co., Ltd. (3.8%), Metacity Development Corporation (3.8%), HSBC as trustee of Fidelity International Korea (2%)
Taiwan Sugar Corporation	Ministry of Economic Affairs (86.15%), Northern Region Branch, National Property Administration, MOF (9.92%), First Commercial Bank (0.75%), Chang Hwa Commercial Bank (0.41%), Bank of Taiwan (0.36%), Taiwan Business Bank Co., Ltd. (0.30%), Hua Nan Commercial Bank (0.14%), Central Investment Co. (0.14%), Mega International Commercial Bank Co., Ltd. (0.13%), Land Bank of Taiwan (0.08%), Taiwan Cooperative Commercial Bank (0.08%)
Management Committee of National Development Fund, Executive Yuan	Government Institution
Evergreen Steel Corporation	Evergreen International Corporation (30.26%), EVA Airways Corporation (9.42%), Continental Engineering Corporation (6.33%), Chang, Kuo-Hwa (6.17%), Chang, Kuo-Ming (6.17%), Chang, Kuo-Cheng (6.17%), Chang Yung-Fa Foundation (6.17%), Ming Yu Investment Co. Ltd (4.36%), Wei-Dar Development Co., Ltd. (3.16%), TSRC Corporation (3%)

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

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

Note 3: Data is mostly sourced from information provided by institutional shareholders in April 2019, while some is sourced from the Commerce Industrial Services Portal or the website of said shareholder.

Major shareholders of the Company's major institutional shareholders

Name of institutional shareholders (Note 1)		Major shareholders (Note 2)
TECO Electric & Machinery Co., Ltd.	Tong Kuang Investment Co., Ltd.	Kuang Yuan Industrial Co., Ltd. (39.28%), Ms. Huo-Huei Lin Huang (35.01%), Bright Lane Investments, Ltd. (12.73%), Tong Ho Global Investment Co., Ltd (6.00%), Other (6.98%)
	PJ Asset Management Co., Ltd.	Ho Yang Management Consulting Co. (94.95%), Other (5.05%)
	Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications, R.O.C. (100%)
Yaskawa Electric Corporation		Japan Trustee Services Bank Ltd. (9.89%), The Master Trust Bank of Japan, Ltd. (9.12%), MIZUHO Bank, Ltd. (MHBK) (3.04%), Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited Employee Retirement Benet Trust Account) (2.99%), Meiji Yasuda Life Insurance Company (2.92%), Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited ReTrust Account, The Bank of Fukuoka, Ltd. Employee Retirement Benet Trust Account) (2.39%), Japan Trustee Services Bank, Ltd. (Trust Account 5) (account in trust 5)(1.66%), State Street Bank West Client-Treaty 505234 (1.63%), BBH for Global X Robotics and Artificial Intelligence ETF (1.55%), The Dai-Ichi Life Insurance Company, Ltd. (1.54%)
	Fubon Financial Holding Co., Ltd.	Taipei City Government (13.11%), Ming Dong Co., Ltd. (8.45%), Dao Ying Co., Ltd. (7.73%), Richard M. Tsai (3.20%), Daniel M. Tsai (3.01%), Hung Fu Investment Co., Ltd. (2.57%), New Labor Pension Fund (1.48%), Citibank (Taiwan) in its capacity as Master Custodian for Investment Account of GIC Pte Ltd. (Singapore) (1.46%), Chung Shing Development Co., Ltd. (1.42%), Shin Kong Life Insurance Co., Ltd. (1.39%)
	Ministry of Economic Affairs	Government Institution
China Steel Corporation	Transglory Investment Corporation	China Steel Express Corporation (49.89%), Chung Hung Steel Corporation (40.91%), China Steel Chemical Corporation (9.20%)
	Winning Investment Corporation	Gains Investment Corporation (49%), Maruichi Steel Tube Ltd. (42%), Transglory Investment Corporation (9%)
	Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
TSRC Corporation	Hao Ran Foundation	Non-corporate organization
	Wei Dah Development Co., Ltd.	Ching Shan Zhen Corporation (99.80%)
	Formosa Plastics Marine Corporation	Formosa Petrochemical Transportation Corp. (35%), Formosa Petrochemical Corporation (20%), Formosa Chemicals & Fiber Corporation (15%), Nan Ya Plastics Corporation (15%), Formosa Plastics Corporation (15%)
	Cathay Life Insurance Co., Ltd.	Cathay Financial Holding Co. Ltd. (100%)
	Fubon Life Insurance Co., Ltd.	Fubon Financial Holding Co., Ltd. (100%)
	Metacity Development Corporation	Ching Shan Zhen Corporation (99.80%)

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)
Ministry of Economic Affairs	Government Institution
Northern Region Branch, National Property Administration, MOF	Government Institution
First Commercial Bank	First Financial Holding Co. Ltd. (100%)
Chang Hwa Commercial Bank	Taishin Financial Holding Co., Ltd (22.55%), Ministry of Finance(12.19%), Lungyen Life Service Corporation, Ltd. (3.92%), First Commercial Bank(2.86%), Management Committee of National Development Fund, Executive Yuan(2.75%), Cheng Chang Investment Co., Ltd(1.84%), Chunghwa Post Co., Ltd. (1.77%), Excel Chemical Co., Ltd (1.58%), Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds(1.08%), Taiwan Business Bank Co., Ltd. (0.99%), Lee Investment Co., Ltd(0.99%)
Bank of Taiwan	Taiwan Financial Holdings Co., Ltd (100%)
Taiwan Sugar Corporation Taiwan Business Bank Co., Ltd.	Bank of Taiwan (17.22%), Land Bank of Taiwan (2.43%), Ministry of Finance (2.21%), JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds (1.19%), Kin Ming Investment Co., Ltd (1.09%), JPMorgan Chase Bank N.A. Taipei Branch in Custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.05%), Chun Jin Shi (1.04%), BES Engineering Corporation (0.92%), China Man-Made Fiber Corporation (0.90%), HSBC as trustee of Morgan Stanley International (0.83%)
Hua Nan Commercial Bank	Hua Nan Financial Holding Co Ltd. (100%)
Central Investment Co.	Kuomintang (100%)
Mega International Commercial Bank Co., Ltd.	Mega Financial Holding Co Ltd. (100%)
Land Bank of Taiwan	Ministry of Finance (100%)
Taiwan Cooperative Commercial Bank	Taiwan Cooperative Financial Holding Co., Ltd. (100%)

Name of institutional shareholders (Note 1)	Major shareholders (Note 2)
Evergreen International Corporation	Chang Yung-Fa Foundation (28.86%), Chang, Kuo-Cheng (16.67%), Chang, Kuo-Hwa (12.9%), Chang, Kuo-Ming (12.19%), Lee, Yu-Mei (7.14%), Chen, Hui-Chu (5.81%), Yang, Mei-Chen (5.1%), Chang Yung-Fa Charity Foundation (5%), Chang Yung-Fa (5%), Tseng, Chiung-Hui (1.33%)
EVA Airways Corporation	Evergreen marine corporation (Taiwan) Ltd. (16.09%), Evergreen International Corporation (11.38%), Falcon Investment Services Ltd. (10.71%), Evergreen Steel Corporation (5.02%), Chang Yung-Fa (2.73%), Chang, Kuo-Cheng (1.92%), New Labor Person Fund (1.69%), Chang, Kuo-Ming (1.16%), Evergreen International Storage & Transport Corporation (1.08%), Chang, Kuo-Hwa (0.87%)
Continental Engineering Corporation	Continental holdings Corp. (100%)
Evergreen Steel Corporation	Chang Yung-Fa Foundation
	Non-profit Organization
	Ming Yu Investment Co. Ltd
	Evergreen Steel Corporation (100%)
	Wei Dah Development Co., Ltd.
	Ching Shan Zhen Corporation (99.8%)
	TSRC Corporation
	Panama Banco industrial company (8.4%), Hao Ran Foundation (7.3%), Wei Dah Development Co., Ltd. (6.5%), Formosa Plastics Marine Corporation (5%), Cathay Life Insurance Co., Ltd. (4.9%), CITI bank Taiwan branch in custody for Government of Singapore Investment Fund (4.4%), Tameton Group Limited (4.2%), Fubon Life Insurance Co., Ltd. (3.8%), Metacity Development Corporation (3.8%), HSBC as trustee of Fidelity International Korea (2%)

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

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

Note 3: Data is mostly sourced from information provided by institutional shareholders in April 2019, while some is sourced from the Commerce Industrial Services Portal or the website of said shareholder.

(3) Independence Analysis of Directors

Director qualifications

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

Note 1: A check mark is placed in the box for directors who fulfill the following conditions during and two years prior to their time in office.

- (1) Is not hired by the Corporation or any of its affiliates.
- (2) Is not a director or supervisor in the Corporation or any of its affiliates (this, however, is excepted for independent directors established in accordance with relevant local laws for the Corporation, its parent company, or subsidiary companies).
- (3) Is not a natural-person shareholder holding more than 1% of the Corporation's total issued stock under the name of one's own, spouse or minor children, nor is one of the Corporation's top ten natural-person shareholders.
- (4) Is not the spouse, relatives within the relation second degree of kinship, or lineal dependent within the third degree of kinship, of any of the person in the preceding three sub-paragraphs.
- (5) Is not a director, supervisor, employee who directly or indirectly holds more than 5% of the Corporation's total issued stock or a director, supervisor or employee of one of the Corporation's top five largest shareholders.
- (6) Is not a director, supervisor, manager or holder of more than 5% of stock shares in a company or institution that has financial or business relationship with the Corporation.
- (7) Is not the head of, a partner, a director, supervisor, or manager or their respective spouse of a consulting firm, sole investor, partner, company or organization that has provided commercial, legal, financial and accounting services or consultancy to the Corporation or its affiliates. An exception to this rule is made for remuneration committee members exercising their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter.
- (8) Has no spousal relationship and are not relatives within the relation rank 2 of other Corporation directors.
- (9) Has not violated any regulation in Article 30 of the Company Act.
- (10) Is not elected as the government, a corporate person or its representative in accordance with Article 27 of Company Act.

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

3. Management Team

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

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
President	R.O.C.	James Jeng	Male	2014/03/14	21	0	0	0	0	0
Operation Senior Vice President/ Executive Vice President	R.O.C.	John Chen	Male	2007/03/12	21	0	0	0	0	0
Administration Senior Vice President	R.O.C.	Barret Wang	Male	2006/12/01	12	0	3	0	0	0
Business Senior Vice President Spokesperson, and Head of Business Division	R.O.C.	Johnson Sun	Male	2017/02/15	0	0	0	0	0	0
Vice President, Finance Division	R.O.C.	Eleanore New	Female	2006/06/01	3	0	0	0	0	0
Vice President, Corporate Planning Office	R.O.C.	Rae Chung	Female	2005/06/06	0	0	0	0	0	0
Vice President, Operation Division	R.O.C.	Andy Lu	Male	2006/12/01	6	0	0	0	0	0
Vice President, Maintenance Management Division	R.O.C.	James Shi	Male	2007/01/02	21	0	0	0	0	0
Assistant Vice President, Employee Service Department	R.O.C.	Shirley Lai	Female	2003/09/16	0	0	0	0	0	0
Assistant Vice President, Quality Assurance Office	R.O.C.	Max Liu	Male	2008/06/16	12	0	0	0	0	0
Assistant Vice President, Accounting Department of Finance Division	R.O.C.	Griffin Huang	Male	2017/10/19	0	0	0	0	0	0
Assistant Vice President, Procurement Division	R.O.C.	Tim Fu	Male	2014/01/01	25	0	0	0	0	0
Assistant Vice President, Public Affairs Office	R.O.C.	Elaine Tsou	Female	2016/07/15	14	0	0	0	0	0
Assistant Vice President, Transportation Business Development Department of Business Division	R.O.C.	Hsin-Hsiung Chen	Male	2008/09/01	15	0	0	0	0	0

Thousands of shares; % (as of 2019/04/01)

Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
		Title	Name	Relation
Ph.D. in Transportation Management, National Chiao Tung University M.S. in Ocean Systems Management, Massachusetts Institute of Technology •Chairman, EVA Airways Corporation •Chairman, UNI Airways Corporation •Vice Chairman, Italia Marittima S.p.A., a wholly-owned subsidiary of Evergreen Group •Executive Vice President, Evergreen Marine Corporation	None	None	None	None
M.S. in Computer Science, Alabama Agricultural and Mechanical University B.S. in Civil Engineering, National Central University •Director, Muzha Division, Taipei Rapid Transit Corporation	None	None	None	None
LL.B National Taiwan University •Attorney-at-Law, Chun He Law Firm	None	None	None	None
B.A. in Navigation, China College of Marine Technology and Commerce •General Manager, Taiwan Airport Service Co., Ltd. •General Manager, China Airlines Osaka Branch Office	None	None	None	None
Executive MBA, National Taiwan University MBA, New York Institute of Technology •Vice President, Taishin International Bank Co., Ltd. •Vice President, UBS AG, Taipei Branch •Assistant Vice President, Bank of America N.T. & S.A., Taipei Branch	None	None	None	None
B.A. in Economics, Tamkang University •Marketing Manager, New Zealand Milk Products (Far East) Ltd., Taiwan Branch	None	None	None	None
Executive MBA, College of Management, National Sun-Yat-Sen University Executive MBA (Asia-Pacific), The Chinese University of Hong Kong •Assistant Manager, EVA Airways Corporation •Assistant Vice President, Head of Maintenance Management Division, Taiwan High Speed Rail Corporation •Assistant Vice President, Operation Sub-Division, Taiwan High Speed Rail Corporation	None	None	None	None
M.S. in Electrical Engineering, Northeastern University, Boston Massachusetts, USA •Deputy Director of Affiliated Business Development Department, Taipei Rapid Transit Corp. •Director of Maintenance Department, Taipei Rapid Transit Corp. •Assistant Vice President, Head of Maintenance Division, Taiwan High Speed Rail Corporation •Assistant Vice President, Head of Operation Division, Taiwan High Speed Rail Corporation	None	None	None	None
Master of Management, University of Southern Queensland, Australia •Supervisor & Independent Director, Excelsior Medical Co., Ltd. •Certified public accountant, Deloitte Taiwan	None	None	None	None
B.E. in Mechanical Engineering, National Chiao Tung University EMBA, National Chengchi University •Special Assistant to the Chairman, DJ Auto Components Corporation (an investee company of Germany-based Hella KGaA Hueck & Co.) •Director, International High-Speed Rail Association	None	None	None	None
Master of Business Administration, Nation Taipei University •Senior Manager, Deloitte & Touche	None	None	None	None
B.S. in Computer Science, Tamkang University •Instructor, Vocational Training Center, Department of Labor, Taipei City Government •Manager, Pfizer Inc. •Assistant Vice President, Corporate Audit Office, Taiwan High Speed Rail Corporation	None	None	None	None
B.A. in Mass Communication, Fu Jen Catholic University •Assistant Vice President, Public Affairs Department, Wei Chuan Foods Corporation •Manager, Public Affairs Department, KFC of Yum Brands Inc.	None	None	None	None
Ph.D. in Transportation Engineering Division, Institute of Civil Engineering, National Taiwan University	None	None	None	None

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%
Assistant Vice President, Affiliated Business Development Department of Business Division	R.O.C.	Ting-Tsun Chen	Male	2008/02/25	0	0	0	0	0	0
Assistant Vice President, Train Operation Department of Operation Division	R.O.C.	Paul Hwang	Male	2006/11/06	0	0	0	0	0	0
Assistant Vice President, Operation Control Center of Operation Division	R.O.C.	Alpha Lin	Male	2006/11/06	0	0	0	0	0	0
Assistant Vice President, Station Operation Department of Operation Division	R.O.C.	Paul Yang	Male	2016/04/01	14	0	0	0	0	0
Assistant Vice President, Track & Power Department of Maintenance	R.O.C.	Eric Cheng	Male	2006/11/06	11	0	0	0	0	0
Assistant Vice President, Depot & Station Facility Department of Maintenance Management Division	R.O.C.	Bob Chen	Male	2014/01/01	0	0	0	0	0	0
Assistant Vice President, Rolling Stock Maintenance Department of Maintenance Management Division	R.O.C.	Vincent Huang	Male	2016/04/01	42	0	0	0	0	0
Assistant Vice President, Core Technology Development Department	R.O.C.	Sheng-Hsin Yu	Male	2015/01/01	6	0	0	0	0	0
Assistant Vice President, Facility Engineering Department	R.O.C.	Tom Tsai	Male	2016/04/01	61	0	40	0	0	0
Assistant Vice President, Application System Department and Automatic Fare Collection System Department, Information Technology Division	R.O.C.	Calvin Yen	Male	2016/04/01	25	0	0	0	0	0
Senior Manager, Corporate Audit Office	R.O.C.	Roger Chu	Male	2017/02/15	1	0	0	0	0	0
Senior Manager, Occupational Safety & Health Office	R.O.C.	Chris Lee	Male	2016/02/15	1	0	0	0	0	0
Senior Manager, Operation Safety Office	R.O.C.	Paul Hsu	Male	2019/01/13	1	0	0	0	0	0

Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
		Title	Name	Relation
Master of Science In Finance, Golden Gate University •Director, Sales & Marketing Department, Far EastOne Telecommunications Co., Ltd.	None	None	None	None
M.S. Transportation and Communication Management Science, National Chen Kung University •Vice President of Figaro Philippine Holdings Inc. •Director of Training Center, Deputy Director of OCC, Taipei Rapid Transit Corp. •Engineer/Junior Engineer, Department of Rapid Transit Systems, Taipei City Government, R.O.C.	None	None	None	None
Master of Systems Analysis Group, Institute of Management Science, Tamkang University •Director of OCC and Director of Train Operation Center, Taipei Rapid Transit Corp.	None	None	None	None
Electronic Computer Science, Tamkang University •Programmer of Panasonic Taiwan •Deputy Engineer of Chang-Lung Information •Engineer of EVA Air •Senior Manager, Station Operation Department ; Assistant Vice President, Train Operation Department , Taiwan High Speed Rail Corporation	None	None	None	None
Department of Electrical Engineering, National Taiwan University of Science and Technology •Electrical Engineering Plant Director & Power Supply Plant Director, Taipei Rapid Transit Corp.	None	None	None	None
Executive MBA, National Sun-Yat-Sen University •Section Chief, EVA Air	None	None	None	None
Mechanical Department, St. John's and St. Mary's Institute of Technology •Deputy Section Chief, Evergreen Steel Corp. •Section Chief, Evergreen Steel Corp.(Malaysia) •Section Chief, Evergreen Steel Corp. •Assistant Manager, Manager, Senior Manager, Taiwan High Speed Rail Corp.	None	None	None	None
Master's Degree in Electrical Engineering, University of Memphis, U.S.A. •Electronics Engineering Plant Director, Taipei Rapid Transit Corp.	None	None	None	None
Master's Degree from the Culture Planning Institute, Chinese Culture University Department of Architecture, Tamkang University •Manager, Kangshe Construction Corp.	None	None	None	None
B.S. in Computer Science, Tamkang University •Project Engineer, EVA Air •Manager, Information office, Ever Rich Group Corp. •Manager, Warehouse Management Department, Ever Rich Group Corp. •Project Manager, NCR Corp. •Senior Manager, Information Technology Division, Taiwan High Speed Rail Corporation	None	None	None	None
B.A. in Accounting, National Chengchi University •Audit Manager, Deloitte Taiwan •Assistant Vice President, Accounting Department, New Century InfoComm Tech Co., Ltd. •Assistant Vice President, Worldwide Semiconductor Manufacturing Co., Ltd. (WSMC)	None	None	None	None
Ph.D. in Department of Technology Management, Chung Hua University M.Sc. in Construction Management at USC, U.S.A. M.Sc. in Environmental Engineering at National Taiwan University R.O.C. •Engineer Director, Senior Engineer, and Director Engineer, Environment Protection Section, Taiwan High Speed Rail Corporation •Commissioner, Fubon Land Inc. •Engineer, Kajima Eng. & Construction Inc., U.S.A. •Deputy Engineer, Taiwan Building and Urban Developing Bureau	None	None	None	None
Master's Degree, Department of Civil Engineering, National Chung Hsing University •Assistant Researcher, National Disaster Prevention and Technology Center •Disaster Response Team Leader, the Taipei City Government •MRT Planner, Taipei Rapid Transit Corporation	None	None	None	None

4. Remuneration to Directors and Department Heads

(1) Remuneration to Directors (including Independent Directors), President, and Vice Presidents in the most recent year

1) Remuneration to Directors (including Independent Directors) (Names and method of payment listed)

Title	Name	Remuneration							
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D)	
		The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements
China Aviation Development Foundation		0	0	0	0	7,499	7,499	0	0
Chairman Representative: Chiang, Yao-Chung		8,364	8,364	0	0	0	0	160	160
Director Representative: Tsai, Huang-Liang		0	0	0	0	0	0	184	184
Ministry of Transportation and Communications, R.O.C.		0	0	0	0	3,750	3,750	94	94
Director Representative: Liu, Ming-Ching		0	0	0	0	0	0	98	98
TSRC Corporation		0	0	0	0	3,750	3,750	0	0
Director Representative: Chiang, Chin-Shan		0	0	0	0	0	0	88	88
Taipei Fubon Commercial Bank Co., Ltd.		0	0	0	0	3,750	3,750	0	0
Director Representative: Liu, Kuo-Chih		0	0	0	0	0	0	144	144
TECO Electric & Machinery Co., Ltd.		0	0	0	0	3,750	3,750	0	0
Director Representative: Huang, Mao-Hsiung		0	0	0	0	0	0	128	128
Evergreen Steel Corporation		0	0	0	0	3,750	3,750	0	0
Director Representative: Ko, Lee-Ching		0	0	0	0	0	0	40	40
China Steel Corporation		0	0	0	0	3,750	3,750	136	136
Director Representative: Wang, Shyi-Chin (Note 1)		0	0	0	0	0	0	0	0

Unit: NT\$ thousands (as of 2018/12/31)

Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company		All companies included in the consolidate financial statements		The Company	All companies included in the consolidate financial statements	
						Cash	Stock	Cash	Stock			
0.07	0.07	0	0	0	0	0	0	0	0	0.07	0.07	None
0.08	0.08	0	0	0	0	0	0	0	0	0.08	0.08	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None

Title	Name	Remuneration							
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)		Allowances (D)	
		The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements
Former Representative: Wong, Chao-Tung (Note 1)		0	0	0	0	0	0	0	0
Former Representative: Liu, Jih-Gang (Note 1)		0	0	0	0	0	0	0	0
Taiwan Sugar Corporation		0	0	0	0	3,750	3,750	136	136
Director Representative: Kwan, Tao-I		0	0	0	0	0	0	0	0
Management Committee of National Development Fund, Executive Yuan		0	0	0	0	3,750	3,750	39	39
Director Representative: Kao, Shien-Quey		0	0	0	0	0	0	81	81
Independent Director Ding, Kung-Wha		1,800	1,800	0	0	0	0	344	344
Independent Director Chiu, Kenneth Huang-Chuan		1,800	1,800	0	0	0	0	344	344
Independent Director Poo, David Da-Wei		1,800	1,800	0	0	0	0	424	424

Note 1: Institutional director China Steel Corporation changed its representative to Mr. Wong Chao-Tung on 2018/03/31, and Mr. Liu Jih-Gang was relieved of office on the same day; the representative was changed to Mr. Wang Shyi-Chin on 2019/01/03, and Mr. Wong Chao-Tung was relieved of office on the same day.

Note 2: The remuneration disclosed in this table uses a different concept to that of the Income Tax Act, and therefore the purpose of this table is merely to disclose the information. This information should not be used for tax purposes.

Note 3: The Corporation has no subsidiaries and therefore does not disclose any consolidated financial reports.

Ratio of Total Remuneration (A+B+C+D) to Net Income (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Compensation (G)						
The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company	All companies included in the consolidate financial statements	The Company		All companies included in the consolidate financial statements		The Company	All companies included in the consolidate financial statements	
						Cash	Stock	Cash	Stock			
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.04	0.04	0	0	0	0	0	0	0	0	0.04	0.04	None
0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	None
0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	None
0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	None
0.02	0.02	0	0	0	0	0	0	0	0	0.02	0.02	None

2) Remuneration of President and Vice Presidents

Title	Name	Base Compensation (A)		Severance Pay (B)		Bonuses and Allowances (C)	
		The Company	Companies included in the consolidate financial statements	The Company	Companies included in the consolidate financial statements	The Company	Companies included in the consolidate financial statements
President	James Jeng						
Executive Vice President	John Chen						
Senior Vice President	Barret Wang						
Senior Vice President	Johnson Sun						
Vice President	Eleanore New						
		Total amount	Total amount	Total amount	Total amount	Total amount	Total amount
Vice President	Rae Chung	28,209	28,209	854	854	12,858	12,858
Vice President	Andy Lu						
Vice President	James Shi						
Former Vice President	Bryan Chou						
Former Vice President	Anthony Wu						

Note 1: The number of people with decision-making management authority and people who were appointed to ranks of vice president and above following Board approval was 10; of these, 2 were changed during the year (Vice President Bryan Chou left office on 2018/7/14, and Vice President Anthony Wu left office on 2018/7/14).

Note 2: Remuneration (A) includes basic salaries and food allowances. The amount of employee compensation and bonuses for 2018 are disclosed as estimated figures.

Note 3: Actual amounts of retirement pay for 2018 came to a total of NT\$ 8,351,000 and retirement pensions expenses came to NT\$854,000, making a total of NT\$9,205,000.

Note 4: The remuneration, retirement pay, bonuses and special disbursements in this table are disclosed in accordance with regulations regarding information to be disclosed in annual reports. Special leave liability and non-business travel of NT\$2,080,000 is not included.

Note 5: Article 35-1 of the Articles of Incorporation states that "If the final annual accounts of the Corporation show a net profit for a given year, it shall allocate not less than 1 percent of the net profit as profit-sharing compensation to employees and not more than 1 percent as profit-sharing compensation to Directors; provided, however, that if the Corporation still has any accumulated loss, it shall first set aside the amount to offset the loss before such allocation." Employee compensation for 2018 was calculated based on profits for the year (pre-tax profits minus profits prior to distribution of employee and director compensation), and were estimated to be 2% of NT\$7,499,305,000 (no accumulated losses to be offset). This proposal will be carried out in accordance with regulations following approval from the shareholders' meeting.

Unit: NT\$ thousands (as of 2018/12/31)

Employee Compensation (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Compensation Paid to the President and Vice Presidents from an Invested Company Other than the Company's Subsidiary
The Company		Companies included in the consolidate financial statements		The Company	Companies included in the consolidate financial statements	
Cash	Stock	Cash	Stock			
Total amount 2,276	0	Total amount 2,276	0	0.41	0.41	None

3) Remuneration Range Table

Unit: NT\$

Range of Remuneration	Name of President and Vice Presidents	
	The Company	Companies in the consolidated financial statements
Lower than 2,000,000	Bryan Chou, Anthony Wu	Bryan Chou, Anthony Wu
2,000,000 (Included) ~ 5,000,000 (Not included)	Barret Wang, Rae Chung, Eleanore New Johnson Sun, Andy Lu, James Shi	Barret Wang, Rae Chung, Eleanore New Johnson Sun, Andy Lu, James Shi
5,000,000 (Included) ~ 10,000,000 (Not included)	James Jeng, John Chen	James Jeng, John Chen
10,000,000 (Included) ~ 15,000,000 (Not included)	-	-
15,000,000 (Included) ~ 30,000,000 (Not included)	-	-
30,000,000 (Included) ~ 50,000,000 (Not included)	-	-
50,000,000 (Included) ~ 100,000,000 (Not included)	-	-
Above 100,000,000	-	-
Total	10	10

Note 1: The remuneration disclosed in this table uses a different concept to that of the Income Tax Act, and therefore the purpose of this table is merely to disclose the information. This information should not be used for tax purposes.

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

Unit: NT\$ thousands

	Title	Name	Employee Compensation - in Stock	Employee Compensation - in Cash	Total	Ratio of Total Amount to Net Income (%)
Managers	President	James Jeng				
	Executive Vice President	John Chen				
	Senior Vice President	Barret Wang				
	Senior Vice President	Johnson Sun				
	Vice President	Eleanore New				
	Vice President	Rae Chung				
	Vice President	Andy Lu				
	Vice President	James Shi				
	Assistant Vice President	Shirley Lai				
	Assistant Vice President	Bob Chen				
	Assistant Vice President	Vincent Huang				
	Assistant Vice President	Paul Yang				
	Assistant Vice President	Hsin-Hsiung Chen				
	Assistant Vice President	Tom Tsai	0	Total amount 5,610	Total amount 5,610	0.05
	Assistant Vice President	Tim Fu				
	Assistant Vice President	Calvin Yen				
	Assistant Vice President	Alpha Lin				
	Assistant Vice President	Paul Hwang				
	Assistant Vice President	Eric Cheng				
	Assistant Vice President	Sheng-Hsin Yu				
	Assistant Vice President	Ting-Tsun Chen				
	Assistant Vice President	Max Liu				
	Assistant Vice President	Elaine Tsou				
Assistant Vice President	Griffin Huang					
Principal Specialist	William Chen					
Principal Specialist	Gavin Tsou					

Note: The aforementioned employee compensation for 2018 are estimated figures

(2) The ratio of total-remuneration-to-net-income for remuneration paid to corporate Directors, President, and Vice Presidents for the most recent two fiscal years, remuneration policy, standards, and combinations, manner of determining remuneration, and relationship between operational performance and future risks

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

Unit: NT\$ thousands

Item	2017	2018
Total remuneration paid to directors	49,609	53,701
Ratio of total remuneration paid to directors (Note 1)	0.93%	0.50%
Total remuneration paid to managers ranked above vice president (Note 2)	43,751	44,197
Ratio of total remuneration paid to managers ranked above vice presidents (Note 1)	0.82%	0.41%

Note 1: Information for 2017 was calculated based on after-tax profits of 5,339,905,000, and information for 2018 was calculated based on after-tax profits of 10,696,381,000

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

2) Remuneration policies, standards, and packages

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

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

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

3) Procedures for determining remuneration

Assessments of director and manager performance are conducted in accordance with the Corporation's "Regulation of Self-Evaluation of the Board of Directors" and the "Performance Appraisal Regulation", which is applicable to managers and employees. Reasonable remuneration levels are set according to not only overall operational performance, future industrial risks, and development trends, but also individual performance achievement rates and contribution levels. Performance assessments and reasonability of remuneration are reviewed by the Remuneration Committee and the Board, and remuneration levels are reviewed constantly in accordance with operational status, relevant laws, and trends in corporate governance, to balance sustainable operations and risk management.

4) Linkage to operating performance and future risk exposure

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

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

Various risks are taken into consideration by corporate executives before taking all significant decisions. Results of relevant decisions are reflected in corporate profitability and are in turn linked with executive remuneration.

5. Human Resources

(1) Human Resources Structure: An overview of employee numbers, seniority, age, and education qualifications for the past two years and up to the publication date of the annual report

Year		2017 (Until 2017.12.31)	2018 (Until 2018.12.31)	2019 As of 2019.03.31
Employee numbers	General Staff	4,330	4,406	4,448
	Compulsory employment	66	53	69
	Expats	3	3	3
	Total	4,399	4,462	4,520
Average Age		36.6	37.3	37.3
Average Seniority		7.79	8.47	8.56
Education Distribution Ratios	Doctorate	0.30%	0.30%	0.30%
	Master	12.16%	12.8%	12.8%
	Undergraduate	81.18%	82%	82%
	High School	5.93%	4.46%	4.5%
	Below High School	0.43%	0.44%	0.40%

(2) Employee Benefits and Rights

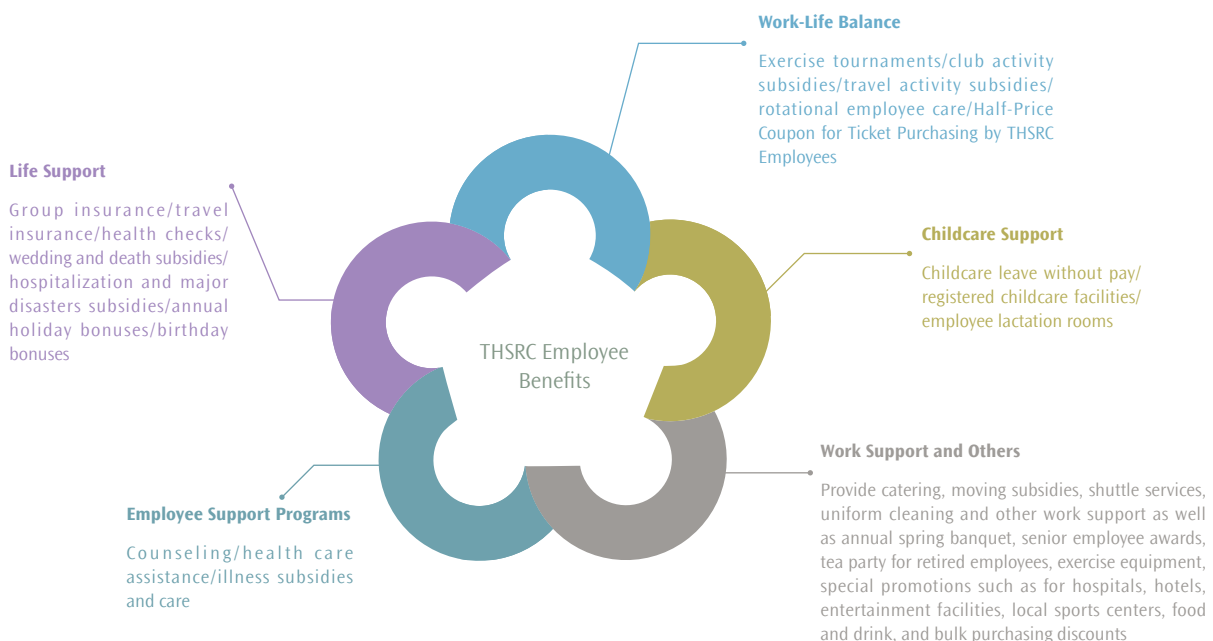
1) Employee benefits

Friendly environment and establishing a win-win solution

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

We are attentive to the work-life balance of employees and encourage our employees to participate in activities that enhance their mental and physical health in their free time. Our “HSR tournament” has a series of softball, table tennis, and badminton competitions, and is an important annual event for THSRC. In 2018, a total of 92 clubs were registered with the employee welfare committee, including the archery club, the fishing club, and the diving club. Exercise-type clubs made up 63% of all clubs, and in 2018 the Corporation once again received the Corporate Exercise certificate given out by the Sports Department of the Ministry of Education.

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



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

2) Education, training, and retirement systems:

A. Education and training:

(a) To develop, cultivate, and evaluate talent, we have optimized management and core competencies and professional training for technical and service employees of all levels and all departments.

(b) Safety, service, and quality are the core competencies of all employees. Through routine promotion and implementation of safe driving procedures and physical and mental health, THSRC has built up a corporate culture which believes that “a focus on personal safety is the best safeguard of passenger safety and peace of mind”.

- (c) We planned training programs for management and maintenance of regulated professional certifications and licenses to achieve various functional and strategic operational goals and cultivate and explore potential talent.
- (d) Establishment of mobile learning services to enhance employee learning motivations and effectiveness, allowing employees to complete training through personal mobile devices, shortening training schedules and strengthening timeliness and convenience of personnel training.

B. Implementation of retirement plan system,

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

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

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

Retirement conditions:

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

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

- (b) Forced retirement:

- Has reached the age of sixty-five, except in the case of the corporate president.
- Is unable to perform his/her duties due to disability.

- (c) Pension payments and standards:

- Defined benefit plan: Employers shall pay employee pensions within 30 days from the day of retirement. According to Article 55 of the Labor Standards Act, pensions are calculated according to bases of tenure of services rendered and the six-month average salary amount following approval of retirement application. Two bases are given for each full year of service rendered. But for the rest of the years over 15 years, one base is given for each full year of service rendered. The total number of bases shall be no more than 45. An additional 20% on top of the amount calculated according to the preceding subparagraph shall be given to workers forced to retire due to disability incurred from the execution of their duties.
- Defined contribution plan: According to the Labor Pension Act and relevant regulations, employees under the new pension system can collect pensions from their pension reserve accounts directly from the Bureau of Labor Insurance.

(3) Labor-management negotiations

- 1) Labor-management negotiations:

In order to enhance labor relations, THSRC management holds monthly discussions with labor unions and works with various departments to handle and respond to issues.

2) Legal compliance:

A. Convening of labor-management conferences:

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

B. Establishment of the grievance appeals system:

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

C. Sexual harassment prevention and appeals system:

We established and implemented our “Sexual Harassment Prevention and Handling Regulation” on December 13, 2017 in accordance with the Act of Gender Equality in Employment and Regulations for Establishing Measures of Prevention, Correction, Complaint and Punishment of Sexual Harassment at Workplace to ensure physical and mental safety of all employees in the workplace, strengthen prevention of sexual harassment incidents, and disseminate related information. We promote relevant information through the training program for new employees and the E-learning platform and also display our appeals hotline and fax number on our corporate website, stations, and workplaces to effectively prevent external and internal incidences of sexual harassment.

D. Promotion of work equality:

Starting in June 2005, THSRC established lactation rooms for passengers and staff to encourage and support breastfeeding policies.

E. Healthcare management:

Infirmaries have been established at corporate headquarters, the OMC building, and all maintenance bases in accordance with the Labor Health Protection Regulations, and health stations of higher quality than stipulated by law have been established at all HSR stations and are equipped with nursing staff that provide emergency medical assistance to passengers and employees to enhance and manage employee health.

F. The Corporation has formulated “Procedures for protection of employee psychological health” in accordance with governmental labor laws to ensure the physical and mental health of employees and workplace safety through measures that protect the psychological health of employees.

3) Losses sustained as a result of labor disputes in the most recent fiscal year and up to publication date of this annual report, disclosure of estimated losses incurred to date or likely to be incurred in the future, and indication of mitigation measures being or to be taken:

The Corporation reached an agreement with the THSRC Labor Union on January 21, 2016 on overtime payments and confirmed calculation of payments in July 2016. Appropriate measures were implemented based on the content of this agreement and the decision of the administrative court. As of December 31, 2017, the Corporation has placed NTD\$ 286,662,000 in debt reserves. The aforementioned decision of the administrative court refers to the appeal filed in November 2015 by the Corporation against the Taipei City Government’s claim of failure to provide overtime payments and vacation days according to law. The Taipei High Administrative Court dismissed the Corporation’s case on June 7, 2018, and the Corporation filed an additional appeal on July 6, 2018.

4

Corporate Governance





1. Corporate Governance Status

(1) Operational Status of Board of Directors

The 8th Board of Directors convened 12 times in 2018. Attendance records are as follows:

Title	Name	Attendance in Person	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Chairman	Representative: Chiang, Yao-Chung China Aviation Development Foundation	12	0	12	100	
Director	Representative: Liu, Min-Ching Ministry of Transportation and Communications, R.O.C.	12	0	12	100	
Director	Representative: Huang, Mao-Hsiung TECO Electric & Machinery Co., Ltd.	8	4	12	67	
Director	Representative: Liu, Kuo-Chih Taipei Fubon Commercial Bank Co., Ltd.	11	1	12	92	
Director	Representative: Tsai, Huang-Liang China Aviation Development Foundation	12	0	12	100	
Director	Representative: Wong, Chao-Tung China Steel Corporation	8	1	9	89	Took office on 2018/3/31
Former Director	Representative: Liu, Jih-Gang China Steel Corporation	3	0	3	100	Left office on 2018/3/31
Director	Representative: Chiang, Chin-Shan TSRC Corporation	11	0	12	92	1 leave of absence
Director	Representative: Kwan, Tao-I Taiwan Sugar Corporation	11	1	12	92	
Director	Representative: Kao, Shien-Quey Management Committee of National Development Fund, Executive Yuan	10	2	12	83	
Director	Representative: Ko, Lee-Ching Evergreen Steel Corporation	5	5	12	42	2 leave of absences
Independent Director	Ding, Kung-Wha	12	0	12	100	
Independent Director	Chiu, Kenneth Huang-Chuan	12	0	12	100	
Independent Director	Poo, David Da-Wei	12	0	12	100	
Average actual director attendance rates in 2018 (%) (Actual attendances/Required attendances)					89	

Attendances of Independent Directors at Board Meetings of the 8th Board of Directors in 2018:

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

Name/Date Session (Term- Sitting)	2018/1/18 (8-10)	2018/2/13 (8-11)	2018/3/13 (8-12)	2018/4/10 (8-13)	2018/5/8 (8-14)	2018/6/12 (8-15)	2018/7/12 (8-16)	2018/8/7 (8-17)	2018/9/13 (8-18)	2018/10/18 (8-19)	2018/11/6 (8-20)	2018/12/13 (8-21)
Ding, Kung- Wha	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎
Chiu, Kenneth Huang- Chuan	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎
Poo, David Da-Wei	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎

Other matters required to be recorded:

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

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

Date	Session (Term- Sitting)	Agenda Content	Independent Director Opinions	The Corporation's responses to Independent Director Opinions	Resolutions
2018/5/8	8-14	Suggestions regarding procurement strategy for the Corporation's localization of OCS maintenance vehicle project.	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/5/8	8-14	Early repayment of the Corporation's tranche A syndicated loan.	Approved	Not applicable	Apart from director who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/5/8	8-14	Remuneration adjustments for the Corporation's chairman and CEO.	Approved	Not applicable	Apart from the chairman who recused himself from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/7/12	8-16	Personnel changes at manager level (including official appointment of acting Audit Office manager) in accordance with organizational changes.	Approved	Not applicable	Approved by all directors in attendance.
2018/8/7	8-17	Suggestions regarding procurement strategy for the Corporation's diesel rolling stock locomotives.	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7	8-17	Suggestions regarding bid selections for manufacturing and supply of the Corporation's OCS maintenance vehicles (Contract number: E5-18-003).	Approved	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7	8-17	Revision of the Corporation's "Internal Control System" and "Regulations Governing Self-Evaluations of Internal Control System".	Approved	Not applicable	Approved by all directors in attendance.
2018/9/13	8-18	CPA change in 2018 Q3 according to internal rotation arrangement at Deloitte & Touche.	Approved	Not applicable	Approved by all directors in attendance.

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

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

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with potential conflicts of interest	Reasons for recusal and participation in voting procedures	Resolutions
2018/4/10	8-13	Suggestions regarding procurement strategy for the Corporation's "Leasing out of station space to energy suppliers for establishment of solar power system" project.	Directors Liu Min-Ching & Wong Chao-Tung	The Corporation planned to invite bids from Chungghwa Telecom (a re-invested enterprise of MOTC) and China Ecotek Corporation (Wong Chao-Tung, one of the directors of said corporation, also serves as a representative of China Steel Corporation at THSRC), necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, directors Liu Min-Ching and Wong Chao-Tung withdrew from the proceedings and recused themselves during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/5/8	8-14	Suggestions regarding procurement strategy for the Corporation's localization of OCS maintenance vehicle project.	Directors Wong Chao-Tung & Tsai Huang-Liang	THSRC director Tsai Huang-Liang is a company director of Taiwan Rolling Stock and also serves as a representative of China Aviation Development Foundation at THSRC, while THSRC director Wong Chao-Tung is the chairman of China Steel Corporation and also serves as a representative of China Steel Corporation at THSRC; both Taiwan Rolling Stock and China Steel Corporation are potential contractors for this project, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, directors Wong Chao-Tung and Tsai Huang-Liang withdrew from the proceedings and recused themselves during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/5/8	8-14	Early repayment of the Corporation's tranche A syndicated loan.	Independent Director Ding Kung-Wha	Hua Nan Commercial Bank, a party to the syndicated loan in this proposal, is a subsidiary of Hua Nan Financial Holdings. The spouse of THSRC independent director Ding Kung-Wha serves as the general manager of Hua Nan Financial Holdings, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, Independent Director Ding Kung-Wha withdrew from the proceedings and recused himself during the reading and review of this proposal.	Apart from director who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/5/8	8-14	Remuneration adjustments for the Corporation's chairman and CEO.	Chairman Chiang Yao-Chung	As the remuneration adjustments in this proposal involved his personal interests, Chairman Chiang Yao-Chung withdrew from the proceedings and recused himself during the reading and review of this proposal; the meeting was temporarily chaired by Independent Director Ding Kung-Wha.	Apart from the chairman who recused himself from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with potential conflicts of interest	Reasons for recusal and participation in voting procedures	Resolutions
2018/8/7	8-17	Suggestions regarding continued provision of Wi-Fi on HSR trains and station areas.	Director Liu Min-Ching	Chunghwa Telecom, the transaction counterpart for this proposal, is a re-invested enterprise of MOTC; MOTC also has a designated representative serving as a director at THSRC, necessitating recusal of voting rights to avoid conflicts of interest. Director Liu Min-Ching withdrew from the proceedings and recused himself during the reading and review of this proposal.	Apart from director who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7	8-17	Suggestions regarding procurement strategy for the Corporation's diesel rolling stock locomotives.	Directors Tsai Huang-Liang & Wong Chao-Tung	THSRC director Tsai Huang-Liang is the chairman of Taiwan Rolling Stock and also serves as a representative of China Aviation Development Foundation at THSRC. Taiwan Rolling Stock is also a re-invested enterprise of China Steel Corporation; THSRC director Wong Chao-Tung is the chairman of China Steel Corporation and also serves as a representative of China Steel Corporation at THSRC. Taiwan Rolling Stock is a potential contractor for this project, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, Director Wong Chao-Tung withdrew from the proceedings and recused himself during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7	8-17	Changes to suggestions regarding procurement strategy of the Corporation's "Leasing out of station space to energy suppliers for establishment of solar power system" project.	Directors Liu Min-Ching & Wong Chao-Tung	Chunghwa Telecom (a re-invested enterprise of MOTC) and China Ecotek Corporation are potential contractors of this project; Director Wong Chao-Tung is one of the directors of China Ecotek Corporation and also serves as a representative of China Steel Corporation at THSRC, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, directors Liu Min-Ching and Wong Chao-Tung withdrew from the proceedings and recused themselves during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7	8-17	Suggestions regarding bid selections for manufacturing and supply of the Corporation's OCS maintenance vehicles (Contract number: E5-18-003).	Directors Wong Chao-Tung & Tsai Huang-Liang	THSRC director Tsai Huang-Liang is the chairman of Taiwan Rolling Stock and also serves as a representative of China Aviation Development Foundation at THSRC. Taiwan Rolling Stock is also a re-invested enterprise of China Steel Corporation; THSRC director Wong Chao-Tung is the chairman of China Steel Corporation and also serves as a representative of China Steel Corporation at THSRC. Taiwan Rolling Stock is a potential contractor for this project, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, Director Wong Chao-Tung withdrew from the proceedings and recused himself during the reading and review of this proposal.	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

Date	Session (Term-Sitting)	Agenda Content	Names of Directors with potential conflicts of interest	Reasons for recusal and participation in voting procedures	Resolutions
2018/11/6	8-20	The Corporation's ticket affiliate program with China Airlines and EVA Air Corporation.	Directors Chiang Yao-Chung; Tsai Huang-Liang & Ko Lee-Ching	Many of the directors at China Airlines are representatives of China Aviation Development Foundation, which is also the foundation represented by the Corporation's Chairman Chiang Yao-Chun and Director Tsai Huang-Liang; additionally, EVA Air Corp. and Evergreen Steel Corporation (represented by the Corporation's Director Ko Lee-Ching) are members of the same corporate group, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, Chairman Chiang Yao-Chung and Director Tsai Huang-Liang withdrew from the proceedings and recused themselves during the reading and review of this proposal. Chairman Chiang appointed Independent Director Ding Kung-Wha to temporarily chair the meeting. Director Ko Lee-Ching was not present at the meeting, and did not entrust his proxy with participation in discussion and voting of this proposal due to conflicts of interest.	Apart from the chairman and the directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/12/13	8-21	Additional terms added to the Corporation's station cleaning contract (Contract number S1-16-036~S1-16-047).	Director Ko Lee-Ching	The waste treatment company for HSR Taoyuan station is Hsin Yung Enterprise Corporation, and the Corporation's Director Ko Lee-Ching is also a supervisor of this company; additionally, the Corporation's Director Chiang Chin-Shan is also a director of Wei-Dar Development Co., which is an institutional director of Hsin Yung Enterprise Corporation, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, Director Ko Lee-Ching and Director Chiang Chin-Shan withdrew from the proceedings and recused themselves during the reading and review of this proposal.	Apart from director who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

3. Strengthening of functional goals (for example establishment of Audit Committee and enhancement of information transparency) for the Board of Directors for this year and in the most recent year, and assessment of implementation:

(1) In consideration of appropriate Board scale, representation of shareholder interests, business nature of BOT, and corporate development, as well as shareholder structure and discussion efficiency, the number of directors serving on the 8th Board were reduced to 13 from the previous 15 directors serving on the 7th Board; Board members include 3 independent directors and 10 non-independent directors elected at the shareholders' general meeting held on May 24, 2017. The 8th Board of Directors assessed corporate governance matters and consolidated the committees under the previous Board, establishing functional committees, including the Corporate Governance & Nomination Committee, Audit Committee, Remuneration Committee, and Special Committee. The Audit Committee, Remuneration Committee, and Special Committee are convened by respective independent directors, while more than half of the members in the Corporate Governance & Nomination Committee are independent directors. The composition of these committees, their duties, and implementation status are disclosed in this annual report and on the Corporation's website. All functional committees have a duty of pre-assessment and help to enhance the efficiency and quality of meetings. Independent directors exercise their independence and professionalism by sharing their professional opinions during meetings.

(2) The Corporation has taken out a total of NT\$0.9 billion in liability insurance for directors and officers to help reduce risk of legal liability for directors and managers, and also to enhance our corporate governance capabilities.

- (3) In 2018, to ensure solid implementation of systemic corporate governance initiatives, our functional committees previewed, formulated, and revised rules and regulations and administrative codes for approval by the Board of Directors; such systemic initiatives included our Articles of Incorporation, Rules for the Election of Directors, Code of Ethical Conduct, Rules for Proceedings of Board Meetings, Procedures for Nomination and Review of Director Candidates, Operating Procedures for Transactions with Related Parties, Procedures for Formulating Business Rights and Duties, Internal Control System, and Regulations Governing Internal Control System Self-Examination. Additionally, to protect the rights of our investors, the Corporation has also established an Operating Procedures for Application to Pause and Resume Transactions.
- (4) Our corporate governance information is disclosed on the Market Observation Post System (<http://mops.twse.com.tw>) in accordance with relevant regulations, and we have also established a stakeholder section and stakeholder contacts on our corporate website to communicate all issues of concern to our stakeholders. The Corporation regularly reviews our “Regulations Governing Information Disclosures”, “Operating Procedures for Submitting Publicly Disclosed Information and Material Information to Directors”, “Handling of Public Announcements and Reporting over the Market Observation Post System”, and “Operating Procedures for Handling Media” and other regulations relating to information disclosure, and makes timely adjustments based on the newest laws and regulations and actual operations.
- (5) The Corporation participated in the 4th TWSE Corporate Governance Evaluation (for 2017) and was ranked among the top 5% of publicly listed companies. Additionally, we were awarded an “Excellent” certification by the Taiwan Corporate Governance Association under their CG6011 corporate governance evaluations for 2017 on June 26, 2018, the certification period being from June 12, 2018 to June 11, 2020.
- (6) The Corporation participated in the 5th TWSE Corporate Governance Evaluation (for 2018) and was ranked among the top 5% of publicly listed companies.

(2) Operational Status of Audit Committee

- 1) The Corporation’s Audit Committee was established on March 18, 2016 to replace the supervisor system, and the committee is composed of the independent directors and the Board of Directors. The number of committee members cannot be fewer than 3, and at least 1 of them has to have professional expertise in accounting or finance. Following election of board members by the shareholder’s general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. There are 3 members of the committee, and Independent Director Ding Kung-Wha was elected as convener. The committee operates according to the “Charter of Remuneration Committee”.
- 2) The main duties and annual tasks of the committee include review and supervision of financial reports, risk management items, and financial proposals, and the auditing of financial reports; accounting and internal control systems; major assets or transactions of derivatives; undertaking of derivatives transactions; appointment, discharge, or compensation of the Certified Public Accountant; and appointment, dismissal and performance of financial, accounting, or internal audit directors. (Please refer to Chapter Three of this report for details regarding the main duties of the Audit Committee).
 - A. Review financial reports: The Corporation’s business reports, financial reports, and surplus distribution proposals all have to be reviewed by the Audit Committee before submission to the Board of Directors for approval and the shareholders’ general meeting for recognition.
 - B. Assess efficiency of internal control system: The self-assessment results for the Corporation’s internal control system are completed by all units through cyclical procedures, and submitted to the Audit Committee for confirmation of internal control systems, including understanding of operational performances and efficiency and goal attainment rates; reliability, timeliness, transparency, and legal compliance of reporting measures; and efficient implementation, to ensure that relevant goals are met.
 - C. Appoint and evaluate CPAs: The Audit Committee periodically assesses the professionalism, independence, and audit fees of CPAs at the end of each year. CPA assessment results for 2018 were approved by the 8th Board of Directors at the 21th Audit Committee Meeting held on February 19, 2019 and the 23th Board Meeting held by the 8th Board of Directors on February 20, 2019, confirming that CPAs Mei-Yen Chiang and Kwan-Chung Lai of Deloitte & Touche both fulfilled the assessment standards for independence and competency.

3) The 8th Audit Committee convened 12 times in 2018, and the operational status of the committee is as follows:

Title	Name	Attendance in Person	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Independent Director (Convener)	Ding, Kung-Wha	12	0	12	100	
Independent Director	Chiu, Kenneth Huang-Chuan	12	0	12	100	
Independent Director	Poo, David Da-Wei	11	1	12	92	
Average actual attendances of Audit Committee members in 2018 (%) (Actual attendances/Required attendances)					97	

Other matters required to be recorded:

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

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

Board Date Session (Term-Sitting)	Agenda Content	Audit Committee Date Session (Term-Sitting)	Audit Committee Resolutions	The Corporation's responses to Audit Committee opinions	Board Resolutions
2018/2/13 (8-11)	2017 Financial Report.	2018/2/9 (8-9)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/2/13 (8-11)	2017 self-assessment results of internal control system.	2018/2/9 (8-9)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/5/8 (8-14)	Suggestions regarding procurement strategy for the Corporation's localization of OCS maintenance vehicle project.	2018/5/7 (8-12)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/5/8 (8-14)	Early repayment of the Corporation's tranche A syndicated loan.	2018/5/7 (8-12)	Approved by all committee members in attendance except those who recused themselves due to conflicts of interest.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/7/12 (8-16)	Official appointment of acting Audit Office manager.	2018/7/11 (8-14)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/8/7 (8-17)	2018 Q2 Financial Report.	2018/8/3 (8-15)	Approved by all Audit Committee members in attendance. Additionally, potential impacts and responses to revisions made to the Company Act shall be submitted to the Board by managerial departments in a timely manner.	Managerial units have submitted revisions of Corporation bylaws to the Board for review in accordance with revisions made to the Company Act.	Approved by all directors in attendance.

Board Date Session (Term-Sitting)	Agenda Content	Audit Committee Date Session (Term-Sitting)	Audit Committee Resolutions	The Corporation's responses to Audit Committee opinions	Board Resolutions
2018/8/7 (8-17)	Suggestions regarding procurement strategy for the Corporation's diesel rolling stock locomotives.	2018/8/3 (8-15)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7 (8-17)	Suggestions regarding bid selections for manufacturing and supply of the Corporation's OCS maintenance vehicles (Contract number: E5-18-003).	2018/8/3 (8-15)	Approved by all Audit Committee members in attendance.	Not applicable	Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.
2018/8/7 (8-17)	Revision of the Corporation's "Internal Control System" and "Regulations Governing Self-Evaluations of Internal Control System."	2018/8/3 (8-15)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/9/13 (8-18)	The Corporation's CPA change in 2018 Q3 according to internal rotation arrangement at Deloitte & Touche.	2018/9/12 (8-16)	Approved by all Audit Committee members in attendance.	Not applicable	Approved by all directors in attendance.

(2) Other instances apart from the aforementioned matters where the Audit Committee did not approve a proposal, but more than 2/3 of directors approved said proposal: None.

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

Board Date Session (Term-Sitting)	Agenda Content	Audit Committee Date Session (Term-Sitting)	Independent Director Name	Reasons for recusal and participation in voting procedures	Audit Committee and Board Resolutions
2018/5/8 (8-14)	Early repayment of the Corporation's tranche A syndicated loan.	2018/5/7 (8-12)	Independent Director Ding Kung-Wha	Hua Nan Commercial Bank, a party to the syndicated loan in this proposal, is a subsidiary of Hua Nan Financial Holdings. The spouse of THSRC independent director Ding Kung-Wha serves as the general manager of Hua Nan Financial Holdings, necessitating recusal of voting rights to avoid conflicts of interest. Accordingly, Independent Director Ding Kung-Wha withdrew from the proceedings and recused himself during the reading and review of this proposal.	1. Audit Committee: Approved by all committee members in attendance except those who recused themselves due to conflicts of interest. 2. Board: Apart from directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

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

(1) THSRC's internal audit managers periodically present internal audit reports to the Audit Committee and fully communicate status and results of audit implementation follow-up of improvements to defects. Internal audit managers not only periodically provide independent directors with written audit reports, but also present business reports based on suggestions from independent directors.

(2) CPAs periodically present annual and quarterly audits of financial reports and audit reports to the Audit Committee, and also communicate other matters according to relevant laws.

(3) Additionally, the internal audit managers and CPAs periodically make independent reports to the independent directors each year regarding business plans.

(4) The aforementioned internal audit managers and CPAs also communicate with independent directors via email, phone, or face-to-face meetings as necessary.

1) The independent directors communicated well with internal audit managers; a list of reported items for 2018 is summarized below:

Date	Communication method (Audit Committee Term-Sitting)	Report Highlight	Communication Results	The Corporation's responses to Independent Director opinions
2018/2/9	Audit Committee (8-9).	2017 Q4 audit office project implementation report.	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2018/5/7	Audit Committee (8-12).	2018 Q1 audit office project implementation report.	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2018/8/3	Audit Committee (8-15).	2018 Q2 audit office project implementation report.	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2018/9/13	Audited business reports (Independent report made by internal audit managers to independent directors).	Report on audit matters and future planning.	Acknowledged by independent directors.	No objections from independent directors.
2018/10/15	Audited business reports (Independent report made by internal audit managers to independent directors).	Distribution of audit work and audit report for 2019.	Acknowledged by independent directors.	No objections from independent directors.
2018/11/6	Audit Committee (8-18).	2018 Q3 audit office project implementation report.	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2018/11/6	Audit Committee (8-18).	Planning of audit report for 2019.	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.

2) The independent directors communicated well with CPAs; a list of reported items for 2018 is summarized below:

Date	Communication method (Audit Committee Term-Sitting)	Report Highlight	Communication Results	The Corporation's responses to Independent Director opinions
2018/2/9	Audit Committee (8-9).	<ul style="list-style-type: none"> • 2017 Financial Report. • Important communications with governance units. • Key audit items. • Impacts of revisions to Income Tax Act. • Impacts of new IFRS standards. • Impacts of draft revisions of Renewable Energy Development Act. • Communication on Audit Committee member queries. 	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.
2018/5/7	Audit Committee (8-12).	<ul style="list-style-type: none"> • 2018 Q1 Financial Report. • Comparison of accountant reports. • Matters of interest when applying IFRS 9 and 15 in 2018. • Impacts of other newly revised laws and systems. • Communication on Audit Committee member queries. 	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2018/8/3	Audit Committee (8-15).	<ul style="list-style-type: none"> • 2018 Q2 Financial Report. • Income tax issues. • Highlights of revisions made to the Company Act. • Communication on Audit Committee member queries. 	Approved after discussion by all Audit Committee members in attendance.	No objections from independent directors.
2018/11/6	Audit Committee (8-18).	<ul style="list-style-type: none"> • 2018 Q3 Financial Report. • Audit plans for 2018 financial report and key audit items. • Communication on Audit Committee member queries. 	Acknowledged by all Audit Committee members in attendance.	No objections from independent directors.
2018/11/6	CPA audit report (Independent report made by CPAs to independent directors).	<ul style="list-style-type: none"> • Report of audits on financial statements financial statements and audit plans. 	Acknowledged by independent directors.	No objections from independent directors.

(3) Operational Status of Corporate Governance & Nomination Committee

- 1) The Corporation's Corporate Governance & Nomination Committee is composed of 5-7 people. Following election of board members by the shareholders' general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. There are 5 members of the committee, 3 of which are independent directors, and the chairman was elected as convener. The committee operates according to the "Charter of Corporate Governance and Nomination Committee."
- 2) The main duties and annual tasks of the committee include: formation and planning of the Board of Directors and functional committees and nomination of independent directors and non-independent directors, research on corporate governance system, and review of effectiveness of corporate governance system and information disclosure implementation. (Please refer to Chapter Three of this report for details regarding the main duties of the Corporate Governance & Nomination Committee).

3) The 8th Corporate Governance & Nomination Committee convened 8 times in 2018, and the operational status of the committee is as follows:

Title	Name	Attendance in Person	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Chairman (Convener)	Chiang, Yao-Chung	8	0	8	100	
Independent Director	Ding, Kung-Wha	8	0	8	100	
Independent Director	Chiu, Kenneth Huang-Chuan	8	0	8	100	
Independent Director	Poo, David Da-Wei	8	0	8	100	
Director	Liu, Kuo-Chih	8	0	8	100	
Average actual attendances of Corporate Governance & Nomination Committee members in 2018 (%) (Actual attendances/Required attendances)					100	

(4) Operational Status of Special Committee

1) The Corporation's Special Committee is composed of 5-7 people. Following election of board members by the shareholder's general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. All committee members elected Independent Director Poo, David Da-Wei as convener. The committee operates according to the "Charter of Special Committee."

2) The main duties and annual tasks of the committee include providing corporate advice on major legal or contractual disputes and important system reforms, assisting the Board of Directors in supervising managers' execution of decisions, and reviewing corporate procurement-related proposals to be submitted to the Board of Directors as required by the by-laws. (Please refer to Chapter Three of this report for details regarding the main duties of the Special Committee).

3) The 8th Special Committee convened 12 times in 2018, and the operational status of the committee is as follows:

Title	Name	Attendance in Person	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Independent Director (Convener)	Poo, David Da-Wei	12	0	12	100	
Director	Liu, Min-Ching	12	0	12	100	
Director	Huang, Mao-Hsiung	8	4	12	67	
Director	Tsai, Huang-Liang	11	0	12	92	1 leave of absence
Former Director	Wong, Chao-Tung	4	4	8	50	
Director	Kwan, Tao-I	6	5	12	50	1 leave of absence
Director	Kao, Shien-Quey	5	7	12	42	
Former Director	Liu, Jih-Gang	2	1	3	67	
Average actual attendances of Special Committee members in 2018 (%) (Actual attendances/Required attendances)					72	

(5) Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies”:

Evaluation item	Implementation status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
1. Does the company establish and disclose the Corporate Governance Best-Practice Principles based on “Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies”?	✓		<p>■ The Corporation has established its Corporate Governance Guidelines, which are disclosed on the “Investor Relations” section and the “Corporate Governance” section of our website, as well as on the Market Observation Post System.</p>	<p>■ None.</p>
2. Shareholding structure & shareholders’ rights	✓		<p>■ The Corporation has a shareholder services unit that is responsible for handling shareholder services, shareholder recommendations, and responding to shareholder queries, while our legal unit handles shareholder disputes and litigation matters. All related matters are handled according to our operating procedures.</p>	<p>■ None.</p>
(1) Does the company establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		<p>■ The Corporation regularly maintains a list of its major shareholders as well as the ultimate owners of those shares. At present, most of the major shareholders are board members or financial institutions, and the list of major shareholders and ultimate owners can be viewed at any time to ensure the stability of the Corporation’s operating policies.</p>	<p>■ None.</p>
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	✓		<p>■ The Corporation currently has no affiliated businesses. Additionally, to avoid conflicts of interest, the Corporation has established its Operating Procedures for Transactions with Related Parties, and the Audit Committee is responsible for auditing transactions of related parties and other avoidances of conflicts of interest.</p>	<p>■ None.</p>
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	✓		<p>■ The Corporation has established its Regulations Governing the Prevention of Insider Trading, which stipulates that corporate insiders and quasi-insiders must abide by the provisions of the Securities and Exchange Act. Additionally, the Corporation’s “Code of Ethical Conduct” and “Employee Code of Conduct” also contain stipulations inhibiting insider trading.</p>	<p>■ None.</p>
(4) Does the company establish internal rules against insiders trading with undisclosed information?	✓		<p>■ The Corporation has established its Regulations Governing the Prevention of Insider Trading, which stipulates that corporate insiders and quasi-insiders must abide by the provisions of the Securities and Exchange Act. Additionally, the Corporation’s “Code of Ethical Conduct” and “Employee Code of Conduct” also contain stipulations inhibiting insider trading.</p>	<p>■ None.</p>

Evaluation item	Implementation status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
3. Composition and Responsibilities of the Board of Directors (1) Does the Board develop and implement a diversified policy for the composition of its members?	✓		<ul style="list-style-type: none"> ■ The 8th meeting of the 8th Board held on November 7, 2017 passed revisions to the “Charter of Corporate Governance and Nomination Committee”, where Article 14 of Chapter 2 (Board and committee composition and effectiveness evaluation) stipulates a diversified policy for board members and capabilities of board members. ■ The diversified policy for board members states that appropriate diversification standards for the board should be set according to operations, operational status, and developmental needs, including but not limited to the following: <ol style="list-style-type: none"> 1. Basic qualifications and values: gender, age, nationality, and culture. 2. Level of contribution to businesses or in other professional areas. 3. Personality, professional expertise and skills. Professional expertise and skills include professional backgrounds (such as in finance, accounting, legal practice, marketing, technology, business management, and so on), as well as professional skills and industry experience. 4. Willingness and time to participate in corporate affairs. 5. Concurrent director and manager positions held at other companies. ■ Overall, the board as a whole should have the following capabilities: <ol style="list-style-type: none"> 1. Operational insight capabilities. 2. Accounting and financial analysis capabilities. 3. Management capabilities. 4. Crisis management capabilities. 5. Industry knowledge. 6. International outlook. 7. Leadership and decision-making ability. ■ Composition of the Corporation’s 8th Board of Directors complies with the Articles of Incorporation where candidates are nominated and then selected, nominated, and elected through the rigorous processes stipulated in the Corporation’s Charter of Corporate Governance & Nomination Committee and Rules for the Election of Directors, thus ensuring diversification and independence of board members. 	■ None.

Evaluation item	Implementation status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<ul style="list-style-type: none"> ■ Our current directors are all industrial or academic experts, with management experience in listed companies or in government institutes. Apart from possessing leadership and decision-making capabilities, crisis management capabilities, and an international outlook, our 3 independent directors (Mr. Ding Kung-Wha is a former FSC minister, Mr. Chiu Kenneth Huang-Chuan is a partner at Taiwan Commercial Law Offices, and Mr. Poo David Da-Wei was formerly Director-General of the Department of Transportation, Taipei City Government and President of China Engineering Consultants Inc.) have expertise in finance and accounting, legal practice, industrial knowledge, and operational insights. Additionally, of the other 10 non-independent directors, directors Liu Min-Ching and Kao Shien-Quey both have finance and accounting expertise, and Chairman Chiang Yao-Chung and directors Liu Kuo-Chih, Tsai Huang-Liang, Wang Shyi-Chin, Huang Mao-Hsiung, Chiang Chin-Shan, Kwan Tao-I, and Ko Lee-Ching all have significant management experience as a chairperson or president of public companies in industries spanning from technology, construction, automobiles, steel, airlines, manufacturing, and services, and therefore possess capabilities relating to marketing, technology, management, industrial knowledge, and operational insight. ■ THSRC sets the 4Ts (Transport, Technology, Taiwan, and Touch) as our main developmental goal and selects directors based on their management experience and expertise. Our current directors possess knowledge on corporate governance, latest industrial insights, and expertise in business, finance, accounting, and corporate matters, which fulfill the goals set out by our 4Ts. ■ Additionally, the Corporation strives to maintain gender equality in the composition of Board members. Our goal is to increase the number of female directors to 1/4 (25%). Currently, we have 77% (10) male directors and 23% (3) female directors. In future, we hope to add one other female director to the Board to achieve our goal. ■ Currently, our 3 independent directors have served for less than 3 years. In terms of overall age distribution of our directors, 31% (4) of our directors are aged between 50-60 years old, and 69% (9) are older than 60 years old. Board members are all active in attending board meeting, with average attendance rates for 2018 reaching 89%, showing that the Board is indeed exercising its supervisory duties. ■ Overall, the Board possesses capabilities aligned with THSRC's future development, and our policy of board diversification has been well implemented. See Note 1 for details on the implementation status of our board diversification policy. Additionally, the “Implementation of corporate governance” sub-section under the “Corporate governance” section of our website has also disclosed details of our board diversification policy and implementation status. 	

Evaluation item	Implementation status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	✓		<p>■ The Corporation has established the Remuneration Committee and Audit Committee in accordance with law, and has voluntarily established functional committees including the Corporate Governance & Nomination Committee and Special Committee in consideration of corporate matters and development. The Audit Committee, Remuneration Committee, and Special Committee are convened by respective independent directors. The Audit Committee and Remuneration Committee are composed of independent directors, while more than half of the members in the Corporate Governance & Nomination Committee are independent directors. All functional committees are well operated and exercise sound supervisory duties and strengthen the functions of the board.</p>	■ None.
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	✓		<p>■ On March 21, 2017, the Corporation’s “Regulation of Self-Evaluation of the Board of Directors” was passed at the 27th meeting of the 7th Board of Directors. The Corporation’s Corporate Governance & Nomination Committee serves as the implementation unit for these assessments, and the Board Secretariat assists in collecting information on Board activities at the end of each year. Self-assessments on Board operations (functional committees) and Board members are conducted via surveys. Survey results are organized and submitted to the Board of Directors as a basis for review and improvement. Additionally, assessment results of the Board and functional committees serve as a reference when selecting or nominating directors (and independent directors), while assessment results on individual directors may be used in the future as a reference for salaries and remuneration. Furthermore, it is stipulated that an external assessment should take place at least once every 3 years.</p> <p>■ Assessment indicators of the Corporation’s Board of Directors includes the following 5 aspects:</p> <ol style="list-style-type: none"> 1. Participation in corporate operations. 2. Enhancement of board decision-making quality. 3. Board composition and structure. 4. Director elections and continuous training. 5. Internal control. <p>■ Assessment indicators of the Corporation’s directors includes the following 6 aspects:</p> <ol style="list-style-type: none"> 1. Understanding of corporate goals and tasks. 2. Recognition of director responsibilities. 3. Participation in corporate operations. 4. Internal relations and communication. 5. Director knowledge and continuous training. 6. Internal control. <p>■ Additionally, the Corporation referenced the Sample Template of “Self-Evaluation or Peer Evaluation of the Board of Directors of XX Co., Ltd.” provided by TWSE and added self-assessments of functional committee members in the following 5 aspects:</p> <ol style="list-style-type: none"> 1. Participation in corporate operations. 2. Recognition of functional committee responsibilities. 3. Enhancement of functional committee decision-making quality. 4. Composition of functional committees and election of committee members. 5. Internal control. 	■ None.

Evaluation item	Implementation status		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
			<ul style="list-style-type: none"> ■ The Corporation completed all self-assessments of the Board, Board members, and functional committee members for 2018 in January of 2019. The full score for assessments was 100, and overall, the Board and Board members received self-assessment scores of 94 and 96 (the scores were 93 and 94 for the year before.) Assessment results were the same as for the previous year: “Significantly exceeded standards”. Additionally, overall self-assessments for functional committee members received an average score of 96%. ■ The aforementioned assessment results were submitted to the 18th Remuneration Committee meeting of the 8th Board of Directors on January 22, 2019, the 17th Corporate Governance & Nomination Committee meeting of the 8th Board of Directors on January 23, 2019, and were reported at the 22nd meeting of the Board of Directors on January 23, 2019. Suggestions for future improvement were as follows: <ul style="list-style-type: none"> 1. Board of Directors: <ul style="list-style-type: none"> (1) Enhancement of board decision-making quality: Major changes to mid- and long-term strategic developments of the Corporation should be reported to the Board in a timely manner for director reference and to obtain Board consensus. (2) Board composition and structure: the Board will continue to review and implement board diversification policies and concepts, and timely suggestions will be brought up at Board meetings as needed. (3) Director elections and continuous training: provide new directors with directions or documentation on taking office so they can understand their responsibilities and become familiar with corporate operations and environments. 2. Board members: <ul style="list-style-type: none"> Director knowledge and continuous training: the Corporation will continue to provide a variety of information for director training and organize relevant training courses. 3. Functional committees: <ul style="list-style-type: none"> Enhancement of functional committee decision-making quality: periodic reviews will be made of functional committee proposals and the length of discussion time, and implementation of meeting resolutions will be followed up on. ■ Starting from 2017, the Corporation has conducted 1 external assessment of Board performance at least once every 3 years. External assessments were launched in 2019 Q1, and the Taiwan Corporate Governance Associate was contracted to conduct “evaluations on board efficiency” for the period between March 1, 2018 and February 28, 2019; results are expected to be published in April. Details on the implementation status of these assessments will be disclosed in the “Implementation status of corporate governance” sub-section under the “Corporate governance” section of our website. ■ The Corporation has published our Regulations for Self-Evaluation of the Board of Directors on MOPS and our corporate website. Assessment results will also be disclosed on our corporate website.

Evaluation item	Implementation status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(4) Does the company regularly evaluate the independence of CPAs?	✓		<p>■ According to Article 5-3-06 of the Company CGSs, the Audit Committee shall conduct assessments of CPA professionalism, independence, and reasonableness of audit fees at the end of each fiscal year, and these assessments shall be submitted to the Board of Directors. CPA assessment results for 2018 were approved by the 8th Board of Directors at the 21th Audit Committee Meeting held on February 19, 2019 and the 23th Board Meeting held by the 8th Board of Directors on February 20, 2019, confirming that the CPAs Mei-Yen Chiang and Kwan-Chung Lai of Deloitte & Touche both fulfilled the assessment standards for independence and competency (Note 2), and a letter of declaration was provided by Deloitte and Touche (Note 3).</p>	■ None.
4. Does the company set up a corporate governance unit or appoint personnel responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their functions, handling work related to meetings of the board of directors and the shareholders' meetings, filing company registration and changes to company registration, and producing minutes of board meetings and shareholders' meetings)?	✓		<p>■ On March 20, 2019, the 24th meeting of the 8th Board approved the appointment of Board Secretariat secretary Senior Vice President Barret Wang as the Corporation's corporate governance officer (Corporate Secretary) to protect shareholder rights and strengthen Board functions as he possesses legal qualifications and has served in managerial capacities for more than 3 years handling the legal, shareholding, and corporate governance affairs of listed companies. The main duties of the corporate governance officer are to handle Board and shareholder meeting matters in accordance with law, prepare meeting handbooks for Board and shareholder meetings, assist directors in taking office and continuous training, provide legal compliance information and assistance to the Board for implementation of business matters, and so on. The implementation status of Corporation corporate governance was submitted to the 23rd meeting of the 8th Board of Directors on February 20, 2019, and will be periodically reported to the Board every year. Main implementations include:</p> <ol style="list-style-type: none"> 1. Assisting the Board or committees with drawing up annual work plans and meeting agendas, and collecting, researching, analyzing, or providing related materials. 2. Providing analysis and opinions on the legality, appropriateness, and feasibility of proposals to be deliberated by the Board or committees, for reference by the Board or committees during deliberations. 3. Ensuring that the operations of the Corporation's shareholders' meeting, Board, and committees do not violate laws or regulations, the Articles of Incorporation, shareholders' meeting resolutions, and our Guidelines for Corporate Governance. 4. Assistance with deliberation, supervision, or processing relating to the planning and review of systems for liaison and interaction between the Corporation and shareholders, employees, consumers, stakeholders, and the general public. 5. General administrative affairs relating to the calling of, notices for, holding of, and record-keeping for shareholders' meetings, Board meetings, and committee meetings. 6. Ensure that Board members have timely knowledge of material information by notifying Board members upon publication of material information. 7. Formulate board meeting agendas and notify directors 7 days in advance of the meeting, convene the meeting and provide meeting information, provide reminders of conflicts of interest, and complete board meeting handbooks within 20 days of the meeting. 	■ None.

Evaluation item	Implementation status		Abstract Illustration	Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<p>8. Organize at least 6 hours of director training courses within the corporate offices, and assist directors in organizing other training plans and courses.</p> <p>9. Assess and take out appropriate liability insurance for directors and officers.</p> <p>10. Conduct performance assessments in accordance with the Corporation’s Procedures for Assessing Board Performance.</p> <p>■ The Corporation has a shareholder services unit that is responsible for handling shareholder services, responding to shareholder queries, making changes to Corporation registration details, and publishing information on shareholder matters in accordance with law.</p>	
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	✓		<p>■ A “Stakeholders” sub-section is available under the “Corporate social responsibility” section of our corporate website. This sub-section upholds the rights of stakeholders by periodically assessing stakeholder categories and establishing designated units and communication channels for stakeholders, using appropriate communication measures to understand the reasonable expectations and needs of stakeholders and providing fitting responses to major CSR issues of concern. Communication with stakeholders is reported to the Board regularly every year.</p> <p>■ The aforementioned “Stakeholders” sub-section of our corporate website and the “Major issues and stakeholders” section of the Corporation’s CSR report both disclose comprehensive information on stakeholders.</p>	■ None.
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	✓		<p>■ The Corporation has appointed Fubon Securities Transfer Agency Department as its professional shareholder service agency.</p>	■ None.
7. Information Disclosure (1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	✓		<p>■ Our corporate website contains an “Investor relations” section and a “Corporate governance” section which both disclose information regarding the Corporation’s finances, business matters and corporate governance. This information is updated periodically and in a timely manner.</p>	■ None.
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		<p>■ When disclosing information, we not only publish the information on our annual report and prospectus in accordance with law, but also make the information on websites designated by governing authorities and on our corporate website. Additionally, information is also disclosed in the following ways:</p> <p>1. We have established an English language website (http://www.thsrc.com.tw/index_en.html) that discloses important information on the Corporation’s finances, business matters, and corporate governance.</p> <p>2. We have implemented a spokesperson system.</p> <p>3. Our Investor Conference notices and related information are disclosed on our corporate website.</p>	■ None.

Evaluation item	Implementation status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
8. Is there any other important information to facilitate a better understanding of the company’s corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors’ and supervisors’ training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		<ul style="list-style-type: none"> ■ THSRC participated in the 4th Corporate Governance Evaluations (2017) for the first time and was acknowledged as a top 5% listed company. For the 5th Corporate Governance Evaluations (2018), THSRC was also ranked at the top 5% of listed companies. ■ The Corporation received a CG6011 (2017) Corporate Governance Framework Assessment Certificate with an “Excellent” ranking from the Taiwan Corporate Governance Association on June 26, 2018. The certificate is valid from June 12, 2018 to June 11, 2020. ■ In July 2018, the Taiwan Index released periodic assessment results for the “Taiwan Corporate Governance 100 Index” and listed THSRC as one of the companies in the index. ■ The Corporation’s Guidelines for Corporate Governance stipulates that the Corporation shall devote attention to public policy, economic development, consumer rights and interests, community concerns, environmental protection and sanitation, public safety, and other public interest issues to raise the Corporation’s image and to faithfully fulfill its social responsibilities. The Corporation participates in social contribution through a number of measures, for example through subsidies to preserve jacanas and other wildlife, providing care to communities alongside the HSR line, and support of other environmental hygiene and public policies. ■ The Corporation has established Ethical Corporate Management Best Practice Principles, Code of Ethical Conduct, Code of Employee Conduct, Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior, Management of the Prevention of Insider Trading, Reward and Discipline Regulation, Grievance Regulation, and Procurement Staff Ethical Regulation, which not only governing the ethical standards and codes of conduct for corporation personnel when carrying out their duties, but also ensure that the corporate activities of THSRC do not interfere with social contributions, thus maintaining the rights of the Corporation and our shareholders, fulfilling our corporate social responsibilities, and helping our stakeholders to understand relevant regulations. ■ The Corporation has established an Occupational Safety and Health Policy and is committed to compliance with government health and safety laws, regulations, and procedures to ensure the safety of passengers, employees, and other members of the public. We periodically conduct employee health checks every year, to promote health-enhancing activities, and implement health management to enhance the physical and mental health of employees. ■ The Corporation has established a Safety Policy, and relevant procedures and implementation results are regularly reviewed every year to further our goal of continued improvements to safety. All employees have to undergo training in accordance with the safety regulations and operating procedures, so that they can continue to display and be equipped with attention to and recognition of safety measures when carrying out daily tasks. Our contractors are carefully selected, supervised, and managed to ensure that their operations fulfill the Corporation’s safety goals. ■ The Corporation is committed to appropriate utilization of internationally recognized risk assessments and safety management methods in our safety management system to actualize control and minimize hazards. We are also committed to maintaining the highest quality control standards and are active in exercising safety management as we strive to implement various health and safety measures. 	None.

Evaluation item	Implementation status		Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	
			<ul style="list-style-type: none"> ■ The Corporation has established a Supply Chain Management Policy which states that when collaborating with suppliers, we should gradually integrate environmental, social, and corporate governance needs into our supplier regulations, in hopes of creating a more sustainable collaboration with our suppliers. Our management policies are disclosed on our corporate website. ■ Starting in 2004, the Corporation has complied with the Board-approved “Guidelines for Corporate Governance” and taken out liability insurance for all directors and officers with respect to their liability under the law for their actions in the exercise of their duties. The liability insurance policies for directors and officers in 2018 and 2019 were approved by the 6th meeting of the 8th Board of Directors on September 14, 2017, and by the 18th Audit Committee meeting of the 8th Board of Directors on September 13, 2018. The completed insurance amount comes to NT\$ 900,000,000. ■ The continued education of all current Corporation directors complies with the number of training hours stipulated by the Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies. In 2018, Corporation directors underwent a total of 87 hours of training as detailed in Note 4.

9. Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures: The Corporation was ranked among the top 5% listed companies in the 4th Corporate Governance Evaluations (2017) and 5th Corporate Governance Evaluations (2018). We list improvements to major unachieved evaluation items below:

Item	Evaluation Indicators	Improvements
1.5	On the same day the AGM was held, did the company disclose the numbers of votes cast “For” and “Against” as well as the number of “Abstentions” on each motion on the designated Internet information reporting website?	The resolutions of the 2018 AGM were disclosed on the designated Internet information reporting website on the day of the meeting.
3.6	Did the company voluntarily appoint more independent directors than is required by laws?	Temporarily retain status quo.
3.35	Did directors of each gender account for at least one-third of all directors?	In future we will seek to increase the number of female directors so as to achieve gender equality and the ratio of female directors.
4.2	Did the company disclose material information in English and Chinese at the same time?	English material information is disclosed at the same time.
4.8	Did the company voluntarily disclose its financial forecast quarterly, without having any corrections ordered by the competent authority or having any demerits imposed by the TWSE or TPEX?	No plans in motion.
4.17	Were the non-audit fees paid to the external auditor and its affiliates, as disclosed in the annual report, no more than the audit fees?	Temporarily conducted in accordance with actual operations.
5.5	Did the company sign a collective agreement with the labor union in accordance with the Collective Agreement Act?	Under negotiations.
5.8	Was the company ISO 14001 certified or accredited with similar environmental management system certification?	The Corporation has received GHG emissions ISO14064 certification.
C01	Did the company voluntarily participate in any other corporate governance related evaluation system and receive certification?	The Corporation was awarded an “Excellent” certification by the Taiwan Corporate Governance Association under their CG6011 corporate governance evaluations for 2017 on June 26, 2018; the certification period being from June 12, 2018 to June 11, 2020.

Note 1: Implementation of board diversification policy

Director name/ Core diversification item	Composition		Professional background and capabilities						
	Nationality	Gender	Finance and accounting	Legal practice	Marketing, technology	Operational management	Leadership and decision- making	Industry knowledge and operational judgment	Crisis management and international outlook
Chiang, Yao-Chung	R.O.C.	M			v	v	v	v	v
Ding, Kung-Wha	R.O.C.	M	v				v		v
Chiu, Kenneth Huang-Chuan	R.O.C.	M		v			v		v
Poo, David Da-Wei	R.O.C.	M					v	v	v
Liu, Min-Ching	R.O.C.	F	v				v		v
Huang, Mao-Hsiung	R.O.C.	M			v	v	v	v	v
Liu, Kuo-Chih	R.O.C.	M			v	v	v	v	v
Tsai, Huang-Liang	R.O.C.	M			v	v	v	v	v
Wang, Shyi-Chin	R.O.C.	M			v	v	v	v	v
Chiang, Chin-Shan	R.O.C.	M			v	v	v	v	v
Kwan, Tao-I	R.O.C.	M			v	v	v	v	v
Kao, Shien-Quey	R.O.C.	F	v				v		v
Ko, Lee-Ching	R.O.C.	F			v	v	v	v	v

Note 2: Independence assessment indicators of CPA

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

Note 3: Letter of declaration from Deloitte & Touche

Date: August 15, 2018

Recipient : Taiwan High Speed Rail Corporation

Subject : With respect to the audit of the Corporation's financial statements for the year ended in 2018, our audit team confirms that we have complied with the following requirements without impairing auditor independence, in compliance with "The Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No. 10, Integrity, Objectivity and Independence" of the National Federation of CPA Associations of the R.O.C.

Gentlemen :

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



Deloitte & Touche

Taipei, Taiwan

Republic of China

Note 4: Director training programs in 2018

Name	Date of attendance	Course	Training time (hours)
Chiang, Yao-Chung	2018/4/10	Trends and challenges in information security governance	3
	2018/8/07	Important issues relating to revisions made to Company Act	3
Ding, Kung-Wha	2018/4/10	Trends and challenges in information security governance	3
	2018/8/7	Important issues relating to revisions made to Company Act	3
	2018/4/10	Trends and challenges in information security governance	3
Chiu, Kenneth Huang-Chuan	2018/8/7	Important issues relating to revisions made to Company Act	3
	2018/8/13	Impacts of revisions made to Company Act on corporate governance and director and supervisor duties	3
Poo, David Da-Wei	2018/4/10	Trends and challenges in information security governance	3
	2018/8/7	Important issues relating to revisions made to Company Act	3
	2018/9/10	FSC new corporate governance blueprint seminars—the duties and rights of directors	3
Liu, Min-Ching	2018/4/10	Trends and challenges in information security governance	3
	2018/8/7	Important issues relating to revisions made to Company Act	3
	2018/4/10	Trends and challenges in information security governance	3
Huang, Mao-Hsiung	2018/5/7	Assessing board effectiveness	3
	2018/12/22	Sustainable corporate development and disclosures of non-financial information	3
Liu, Kuo-Chih	2018/4/10	Trends and challenges in information security governance	3
	2018/8/7	Important issues relating to revisions made to Company Act	3
Tsai, Huang-Liang	2018/4/10	Trends and challenges in information security governance	3
	2018/8/7	Important issues relating to revisions made to Company Act	3
Wong, Chao-Tung	2018/6/4	Director responsibilities and risk management under latest corporate governance guidelines	3
	2018/12/3	Understanding trends in Company Act revisions	3
Chiang, Chin-Shan	2018/11/22	Director and supervisor duties in M&A	3
	2018/11/22	Important issues relating to revisions made to Company Act	3
Kwan, Tao-I	2018/4/10	Trends and challenges in information security governance	3
	2018/7/30	Compliance with transaction regulations of internal shareholders of listed and non-listed companies	3
Kao, Shien-Quey	2018/6/14	How directors can exercise due diligence	3
	2018/8/14	How government workers can avoid conflicts of interest and case studies	3
Ko, Lee-Ching	2018/2/7	Sustainable corporate management and sustainable corporations	3
	2018/10/24	Global rebalance crises and opportunities	3
Director training hours for 2018			87

(6) Composition, Duties, and Operational Status of Remuneration Committee

1) Remuneration Committee members

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

Note 1: Identity can be specified as director, independent director, or other.

Note 2: A check mark is placed in the box for those directors who fulfill the following conditions during and two years prior to their time in office.

- (1) Is not hired by the Corporation or its affiliates
- (2) Is not a director or supervisor in the Corporation or its affiliates (this, however, is excepted for independent directors established in accordance with relevant local laws for the Corporation, its parent company, or subsidiary companies)
- (3) Is not a natural-person shareholder holding more than 1% of the Corporation's total issued stock under the name of one's own, spouse or minor children, nor is one of the Corporation's top ten natural-person shareholders.
- (4) Is not the spouse, the relatives within the relation rank 2 or the direct blood relatives within the relation rank 3 of persons fulfilling the above three clauses.
- (5) Is not a director, supervisor, or employee who directly or indirectly holds more than 5% of the Corporation's total issued stock or a director, supervisor, or employee of one of the Corporation's five largest shareholders.
- (6) Is not a director, supervisor, manager or holder of more than 5% of stock shares in a company or institution that has financial or business dealings with the Corporation.
- (7) Is not the head of, a partner, a director, supervisor, or manager or respective spouse of a professional consultant, sole investor, partner, company or organization that has provided commercial, legal, financial and accounting services or consultancy to the Corporation or its affiliates.
- (8) Has not violated any regulation in Article 30 of the Company Act

2) Operational status of Remuneration Committee

- A. The Corporation's Remuneration Committee is composed of 3-5 people, and committee members are appointed in accordance with the "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded over the counter". Following election of board members by the shareholders' general meeting on May 24, 2017, the 8th committee members will serve until May 23, 2020. The 3 members of the committee are all independent directors, and Independent Director Chiu, Kenneth Huang-Chuan was elected as convener by all committee members. The committee operates according to the "Charter of Remuneration Committee".
- B. The main duties and annual tasks of the committee include formulating and regularly reviewing policies, systems, standards, and structure of evaluations on director and manager performance and salary and compensation, as well as regular assessment and formation of director and manager salary and compensation. (Please refer to Chapter Three of this report for details regarding the main duties of the Remuneration Committee).

C. The 8th Remuneration Committee convened 11 times in 2018, and the operational status of the committee is as follows:

Title	Name	Attendance in Person	By Proxy	Required Attendances	Attendance Rate (%)	Remarks
Convener	Chiu, Kenneth Huang-Chuan	11	0	11	100	
Member	Ding, Kung-Wha	11	0	11	100	
Member	Poo, David Da-Wei	10	1	11	91	
Average actual attendances of Remuneration Committee members in 2018 (%) (Actual attendances/Required attendances)					97	

Other matters required to be recorded:

1. Matters discussed and resolved during Remuneration Committee meetings from 2017 to March 2018, and the Corporation's responses to Remuneration Committee opinions:

Board Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's responses to Remuneration Committee opinions	Board Resolution
2018/1/18 (8-10)	Distribution suggestions for 2017 employee compensation and bonuses.	2018/1/16 (8-7)	Approved by all Remuneration Committee members in attendance. In light of the fact that operational performance for the past year showed high levels of growth, and following suggestions made by the Chairman, the committee suggested providing an additional year-end bonus of NT\$5,000 to incentivize employees.	Implemented in accordance with Remuneration Committee resolutions.	Approved by all directors in attendance.
2018/1/18 (8-10)	Distribution suggestions for 2017 director remuneration.	2018/1/16 (8-7)	In consideration of director responsibilities and contributions, the Remuneration Committee advised that distribution ratios for director remuneration be adjusted to 0.5%. (Note: Remuneration was not distributed to independent directors.)	Implemented in accordance with Remuneration Committee resolutions.	Approved by all directors in attendance.
2018/1/18 (8-10)	Implementation status of Remuneration Committee in 2017.	2018/1/16 (8-7)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/5/8 (8-14)	Suggested promotion of acting audit office manager.	2018/5/7 (8-10)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/5/8 (8-14)	Advised strategic differentiation in distribution of 2017 manager bonuses.	2018/5/7 (8-10)	Approved by all Remuneration Committee members in attendance. Additionally, managerial departments discussed the possibility of an incentive mechanism for outstanding employees.	Proposal was handled by managers in accordance with the Corporation's Rules Governing Rewards and Disciplinary Action.	Approved by all directors in attendance.
2018/5/8 (8-14)	Advised remuneration adjustments for the Corporation's chairman and CEO.	2018/5/7 (8-10)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.

Board Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's responses to Remuneration Committee opinions	Board Resolution
2018/6/12 (8-15)	Suggested measures in response to revisions made to the Labor Standards Act.	2018/6/8 (8-11)	Approved by all Remuneration Committee members in attendance.	Not applicable	<p>(1) Calculation of work time on rest days as per Article 24 of the Labor Standards Act should best adhere to the regulations of the Labor Standards Act; managerial departments were requested to report suggestions to the Board within two months.</p> <p>(2) Approved managerial department suggestions to adhere to Article 32-1 (Compensatory leave for overtime on rest days) and Article 38 (Annual leave) of the Labor Standards Act.</p> <p>(3) In light of operational needs, some implementation flexibility is retained for Article 32 (Maximum extension of work hours for one month), Article 34 (Shift rotation intervals), and Article 36 (Regular leave days) of the Labor Standards Act.</p>

Board Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's responses to Remuneration Committee opinions	Board Resolution
2018/7/12 (8-16)	Personnel changes at manager level (including appointments, promotions, and official appointments) in accordance with organizational changes.	2018/7/11 (8-12)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/7/12 (8-16)	Suggestions regarding calculation of in-work days for salary adjustments and offsetting differences when making salary adjustments for personnel on legal leave without pay.	2018/7/11 (8-12)	Changes advised by Remuneration Committee: "Salary adjustments for personnel on legal leave without pay shall be calculated according to original position and rank regardless of in-work days; adjustments are made effective on the day the employee returns to work." The remainder of the proposal was approved.	Implemented in accordance with Remuneration Committee resolutions.	Approved by all directors in attendance.
2018/8/7 (8-17)	Suggestions regarding calculation and pay rates of work hours on rest days.	2018/8/3 (8-13)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/8/7 (8-17)	Suggestions regarding approval of employee bonuses for working during consecutive holidays on traditional holidays.	2018/8/3 (8-13)	Changes advised by Remuneration Committee: "Applicable for all personnel except for department heads and deputy heads." The remainder of the proposal was approved.	Implemented in accordance with Remuneration Committee resolutions.	Approved by all directors in attendance.
2018/9/13 (8-18)	Extension of consultant contract.	2018/9/12 (8-14)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/9/13 (8-18)	Renewal of consultant contract.	2018/9/12 (8-14)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/9/13 (8-18)	Suggestions regarding reduction of employee bonuses due to disciplinary actions.	2018/9/12 (8-14)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/10/18 (8-19)	Salary adjustment suggestions for 2019 and adjustments of calculations for in-work days used to calculate salary adjustments.	2018/10/15 (8-15)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2018/10/18 (8-19)	2019 Remuneration Committee work plan.	2018/10/15 (8-15)	Approved by all Remuneration Committee members in attendance. Also suggested addition of the item "Review and assessment of manager remuneration competitiveness and incentives" to review the Corporation's remuneration positioning.	Implemented in accordance with Remuneration Committee resolutions.	Approved by all directors in attendance.
2018/11/6 (8-20)	Advised that overtime pay rates for national holidays in 2019 should comply with overtime pay rates for rest days.	2018/11/5 (8-16)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.

Board Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Date Session (Term-Sitting)	Remuneration Committee Resolution	The Corporation's responses to Remuneration Committee opinions	Board Resolution
2018/12/13 (8-21)	Renewal of consultant contract.	2018/12/11 (8-17)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/1/23 (8-22)	Changes to assistant manager personnel.	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/1/23 (8-22)	Suggestions regarding additional year-end bonuses for 2018.	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/1/23 (8-22)	Distribution suggestions for 2018 employee compensation and bonuses.	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/1/23 (8-22)	Distribution suggestions for 2018 director remuneration.	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/1/23 (8-22)	Implementation status of Remuneration Committee in 2018.	2019/1/22 (8-18)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/2/20 (8-23)	Revisions made to job grade table.	2019/2/19 (8-19)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/2/20 (8-23)	Changes to personnel ranking above assistant manager.	2019/2/19 (8-19)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/3/20 (8-24)	Appointment of corporate governance officer.	2019/3/19 (8-20)	Approved by all Remuneration Committee members in attendance.	Not applicable	Approved by all directors in attendance.
2019/3/20 (8-24)	Suggestions regarding remuneration adjustments for independent directors of the 8th Board of Directors.	2019/3/19 (8-20)	All independent directors had to recuse themselves due to conflicts of interest, and therefore the proposal was submitted to the Board for review.	Not applicable	Apart from independent directors who recused themselves from participating in discussions and voting according to legal requirements, the remaining directors in attendance approved the proposal.

2. Instances where the Board does not adopt or revise suggestions made by the Remuneration Committee, the date of said meeting, session number, proposal content, board resolutions, and the Corporation's responses to Remuneration Committee opinions: (if the Board approves remuneration higher than that suggested by the Remuneration Committee, the disparities and reasons for said disparity should be given):

Board Date Session (Term-Sitting)	Agenda Content	Remuneration Committee Date Session (Term-Sitting)	Disparities between Board resolutions and Remuneration Committee suggestions and reasons for said disparity	The Corporation's responses to Remuneration Committee opinions
2018/6/12 (8-15)	Suggested measures in response to revisions made to the Labor Standards Act.	2018/6/8 (8-11)	<p>1. Disparities: The Board made the following revisions to proposed suggestions: (1) Calculation of work time on rest days as per Article 24 of the Labor Standards Act should best adhere to the regulations of the Labor Standards Act; managerial departments were requested to report suggestions to the Board within two months. (2) In light of operational needs, some implementation flexibility is retained for Article 32 (Maximum extension of work hours for one month), Article 34 (Shift rotation intervals), and Article 36 (Regular leave days) of the Labor Standards Act.</p> <p>2. Reasons for said disparity: in consideration of legal compliance and operational risks, and to maintain flexibility in operations, the Board adjusted the responses measures contained within this proposal; these adjustments did not exceed the suggestions made by the Remuneration Committee.</p>	Calculations of work hours on rest days contained within this proposal were approved by the Remuneration Committee on August 3, 2018 (8-13), and the Board of Directors on August 17, 2018 (8-17). Other items in this proposal were handled in accordance with Board resolutions.

3. Instances where committee members expressed objections or reservations on record or through written opinions regarding committee proposals, and date, session, proposal, all committee member opinions, and responses to member objections: None.

(7) Corporate Social Responsibility

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No		
1. Corporate Governance Implementation (1) Does the company declare its corporate social responsibility policy and examine the results of the implementation?	✓		<ul style="list-style-type: none"> ■ Implementing corporate social responsibilities has served as the foundation of our core service ever since we were founded, and we have a continued commitment to social caring, environmental protection, and corporate governance. Prior to our public listing, we voluntarily published THSRC CSR reports in 2009, 2013, and 2015, and began periodically publishing CSR reports after our public listing; the latest CSR report was published in June 2018 to communicate our actions in corporate social responsibility and relevant outcomes with our many stakeholders. ■ The Corporation's "Corporate Social Responsibility Best Practice Principles" was implemented following approval of the 11th meeting of the 7th Board of Directors on February 19, 2016, and was reported to the interim shareholders meeting on March 18, 2016. We have established clear corporate social responsibility policies, and our implementation results are fully reviewed during the compilation process of our CSR report. ■ The Corporation upholds the principle of "Corporate Sustainability" and views corporate social responsibility as one of the major core values of our corporation. In order to achieve our goals of sustainable management, we strive to fulfill our corporate social responsibilities and promote economic, social, and environmental balance and sustainable development. 	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/ TPEX Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
(2) Does the company provide educational training on corporate social responsibility on a regular basis?	✓		<ul style="list-style-type: none"> ■ To achieve our vision of corporate sustainability, THSRC keeps abreast of corporate social responsibility information, and provides periodic courses in corporate social responsibility, environmental safety, occupational safety, operational safety, and regulation compliance, as well as relevant training to build employee awareness and consensus on CSR. 	■ None.
(3) Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and reporting to the board?	✓		<ul style="list-style-type: none"> ■ We established “Corporate Governance Promotion Committee” which is overseen by our chairman and chaired by our president. Executives from our managerial departments serve as committee members and meetings are convened every 2 months or as needed to discuss specific topics. The committee drafts optimization strategies for corporate governance systems and functions, formulates measures to strengthen corporate governance, and reviews corporate social responsibility policies to provide a reference for decision-makers within the Corporation; the committee also reports overall corporate governance promotion and implementation status to the Board of Directors every year. ■ The corporate governance planning team, corporate social responsibility team, ethical management team, and environmental sustainability team have been established under the Corporate Governance Promotion Committee. Committee structure and implementation status were reported to the 18th meeting of the 8th Board of Directors on September 13, 2018. The main duties of the committee are as follows: <ol style="list-style-type: none"> 1. Review appropriateness and effectiveness of the Corporation’s organizational efficiency and ensure consistency with management duties. 2. Review effectiveness of internal risk management, audits, and control procedures, and implement control measures for potential risks. 3. Review operational procedures for Corporation information and disclosures to ensure the accuracy and transparency of information disclosed to the public. 4. Review legal compliance of operational processes and implement control strategies. 5. Formulate and review the Corporation’s implementation of corporate social responsibility, ethical management policies, guidelines, and specific promotion plans. 6. Formulate plans for activities to enhance investor relations. 7. Track the Corporation’s preparations for corporate governance evaluations. 8. Track Board resolutions relating to corporate governance. 9. Formulate plans for other major corporate governance strategies. <p style="margin-left: 20px;">Details on the operational status of the Corporate Governance Promotion Committee can be found on our corporate website in the “Corporate governance structure and corporation organizational structure” sub-section under our “Corporate governance” section.</p> ■ The Corporation fulfills its corporate social responsibilities in accordance with our Corporate Social Responsibility Best Practice Principles approved by the Board of Directors in March 2016, and is active in promotion of corporate governance, social welfare, and environmental sustainability, concepts which are integrated in our operational strategies and management goals. Additionally, the corporate social responsibility team of the Corporate Governance Promotion Committee is convened by the vice president of our Corporate Planning Office, and composed of representatives from all departments; the team is responsible for planning and promoting activities relating to corporate social responsibility, compiling annual corporate social responsibility reports, and convening to discuss matters of corporate social responsibility promotion. The team is also responsible for reporting overall corporate governance promotion and implementation, as well as specific performance and promotion of corporate social responsibility to the Board of Directors each year. The main duties of the team include: 	■ None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/ TPEX Listed Companies" and Reasons
	Yes	No		
			<ol style="list-style-type: none"> 1. Coordinating the Corporation's recent developments and goals in corporate sustainability. 2. Formulating future long-term strategies and guidelines for corporate social responsibility promotion. 3. Overseeing internal units responsible for planning and proposing annual corporate social responsibility strategies and plans in their specific area of business. 4. Coordinating various departments in implementing corporate social responsibility activities and projects. 5. Reviewing and finalizing CSR report. 6. Other tasks relating to review or compilation of corporate social responsibility matters. Details on the operational status of the corporate social responsibility team can be found on our corporate website in the "Corporate governance structure and corporation organizational structure" sub-section under our "Corporate governance" section. <ul style="list-style-type: none"> ■ The Corporate continues to make strides in fulfilling its corporate social responsibilities and in demonstrating a sincere desire to serve; our mission is to build closer relationships with passengers and local communities, and become a platform for life improvement. We also actively ensure that the sustainable management measures of our core business comply with UN SDGs so that we can keep pace with international trends. ■ The Corporation's 2017 THSRC CSR report was published in June 2018. For more information on the Corporation's specific implementation plans and results of corporate social responsibility, please refer to item 6 below (Other important information to facilitate better understanding of the corporation's corporate social responsibility practices). Details have also been disclosed on the "Corporate social responsibility" section of our corporate website, and in the "Sustainable development" page of our "Corporate social responsibility" section. 	
(4) Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	✓		<ul style="list-style-type: none"> ■ In accordance with our "Charter of Remuneration Committee", THSRC regularly reviews the performance of directors and managers, policies, systems, standards, and compensation structure, and also regularly reviews general compensation levels of the industry. To ensure competitiveness and motivation, employee compensation is determined by the corporate financial status, business performance, and policies, as well as the work duties, work abilities, and performance of the positions held. In addition, according to Article 35-1 of our "Articles of Incorporation," if the Company is profitable in a given year, it shall allocate not less than 1% of the net profit as profit-sharing compensation to employees. ■ Furthermore, to effectively promote individual performance goals and implement overall policies and operational strategies of the Corporation, our "Reward and Discipline Regulation" and "Performance Appraisal Regulation" establishes fair, objective, clear, and effective rewards and disciplinary standards to assess employee behavior and performance for effective promotion of employee potential. We have also established our "Promotional Principles" to facilitate employee career development and implementation of CSR policies relating to talent cultivation. ■ Our "Remuneration Management Regulation" serves as a basis for determining employee salary levels, and we regularly review pay levels and remuneration policies, setting out salary allowances and bonuses according to our "Remuneration Payment Procedures" to provide allowances and reward employees for their hard work. Bonus levels are based on the corporate financial status, operating conditions, and individual work performance. THSRC distributes year-end bonuses and performance bonuses according to business performance and has set salary adjustment policies to enhance employee compensation and welfare. To achieve our goal of incentivizing employees, salaries levels for 2018 have been adjusted according to employee performance, with overall adjustment rates set at around 3.5%. 	■ None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
2. Sustainable Environment Development (1) Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		<p>■ The Corporation has established environmental management objectives and strategies for continual reduction of energy and water usage based on principles of safety, comfort, environmental protection, energy saving, and carbon reduction, and conducts periodical reviews of these environmental objectives. We also apply appropriate measures to protect the environment from possible negative impacts.</p>	■ None.
(2) Does the company establish proper environmental management systems based on the characteristics of their industries?	✓		<p>■ The Corporation has established an environmental management system in accordance with ISO14001, and our Environmental Management Manual lays out specific implementations for all environmental management requirements.</p>	■ None.
(3) Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	✓		<p>■ The main risks brought about by climate change include severe weather phenomenon such as extreme high temperatures; rising sea levels; increased rainfall, rainfall intensity, typhoons, cyclones, and lightning, which have increased in frequency and intensity, enhancing vulnerability levels of the railway industry and impacting our operations. At present, our adaptive actions toward climate change impacts include:</p> <ol style="list-style-type: none"> 1. Establishment of warning system for slope safety. 2. Strengthened protection of tunnel portal slopes. 3. Risk assessment and protection designs for scoured cross-river bridges. <p>The Corporation continues to promote its 4 major energy-saving programs (self-managed energy saving, reduction of power consumption, transfer peak power demands, and reasonable power usage) and has established energy-saving goals for each station (reduction of at least 0.86% in average annual power consumption per passenger). Additionally, in order to quantify our carbon emissions of the Corporation’s energy consumption, we have established a “passenger-kilometer emissions” indicator, and aim to reduce our carbon emissions by at least 1.5% every year.</p> <p>We voluntarily conducted GHG inventory and external verification for our 12 stations in 2016 and 2017 and obtained an ISO14064 Verification Opinion Statement. (Station GHG emissions for 2018 are scheduled to be inventoried and verified in May 2019). For more details on the Corporation’s environmental sustainability policies and implementation status, please refer to the “Sustainable development” page of the “Corporate social responsibility” section on our corporate website.</p>	■ None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/ TPEX Listed Companies” and Reasons
	Yes	No		
<p>3. Preserving Public Welfare</p> <p>(1) Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?</p>	✓		<ul style="list-style-type: none"> ■ Article 18 of Chapter 4 (Maintaining social welfare) in the Corporation’s Corporate Social Responsibility Best Practice Principles stipulates compliance with the International Bill of Human Rights in gender equality, right to work, and prohibition of discrimination, and establishment of relevant management policies and procedures. ■ The Corporation complies with the spirit of the International Bill of Human Rights and established a “Human Rights Policy” in 2018, which is disclosed on our corporate website and in Chapter 4 of this report. We adhere to the principles and spirit underlying the UN’s Universal Declaration of Human Rights, the Guiding Principles on Business and Human Rights, the UN Global Compact, and the International Labor Organization’s Declaration on Fundamental Principles and Rights at Work, including freedom of association, care for vulnerable groups, prohibition of child labor, elimination of all forms of forced labor, elimination of employment discrimination, and confirm that our human resource utilization policies do not discriminate on the basis of gender, race, social class, age, marriage status, religion, and political affiliation. ■ The Corporation has established various regulations for corporate governance, environmental protection, public affairs, procurement and human resources. We have also built sound management systems in compliance with the Personal Information Protection Act to protect the privacy of our employees, passengers, and all stakeholders. We have specific regulations relating to human rights policies to serve as a basis for identifying important human rights issues and to promote risk-reducing measures. The Corporation’s “Supply Chain Management Policy” stipulates that in addition to procurement quality, costs, delivery date, and services, the Corporation should also take issues such as reasonable profits, social responsibility, labor safety, human rights, and environmental protection into consideration when making management and implementation decisions. When inviting bids, the Corporation stipulates that companies submitting bids should not discriminate on the basis of gender, discriminate against indigenous people or vulnerable groups, and should not use child labor. We actively contribute to society and participate in local activities to the best of our limited abilities, in hopes of maintaining sustainable interactions with our collaborating organizations to implement social care and strengthening of local culture. The Corporation has provided effective and appropriate grievance mechanisms for matters that infringe upon labor rights to ensure the equality and transparency of grievance regulation. Relevant human rights concerns and specific management plans and actions are detailed in Chapter 7 of this annual report. 	■ None.
<p>(2) Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?</p>	✓		<ul style="list-style-type: none"> ■ The Corporation has established “Grievance Regulation” and an employee hotline, which were announced on the bulletin boards of all departments. If our employees believe that their rights and interests have been infringed upon, they can utilize the appropriate channels for clarification and appeal; this effectively upholds corporate policies and employee rights and interests to promote team harmony and enhancement of work efficiency. 	■ None.
<p>(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?</p>	✓		<ul style="list-style-type: none"> ■ To provide employees with safe and healthy work environments, the Corporation conducted environment monitoring at corporate headquarters, the OMC building, 12 HSR stations, and 4 maintenance depots. ■ Every year, the Corporation establishes an Annual Health and Safety Education Training Plan which includes relevant EHS training courses, for which training completion rates exceed 100%. Additionally, our occupational safety and health office hosts a number of promotional activities on health and safety standards, operational procedures, and regulations for new recruits and existing personnel to enhance their awareness and capabilities. A total of 86 activities were hosted in 2018. 	

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/ TPEX Listed Companies” and Reasons
	Yes	No		
			<ul style="list-style-type: none"> ■ THSRC established a Program for Prevention of Occupational Violations in accordance with the Occupational Safety and Health Act and guided implementation in all departments to ensure occupational health and safety. ■ We established an incentive program to encourage our colleagues to report false alarms and violations of occupational health and safety, thus enhancing awareness of occupational health and safety. ■ We implemented annual occupational health and safety audits to assess whether audited units had fulfilled their responsibilities and were operating in accordance with relevant regulations. ■ We have established “THSRC Safety and Health Work Principles”, “Railway Operations Safety Manual”, “Train Control Directives”, “Regulations of Operational Procedures”, “Operational Manual for Control Centers/Station Controllers/Maintenance Controllers to serve as a basis for safe HSR operational and control procedures. These procedures are updated each year or every 3 years in accordance with stipulated regulations. ■ We provided material incentives to employees in order to promote management solutions for measures that reduce occupational hazards, for example our “Occupational Safety and Health Management Target Achievement Incentive Program”. ■ In order to achieve our management target of “zero occupational hazards”, we hosted a number of traffic safety management events, for example traffic safety lectures, traffic safety quizzes, safe-driving promotional training for Yamaha motorcycles, and the Kaohsiung shuttle bus program. ■ We provided health checks beyond those mandated by regulations; starting in 2018, we added a health check program for senior staff (those above 45 years old who have worked at the Corporation for more than 10 years). Annual health check attendance for train personnel was close to 100%, and above 90% for general employees. ■ We established an online occupational health check reservation system to maximize service accessibility. Occupational health physicians provided hazard assessments, health consultations, home and work injury care, assessments for returning workers and worker fitness for 145 on-site sessions, ensuring comprehensive healthcare benefits for employees. ■ Our corporate headquarters, the Taoyuan OMC building, 4 maintenance depots, and 12 HSR stations are all equipped with health stations and nurses to provide employees, passengers, and contractors with emergency injury care and healthcare resources. ■ Every 2 years, we implement programs relating to prevention of hazards related to human factors, prevention of disorders brought on by abnormal workloads, maternal health protection, and so on. We also conduct health management surveys to analyze employee health risks and provide timely interventions and special preventive measures for preventive care and management. ■ In terms of preventive care for mental health, we have established hotlines and dedicated emails to provide multiple communication channels and care for our employees. ■ Each HSR station invites external supporting units in the district and emergency shuttle bus transport operators to conduct biannual surveys of the 184 emergency exits along the railway line. Surveys for the first half of 2018 were completed in April and June, and surveys for the second half of the year were completed in October and December. ■ A total of 85 disaster prevention and training drills were completed at various stations, depots, and routes in 2018, and were attended by external supporting units. ■ All units responsible for access management take inventory of access card distribution every quarter and conduct access management reviews at all stations and maintenance depots once every 6 months. 	<ul style="list-style-type: none"> ■ None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<ul style="list-style-type: none"> ■ In July 2017, THSRC received TOSHMS & OHS18001 certificates that verify our occupational health and safety management of HSR management areas along Taiwan’s western corridor, including train stations, maintenance depots, trackside equipment, and offices, making THSRC the biggest verified occupational safety and health business unit in Taiwan. ■ For more information on working environments, operational safety training, and drill activities, please refer to Chapter 6 of this report. 	
(4) Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	✓		<ul style="list-style-type: none"> ■ The Corporation values open dialogue and communication between employees and managers. In accordance with relevant regulations, we established the Labor-Management Committee, which convenes once every quarter, and have also established a line of communication with our President, an appeals inbox, the Occupational Safety and Health Committee, the Operational Safety Committee, the Reward and Disciplinary Committee, and the Employee Appeals Review Committee. Additionally, a “HSR Outlook” newsletter is issued periodically to convey important policies and mechanisms, and non-periodical messages on important events are sent via email to all staff members, serving as a communication channel and response mechanism for our employees. 	■ None.
(5) Does the company provide its employees with career development and training sessions?	✓		<ul style="list-style-type: none"> ■ The Corporation established a training program based on the two major themes of safety and service, which encompasses the four aspects of core competence, professional competence, management competence, and work efficiency. This HSR-centric training provides employees with a comprehensive training program. 	■ None.
(6) Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	✓		<ul style="list-style-type: none"> ■ The Corporation has established “Regulations for Handling Reported Cases of Illegal, Immoral, or Unethical Behaviors” to handle and respond to reports from shareholders, investors, and other external stakeholders. We also have a complaints hotline (02-8725-1188). Details on appeals procedures and channels can be found in the Stakeholders section of our corporate website. Additionally, all HSR train seats provide consumers with “HSR services and safety instructions”, and a customer service hotline (4066-3000) has been established for consumer queries, grievances, complaints, and suggestions, as well as other communication channels and internal response procedures to enhance our service quality. 	■ None.

Evaluation Item	Implementation Status		Abstract Explanation	Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/ TPEX Listed Companies” and Reasons
	Yes	No		
(7) Does the company advertise and label its goods and services according to relevant regulations and international standards?	✓		<ul style="list-style-type: none"> Marketing and labeling of all Corporation products and services adhere to the Railway Act and relevant regulations and are regulated by our passenger contracts of carriage, which are disclosed on our corporate website for consumer reference. 	None.
(8) Does the company evaluate the records of suppliers' impact on the environment and society before taking on business partnerships?	✓		<ul style="list-style-type: none"> In order to fulfill our corporate social responsibilities, THSRC contract provisions stipulate that all suppliers must comply with environmental and social laws and regulations. 	None.
(9) Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	✓		<ul style="list-style-type: none"> Appropriate articles from the “Occupational Safety and Health Act” are attached as appendices in all contractor contracts, and proof of implementation must be provided before sub-contractors can enter THSRC workspaces. Additionally, a “Contractor Management Plan” has been established and made available to all internal units for contractor management. All interactions between THSRC and suppliers are carried out under principles of cooperation and reciprocity. Both parties strictly adhere to regulations on information and process transparency to jointly enhance corporate social responsibility. THSRC has an assessment mechanism in place for suppliers and customers. During contract negotiation, the rights and obligations of both parties should be well documented, and contracts should contain stipulations on employment and safety matters that follow the Labor Standards Act and other occupational safety regulations. THSRC has the right to inspect relevant information at any time and can request time-sensitive improvements if improper conduct is discovered. Contracts may be terminated for extreme situations of improper conduct. 	None.
4. Enhancing Information Disclosure Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	✓		<ul style="list-style-type: none"> In response to international trends and in compliance with domestic non-financial information disclosure standards, THSRC renamed the white paper as the “Corporate Social Responsibility Report” in October 2015. In addition, THSRC has published annual Corporate Social Responsibility Reports since 2017, and these are also disclosed on the THSRC website. 	None.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
5. If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation: The business operations of THSRC follow the Corporate Social Responsibility Best Practice Principles.				
6. Other important information to facilitate better understanding of the company’s corporate social responsibility practices:				
			<p>(1) THSRC was recognized by Commonwealth Magazine’s 2018 “Corporate Social Responsibility Excellence Awards” on August 29, 2018, and was awarded the “Newcomer” award in the “Large corporation” category.</p> <p>(2) On November 22, 2018, THSRC won the Corporate Sustainability Report Transportation Industry Top 50 Platinum Award, Creativity in Communication Award, and Growth through Innovation Award at the 2018 11th “Taiwan Corporate Sustainability Awards” hosted by the Taiwan Institute for Sustainability Foundation.</p> <p>(3) On November 26, 2018, THSRC received a Low Carbon Product Excellence Award at the EPA 2018 annual Ceremony for Incentivizing Low Carbon Products and Acknowledging Companies Contributing to the Carbon Footprint Product Database, becoming the first winner to come from the transportation industry.</p> <p>(4) On December 7, 2018 the Corporation was awarded the “Information Security in Practice Award” by BSI at the annual International Information Security Standards Awards Ceremony. The Corporation received BSI verification for ISO27001 information security management systems in December 2017, and passed annual follow-up checks in October 2018 with “zero defects”.</p> <p>(5) To implement environmental protection and energy-saving policies, THSRC buildings are designed with sustainable environment concepts encompassing “ecosystem, energy-saving, waste reduction, health”. HSR Miaoli, Changhua, and Yunlin stations are equipped with solar power facilities. In 2018, we generated 237.25 MWh of power for station usage. These three stations respectively received Diamond Level, Gold Level, and Gold Level Green Building Certificates from the MOI and Green Building Certification plaques. The rooftops of THSRC Wuri and Zuoying maintenance depots and the Yanchao Main Workshop have all been leased out to energy suppliers for the installation of solar power equipment and generated power was sold to Taipower. We sold 7,140 MWh of power in 2018.</p> <p>(6) To extend our carbon label for another three years, THSRC conducted carbon emission assessments and verifications in 2017, and applied to the EPA for validity extension 3 months prior to label expiration (2017/12/16). Our Carbon Footprint Label certificate number was updated (No.1714910001), and our carbon footprint was verified to be 34 gCO₂e per passenger-kilometer. Additionally, as we had achieved our goal of reducing carbon emissions by more than 3% within 3 years (our carbon emissions were reduced by 6.19%), we were also awarded the “Carbon Reduction Label” certificate (No. R1714910001).</p> <p>(7) On October 6, 2017, THSRC received ISO14064 certification for all HSR station GHG emissions in 2016. On December 26, 2018, we received ISO14064 certification for all HSR station GHG emissions in 2017.</p> <p>(8) THSRC voluntarily applied for a Renewable Electricity Certificate which was granted on October 8, 2018.</p> <p>(9) Since its initiation in 2010, the High-Speed Educational Endowment Program has accumulated about 120 million NTD over 9 years and is estimated to have helped more than 24,000 disadvantaged schoolchildren achieve their dreams of learning.</p> <p>(10) The THSRC Smiling Train Program project was initiated in 2008 and collaborates with local educational and charitable institutes to help the disadvantaged fulfill their dreams of taking a ride on the punctual and convenient high-speed rail. A total of 743 disadvantaged groups and 134,343 people have participated in this program over the course of 11 years.</p> <p>(11) The THSRC Winter Outreach Blood Drive was initiated in 2012 and helps hospitals all over Taiwan store sufficient amounts of blood for use in times of medical emergency. THSRC hosted 12 blood drives in 2018 and has collected 7,214 bags of blood over the course of 7 years.</p> <p>(12) Starting in 2014, THSRC has collaborated with the Executive Yuan Taiwan Forestry Research Institute (TFRI) and the Wutong Foundation to host the “Travelling with Saplings” event every year on Arbor Day. In 2018, THSRC gifted more than 1,000 saplings of native Taiwanese tree species to passengers at the HSR Hsinchu Station. These saplings travelled far and wide with HSR passengers, spreading beauty and brightening environments all across Taiwan.</p> <p>(13) The THSR ART Together Program was initiated in 2015, connecting HSR stations to local communities through art performances. Over the course of 4 years, 399 groups and 9,976 people have performed at 9 stations (Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan, and Zuoying), winning great praise from the general public and HSR passengers.</p> <p>(14) The THSR Museum was inaugurated on January 5, 2017 and displays cultural assets to illustrate the 3 spatial revolutions in the history of Taiwan’s railway industry, and the subsequent development of high-speed rail policies, BOT vendor selection and negotiation, the founding of THSRC, and the process of THSR construction and operation, allowing visitors to learn about THSRC’s path through history. As of year-end 2018, 1,445 groups and more than 45,000 people have visited the museum.</p> <p>(15) The Ministry of Labor approved THSRC’s Occupational Safety and Health Management Performance Recognition in December 2018; this recognition is valid for 3 years.</p>	

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

(16) In July 2017, THSRC received TOSHMS & OHS18001 certificates that verify our occupational health and safety management of HSR management areas along Taiwan’s western corridor, including train stations, maintenance depots, trackside equipment, and offices, making THSRC the biggest verified occupational safety and health business unit in Taiwan.

(17) Please refer to the Corporate Social Responsibility section and Stakeholders section of our corporate website (<http://www.thsrc.com.tw>).

7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions: The THSRC Corporate Social Responsibility Report complies with latest GRI Standards and has been verified by external third parties.

(8) Ethical Corporate Management

Evaluation item	Implementation status		Abstract Illustration	Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		

1. Establishment of Ethical Corporate Management Policies and Programs
(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies? ■ Our Ethical Corporate Management Best Practice Principles stipulates that Board members and managers should exercise due care and prudence when carrying out their duties in order to implement their commitments towards the Corporation’s operational policies. ■ None.

(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?

(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and commitment to implement the policies? ■ In addition to our Code of Ethical Conduct and Employee Code of Conduct, we have also established Ethical Corporate Management Best Practice Principles and Procedures for Handling Cases of Illegal, Unethical, and Dishonest Behaviors to provide clear and detailed guidelines for operating procedures, behaviors, education and training, disciplinary violations, and appeals systems. The formulation and implementation of integrity management policies are overseen by our audit department, which periodically reports to the Board of Directors. ■ None.

(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and commitment to implement the policies?

Evaluation item	Implementation status			Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies?	✓		<ul style="list-style-type: none"> ■ THSRC has established Procedures for Procurement Operations containing articles relating to business confidentiality and conflicts of interests in procurement staff, and employees that exhibit dishonest behaviors are subject to disciplinary actions under the “Reward and Discipline Regulation” depending on severity of the cases. ■ Our Code of Ethical Conduct, Employee Code of Conduct, and Work Principles contain stipulations relating to business confidentiality and conflicts of interests in staff conduct, and employees that exhibit dishonest behaviors are subject to disciplinary actions under the “Reward and Discipline Regulation” depending on severity of the cases. 	■ None.
2. Fulfillment of Operations Integrity Policy	✓		■ THSRC has established an assessment system for suppliers and business partners. During contract negotiation, the rights and obligations of both parties are well documented, and confidentiality clauses are contained in all contracts.	■ None.
(1) Does the company evaluate business partners' ethical records and include ethics-related clauses in business contracts?				
(2) Does the company establish an exclusively (or concurrently) dedicated unit in charge of corporate integrity and to be supervised by the Board?	✓		<ul style="list-style-type: none"> ■ In order to fulfill our supervisory obligations of ethical management, THSRC has established a Corporate Governance Nomination Committee, an Audit Committee, and a Remuneration Committee to supervise compliance with ethical management. Additionally, the Ethical Management Team, which is set up under the “Corporate Governance Promotion Committee”, is convened by the vice president of the Corporate Planning Office and composed of representatives from the Legal Office, the Audit Office, the Human Resources Division, the Secretariat Division of the Board of Directors, and the Corporate Planning Office. The Ethical Management Team is responsible for reviewing and improving ethical management policies and implementing measures, assessing ethical management developments both domestically and overseas, convening to discuss implementation of ethical management quarterly, and reporting periodically to the Board of Directors. The main duties of the Team are as follows: <ol style="list-style-type: none"> 1. Integrate ethical values into the Corporation's operational strategies and establish measures to ensure ethical management in accordance with laws and regulations. 2. Establish programs containing standard operating procedures and behavioral guidelines for work duties to prevent unethical behavior. 3. Plan internal organization, preparation, and job duties for mutual supervision and balance of operational activities at high risk of unethical behavior. 4. Promote and coordinate ethical management policies and training. 5. Plan systems for reporting ethical violations to ensure effective implementation. 6. Assist Board of Directors and Management in reviewing and assessing effective operation of ethical management measures, and periodically assess and report on adherence of relevant processes. 	

Evaluation item	Implementation status		Abstract Illustration	Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
			<ul style="list-style-type: none"> ■ Implementation status for 2018 was as follows: <ol style="list-style-type: none"> 1. The Corporation hosted an ethical management training program for all employees in 2018, which was joined by 4,362 participants and ran for a total of 727 hours; we also hosted a training course for prevention of insider trading in 2018 which was joined by 4,400 participants and ran for a total of 733 hours. 2. Additionally, we also hosted a corporate ethical management course for senior managers and general employees, which was joined by 113 participants and ran for a total of 170 hours. 3. The Corporation upholds principles of ethical management and activated the “Promotion Plan for Legal Compliance” in 2016 for comprehensive management of compliance with regulating authorities and Corporation regulations laid out in the Corporation Charter. Additionally, relevant regulations and rulings of regulating authorities are reviewed and presented every quarter, and legal compliance meetings are held to ensure that Corporation employees adhere to relevant regulations. ■ Detailed information on the Ethical Management Team can be found under the Corporate Governance Structure and Corporate Structure subsection of the Corporate Governance section on the THSRC website. 	■ None.
(3) Does the company establish and implement policies to prevent conflicts of interest and provide appropriate communication channels?	✓		<ul style="list-style-type: none"> ■ THSRC regulations stipulate that managers of all levels are responsible for assisting the corporate president in promoting ethical management policies. All conflicts of interest should be reported to department heads. THSRC has also established Grievance Regulation, and Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior to provide timely and appropriate channels for statements and reports for preventing conflicts of interest. 	■ None.
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and audited by either internal auditors or CPAs on a regular basis?	✓		<ul style="list-style-type: none"> ■ In order to implement ethical management, regulation compliance at THSRC is periodically reviewed by internal auditing, accounting, and internal control systems. ■ THSRC implements internal control mechanisms on an annual basis. The Quality Assurance Office acts as a secretariat unit in executing internal control systems and self-inspection of administrative procedures. Each office carries out self-inspections that are reviewed by the Audit Office. Finally, CPAs are responsible for issuing review reports on internal control systems. ■ The accounting system at THSRC has been effectively implemented for many years. Every year, certified accountants conduct an audit and issue an audit report. 	■ None.
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	✓		<ul style="list-style-type: none"> ■ Our Ethical Corporate Management Best Practice Principles stipulates that the Corporation should host periodic training and promotion activities for board directors, managers, employees, and fiduciaries so as to help them understand the Corporation’s determination in implementing ethical management, related policies, prevention solutions, and consequences of ethical violations. 	■ None.

Evaluation item	Implementation status		Abstract Illustration	Deviations from “Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No		
3. Operation of the Integrity Channel (1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	✓		■ We have established internal Employee Code of Conduct, Grievance Regulation, and Regulation of Whistle-Blowing System for Unlawful, Unethical Conduct and Dishonesty Behavior. Related matters are handled by dedicated units and service hotlines have been set up to handle feedback in accordance with established processes.	■ None.
(2) Does the company establish standard operating procedures for confidential reporting on investigating accusation cases?	✓		■ Our Employee Code of Conduct and Procedures for Handling Cases of Illegal, Unethical, and Dishonest Behaviors have clear stipulations on the appeals process and reviewing units, and commit to confidentiality for appeal makers and related evidence.	■ None.
(3) Does the company provide proper whistleblower protection?	✓		■ Our Employee Code of Conduct and Procedures for Handling Cases of Illegal, Unethical, and Dishonest Behaviors clearly stipulate that if reported persons threaten or retaliate against whistleblowers, the Corporation will take disciplinary action according to relevant regulations.	■ None.
4. Enhancing Information Disclosure Does the company disclose its ethical corporate management policies and the results of its implementation on the company's website and MOPS?	✓		■ Our Ethical Corporate Management Best Practice Principles and relevant standards are publicly available for review on our internal and external websites. When revisions are made, these are announced to all staff members and information on our website is simultaneously updated. ■ THSRC has a dedicated unit that formulated our Procedures for Management of Information Disclosures and Directions for the Handling of Public Announcements and Reporting over the Market Observation Post System, allowing us to fulfill our responsibilities and obligations of information disclosure and disclose important information in a timely manner. Additionally, voluntary disclosures are posted to the Market Observation Post System and our corporate website to strengthen information transparency and enhance timeliness, symmetry, and fairness of information disclosures.	■ None.
5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies, please describe any discrepancy between the policies and their implementation:				None.
6. Other important information to facilitate a better understanding of the company's ethical corporate management policies (e.g., review and amend its policies). To implement the basics of ethical corporate management policies, the Corporation operates under the Corporation Act, Securities and Exchange Act, Businesses Entity Accounting Act, related regulations for TWSE/TPEX-Listed Companies, and other laws and decrees concerning business transactions.				

(9) Corporate Governance Guidelines and Regulations

To ensure sound corporate governance, protect shareholder rights, strengthen Board structure, and fulfill corporate social responsibilities, the Corporation has established “Guidelines for Corporate Governance” based on the OECD Principles of Corporate Governance; the S&P Corporate Governance Score-Criteria, Methodology and Definitions; the NYSE Listed Company Manual Sec303A; the Infosys Corporate Governance Report, corporate governance guidelines of established domestic and overseas companies; national laws and regulations; regulations set out by the Taiwan Stock Exchange Corporation; and the Corporate Governance Best-Practice Principles for TSEC/TPEX Listed Companies.

In addition to our “Guidelines for Corporate Governance,” the Corporation has also established, “Rules for the Election of Directors,” “Regulation of Self-Evaluation of the Board of Directors,” “Charter of Corporate Governance and Nominating Committee,” “Charter of Audit Committee,” “Charter of Remuneration Committee,” “Charter of Special Committee,” “Regulations of Disclosure Information,” “Code of Ethical Conduct,” “Ethical Corporate Management Best Practice Principles,” and “Corporate Social Responsibility Best Practice Principles” to promote corporate governance.

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

(10) Other important information for further understanding implementation status of corporate governance

All material information is published on the MOPS in accordance with regulations, and information relating to the Corporation’s finances, business matters and corporate governance is also regularly updated to our corporate website in a timely manner.

Additionally, the Corporation has established 5 policies (Human Rights Policy, Information Security Policy, Environmental Policy, Supply Chain Management Policy, and Safety and Health Policy) to establish a reference for corporate compliance and implementation of corporate governance.

人權政策 Human Rights Policy

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

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

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

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

董事長： 江耀宗 日期： 2018/5/18

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

資訊安全政策 Information Security Policy

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

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

本公司應採取以下措施：

THSRC should adopt the following actions：

1. 訂定相關資訊安全管理規章，對本公司資訊資產提供適當的保護措施，以確保其機密性、完整性及可用性。
For ensuring the confidentiality, integrity, availability of the information assets, it is necessary to establish the correlative information security regulation to provide the appropriate protection.
2. 定期評估各種人為及天然災害對本公司資訊資產之影響，並訂定重要資訊資產及關鍵性業務之防災對策及災變復原計畫，以確保本公司業務持續運作。
Evaluate the influence of the negligence or natural disaster on the information assets regularly, and establish the precaution solution and disaster recovery plan to ensure the continuity of business operation.
3. 督導本公司同仁落實資訊安全防護工作，建立「資訊安全、人人有責」觀念，提升各業務部門及人員對資訊安全之認知。
Guide all employees to carry out information security protection, and set up "Information Security Is Everyone's Responsibility" to raise all units' and employees' understanding of information security.
4. 要求本公司全體同仁以及使用或連結本公司電腦系統之往來廠商，應確實遵守本公司資訊安全相關規定，如有違反者，視其情形分別依本公司規定懲處或依合約罰責辦理外，情節嚴重者另將受相關法律之訴追。
Demand the employee and contractor who uses or connects to THSRC's system should comply with the related information security regulation. The violator will be punished according to the THSRC's regulation or contract. And if it is serious, the violator will be sued by law.


 董事長：_____ 日期：2018/5/17

環境政策 Environmental Policy

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

我們的願景

以運輸 (Transportation)、科技 (Technology)、在地 (Taiwan) 以及關懷 (Touch) 之 4T 做為發展主軸，積極擴展綠色運具服務效能，透過智慧運輸管理與創造需求提升運量，打造低碳運輸形象，使台灣高鐵成為引領進步、創造美好的生活平台。

我們的目標

- 確保高速鐵路各面向均符合環保法規。
- 深化員工及上下游供應鏈環境保護觀念。
- 推動符合綠色低碳運輸服務效能。
- 強化環境管理系統之落實。

我們的策略

- 持續透過環境管理系統，確實執行環境管理、環境監測及環境稽核工作，並落實環評承諾。
- 透過環保業務教育訓練及環境教育活動，加強環保法令熟悉度及環境保護之認知。
- 積極推動節能減碳措施，達到預定目標。
- 建置及通過符合 ISO14001 標準的環境管理系統。

Environmental Policy is an important part of Taiwan High Speed Rail Corporation's social responsibility. We treat the environmental issues such as energy saving, waste reduction, green procurement and ecological conservation seriously. With particular care to the local environment, Taiwan High Speed Rail follows the international trend to pursue a sustainable future.

We define our core business as Transportation, Technology, Taiwan, and Touch (4T), as we strive to provide green and intelligent service and seek to be a platform for progress and life improvement.

Our goal is to ensure all corporate activities complying with environmental regulations. All employees will be trained and educated so the concept of environmental protection is embedded in everyone's mind.

Our strategy is to establish an environmental management system that fulfills the standard of ISO14001 and to push carbon-reduction to a preset level.

董事長： 江耀宗 日期： 2018.05.08

供應鏈管理政策 Supply Chain Management Policy

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

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

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

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

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

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

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

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

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

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

董事長： 江耀宗 日期： 2017. 9. 21

安全衛生政策 Safety and Health Policy

安全是台灣高鐵的基石—沒有安全就沒有台灣高鐵。本公司所有決策與行動均應以安全為最高指導原則，並將維持主動積極的安全衛生管理，全員持續參與改善，以達零災害、零事故的目標。並承諾：

Safety is the cornerstone of THSRC – Without safety, there is no THSRC. All decisions and actions of THSRC are based on safety as the highest guiding principle. THSRC will maintain proactive safety and health management with staff participation on improvements to achieve zero disaster and accident goals. THSRC's commitments are:

一、 每一位都應恪遵法令、規章與程序，並有責任時時確保自身、所服務的對象與維護管理的高鐵資產，都被安全保護。

Each staff should comply with the laws, regulations and procedures, and have a responsibility to protect his personal safety, the services and the management of THSRC's assets from time to time.

二、 妥善運用國際認同之風險評估及安全衛生管理方法於安全管理系統中，於合理可行的範圍內控制及降低危害的風險至最低等級。

Apply international recognized risk assessment and management techniques for safety and health management effectively in controlling and reducing risk hazards as low as reasonably practicable.

三、 所有工作者皆須接受安全及健康規章與作業程序訓練，使其於執行日常業務時，皆能持續展現並具備對於安全及健康的關注與認知。

Require all staff to be trained in the rules and procedures of safety and health to keep the concern and awareness of safety and health in performance of all their daily duties.

四、 妥慎選擇、監督及管理承包商及供應商，確保其作業或設備、物料等供應均能符合法令以及公司安全管理要求。

Select, supervise and manage contractors and suppliers carefully to ensure that their operations, equipment and materials comply with the laws of Taiwan and THSRC's safety management requirements.

五、 建立及維持優質之作業環境及作業管理措施，以維護全體員工身心健康。

Establish and maintain a high-quality working environment and operational management measures to keep all staff's physical and mental health.

六、 本公司將定期檢討安全衛生政策、規章、程序與執行績效，以提升管理績效並達持續改善安全之目的。

THSRC will review the safety and health policy, rules, procedures and executive performance regularly to enhance management performance and achieve continuous improvement of safety.

董事長：江耀宗 日期：2017.06.02

2. Implementation Status of Internal Control System

(1) Internal Control System Letter of Declaration

Taiwan High Speed Rail Corporation
Statement of Internal Control System

Date: Feb 20, 2019

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, 2018 to December 31, 2018:

1. THSRC is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. THSRC has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability, timeliness, and transparency of reporting in compliance with the relevant specifications, and (3) compliance with applicable laws and regulations.
2. An internal control system has its inherent limitations. No matter how carefully designed, an effective internal control system can only provide reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes in environment or circumstances. Nevertheless the internal control system of THSRC contains self-monitoring mechanisms, and THSRC takes corrective actions whenever a deficiency is identified or an enhancement is necessary.
3. THSRC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the "Regulations") of the Republic of China. The Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several elements. Please refer to the Regulations for details.
4. THSRC has evaluated the design and operating effectiveness of its internal control system according to the aforementioned criteria.
5. Based on the results of the evaluation mentioned in the preceding paragraph, THSRC believes that during the period from January 1, 2018 to December 31, 2018, the design and operation of its internal control system have reasonably achieved the objectives mentioned in item 1 above, including monitoring of operational effectiveness and efficiency, and reliability, timeliness, and transparency of reporting in compliance with the relevant specifications, and compliance with applicable laws and regulations.
6. This Statement is an integral part of THSRC's Annual Report for the period from January 1, 2018 to December 31, 2018, and Prospectus, and is a public document. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors at the meeting held on Feb 20, 2019, with the contents of this Statement affirmed by all the 13 members present in the meeting.

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

Y. C. Chiang

President:

Jamr J

Notice to Readers

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

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

3. Important Governance Information for 2018 and as of Publication Date of This Report

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

In accordance with the Reward and Discipline Regulation, various disciplinary actions have been taken against employees for violations of operational procedures in 2018 and up to the publication date of this report.

No material impacts on corporate operations occurred as a result of the aforementioned sanctions. All sanction cases have adhered to relevant disciplinary procedures. Memorandums announcing said violations have been issued to all staff members for reference purposes and have been supplemented by education, training, and case sharing to promote correct behaviors and concepts. Relevant behaviors have all been improved, and all regulations and manuals are regularly reviewed and amended.

The Corporation failed to file a Withholding Statement within given time limit during 2018, resulting in violations of Article 89 and Article 111 of the Income Tax Act and incurring a NT\$750 fine from the Taipei State Taxation Bureau. Erroneous invoices for meal boxes sold in corporate stations resulted in a violation of Article 48 of the “Value Added and Non-Value-Added Business Tax Act” and incurred a NT\$1,500 fine from the Taipei State Taxation Bureau. The Corporation has paid all fines in full and improved operation procedures; these events have not had any material impact on overall operations.

Additionally, a corporate contractor failed to comply with plans listed in construction permits and caused personnel casualties. The contractor was found to be in violation of Article 72, Item 2 of the Highway Act and incurred a NT\$150,000 from the Directorate General of Highways.

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

1) Important resolutions of Shareholders’ Meetings and implementation status in 2018:

Proposals

Proposal No. 1: Proposed by the Board

Proposal: Proposals of the 2017 Annual Business Report and financial statements of the Corporation.

Resolution: Attending shareholders represented more than one-half of the total number of outstanding corporate shares, and voting rights in favor came to 97.69%, exceeded more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions.

Proposal No. 2: Proposed by the Board

Proposal: Proposals of 2017 profit distribution of the Corporation.

Resolution: Attending shareholders represented more than one-half of the total number of outstanding corporate shares, and voting rights in favor came to 97.73%, exceeded more than one-half of total voting rights. The proposal was approved.

Implementation status: Cash dividends per share were NT\$ 0.75, the ex-dividend date was set as August 6, 2018, and cash dividend distribution date was set as August 22, 2018.

Discussion

Discussion No. 1: Proposed by the Board

Proposal: Revision of Articles of Incorporation

Resolution: Attending shareholders represented more than one-half of the total number of outstanding corporate shares, and voting rights in favor came to 97.73%, exceeded more than two-thirds of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions. Revisions were approved by the Ministry of Economic Affairs on June 19, 2018, and were posted to our corporate website.

Discussion No. 2: Proposed by the Board

Proposal: Revision of Rules for the Election of Directors

Resolution: Attending shareholders represented more than one-half of the total number of outstanding corporate shares, and voting rights in favor came to 97.72%, exceeded more than one-half of total voting rights. The proposal was approved.

Implementation status: Implemented in accordance with proposal resolutions. Revisions were posted to MOPS and our corporate website on June 1, 2018.

2) Important Board resolutions for January 2018-March 2019

Date	Session (Term-Sitting)	Major resolutions
2018/1/18	8-10	<ol style="list-style-type: none"> 1. Suggestions for distribution of 2017 employee compensation and bonuses. 2. Suggestions for 2017 director remuneration. 3. Implementation status of Corporate Governance & Nomination Committee, Audit Committee, and Remuneration Committee in 2017. 4. Formulation of suggestions for assessing implementation status of Board and functional committees in 2017.
2018/2/13	8-11	<ol style="list-style-type: none"> 1. 2017 Financial Report. 2. 2017 CPA audits. 3. 2017 Business Report. 4. Results of 2017 self-assessment of internal control system. 5. Additional of fees to "2018 rolling stock maintenance materials" contract (contract number PCDD-18-0001). 6. Report of implementation status of corporate governance. 7. Formulation of 2018 shareholder's general meeting date, venue, and main topics.

Date	Session (Term-Sitting)	Major resolutions
2018/3/13	8-12	<ol style="list-style-type: none"> 1. Donation for Hualien earthquake relief efforts on February 6, 2018. 2. "Donation and sponsorship plan for 2018". 3. Suggestions regarding transactions with related parties on the Corporation's "Early earthquake warning system" contract (contract number E6-17-003) during procurement and bid selection. 4. Distributable surpluses for 2017. 5. Establishment of Operating Procedures for Application to Pause and Resume Transactions. 6. Formulation of proposal "Revisions of the Articles of Incorporation" for submission to shareholders' general meeting on May 24, 2018. 7. Formulation of proposal "Revisions of the Corporation's Rules for the Election of Directors" for submission to shareholders' general meeting on May 24, 2018. 8. Revisions to the Corporation's Code of Ethical Conduct. 9. Revisions to the Corporation's Rules of Procedure for Board of Directors Meetings.
2018/4/10	8-13	<ol style="list-style-type: none"> 1. Revisions to the Corporation's Procedures for Formulating Business Rights and Duties. 2. Submitted HSR Financial Resolution Plan 2017 implementation status table to MOTC. 3. Procurement and bid selection suggestions for the Corporation's "Major rolling stock maintenance materials" (contract number PCDD-18-0118) and "Major rolling stock maintenance metal parts" (contract number PCDD-18-0144) contracts involving transactions with related parties. 4. Suggestions on procurement strategy of the Corporation's "Leasing out of station space to energy suppliers for establishment of solar power system".
2018/5/8	8-14	<ol style="list-style-type: none"> 1. Bid selection suggestions for THSRC Media Rental Business (contract number O1-17-028). 2. Procurement strategies suggestions for the Corporation's localization of OCS maintenance vehicles. 3. Early repayment of the Corporation's tranche A syndicated loan. 4. Promotion suggestions for acting audit office manager. 5. Suggestions regarding strategic differentiation in distribution of 2017 manager bonuses. 6. Remuneration adjustments for the Corporation's chairman and CEO.
2018/6/12	8-15	<ol style="list-style-type: none"> 1. Suggested measures in response to revisions made to the Labor Standards Act. 2. Establishment of the Corporation's Operating Procedures for Transactions with Related Parties and abolishment of "Operating Procedures for Transactions with Corporate Groups and Corporations, Specific Companies, and Related Parties".
2018/7/12	8-16	<ol style="list-style-type: none"> 1. Revision of the Corporation's organizational procedures, organizational structure chart, and job grade table. 2. Personnel changes at manager level in accordance with organizational changes. 3. Revision of Procedures for Formulating Business Rights and Duties and Division Chart for Business Rights and Duties. 4. Suggestions regarding calculation of in-work days for salary adjustments and offsetting differences when making salary adjustments for personnel on legal leave without pay. 5. Establishment of 2017 surplus distribution ex-dividend date and cash dividend distribution date. 6. Renewal of director (supervisor) and officers liability insurance. 7. Establishment of the Corporation's Procedures for Nomination and Review of Director Candidates.
2018/8/7	8-17	<ol style="list-style-type: none"> 1. Suggestions regarding continued provision of Wi-Fi on HSR trains and station areas. 2. Suggestions regarding procurement strategy for the Corporation's diesel rolling stock locomotives. 3. Changes to suggestions regarding procurement strategy of the Corporation's "Leasing out of station space to energy suppliers for establishment of solar power system" project. 4. Suggestions regarding bid selections for manufacturing and supply of the Corporation's OCS maintenance vehicles (contract number: E5-18-003). 5. Revisions to the Corporation's Internal Control System and Regulations Governing Self-Evaluations of Internal Control System. 6. Suggestions regarding calculation and pay rates of work hours on rest days. 7. Suggestions regarding approval of employee bonuses for working during consecutive holidays on traditional holidays.
2018/9/13	8-18	<ol style="list-style-type: none"> 1. Extension of consultant contract. 2. Renewal of consultant contract. 3. Suggestions regarding reduction of employee bonuses due to disciplinary actions. 4. CPA change in 2018 Q3 according to internal rotation arrangement at Deloitte & Touche. 5. Bid selection suggestions for renewal of director (supervisor) and officers liability insurance.

Date	Session (Term-Sitting)	Major resolutions
2018/10/18	8-19	<ol style="list-style-type: none"> Salary adjustment suggestions for 2019 and adjustments of calculations for in-work days used to calculate salary adjustments. Additional terms added to the Corporation's station cleaning contract (Contract number S1-16-036~S1-16-047). Proposed application of bank performance bond guarantee for application of grant from the MOE Smart City Taiwan project for "Enhancement of THSRC Wi-Fi service experience" category. Formulation of the Corporation's Corporate Governance & Nomination Committee, Audit Committee, and Remuneration Committee work plans for 2019.
2018/11/6	8-20	<ol style="list-style-type: none"> Suggestions regarding similar overtime pay rates for national holidays in 2019 as for rest days. Formulation of the Corporation's budget for 2019. Revisions to the Corporation's Regulations Governing Operating Assets and Equipment. Formulation of 2019 audit plans for the Corporation's audit office. The Corporation's ticket affiliate program with China Airlines and EVA Air Corporation.
2018/12/13	8-21	<ol style="list-style-type: none"> Renewal of consultant contract. Revisions to the Corporation's "Accounting System". Procurement and bid selection suggestions for the Corporation's "Leasing out of station space to energy suppliers for establishment of solar power system" project. Additional terms added to the Corporation's station cleaning contract (contract number S1-16-036~S1-16-047).
108/1/23	8-22	<ol style="list-style-type: none"> Changes to assistant manager personnel. Suggestions regarding additional year-end bonuses for 2018. Distribution suggestions for 2018 employee compensation and bonuses. Distribution suggestions for 2018 director remuneration. Changes in the estimated useful lives of certain operating concession asset. MOTC 2019 budget figures and financial modules for THSRC. Procurement and bid selection suggestions for "Installation of HSR station automatic ticketing machines and coin & banknote exchange machines from 2020 to 2025" contract (contract number F1-18-001). "Donation and sponsorship plan for 2019". Revisions to the Corporation's "Procedures Governing Management and Usage of Official Seals". Implementation status of Corporate Governance & Nomination Committee, Audit Committee, and Remuneration Committee in 2018. Formulation of suggestions for assessing implementation status of Board and functional committees in 2018. Procurement and bid selection suggestions for "Rail grinding services from 2019 to 2024" contract (contract number S1-19-002).
108/2/20	8-23	<ol style="list-style-type: none"> Changes to personnel ranking above assistant manager. Revisions made to job grade table. Formulation of 2018 Financial Report. 2018 CPA audits. Formulation of proposal submission to shareholders' general meeting on May 30, 2019 "Revisions to the Corporation's 'Procedures for the Acquisition or Disposal of Assets'" for discussion. Formulation of proposal submission to shareholders' general meeting on May 30, 2019 "Revisions to the Corporation's 'Procedures for the Handling of Derivative Transactions'" for discussion. Donation of rail track waste to NKUST. Procurement and bid selection suggestions for Yanchao Main Workshop Bogie Running Tester manufacture and supply contract (contract number L1-18-039). Additional terms added to the Corporation's station cleaning contract (contract number S1-16-058) for HSR Zuoying and Taichung stations from 2017 to 2019. Results of 2018 self-assessment of internal control system. Formulation of 2018 Business Report. Report of implementation status of corporate governance. Formulation of proposal submission to shareholders' general meeting on May 30, 2019 "Revisions to the Corporation's 'Guidelines for Corporate Governance'" for discussion. Formulation of proposal submission to shareholders' general meeting on May 30, 2019 "Revisions to the Corporation's 'Rules of Procedure for Shareholders' Meetings'" for discussion. Revisions to the Corporation's Rules of Procedure for Board of Directors Meetings. Formulation of 2019 shareholder's general meeting date, venue, and main topics.

Date	Session (Term-Sitting)	Major resolutions
108/3/20	8-24	<ol style="list-style-type: none"> 1. Procurement and bid selection suggestions for KHI supply of rolling stock (PM) maintenance materials in 2020. 2. Procurement strategy and bid selection suggestions for HSR meal boxes (contract number PCDD-18-2353). 3. Procurement and bid selection suggestions for construction and renovation of HSR Taichung Station Central Region Operations Center contract (contract number T3-18-029). 4. Distributable surpluses for 2018. 5. Establishment of the Corporation's corporate governance officer. 6. Suggestions regarding remuneration adjustments for independent directors of the 8th Board of Directors.

(3) Any recorded or written dissenting opinions of directors or supervisors in the current year and up to the publication date of the annual report in relation to important resolutions and the content of said dissenting opinion:

Date	Session (Term-Sitting)	Agenda Content	Dissenting opinions or reservations of directors
2018/6/12	8-15	Suggested measures in TSRC Corporation representative Director Chiang Chin-Shan commented that the response to revisions wording of the suggestion that "Calculation of work time on rest days as per Article made to the Labor 24 of the Labor Standards Act should best adhere to the regulations of the Labor Standards Act.	"Calculation of work time on rest days as per Article made to the Labor Standards Act" should be changed to "should adhere to the regulations of the Labor Standards Act", as the phrase "should best adhere" indicates reservations.

(4) Compilation of Resignation and Dismissal of Corporation Chairman, President, Accounting Officer, Financial Officer, Internal Audit Managers and R&D Managers during the current year and up to the publication date of this annual report: None.

4. Information on CPA Professional Fees

(1) Audit Fees

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remark
Deloitte & Touche	Jui-Hsuan Ho	Kwan-Chung Lai	2018.01.01~2018.06.30	Internal rotation arrangement of Deloitte & Touche
	Mei-Yen Chiang	Kwan-Chung Lai	2018.07.01~2018.12.31	

Fee Range	Fee Items	Audit Fee	Non-Audit Fee	Total
1 Under NT\$ 2,000,000				
2 NT\$2,000,001 ~ NT\$4,000,000				
3 NT\$4,000,001 ~ NT\$6,000,000		V	V	
4 NT\$6,000,001 ~ NT\$8,000,000				
5 NT\$8,000,001 ~ NT\$10,000,000				V
6 Over NT\$100,000,000				

- (2) When non-audit fees paid to the certified public accountant, the accounting firm of the certified public accountant, and/or any affiliated enterprise of such accounting firm surpass one quarter of audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services should be disclosed:

Unit: NT\$ in thousands

Accounting Firm	Name of CPA	Audit Fee	Non-Audit Fee					Subtotal	Period Covered by CPA's Audit	Remark
			System Design	Company Registration	Human Resource	Others (Note)				
Deloitte & Touche	Jui-Hsuan Ho Kwan-Chung Lai	4,316	-	-	-	4,856	4,856	2018.01.01~2018.06.30	1. Internal rotation arrangement of Deloitte & Touche 2. Other non-audit fees included financial advisory services, information security management system implementation and third-party validation services, and tax and accounting consulting services	
	Mei-Yen Chiang Kwan-Chung Lai							2018.07.01~2018.12.31		

- (3) In the event of a change in accounting firm where the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amount of audit fees before and after said change and the reasons should be disclosed: None.

- (4) In the event where audit fees paid for the current fiscal year are lower than those of the previous fiscal year by more than 15 percent, reductions in the amount of audit fees, reduction percentage, and reason(s) should be disclosed: None.

5. Replacement of CPA:

(1) Regarding the Former CPA

Replacement Date	Approved by the Board of Directors on September 13, 2018		
Replacement reasons and explanations	CPA change made effective beginning in the third quarter of 2018 due to internal rotation at Deloitte & Touche		
Describe if the Company terminated the CPA or if the CPA did not accept the appointment	Status	Parties	CPA
	Termination of appointment	Not applicable	Not applicable
	No longer accepted (continued) appointment	Not applicable	Not applicable
Reasons for issuing audit reports other than unqualified audit reports over the past two years	None		
Differences with the company	Yes	Accounting principles or practices	
		Disclosure of Financial Statements	
		Audit scope or procedures	
		Others	
		None	
Remarks/specify details:		V	
Other disclosures (according to Items 1-4 to 1-7 of Paragraph 6, Article 10 of these principles)	None		

(2) Regarding the Successor CPA

Name of accounting firm	Deloitte & Touche
Name of CPA	Mei-Yen Chiang and Kwan-Chung Lai
Date of appointment	Approved by the Board of Directors on September 13, 2018
Consultant comments and opinions on accounting treatments or principles regarding specific transactions and possible comments issued by the CPA on Company financial reports prior to engagement.	None
Succeeding CPA's written opinion of disagreement with former CPA	None

(3) Response of former CPAs on Articles 10.6.1 and 10.6.2.3 of these principles: None.

6. In the event where the corporate chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of said accounting firm, the name and position of the person, and the period during which the position was held, should be disclosed: None.

7. Information on Share Transfers and Pledge Changes

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

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

Unit: thousand shares

Title	Name	2018		as of 2019/03/31	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Assistant Vice President	Paul Hwang	(1)	0	0	0
Principal Specialist	Gavin Tsou	0	0	(5)	0

(2) Shares Trading with Related Parties

Unit: thousand shares

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

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

(3) Shares Pledge with Related Parties: None

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

Information relating to Relationships between any of the Top Ten Shareholders

Unit: thousand shares, % (as of 2019/04/01)

Name (Note 1)	Current Shareholding		Spouse's/Minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees of Kinship		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Ministry of Transportation and Communications, R.O.C.	2,420,000	43.00	0	0	0	0	None	None	Corporation institutional director.
Liu, Min-Ching	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
China Aviation Development Foundation	260,040	4.62	0	0	0	0	None	None	Corporation institutional director.
Chiang, Yao-Chung	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
Tsai, Huang-Liang	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
China Steel Corporation	242,148	4.30	0	0	0	0	None	None	Corporation institutional director.
Wong, Chao-Tung	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
Taiwan Sugar Corporation	200,000	3.55	0	0	0	0	None	None	Corporation institutional director.
Kwan, Tao-I	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
TECO Electric & Machinery Co., Ltd.	190,060	3.38	0	0	0	0	None	None	Corporation institutional director.
Huang, Mao-Hsiung	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
Management Committee of National Development Fund, Executive Yuan	120,000	2.13	0	0	0	0	None	None	Corporation institutional director.
Kao, Shien-Quey	0	0	0	0	0	0	None	None	Representative of Corporation institutional director.
The Overlook Partners Fund L.P.	103,428	1.84	0	0	0	0	None	None	Corporation institutional shareholder.
Taiwan Shinkansen Corporation	96,000	1.71	0	0	0	0	None	None	Corporation institutional shareholder.
Michihiro Nose	0	0	0	0	0	0	None	None	President of Taiwan Shinkansen Corporation.

Name (Note 1)	Current Shareholding		Spouse's/Minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees of Kinship		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Taiwan Fixed Network Co., Ltd.	90,212	1.60	0	0	0	0	None	None	Corporation institutional shareholder.
Tsai, Ming-Chung	0	0	0	0	0	0	None	None	Chairman of Taiwan Fixed Network Co., Ltd.
Cathay United Bank Co., Ltd.	84,046	1.49	0	0	0	0	None	None	Corporation institutional shareholder.
Andrew Ming-jian Kuo	0	0	0	0	0	0	None	None	Chairman of Cathay United Bank Co., Ltd.

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

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

9. Shareholding of Corporation Director, Supervisor, Management and the Business that is Controlled by the Corporation Directly or Indirectly on re-invested enterprises and total shareholding ratio: None.

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Financing Information





1. Capital and Share Information

(1) Sources of capital

Year/ Month	Issue price	Authorized capital		Paid-Up Capital		Remarks		
		Shares (thousand shares)	Amount (NT\$ thousand)	Shares (thousand shares)	Amount (NT\$ thousand)	Capital source (NT\$ thousand)	Collateral of assets other than cash provided for shares	Other
1998/5	10	5,000,000	50,000,000	1,250,000	12,500,000	Founding capital stock 12,500,000	-	-
1999/4	10	5,000,000	50,000,000	2,000,000	20,000,000	Cash capital increase 7,500,000	-	-
1999/8	10	5,000,000	50,000,000	2,017,350	20,173,500	Surplus to capital increase 173,500	-	-
2000/5	10	5,000,000	50,000,000	3,017,350	30,173,500	Cash capital increase 10,000,000	-	-
2000/7	10	5,000,000	50,000,000	4,072,100	40,721,000	Cash capital increase 10,547,500	-	-
2001/9	10	5,000,000	50,000,000	4,999,900	49,999,000	Cash capital increase 9,278,000	-	Note 2
2003/1	10	10,000,000	100,000,000	7,689,900	76,899,000	Cash capital increase 26,900,000 (Series A Registered Preferred Stock)	-	-
2003/9	10	10,000,000	100,000,000	7,824,149.5	78,241,495	Cash capital increase 1,342,495 (Series B Registered Preferred Stock)	-	-
2004/1	9.3	10,000,000	100,000,000	7,985,449.5	79,854,495	Cash capital increase 1,613,000 (Type 1 Series C Registered Preferred Stock)	-	-
2004/2	9.3	10,000,000	100,000,000	8,136,849.5	81,368,495	Cash capital increase 1,514,000 (Type 2 Series C Registered Preferred Stock)	-	-
2004/3	9.3	10,000,000	100,000,000	8,211,449.5	82,114,495	Cash capital increase 746,000 (Type 3 Series C Registered Preferred Stock)	-	-
2004/4	9.3	10,000,000	100,000,000	8,319,069.5	83,190,695	Cash capital increase 1,076,200 (Type 4 Series C Registered Preferred Stock)	-	-
2004/8	9.3	10,000,000	100,000,000	8,956,146.5	89,561,465	Cash capital increase 6,370,770 (Type 5 Series C Registered Preferred Stock)	-	-
2004/9	9.3	10,000,000	100,000,000	9,020,646.5	90,206,465	Cash capital increase 645,000 (Type 6 Series C Registered Preferred Stock)	-	-
2004/11	9.3	10,000,000	100,000,000	9,057,656.5	90,576,565	Cash capital increase 370,100 (Type 7 Series C Registered Preferred Stock)	-	-
2005/4	9.3	11,500,000	115,000,000	9,703,556.5	97,035,565	Cash capital increase 6,459,000 (Type 8 Series C Registered Preferred Stock)	-	-
2005/9	9.3	12,000,000	120,000,000	10,510,056.5	105,100,565	Cash capital increase 8,065,000 (Type 9 Series C Registered Preferred Stock)	-	-
2008/4	10	12,000,000	120,000,000	10,510,089.8	105,100,898	332.85 First investor application of conversion for convertible unsecured overseas corporate bonds in 2007	-	-
2008/6	10	12,000,000	120,000,000	10,532,224	105,322,243	221,345 First investor application of conversion for convertible unsecured overseas corporate bonds in 2007	-	-

Year/ Month	Issue price	Authorized capital		Paid-Up Capital		Remarks		
		Shares (thousand shares)	Amount (NT\$ thousand)	Shares (thousand shares)	Amount (NT\$ thousand)	Capital source (NT\$ thousand)	Collateral of assets other than cash provided for shares	Other
2015/8	10 9.3	12,000,000	120,000,000	6,513,232	65,132,326	Capital reduction (40,189,917) (Withdrawal of preferred shares)	-	
2015/10	10	12,000,000	120,000,000	2,605,293	26,052,930	Capital reduction (39,079,396) (Withdrawal of common stock)	-	Note 3
2015/11	10	12,000,000	120,000,000	5,605,293	56,052,930	Cash capital increase 30,000,000 (Privately placed common stock)	-	
2016/10	10	12,000,000	120,000,000	5,628,293	56,282,930	Cash capital increase 230,000	-	Note 4

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

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

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

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

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

(2) Share Types

Unit: thousand shares (As of 2019/4/1)

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

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

Information for Shelf Registration: Not applicable.

(3) Shareholding Structure

Common stock

Units: people, thousand shares, % (As of 2019/4/1)

Quantity \ Shareholders	Government agencies	Public institutions	Financial institutions	Other legal entities	Individuals	Foreign institutions and individuals	Total
Number of shareholders	2	1	18	264	80,210	563	81,058
Shares held	2,540,000	200,000	480,787	1,037,208	557,101	813,197	5,628,293
Shares ratio (%)	45.13	3.55	8.54	18.43	9.90	14.45	100.00

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

1. Sole government ownership.

2. Joint government and private ownership with the government holding over 50 percent of the stock.

3. Reinvestment by the enterprises described in 1, and 2 which accounts for over 50 percent of the total capital of the reinvested enterprise.

(4) Distribution of Shares

Common stock

Units: number of people, shares (face value of each share being NT\$10)(As of 2019/4/1)

Share breakdown			Number of shareholders	Shares held	Shareholding ratio (%)
1	to	999	20,448	3,991,236	0.071
1,000	to	5,000	41,433	98,662,825	1.753
5,001	to	10,000	9,186	72,205,637	1.283
10,001	to	15,000	2,781	34,831,233	0.619
15,001	to	20,000	2,351	44,061,172	0.783
20,001	to	30,000	1,359	34,758,855	0.618
30,001	to	50,000	1,597	63,847,396	1.134
50,001	to	100,000	970	70,135,623	1.246
100,001	to	200,000	375	53,049,650	0.943
200,001	to	400,000	218	63,260,355	1.124
400,001	to	600,000	95	46,371,424	0.824
600,001	to	800,000	50	35,261,932	0.626
800,001	to	1,000,000	35	31,864,180	0.566
1,000,001	to	1,200,000	24	26,163,745	0.465
1,200,001	to	1,400,000	12	15,807,314	0.281
1,400,001	to	1,600,000	8	12,075,400	0.214
1,600,001	to	1,800,000	8	13,569,590	0.241
1,800,001	to	2,000,000	8	15,240,000	0.271
Over 2,000,001			100	4,893,135,491	86.938
Total			81,058	5,628,293,058	100.000

(5) List of Major Shareholders

Unit: thousand shares (As of 2019/4/1)

Shareholder name	Shares held	Shareholding ratio(%)
MOTC	2,420,000	43

Note: Shareholders holding more than 5% of shares.

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

Unit: NT\$/thousand shares

Item	Year		
	2017	2018	2019/1/1~2019/3/31
Market Price per Share			
Highest Market Price	27.50	33.30	36.25
Lowest Market Price	18.40	21.40	29.85
Average Market Price	23.47	25.63	32.40
Net Worth per Share			
Before distribution	11.20	12.33	-
After distribution	10.45	(Note 1)	-
Earnings per Share			
Weighted Average Shares (thousand shares)	5,628,293	5,628,293	-
Earnings per Share	0.95	1.90	-
Dividends per Share			
Cash Dividends	0.75	1.12 (Note 1)	-
Stock Dividends	-	-	-
· Dividends from Retained Earnings	-	-	-
· Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends	-	-	-
Return on Investment			
Price/Earnings Ratio (Note 2)	24.71	13.49	-
Price/Dividend Ratio (Note 3)	31.29	22.88 (Note 1)	-
Cash Dividend Yield (Note 4)	3.20%	4.37% (Note 1)	-

Note 1: The amount of dividends for 2018 is currently pending shareholders' approval.

Note 2: Price/Earnings Ratio = Average market price / Earnings per share

Note 3: Price/Dividend Ratio = Average market price / Cash dividends per share

Note 4: Cash Dividend Yield = Cash dividends per share / Average market price

(7) The Corporation's Dividend Policy and Implementation Status**I) Dividend Policy in Articles of Incorporation**

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

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

2) Implementation status

The proposal for the distribution of 2018 profits was passed at the meeting of the Board of Directors.

The proposed distribution of cash dividends is NT\$ 1.12 per share to a total of NT\$ 6,303,688 thousand. An ex-dividend date will be set following approval by the shareholders' general meeting.

(8) Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting:

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

(9) Employee Compensation and Director Remuneration

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

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

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

- A. In 2018, 2% of net profit was set as employee compensation, amounting to NT\$149,986 thousand in cash; 0.5% of net profit was set as director remuneration, amounting to NT\$37,497 thousand in cash.
- B. Material differences between estimated amounts and amounts resolved by the Board of Directors on or before the date that annual financial statements are approved are adjusted in the year where compensation and remuneration were recognized. If a change in resolved amounts occurs after annual financial statements were approved, the differences are recorded as a change in accounting estimates and adjusted in the following year.

3) Board resolutions on employee and director compensation distributions:

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

The employees' compensation of NT\$149,986 thousand and the remuneration to directors of NT\$37,497 thousand for the year ended December 31, 2018 payable in cash had been resolved by the board of directors on February 20, 2019. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2018.

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

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

- 4) Information of 2017 distribution of compensation of employees and directors (with an indication of the number of shares, monetary amount, and stock price of the shares distributed) and, if there is any discrepancy between the actual distribution and the recognized employee or director compensation, additionally the discrepancy, cause, and how it is treated:

Employee compensation of NT\$105,879 thousand and director remuneration of NT\$33,087 thousand for 2017 was distributed in 2018 in the form of cash dividends. There was no discrepancy between said amounts and respective amounts recognized in the financial statements for 2017.

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

2. Information on Corporate Debts

(1) Unpaid domestic corporate bonds: None.

(2) Current corporate bonds: None.

3. Information on Preferred Stock

(1) Preferred stock in circulation: None.

(2) Current preferred stock: None.

4. Information on Overseas Depositary Receipts: None.

5. Information on Employee Stock Option Certificates: None.

6. Information on Restricted Stock Awards: None.

7. Information on Mergers or Acquisitions and Issuance of New Shares Due to Share Acquisitions from Other Companies: None.

8. Implementation of Capital Utilization Plans

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

6

Operational Overview





1. Operations Scope and Review of Current Operations

(1) Business Scope

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

1) High-speed rail operations

THSRC operations adhere to the principle of providing passengers with safe and speedy transportation. After more than 10 years of effort, we have now become the transportation backbone of Taiwan's western corridor. THSRC provides intercity high-speed rail services via 12 stations: Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan, and Zuoying, and we are constantly enhancing passenger services and expanding market share through service planning, promotional activities, and multiple ticket-purchase channels. Our passenger volume for 2018 reached 63.96 million.

2) Operation of affiliated services

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

(2) Results of Operations

1) Operational overview

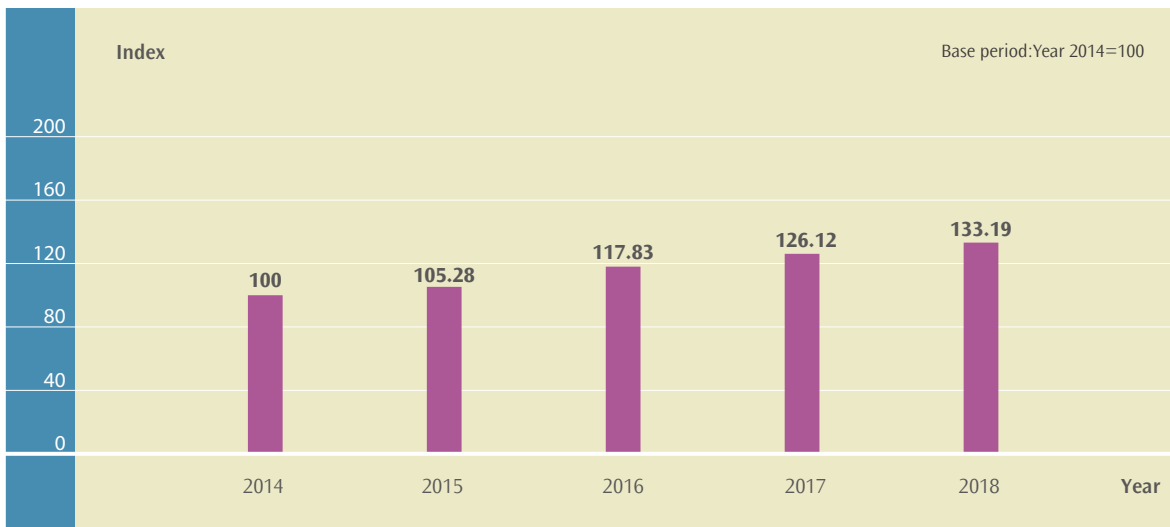
A. Passenger service

In 2018, THSRC carried over 63.96 million passengers, an increase of 5.6% over the prior year, making for a total of 11,559 million passenger-kilometers. We ran a total of 52,437 trains, an increase of 1.33% over the prior year, resulting in a total of 17,250 million seat-kilometers. We ran up to 162 north- and south-bound trains daily depending on peak or off-peak days of the week and provided maximum traffic volumes amounting to as many as 202 daily runs on one consecutive holiday. Our loading factor was 67.01%, an increase of 1.85% over the prior year, and punctuality was 99.43%.

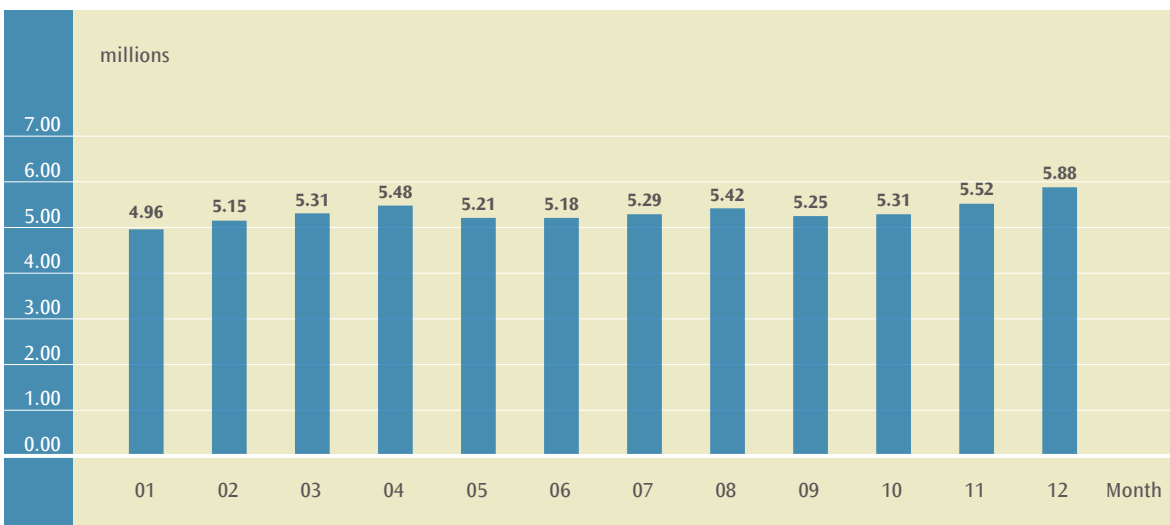
Measures of Operation Performance, 2017-2018

	2017	2018
1. Train Services	51,751	52,437
2. Ridership (in millions)	60.57	63.96
3. Seat-kilometers (in millions)	17,040	17,250
4. Passenger-kilometers (in millions)	11,103	11,559
5. Punctuality (as % of trains arriving within five minutes of scheduled time)	99.72%	99.43%
6. Loading factor (passenger-km/seat-km)	65.16%	67.01%

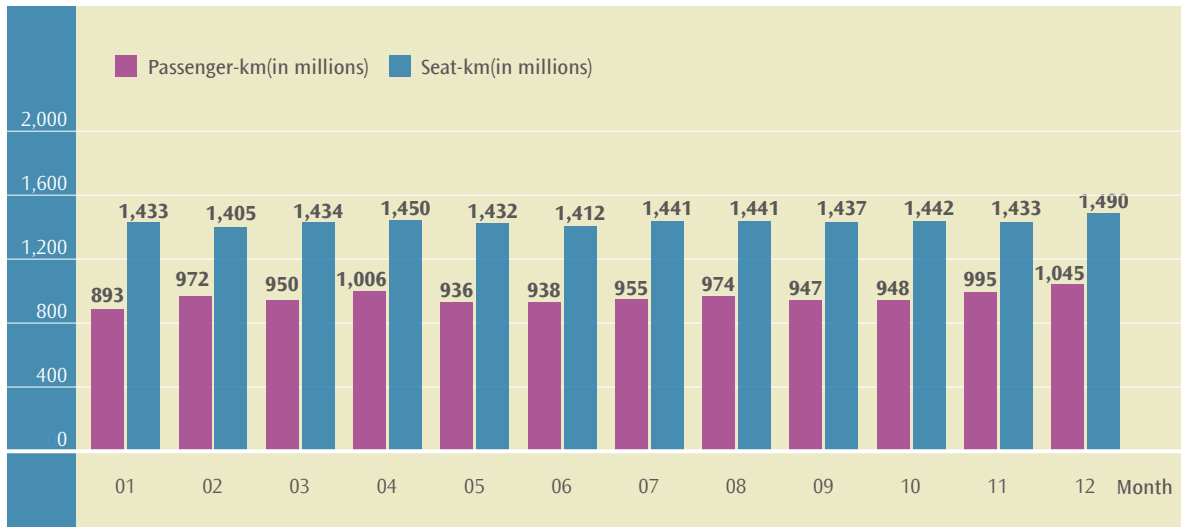
HSR Operational Growth Index 2014~2018



Monthly Ridership in 2018



Passenger-Kilometers and Seat-Kilometers in 2018



B. Multiple booking and ticketing options

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

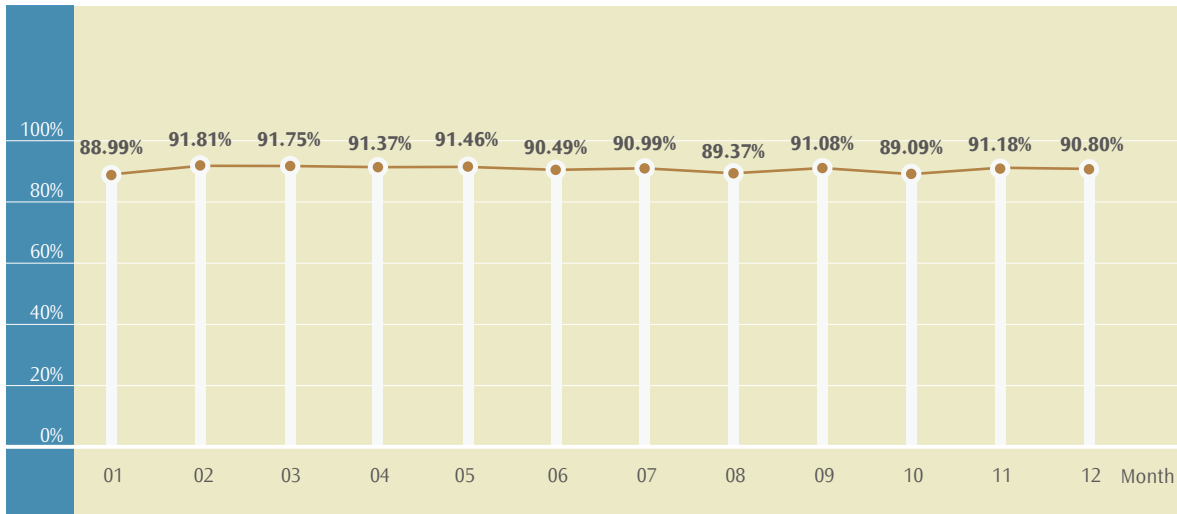
C. Maintenance

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

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

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

Trainset Availability in 2018



D. Operational safety

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

(a) Train operation and passenger safety

Up until December 31, 2018, there has been no record of passenger casualties caused by railway operation accidents since THSRC commenced operations. We are constantly seeking to improve and enhance passenger services through equipment updates and strive to prevent accidents such as falls or collisions from occurring at stations or on trains due to personal carelessness.

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

(b) Safety audits and hazard management

In order to review whether relevant operational safety implementations are consistent with announced and written procedures, the Operation Safety Office of THSRC conducted 15 audits of railway operation safety in internal operation and maintenance units in 2018. Audits covered train operation and dispatch, passenger services, facility maintenance, disaster prevention preparation, and so on. Improvements were already made to all relevant audit findings prior to

publication of audit reports.

Hazard management serves as an important cornerstone to THSRC's successful establishment of a safety management system. Continuous encouragement and our reward system have incentivized employees to actively report hazards and false alarms. Monthly hazard review meetings have put forward systematic management suggestions for operation, maintenance, and engineering projects for reducing hazard levels to reasonable ranges and to ensure the safety of high-speed rail operations and passengers.

(c) HSR line security

In order to ensure smooth operation of passenger services and to protect the safety of passengers and THSRC assets, we contracted a professional security company to provide 313 daily personnel that work with railway police and local police to patrol trains, stations, depots, and all areas serviced by the HSR.

In 2018, we continually reviewed our safety and security procedures and launched a third-level anti-terrorism response team in response to the many domestic and overseas incidents and events that have occurred in the past, such as the TRA explosion at Songshan Station in 2016, in-station protests, or major annual activities such as the Chiayi Lantern Festival or the Taipei City and County New Year's Eve Party. We collaborated with the police to assess the number of surveillance cameras at all stations, as well as installation locations and camera angles. We also introduced smart surveillance cameras at several stations, the mainline areas along the high-speed railway and in maintenance facility rooms; increased the number of on-train security personnel; and established a tripartite security intelligence and information exchange platform with the Railway Bureau (MOTC) and the Railway Police Bureau.

(d) Disaster response drills

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

To instill command and response capabilities in our staff, we held an internal training course for site commanders and disaster relief engineers in 2018. A total of 60 staff members participated in this training. Additionally, a seminar for external supporting units (firefighters; police; health units; environmental protection units; and North, Central, South medical response centers) was held on November 14 and 22. A total of 85 people participated in this seminar, which familiarized potential instructors from each supporting unit with priority disaster relief work for HSR.

Furthermore, to familiarize staff with disaster relief routes and emergency escape routes along the high-speed railway, we requested that each station invite external supporting units and emergency shuttle bus transport operators to jointly survey the 184 emergency escape exits along HSR line once every six months. Survey work for the first half of 2018 were completed from April to June, and surveys for the second half of the year were completed from October to December.

In 2018, we completed 85 disaster prevention drills exercises at various stations, depots, and on the mainline, as shown in the following table. We also conducted two joint training events as described below.

Number of disaster prevention drills in 2018

Location	Station/Depot area	Mainline area	HQ & OMC Buildings	No-warning response test	Total
Frequency	67	8	5	5	85

- I. We held a joint training session for station explosions in the evening of June 7 at Yunlin Station. In addition to mobilizing relevant employees at THSRC to participate in the drill, we also mobilized the Railway Police Bureau, the Yunlin County Police Bureau and the 5th Investigation Corps of the Criminal Bureau, the Fire Bureau, the Health Bureau, and the Yunlin Branch of the National Taiwan University Hospital. More than 120 people participated in this drill.
- II. We held an earthquake response drill for the Shulin elevated section in the evening of September 12 at the Shulin elevated section of the mainline. In addition to mobilizing relevant employees at THSRC to participate in the drill, we also mobilized the New Taipei City Fire Bureau, the Police Bureau, the Health Bureau (including the designated district hospital - Yadong Hospital), the Railway Police Bureau, and other units. More than 250 people participated in this drill.



Guiding evacuated passengers to adjacent escape exits



On-site commander explains accident status to high-speed rail police officer



Disaster relief engineer conducts pre-service toolbox meeting



The bomb squad of the 5th Investigation Corps of the Criminal Bureau removes explosives

E. Training

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

The participation of first-time or recurrent training courses in 2018 was as follows: 6,488 attendances for employees and external partners, who received general training on High Speed Rail Operations Regulations (HSROR); 29,820 attendances in 1,309 sessions for controller, train, and station staff; and 10,268 attendances in 1,521 sessions for staff responsible for maintenance of rolling stock, signaling and communications, power, overhead catenary systems (OCS), and tracks. There were a total of 2,830 training classes and 40,088 attendances.



Supervisor, instructor, and trainee group photo at the Controller (G25), Shunting Driver (G17), and Train Attendant (G41) Professional Training Certificate Award Ceremony

2) Marketing events

A. Plans for product events

We not only provide stable transportation capacity in response to growth in passenger volume and demand on consecutive vacations, but also continue to promote discounts for off-peak times through our “early bird discounts,” “college student discounts,” “group discounts” (for groups of more than 25 people, only applicable to specific trains), “field trip discounts,” and others. Following the launch of our membership program, we introduced a series of weekday, off-peak discount promotions, and promotions for specific trains, and also collaborated with other industries to provide “business class upgrades for credit card holders;” “standard class discounts for credit card holders;” “THSRC vacation packages;” combination tickets with other transport providers, airlines, hotels, and performance events; and THSR Pass to expand our market segments both domestically and overseas.

B. Plans for service improvement

THSRC continues to upgrade the functionality and user-friendliness of our automatic ticket vending machines, online ticket booking system, T-EX mobile ticketing system app, convenience store ticketing system, and other ticketing channels. In response to global trends in mobile payment, we integrated multiple payment options to our systems and collaborated with governmental initiatives for promoting mobile payment while continuing to provide more convenient and secure payment channels.

We not only optimized the user interfaces of our internal and external ticketing channels to provide passengers with faster and friendlier ticketing environments, but also established a TGo membership program and the THSRC app to provide our passengers with a comprehensive range of services.

(3) Five Years in Review

This section provides a review of THSRC operations and performance for the past five years, from 2014 to 2018:

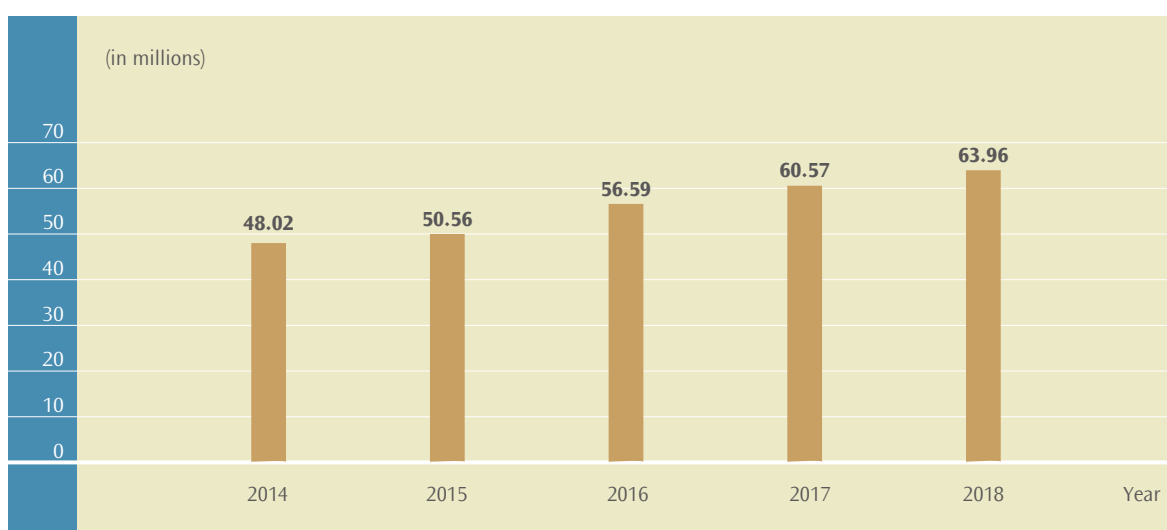
- Provided a total of 256,293 train services
- Average reliability rate: 99.99%
- Achieved a total of 52,040 million passenger-kilometers and 83,157 million seat-kilometers. Average loading factor: 62.58%.
Average punctuality rate: 99.57%.



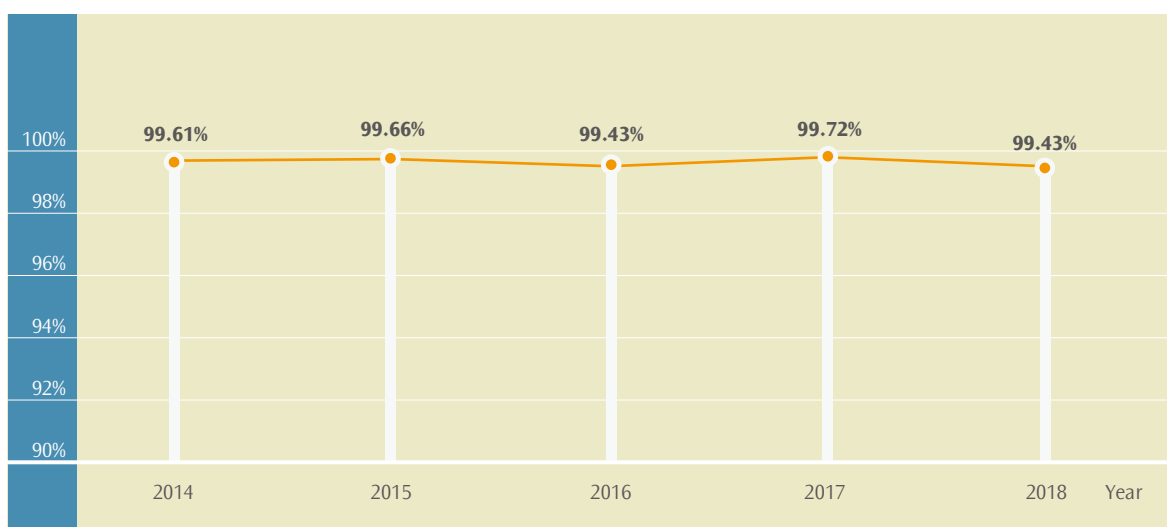
Key Operating Statistics, 2014-2018

Year/Key Performance Indicator	Total ridership (in millions)	Train services per year	Loading factor (passenger-km/seat-km)	Punctuality (as % of trains arriving within five minutes of scheduled time)	Passenger-kilometers (in millions)	Seat-kilometers (in millions)
2014	48.02	50,467	57.12%	99.61%	9,235	16,167
2015	50.56	50,532	59.65%	99.66%	9,655	16,187
2016	56.59	51,106	63.52%	99.43%	10,488	16,513
2017	60.57	51,751	65.16%	99.72%	11,103	17,040
2018	63.96	52,437	67.01%	99.43%	11,559	17,250

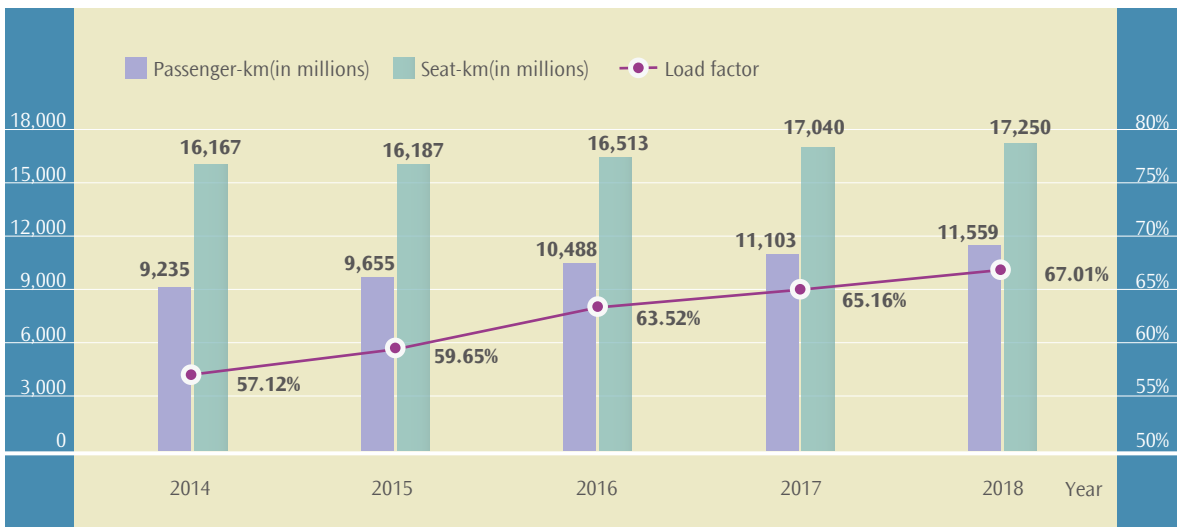
Total Ridership for 2014-2018



Punctuality for 2014-2018 (as % of trains arriving within five minutes of scheduled time)



Passenger-Kilometers and Seat-Kilometers for 2014-2018



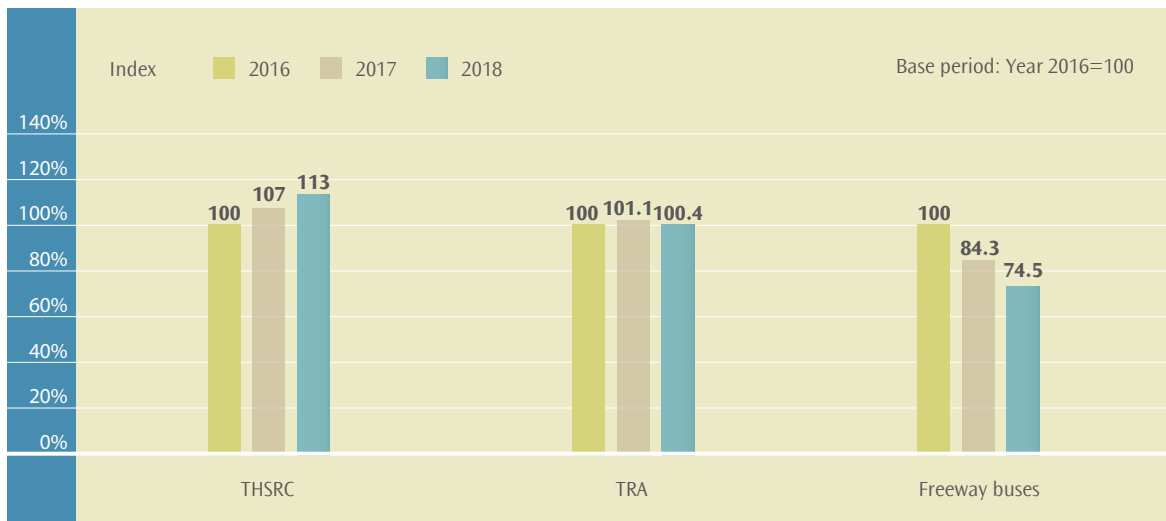
2. Industrial Overview & Development

(1) Operational Overview

1) Current industry conditions and development

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

Passenger index for main public transportation



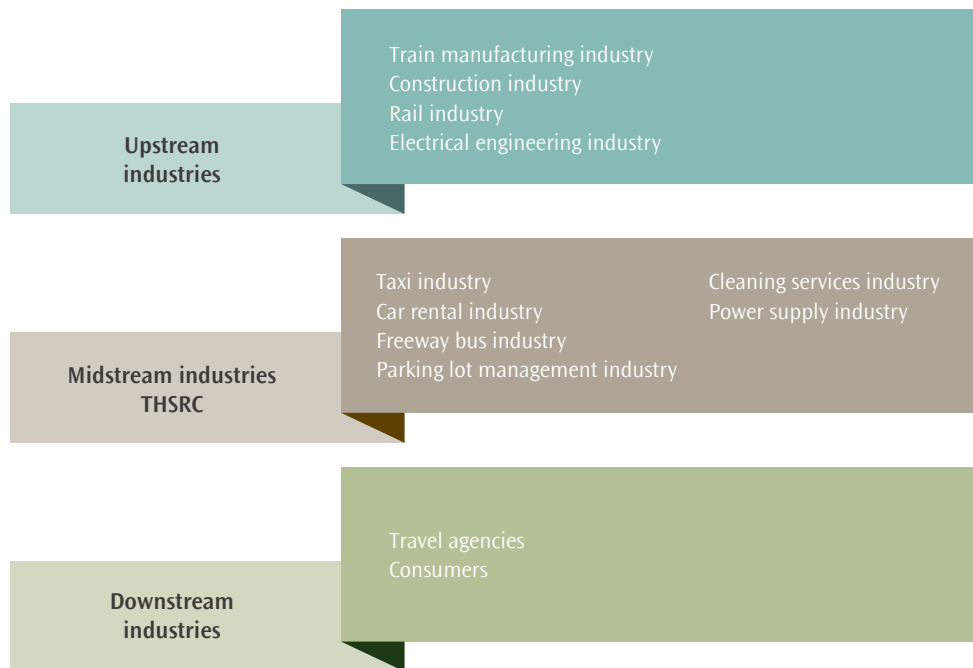
According to domestic economic forecasts released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan on November 30, 2018, Taiwan's export capabilities are on the rise due to advances in semiconductors, high performance computing, smart technology, IoT, automobile electronics, and 5G mobile communications. However, the trade disputes between the U.S. and China may have an impact on some export growth momentum and on private consumption. Rising uncertainty in global economic and financial markets put the expected economic growth rate of 2019

at 2.41%, somewhat lower than the growth rate for 2018 (2.66%). Despite these challenges, we will continue to launch new products and provide high-quality services to achieve ridership and revenue growth targets.

Looking at overall operational conditions, THSRC is facing challenges from economic depression, decreasing birth rates, and aging populations. In addition, abnormal climate change and aging operation equipment will cause an increase to the maintenance costs. However, we will continue to focus on developing smart transportation, increasing safety and efficiency of emergency responses, establishing local maintenance capabilities, developing localization materials, and strategic planning. Additionally, we will continue to enhance our strengths through industry cooperation and integrate local cultures to provide our passengers with better transportation quality and establish a foundation for long-term sustainability.

2) Industry supply chain

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



3) Development of various products

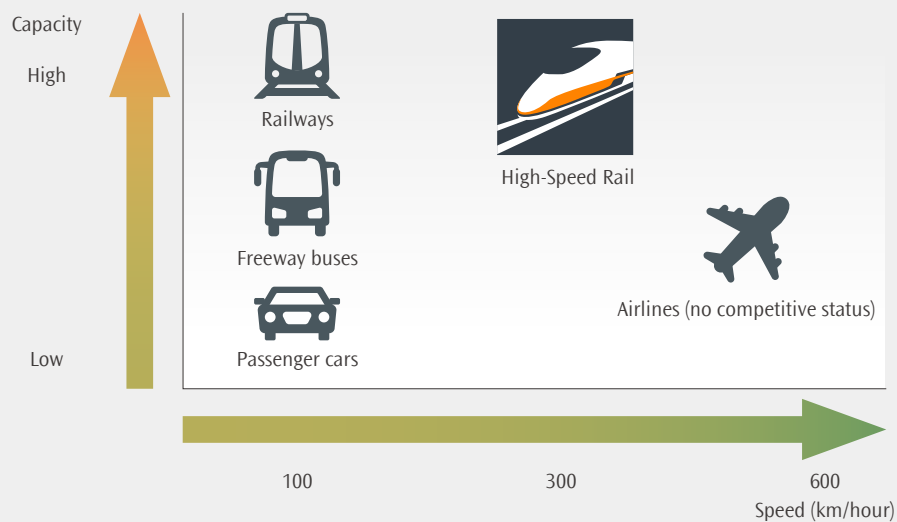
In response to growing passenger demand, clear disparities in ridership during peak and off-peak times, continued growth in the elderly population, advances in mobile and digital technologies, and to enhance customer relations, we have developed the following strategic plan for our products

- A. Continued provision of varied travel packages, services, and promotions to satisfy market needs of different customer segments.

- B. Differentiation of promotions for peak and off-peak times to enhance overall revenue.
 - C. Establishment of digitalized sales platforms, integration of booking information for senior and disabled passengers, and utilization of interactive voice and mobile ticketing systems to expand mobile/electronic payments and increase convenience of the ticketing process.
 - D. Use of gradual promotions and the loyalty program with diversified rewards to incentivize TGo membership for establishment of membership economy.
- 4) Competitive status

THSRC provides passenger services along Taiwan's western corridor. Competitor transportation in this market includes THSRC, TRA, airlines, and freeway buses, as well as private carriers (small passenger cars). Currently, there are no airline passenger transport services along Taiwan's western corridor. The market competitive status of the aforementioned transportation is as shown in the image below:

Market advantages of each transportation type



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

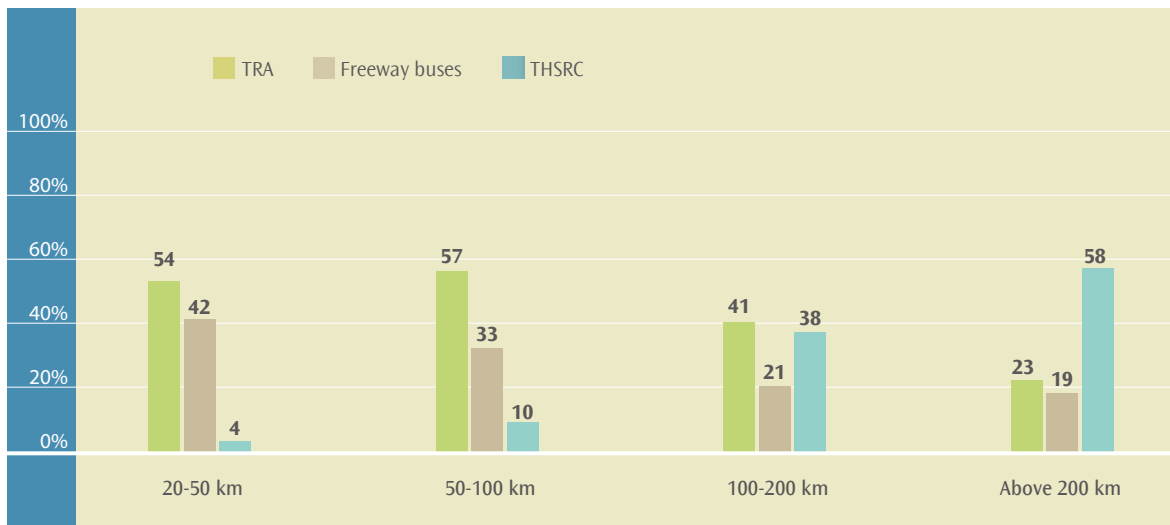
	Advantages	Disadvantages
Passenger cars	<ul style="list-style-type: none"> • Not limited by fixed routes, stations, or schedules, and therefore have the highest accessibility and convenience • Fixed total costs, variable costs of fuel do not increase exponentially with passenger figures, suitable for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

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

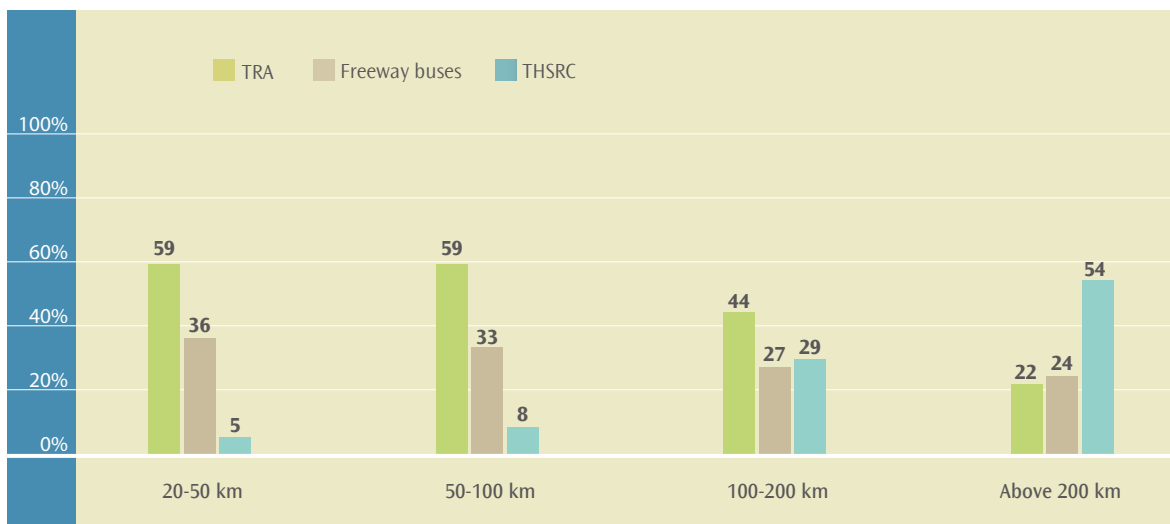
- A. Provision of varied products and fun marketing activities such periodic tickets, college student discounts, early bird discounts, and so on, targeting specific consumers and specific trains to enhance competitiveness in mid-length travel markets and price-sensitive consumer segments.
- B. Maintain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

According to the “Changes in the Market Shares for Intercity Public Transportation after the operation of High Speed Rail (2016)” published by the MOTC Institute of Transportation, the weekday/weekend TRA, freeway bus, and THSRC market share for varying distances is as shown below:

Weekday market share



Holiday market share



(2) Market Analysis

1) Market scope and market share

According to statistical data from the MOTC, average passenger volumes in 2018 for on-road public transportation was close to 6.565 million passengers (including 3.038 million intercity bus passengers, 2.347 million MRT passengers, 0.372 million freeway bus passengers, 0.633 million TRA passengers, and 0.175 million high-speed rail passengers), an increase of 5.4% from 6.23 million passengers in 2017. After deducting passenger volumes for intercity bus and MRT systems, HSR accounts for 15% of passenger volume, an increase of 13% in 2017. In terms of private transport, an average of 14.232 million cars travel through freeway pay-as-you-go toll systems every day, an increase of 0.02% from 14.229 millions in 2017.

2).Future demand and supply and market growth

We estimate a passenger volume target of 64.85 million for 2019 (1.4% growth compared to 2018) based on domestic and overseas economic environments, growth in THSRC capacity, and promotion of products and services.

(3) Competitive capabilities, advantages and disadvantages of future development, and response measures:

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

(4) Main purpose of products and production process

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

(5) Main supply process for raw materials

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

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

(6) Major clients with procurement (sales) amounts exceeding 10% for any given year over the past two years, procurement (sales) amounts and ratios, and the reasons for changes in said amounts and ratios.

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

The Corporation provides railroad transportation service to the public, has no specific major clients, and has seen steady growth in total ridership throughout 2018.

(7) Production in the last two years

	Seat-Km (in millions)	Passenger-Km (in millions)	Loading Factor	Total Ridership (in millions)
2017	17,040	11,103	65.16%	60.57
2018	17,250	11,559	67.01%	63.96

(8) Sales in the last two years

Sales/ Year	2017			2018		
	Quantity (Passenger-Km Million)	Amount (NT\$ Thousand)	Rate (%)	Quantity (Passenger-Km Million)	Amount (NT\$ Thousand)	Rate (%)
Railroad transportation	11,103	42,221,888	97.21%	11,559	44,098,796	97.10%
Goods	—	189,262	0.44%	—	208,683	0.46%
Rental & Others	—	1,023,892	2.35%	—	1,107,528	2.44%
Total	11,103	43,435,042	100.00%	11,559	45,415,007	100.00%

3. Analysis of Macroeconomic Environments

Predictions of Taiwan's economic development for 2019 made by renowned domestic and overseas institutions generally indicate that international markets will enjoy strong growth and increased demand for mobile devices and consumer electronics; estimates for growth in export values have been therefore been raised. The domestic market is expected to show stable growth, and rises in minimum wage and civil service wages are expected to raise willingness to consume. It is also expected that demand for intercity travel and HSR travel will continue to increase. Thus, THSRC will continue to promote the most appropriate services and products in response to market changes to achieve passenger volume and revenue targets.

4. Long and Short-Term Business Development Plans**(1) Short-term business development plans**

1) Development of multiple products and services

In recent years, our fast and convenient high-speed rail services have made us the main travel option for business, leisure, and homecoming intercity travel. To strengthen competitiveness, brand value, and corporate spirit, THSRC not only collaborates with hotels, travel agencies, and airlines to develop unique and attractive THSRC vacation packages in combination with hotels, other travel providers, events, and travel passes, but also strives to establish a brand image of high-quality travel through ticket brokers, our corporate website, active participation in travel fairs, and organization of online travel promotion events via our corporate website.

In January 2018, we signed a memorandum of understanding with TRA and the Tourism Bureau of MOTC to promote the "Journey of Jiji Line with TRA & THSR" travel package and collaborations with local industries. Additionally, we also provided discounted THSRC vacation packages for the 2018 World Flora Expo in Taichung and the THSRC ART program, presenting passengers with multiple product options and enhancing attractiveness of HSR travel. We also integrated our brand image of convenience and speed into the daily lives of the public, establishing ourselves as an essential transportation tool.

2) Provide more convenient ticketing services

THSRC continues to review and optimize user interfaces for all ticketing channels. We are actively planning implementation of automatic identification for concession ticket holders to provide more ticket pickup options for concession tickets. In response to rapid developments in the global mobile payment industry, we continually seek applications for innovative technologies and have integrated mobile payment, third-party payments, mobile ticketing, and AI services to increase convenience and speed of ticket purchasing.

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

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

Transportation

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

Technology

- A. To digitize ticket channels and develop mobile/e-payment channels and electronic tickets.
- B. To utilize big data in the promotion of membership economy and expand membership benefits.
- C. To utilize information technology that strengthens operational services and efficiency, such as scheduling optimization system for front-line staff.

Taiwan

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

Touch

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

(2) Long-term business development plans

- 1) Enhance corporate brand image

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

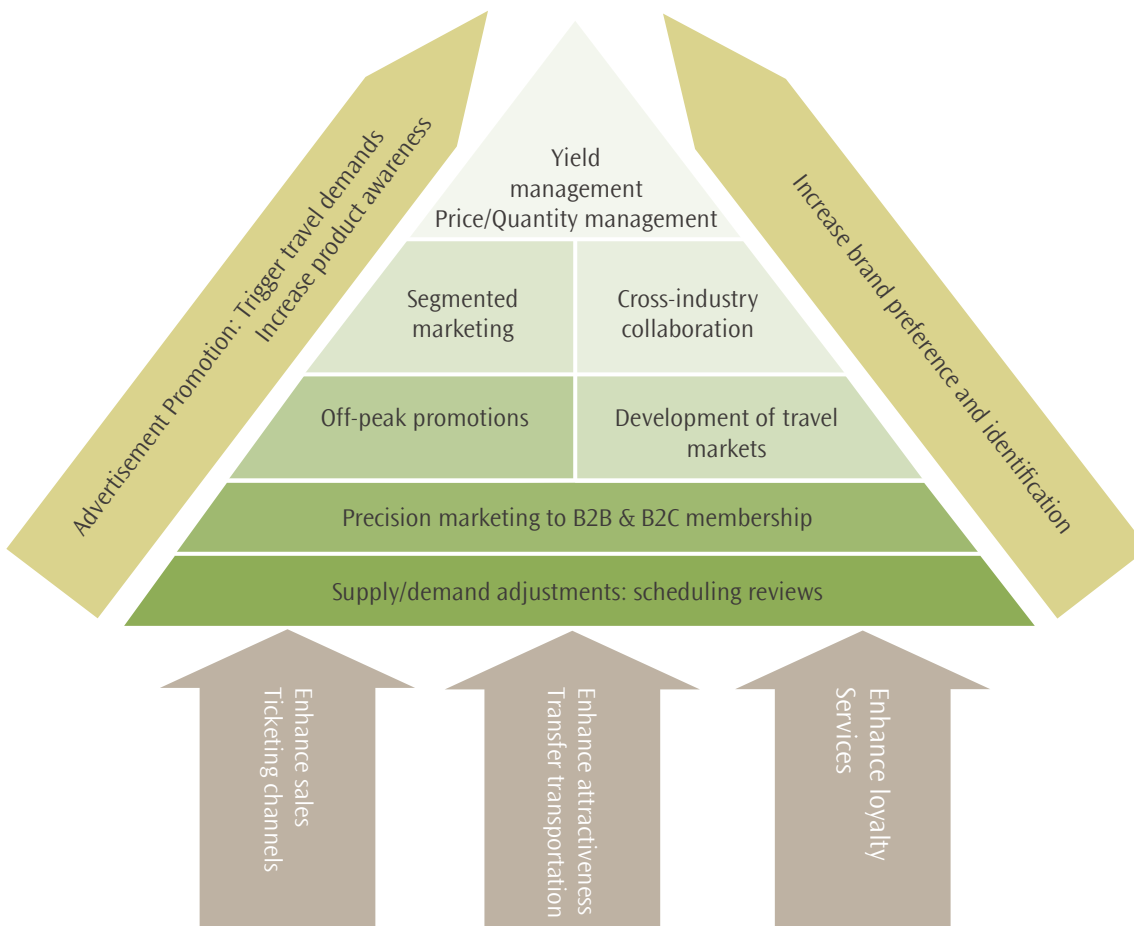
Relevant projects in development include: strengthening of social medial marketing for all future product promotions in response to advances in information and communications equipment and environments; provision of more payment options at all ticketing channels in response to trends in mobile payment;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

2) Strengthen revenue growth

To increase HSR passenger volumes, we continually make operational adjustments to provide a variety of travel services for domestic passengers. We are also active in overseas expansion. For example, our THSR Pass and THSR & TRA Joint Pass help to enhance awareness and scope of usage, and we continue to expand our cross-industry collaborations, working with airlines to provide combination tickets, and working with travel agencies to provide more discounts and brand-new marketing events as we strive to raise our overseas sales ratios.

3) Continued promotion of industry localization and international collaboration

We will not only continue to build localized development capabilities and promote localization of the rail industry, but also plan to integrate our own operational and management experience with the technical expertise of the Japanese Shinkansen company to provide consultation services that can be exported overseas to international high-speed rail construction projects. In future, we plan to establish a sharing economy for maintenance materials and spare parts with other operators who have similar core systems, thus reducing our operational costs.



5. Important Contracts

Contract type	Contracting party	Signing date	Summary	Restrictive covenants
Taiwan North-South High Speed Rail Construction and Operation Contract	Ministry of Transportation and Communication R.O.C.	1998/07/23	35-year high-speed rail Build-Operate-Transfer (BOT) contract from Taipei (Xizhi) to Kaohsiung (Zuoying) with Ministry of Transportation and Communication, and Union Passenger Terminal contracts with Taiwan Railway Administration and Mass Rapid Transit.	THSRC assets and equipment obtained for the construction and operation of the high-speed rail cannot be transferred, leased or reallocated without approval from the Ministry of Transportation and Communication
Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement	Ministry of Transportation and Communications and Bank of Taiwan	2010/01/08	In order to protect the rights of the financing institutions, this agreement is signed in accordance with the provisions of the Taiwan North-South High-Speed Rail Construction and Operation Agreement.	There are certain restrictions on the Corporation's assets and equipment quality and the change of Syndicated Loan Agreement
Taiwan North-South High Speed Rail Construction and Operation Project NT\$382 billion Syndicated Loan Agreement	8 syndicated loan banks, including Bank of Taiwan	2010/01/08	In order to reduce the financial risks of the Corporation, the leading bank was appointed to form a bank syndicate to provide a syndicated loan of no more than NT\$382 billion. The lending banks shall provide credit to the Corporation within the scope of their individual credit lines in accordance with the provisions of the Syndicated Loan Agreement.	There are certain restrictions on the Corporation's assets and equipment quality, and its increase in debt and principal interest coverage.
Core System Supply Contract No. E101	Taiwan Shinkansen Corporation	2000/12/12 With supplementary agreements in 2002, 2003, 2004, 2005, 2006, 2007, 2008, and 2009, and final agreement signed on 2011.	Core system design, manufacturing, and supply	Confidentiality
Core System Integration and Installation Contract No. E102	Taiwan Shinkansen International Engineering Corporation	2000/12/12 With supplementary agreements in 2002, 2003, 2004, 2005, 2006, 2007, and 2008, and final agreement signed on 2011.	Core system integration and installation	Confidentiality

Contract type	Contracting party	Signing date	Summary	Restrictive covenants
Additional Rolling Stock (Supply Contract Offshore) No. E301	Kawasaki Heavy Industries Ltd. & Toshiba Digital Media Network Taiwan Corporation	2012/05/24	Manufacturing and supply of new trains	Confidentiality
Construction of HSR Changhua Station No. S260	Joint venture between TECO Corporation and Century Development Corporation	2013/01/08	Construction of HSR Changhua Station	Confidentiality
Nangang Track and Core System (Supply Contract) No. E201	MHI-TSB-Shinkansen Consortium (Mitsubishi Heavy Industries, Ltd. – Toshiba Corporation)	2013/07/26	Extension of Nangang track and design, manufacturing, and supply of core system	Confidentiality
Nangang Trackwork and Core System (Installation Contract) No. E202	MHI-TSB-Shinkansen Consortium (Mitsubishi Heavy Industries, Ltd. – Toshiba Corporation)	2013/07/26	Extension of Nangang track and integration and installation of core system	Confidentiality
Core System for PLS (Provided Later Stations) No. E203	Toshiba Digital Media Network Taiwan Corporation	2014/02/20	Integration and installation of PLS core system	Confidentiality
Credit card payment service for passenger tickets (2017~2022) No. O1-15-012	Taishin International Bank	2015/07/28	Credit card payment service for passenger tickets	Confidentiality
Supply of Long Welded Rail (LWR) Transportation Trains No. E5-15-002	NEO Corporation	2016/09/01	Supply of Long Welded Rail (LWR) Transportation Trains	Confidentiality
Taiwan High Speed Railway Corporation Joint Underwriting Agreement	10 joint underwriting companies, including International Bills Finance Corporation	2017/01/24	In order to enrich working capital, the sponsoring companies were appointed to form a Joint Underwriting Agreement to provide an underwriting amount of NT\$20 billion in total. Each underwriting company underwrites unsecured commercial papers issued by the Corporation within the scope of their individual underwriting amount in accordance with the Joint Underwriting Agreement	There is a requirement for the credit rating of the High-Speed Rail Corporation
Supply and Installation of Railway Signal Equipment (AGB) No. E4-16-003	Taiwan Kyosan Co. Ltd.	2017/03/23	Construction of railway signaling rooms, backup equipment, and continual power supply for equipment operation	Confidentiality
2017~2020 THSRC Security Services (North Zone 1, North Zone 2, South Zone 1, and South Zone 2) No. S1-17-001~004	Vanguard Security Corporation	2017/03/23	Security services for THSRC stations	Confidentiality
Upgrade of TCS and Related Subsystems, Package 1-OCC: SCADA, MMIS(O), CFS, CEDS, TIS and CN No. E211	Toshiba Electronic Components Taiwan Corporation	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: SCADA, MMIS(O), CFS, CEDS, TIS and CN	Confidentiality
Upgrade of TCS and Related Subsystems, Package 1-OCC: Signaling and PMC (Supply Contract) No. E213	Mitsubishi Heavy Industries, Ltd.	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: Signaling and PMC (Supply Contract)	Confidentiality

Contract type	Contracting party	Signing date	Summary	Restrictive covenants
Upgrade of TCS and Related Subsystems, Package 1-OCC: Signaling and PMC (Installation Contract) No. E214	Mitsubishi Heavy Industries, Ltd.	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: Signaling and PMC (Installation Contract)	Confidentiality
Upgrade of TCS and Related Subsystems, Package 1-OCC: TCS and UC No. E215	Taiwan Hitachi Asia Pacific Co., Ltd.	2017/05/18	Upgrading of core IT equipment for TCS and Related Subsystems First stage-OCC: TCS and UC	Confidentiality
Modification of THSRC AFCS software system and maintenance contract. No. M7-17-007	IBM Co.	2017/06/12	AFCS software system maintenance	Confidentiality
THSRC Media Rental Business Contract No. O1-17-028	Omni Media Co.	2018/05/08	Advertising target rentals	Confidentiality
Supply and Manufacturing of Maintenance Vehicles No. E5-18-003	China Steel Co.	2018/08/10	Manufacturing and supply of Maintenance Vehicles	Confidentiality
Insurance broker contract	Willis (Taiwan) Limited	2018/10/03	Insurance broker service for MOIP	Confidentiality
Insurance contract	Fubon Insurance Company Ltd.; ShinKong Insurance Company Ltd.; Cathay Century Insurance Company Ltd.; Chung Kuo Insurance Company Ltd.	2018/12/19	Master Operational Insurance Program (MOIP)	Confidentiality
Bogie Running Tester Manufacture and Supply Contract No. L1-18-039	Industrial Technology Research Institute (ITRI)	2019/03/29	Manufacture and supply of bogie running testers which help THSRC technicians in judging the condition of the bogie during operations and in early detection of potential hazard factors.	Confidentiality
Upgrade of TCS and Related Subsystems Package 3 FTC- OCC: ARS/ TD Contract No. E231	Taiwan Hitachi Asia Pacific Co., Ltd	Letter of acceptance issued on 2019/04/23	Upgrades to Taiwan High Speed Rail OCC traffic control system main computer, including software porting and modification and hardware upgrades.	Confidentiality

6. Status of Technological Research and Development

Research and development for 2018 were as follows:

Item	R&D project name	R&D project summary	R&D benefits	Current progress
Communication System Research	Development of remote microphones for public address system	Cooperated with NKUST to develop a device compatible with current system.	Maintains system function while reducing maintenance costs.	A prototype has been developed and tested.
	Development of self-reliant maintenance capabilities for passenger information service system (PIS) software	Increase of self-reliant maintenance capabilities for passenger information service system to reduce technical dependence on overseas PIS vendors	Enhances instant delivery of passenger information and efficient operation management.	OCC and upgrade of PIS server and software at original 8 stations in 2018.
Electronic Service Center (ESC)	Development of new relay snap switch automatic measuring platform.	Cooperated with ITRI to develop new automatic relay and snap switch automatic measuring platform.	Maintains system function while reducing maintenance costs.	A prototype has been developed and tested.
	Development of snap switch contact electronic cleaning system	Cooperated with NKUST to develop snap switch contact electronic cleaning system.	Maintains system function while reducing maintenance costs.	A prototype has been developed and tested.
	Test of fire and smoke diagnostic system	Performed function tests for fire and smoke detectors using our self-designed diagnostic system to ensure good maintenance quality.	Maintains system function while reducing maintenance costs.	A prototype has been developed and tested. Patent certificate number: No. M572547
	Development of Event Automatic Reporting System (EARS)	In the event of equipment abnormalities, EARS will receive real-time warnings that will be automatically relayed as edited messages with images via wireless devices and mobile phones. EARS uses an automatic messaging system to replace the traditional manual system, not only reducing notification times and delivery times, but also ensuring accuracy, identifiability, and completeness of information via smart messages.	<ul style="list-style-type: none"> • Reduces risk of operational disruptions • Reduces response time for emergency repair work • Provides real-time equipment fault information to repair workers • Improves overall service quality • Reduces compensation costs for passenger due to train delays • Real-time delivery of abnormal equipment information to managers 	The EARS system has been developed and tested. Patent certificate number: under application

Item	R&D project name	R&D project summary	R&D benefits	Current progress
Signaling System Research	Patent application for New "Turnout Monitor System"	Self-developed new "Turnout Monitor System" to provide comprehensive turnout monitoring capabilities.	Enhances technology independence and reduces maintenance costs.	Completed
	Development of new relay tester	Cooperated with NKUST to develop a new type of relay tester.	Maintains system function while reducing maintenance costs.	Product has been developed and tested. Patent certificate number: under application
	Improvement and research of railway turnout controller reliability	In-house design and development of alternative PLC Turnout Controller to be constructed using new technology from commercial off-the-shelf electronic products.	To enhance existing Railway Turnout Controller reliability	Prototype development was completed in January 2018. It is estimated that the new Turnout Controller will be completed by the 2nd quarter of 2019, following which there will be a performance monitoring period for 12 months.
Rolling Stock System	Train EMI improvement project.	Used insulating materials to coat interference source.	Reduction of train ATC BPU (protection control unit) control system failure events caused by EMI problems.	EMI improvements were implemented on 24 trains in 2018, and EMI improvements for the remaining 6 trains are expected to be completed in 2019.
	Upgrade of wheel verification press computer system	The purpose of this project was to develop an exclusive monitoring system to record all PLC and industrial PC information.	Improves maintenance efficiency, reduces costs, and facilitates expansion of local material supplier sources.	The project was finished on 2018/5/25.
	Development of train axle-box temperature wireless monitoring system	Developed 700T train axle box temperature sensor and wireless transmission interface module system.	Increases axle-box temperature measurement information and reduces train operating delay time due to temperature sensor failure.	Project completed on 2018/3/20.
Track & Power system	Collaboration with ITRI (Industrial Technology Research Institute) on development of intelligent rail scooters	Domestic manufacturing of 22 light electric intelligent rail scooters and supplemental equipment	Enhances rail scooter function and efficiency	Completed delivery of 22 rail scooters and tablets
	Collaboration with NCSIST on development of automatic measurement system for rolling stock vibrations	Rolling stock automatic vibration measurement and report system	Measurement data can automatically be delivered via internet to offices for real-time monitoring of track alignment conditions	Completed cable laying and installation for 3/34 rolling stock
	Localization of OCS maintenance vehicles	8 MV type vehicles and 2 sets of CS vehicles (4 vehicles)	Combine and integrate 6 existing Japanese/Germany vehicle types to 2 types, resulting in less investment and improvement of maintenance efficiency and safety	This Contract was awarded to CSC in September of 2018, and is currently ongoing.

Item	R&D project name	R&D project summary	R&D benefits	Current progress
System R&D	Performance optimization of outside-station ticketing channels during peak hours.	To improve the performance of outside-station ticketing channel is one of our challenges for the Automatic Fare Collection system during the consecutive holidays transportation period.	Further improve the system performance	As a result of the performance improvement for outside-station ticketing channels by 2018, during Chinese New Year of 2019, we successfully completed more than 41,000 ticket bookings within 4 minutes and sold more than 422,000 tickets within the first hour, exceeding amount of Chinese New Year in 2018, 373,000 tickets sold within the first hour.
	Development of new automatic ticket vending machines	<ul style="list-style-type: none"> (1) Capability to provide both banknotes and coins in change. (2) Multiple payment options made available on automatic ticket vending machines; apart from cash, ticketing machines also accept multiple credit cards. (3) Our vending machines are not only equipped with internal card readers, but also support contactless smart card payment, allowing customers to complete payment while keeping their cards in hand. (4) The new automatic ticket vending machines have integrated payment and ticket purchasing functions on a single screen for easier operation, allowing passengers to interact with all functions from a single interface. (5) Passengers can book tickets on the THSRC website or from the mobile T Express App before proceeding to the automatic ticket vending machines to complete payment and pick up tickets. (6) The ticket printing time is reduced and tickets will not be presented if passengers have not removed their credit cards to prevent passengers from forgetting their cards. (7) The new automatic ticket vending machines provide convenient group tickets pickup function to avoid the inconvenience of one-by-one ticket pickup. (8) Reducing service outages and increasing equipment availability to provide more service time. 	Continued enhancement of automatic ticket vending machines for passenger convenience, and provision of many innovative features that are not only new to Taiwan, but new to the world.	<ul style="list-style-type: none"> (1) Capability to provide both banknotes and coins in change. (2) Multiple payment and mobile payment options. (3) Rapid credit card processing. (4) Integrated functions and bigger screens for easier access. (5) Multiple options for payment and ticket pickup. (6) Rapid and thoughtful ticketing system design. (7) Pickup options for group tickets. (8) Improvement of equipment availability and passenger service time.

Item	R&D project name	R&D project summary	R&D benefits	Current progress
System R&D	Implementation of Content Delivery Network(CDN) architecture to improve network performance	We implemented the CDN architecture to improve B2C service capacity during peak hours and reduce risk of cyber invasion.	<p>(1) Capacity management: Expansion of internet bandwidth in real time or in accordance with planned projects to fulfill capacity needs of peak and off-peak times.</p> <p>(2) High availability: Provides 100% service level across multiple telecom companies.</p> <p>(3) Security protection: Blocks cyber invasions and filters traffic from outside locations.</p>	Implementation completed by the end of 2018.
	Ticket-checking function of Contactless Smart Cards(CSC)	On-train ticket-checking functions added to our mobile Seat Map Information System (SMIS) to enhance inspection of periodic tickets, multi-ride tickets, EasyCard, iPass, and other smart cards.	Increased ticket-checking coverage, enhanced efficiency, and ensured ticket revenues.	The function was launched in April 2018.



7

Value
Propositions

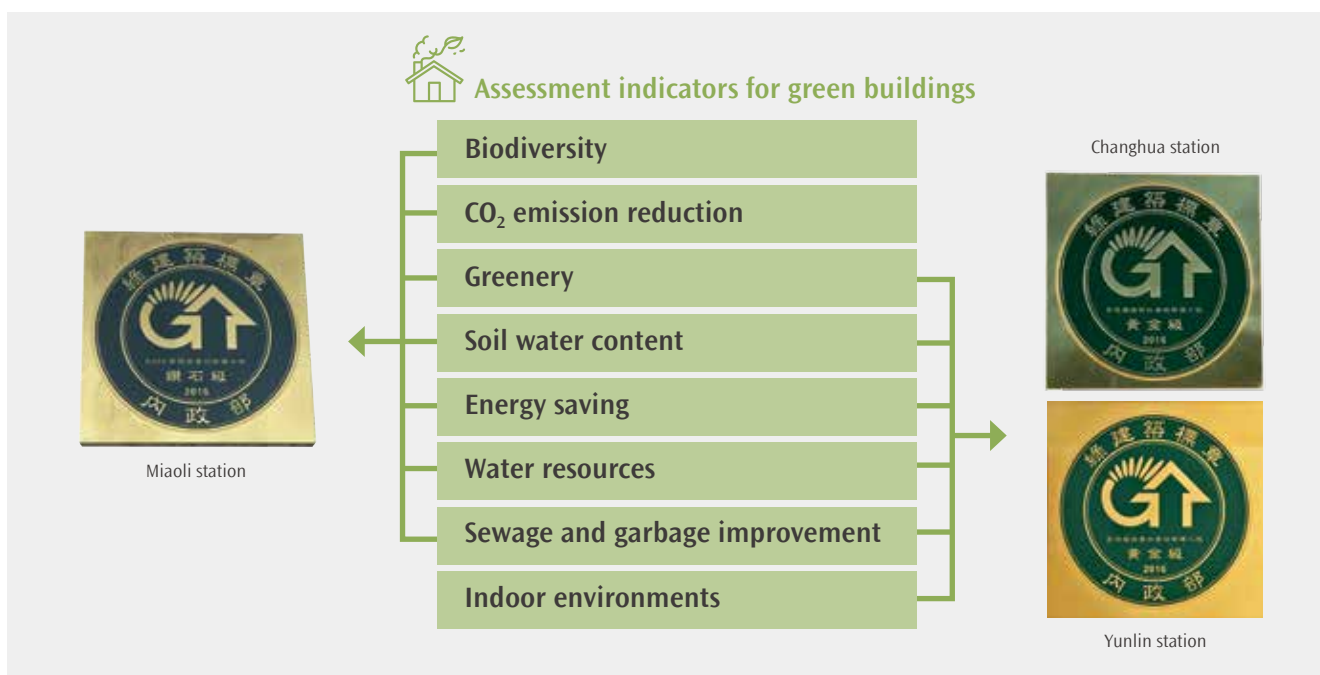
Environmental

1. Establishing a Sustainable Environment

(1) Green Buildings

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

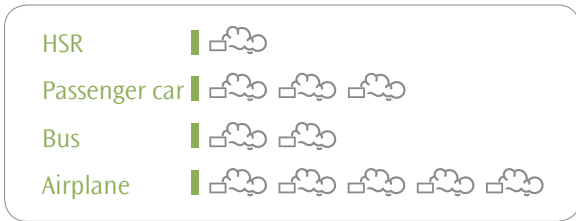
Miaoli station applied for 7 indicators and was awarded a Diamond level certificate from the Ministry of the Interior (MOI). Changhua and Yunlin stations applied for 6 indicators and were awarded Gold level certificates from the MOI.



(2) Energy Saving and Carbon Reduction

1) High-Speed Rail Carbon Footprint

We were awarded with the Carbon Footprint Label Certificate of High Speed Rail Transportation Services issued by the Environmental Protection Agency (Certificate label No. 1714910001, valid until December 16, 2020). Our carbon footprint was verified to be 34 gCO₂e per passenger-kilometer (per passenger per kilometer) and a “foot print” label was placed on the back of each train ticket to show passengers that 34g of CO₂ emissions will be produced for each passenger-kilometer. A comparison with other transportation vehicles indicates that this emission level is one-third that of cars, one-half of buses, and one-fifth of national airlines. In 2018, THSRC passenger traffic volume was 11,558,787,218 passenger-kilometers, 878,468 tons of carbon emissions, lower than that of cars with similar passenger-transport volumes. This reduction level is equal to the carbon absorption level of 2,961 Daan Forest Parks combined.



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


2) CO₂ and other Greenhouse Gas Emissions

We set a power-saving target to reduce at least 0.86% of “average electricity consumption per passenger” each year and also established an index of “carbon emission per Passenger-Kilometer” for the purpose of quantifying the tendency and status of carbon emissions generated by overall energy consumption. The target of carbon reduction is set to exceed 1.5% annually.

We voluntarily conducted greenhouse gas (GHG) inventory for our 12 stations in 2016 and 2017 and obtained an ISO 14064-1:2006 Verification Opinion Statement issued by a third party. The relevant verification information is as follows:



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



Carbon-reducing efficiency of electronic documentation system:

- Signing rates for documents in the electronic documentation exchange system was more than 99%.
- The number of electronic documents in 2018 was 45,060, saving 540,720 pieces of paper, conserving 65 trees, and reducing 780kgs of carbon emissions.

(3) Adaptation to Climate Change Impacts

The main risks from climate change include severe weather phenomenon such as extreme high temperatures; rising sea levels; increased rainfall, rainfall intensity, typhoons, cyclones, and lightning, which have increased in frequency and intensity, enhancing vulnerability levels of the railway industry and impacting our operations.

At present, our adaptive actions toward climate change impacts include:

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

(4) Air Pollution Prevention and Control

We set up facilities for air pollution control at our train painting station located in the Yancha Main Workshop. These facilities include pulse-jet bag filters, activated carbon filters, and catalyst incinerators, and help to treat the dust and volatile organic compounds (VOCs) generated from painting trains. We obtained a permit for stationary pollution source installation on October 19, 2017, and are in the process of receiving relevant operation permits.

(5) Water Resources Management

We implemented water conservation, water reduction, and water recycling measures as part of our water resources management policy. We set an annual water-saving goal to reduce at least 3.42% of “water consumption per passenger” and tracked the implementation status of water-saving measures through quarterly review meetings to check the usage volume of water, analyze the reasons for increment or decrement in water consumption, and also promote water saving measures to reduce our water usage.

(6) Waste Management

Most waste generated from our operations, including passenger waste, is industrial waste which we entrust to qualified disposal companies for transport to incinerators. Furthermore, we promote waste recycling (including waste paper, waste plastic, scrap iron, waste wood, scrap copper, aluminum scrap, waste lighting sources, waste lead batteries, waste glass containers) at stations and through workshops, which has effectively reduced our waste volumes.

(7) Noise Prevention and Control

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

(8) Information on environmental expenses

- 1) Loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report.
Necessary measures and actions to be taken in the future:

No losses or penalties occurred as a result of environmental pollution during 2018 or up to the printing date of this report.


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

Unit: NT\$ thousand

Item	Year	2018	2019	2020	2021
Monitoring of Environmental Quality		2,928	2,900	2,785	2,700
Research for Environmental Impact		3,469	3,500	4,028	3,600
Environmental Pollution Prevention		56,659	62,225	68,421	69,184
Total		63,056	68,625	75,234	75,483

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

Unit: NT\$ thousand

 Item	Year	Amount	Usage and Benefits
Recovery of artificial jacana habitat	1999~2018	32,185	Compliance with commitments set in the THSRC EIA Report and highlighting our concern for ecological conservation.
Noise prevention project (including noise improvement of surrounding residential buildings)	2004~2018	865,261	Implementation of noise prevention and control according to EIA reports and regulations.
Measurement of noise and vibrations in sensitive areas along the HSR line and noise control surveys conducted at sporadic locations	2005~2018	50,933	Compliance with commitments set in the THSRC EIA Report and analysis of noise prevention and control measures to be taken pre- and post-development.
Environmental monitoring in Miaoli, Changhua, Yunlin, and Nangang Stations during construction and operation stages.	2013~2018	13,154	Compliance with commitments set in the THSRC EIA Report and analysis of measures to be taken pre- and post-development.
Treatment of waste and waste water generated from HSR stations, workshops, and relevant operations and maintenance	2007~2018	912,036	Treatment of waste and waste water from stations and workshops in accordance with relevant regulations.
Vibration measurement identification for our "Train-Track-Bridge System" and analysis of train dynamics	2013~2015	5,145	Ensuring safety of THSRC operations and system structure and proposal of feasible measures to improve in-car comfort of passengers.
Verification of Carbon Footprint for High Speed Rail Transportation Services	2017~2018	2,460	Obtained EPA Carbon Footprint Label Certificate of High Speed Rail Transportation Services, confirming CO ₂ emissions produced for each passenger-kilometer.
Greenhouse gas inventory for HSR stations	2018	918	Voluntary execution of GHG inventory over all 12 stations and obtained ISO 14064-1:2006 Verification Opinion Statement issued by a third party.
Establishment of ISO14001 Environmental Management System with continuous improvement and consultation	2018	428	Making the ISO14001 Environmental Management System run more effectively and ensuring normal operation and maintenance.
Total		1,882,520	

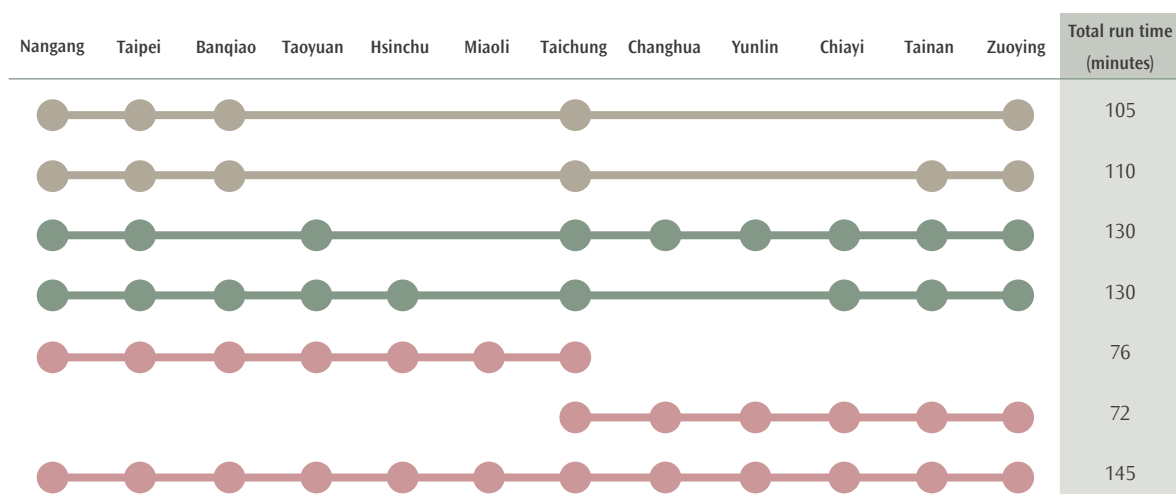
Social

2. Quality Services

(1) Frequent, convenient, punctual, and reliable train services

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

Train Stopping Patterns



THSRC provides up to 162 north- and south-bound trains daily depending on peak or off-peak days of the week. The numbers of train runs are increased during consecutive holidays in order to provide frequent and convenient services that fulfill passenger needs.

(2) Multiple convenient ticket booking and purchasing channels

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

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

(3) Convenient station services

- 1) Modernized and artfully designed stations and enthusiastic station service personnel provide a wide range of services and amenities to ensure ease of travel, including ticket counters and automated ticket vending machines, passenger information systems, information desks, guidance for elderly and disabled passengers travelling alone, disabled facilities, nursery rooms, drinking fountains, convenience stores, and restaurants. Wi-Fi is also available in all stations so passengers can quickly retrieve any information they need.
- 2) HSR station shuttle services include: buses, taxis, rental cars, drop-off and pick-up zones, and parking lots. Nine of our stations (Nangang, Taipei, Banqiao, Taoyuan, Hsinchu, Miaoli, Taichung, Tainan, and Zuoying) are connected to other rail (TRA or subway) services.
- 3) In order to provide our passengers with convenient access to and from our stations, the Corporation works with express bus companies to provide free shuttle bus services under joint marketing campaigns. In 2018, we offered 336,595 free shuttle bus trips to 4,302,000 passengers. The following is a summary of bus routes operated in 2018:

Distribution of HSR Shuttle Bus Routes

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

(4) Comfortable train travel

- 1) Disabled access services: the seventh carriage is designed as a disabled-access carriage, and 4 seats are reserved for carers of disabled passengers, allowing them to stay close to and take care of disabled passengers. In consideration of electricity needs of electric wheelchairs, wheelchair charging sockets have been installed on trains for electric wheelchair users.
- 2) Friendly and helpful train personnel

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



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

- 3) Mother- and baby-friendly areas: all trains are equipped with lactation rooms that are a private and safe space for nursing, pumping, and breastfeeding mothers, providing comprehensive friendly travel environments and passenger services for mothers and babies.
- 4) Free Wi-Fi services: In consideration of the increasing popularity of mobile communication devices and passenger needs, passengers can use their mobile phones, tablets, laptops, and other communications devices to connect to the Internet via the “iTawan” network (requires login account) and use the free Internet services provided by this network, as well as free charging services.

(5) Instant consultation services

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

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

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

3. Friendly Work Environment

(1) Talent Development

1) Labor conditions

A. Talent retention and appropriate placement:

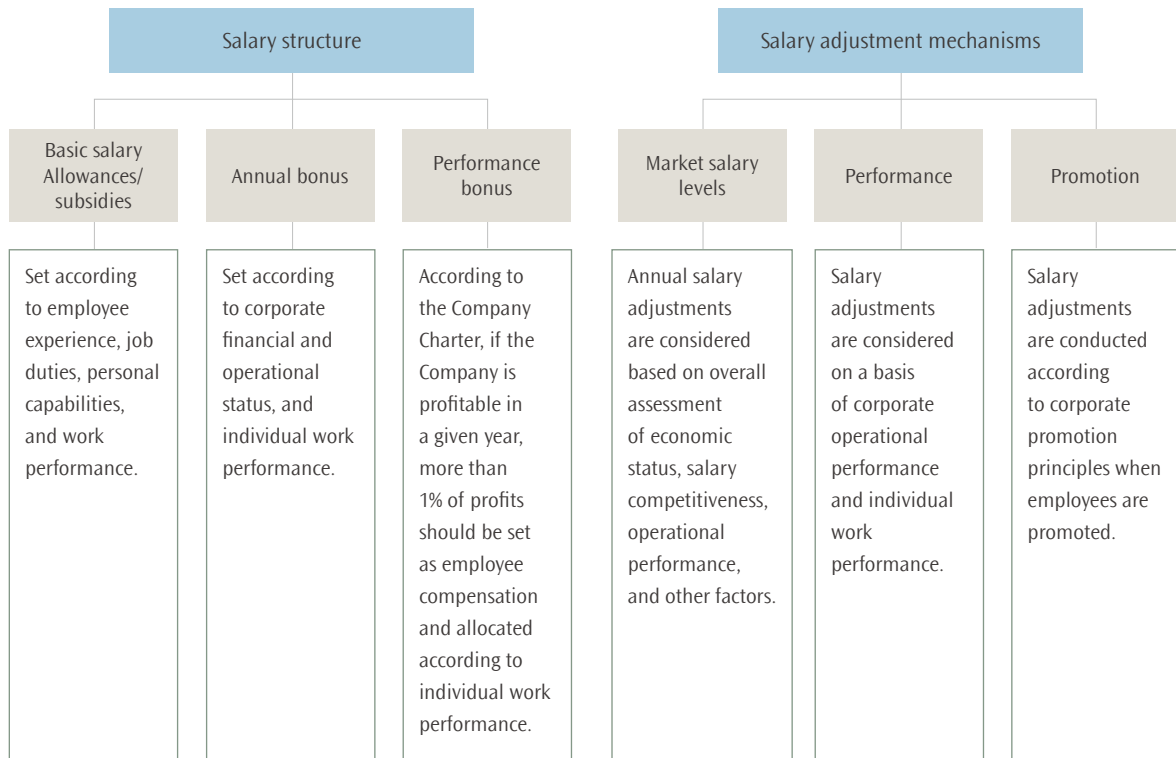
THSRC provides career advancement opportunities for talented employees based on organizational needs and individual development to enhance professionalism and achieve our target of incentivizing and retaining talent. Qualified employees that meet company requirements and wish to hold managerial positions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

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

B. Competitive remuneration:

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

Salary structure and salary adjustment mechanisms



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

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

2) Learning and development

Including establishing a knowledge management mechanism, using the company's knowledge base as a blueprint, and classifying knowledge documents into four types: learning from experience, database maintenance, operational database, and general knowledge, to help maintain operations at the company.

(2) Concern for Human Rights

Issues and specific management measures relating to human rights:

Provision of safe and healthy work environments

- Establishment of "Procedures for Governing High Speed Rail Chemicals" to monitor operational environments and provide employees with safe and healthy work environments.
- Prevention and handling of occupational violations to ensure employee work safety and mental and physical health.
- Implementation of health checks beyond those mandated by law.
- Provision of incentives to promote management programs that decrease occupational hazards.
- Awarded "Healthy workplace accreditation- health promotion certificate" by the Health Promotion Administration

Abolish discrimination to ensure equality of job opportunities

- Our human rights policy stipulates that we will eradicate unlawful discrimination and provide equal job opportunities.
- When recruiting talent, we do not consider factors based on race, class, language, ideology, religious belief, political affiliation, nationality, gender, gender orientation, appearance, age, birthplace, marital status, or physical disability.

Prohibition of child labor

- The Corporation has established a "Human rights policy" which states that we prohibit use of child labor. Additionally, recruitment to all positions in the Corporation requires a college degree, and therefore there is no possibility of using child labor.
- The Corporation's "Supply Chain Management Policy" stipulates that in addition to procurement quality, costs, delivery date, and services, the Corporation should also take issues such as reasonable profits, social responsibility, labor safety, human rights, and environmental protection into consideration when making management and implementation decisions.
- When inviting bids, the Corporation stipulates that companies submitting bids should not discriminate on the basis of gender, discriminate against indigenous people or vulnerable groups, and should not use child labor.

Prohibition of forced labor

- The Corporation has established a "Human rights policy" as part of our statement to eradicate all forms of forced labor.
- Prohibition of forced labor: In accordance with the law, the Company is prohibited from use of any form of forced labor, including abuse, intimidation, verbal abuse, or other illegal forced labor.

Assist employees in maintaining mental and physical health and work-life balance

- The Corporation has established its "Procedures for Protection of Employee Mental Health". Through collaboration with related departments, the Company provides health consulting, fitness for work evaluations, and counseling for mandatory retirement, major illness, and returning employees.
- A series of themed employee mental health lectures and training programs were planned according to the needs of different job duties to enhance relevant knowledge and workplace harmony. In 2018 we held 6 lectures on workplace bullying and 3 training courses on employee problem discovery and handling.
- In terms of employee leisure and recreation, the Company periodically adds and extends employee benefits with cooperating enterprises, provides subsidies to encourage employees to establish clubs around their interests, and sets up lactation rooms, reading rooms, break rooms, and energy supply stations stocked with snacks and coffee to establish a friendly work environment.

Training for protection of human rights:

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

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

(3) Occupational safety and health

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

Additionally, we were awarded the “Healthy workplace accreditation- health promotion certificate” by the Health Promotion Administration in 2018, and are actively establishing smoke-free environments, promoting health-enabling measures, and building healthy work environments.

In 2018, the Ministry of Labor approved the Operation Directions for the Performance Recognition of the Occupational Safety and Health Management Systems of Business Entities to ensure that our occupational health and safety management operate efficiently, adhere to international standards for autonomous management of health and safety, and are protecting the health and safety of our workers.

4. Mutually Beneficial Society

(1) Social Contributions

THSRC upholds operational principles of sustainable development and strives to fulfill our corporate social responsibilities. We continue to expend our corporate resources to support all sorts of social contributions, environmental issues, and art performances, hoping that we can continue to deliver love and support that enhances public recognition of the Corporation, provide care to those in need, and to make a better society.



1) High-Speed Educational Endowment Program

THSRC has promoted the High-Speed Educational Endowment Program since 2010 in collaboration with “World Vision”, “Child Welfare League Foundation”, “Eden Social Welfare Foundation”, “Teach for Taiwan”, “After School Association of Taiwan”, and other social services agencies, inviting the public to make donations and care about disadvantaged and developmentally delayed children through a variety of methods including donation envelopes on HSR train seatbacks, station donation boxes, and online donations.

Over the past nine years, the High-Speed Educational Endowment Program has raised a total of NT\$120 million and helped more than 24,000 children from disadvantaged populations and children with developmental delays. 2019 marks the tenth year of the High-Speed Educational Endowment Program, where we again collaborated with the “After School Association of Taiwan”, inviting passengers and the general public to share their love so that disadvantaged children could receive after-school tutoring. THSRC transports association members and after-school tutors to information exchanges and training to provide more comprehensive care and support for disadvantaged children, and also arranged for the children to take HSR train to Taichung to the “2018 Taichung World Flora Exposition” and make beautiful memories in spring of 2019.

2) THSRC Smiling Train Program

THSRC launched the THSRC Smiling Train Program by leveraging our own advantages and working in collaboration with charitable organizations and enterprises, providing disadvantaged individuals opportunities to ride the high-speed rail train for free. Starting in 2009, THSRC worked with local educational and charitable organizations to help individuals achieve their dream of riding on the high-speed rail, giving warmth and encouragement to the disadvantaged.

To date, a total of 743 groups and 134,343 individuals have participated in this program. THSRC will continue to promote the THSRC Smiling Train Program to spread positive energy and bring warmth to our society.

Mongolia’s Blue Sky Choir at the HSR Zuoying station

The Blue Sky Choir from Mongolia was formed in 2004; members of the choir are underprivileged children sponsored by the World Vision Society. The Choir was invited to perform at two concerts in Kaohsiung and Hualien in April 2018; to thank THSRC for sponsoring their high-speed rail rides, the Choir gave a breathtaking performance at the HSR Zuoying station to promote the concept of “love without borders” and their hopes of ending child abuse.





Making dreams come true for HungYe Elementary School Students

HungYe Elementary School is located at Faxiang Village between Hehuan Mountain and Baigu Mountain. Most of the students are Tayan. Due to the ruggedness of the surrounding terrain, the students seldom travel far. To help the students experience life and culture different from that of their hometown, THSRC organized a day trip to Kaohsiung on the high-speed rail for the students of HungYe Elementary School, allowing them to achieve their dreams of travel.



Nangang Station donation of free HSR tickets to National Keelung Special Education School

To encourage more handicapped groups to explore nature, the THSRC Smile Program extended its services to the Keelung area. The HSR Nangang Station invited teachers, students, and parents from the National Keelung Special Education School on a two-day trip to Kaohsiung. Students from the school rarely participate in outdoor activities due to their disabilities, so this trip provided an opportunity for the children to go outdoors and enjoy a day in the sun. We believe that this trip not only helped to enhance the children's health, but also helped them make unforgettable and joyful memories.



THSRC takes the Heartlight Education and Nursing Institute to the World Flora Exposition

The Heartlight Education and Nursing Institute is located in Guanyin, and its founder Ms. Chiu, who firmly believes that the mentally disabled can be nurtured through care as long as society comes together to help them. The Institute currently offers daily care and teaches social adaption to 90 mentally disabled people through baking, gardening, and pottery classes. The Institute also runs its own coffee shop during the summer, and the mentally disabled patients are encouraged to serve as staff members and learn how to interact with others. Ms. Chiu expressed her appreciation to THSRC for offering institute patients a trip to the World Flora Exposition and giving patients the opportunity to learn how to adapt to society.

Miaoli Station sponsored HSR travel for the Kadu tribe

The Kadu tribe is concentrated in Renai Township of Nantou County, and is mostly composed of elderly people who live alone or young children who were brought up by their grandparents. Many of the tribe members have never left their hometown or taken the high-speed rail. THSRC sponsored the Kadu tribe on a high-speed rail trip from Miaoli to Zuoying. On March 12, 2018, the day of the trip, the Kadu tribe sang ancient Bunun songs to thank THSRC. The performance attracted many passengers and created a memorable start for their journey.



Students took lonely elders on a HSR trip

At the end of the year, THSRC cooperated with the “Old Five Old Foundation” and arranged for ten students from Taichung Shi-Gang Junior High School to serve as one-day grandchildren and accompany 13 elders who were living on their own on a high-speed rail trip, allowing them to experience travel at 300 kilometers an hour. The HSR Taichung station donated free tickets to the “Old Five Old Foundation”. Mr. Gu Mu-Fa, a 70-year-old blind artist, expressed his appreciation by giving handcrafted woven bags to THSRC.



Fulfilling dreams at Nanxing Elementary School

To encourage disadvantaged students to spend more time outdoors and enrich their life experiences, HSR Changhua station donated tickets to the Nanxing Elementary School on October 15, giving the students an opportunity to realize their dreams of travelling to Taipei. A representative from HSR Changhua station stated that THSRC is proactively trying to take care of the disadvantaged children in order to implement corporate social responsibility. It is hoped that this high-speed rail trip gave these disadvantaged children a chance to enjoy different life experiences, make happy memories, and feel the warmth of society. In the future, THSRC will continue to give back to passengers and society, ensuring that every high-speed train that runs in the western corridor of Taiwan not only provides passengers with comfortable and convenient travel services, but also continues to spread love and warmth, fulfilling our mission of “To be the platform for advancement and enjoyment”.



THSRC sponsored a trip to Taipei for students at the Tainan Special Education School



A high-speed rail ticket can take you anywhere you dream of going. For some students at the Tainan Special Education School, the place they dreamt of going to was Taipei, where they hoped to take a city tour and enjoy a bird's eye view of the city from Taipei 101. HSR Tainan Station sponsored these students and their families and volunteers to make their dreams come true. The students enjoyed a relaxing trip to Taipei, and gifted the HSR Tainan Station with a homemade thank-you card upon their return. Other passengers on the high-speed rail spoke highly of this special event.

3) Annual THSRC Winter Outreach Blood Drive

THSRC launched the Winter Outreach Blood Drive initiative in 2012, and this marks the seventh consecutive year that we have hosted this annual blood drive at our 11 HSR stations and company headquarters. This initiative always attracts enthusiastic participation from THSRC staff and the general public. THSRC handed out "THSRC egg cup candleholders" as gifts to kind-hearted donors. In 2018, 1,117 people participated in our annual blood drive and 1,620 bags of blood were donated, relieving blood shortages in the winter of 2018, and providing adequate supply for those in need.



4) Earthquake and disaster relief programs

A. Hualien earthquake relief program

An earthquake measuring 6.0 on the Richter scale struck Hualien in February 2018, causing the collapse of many buildings, severe damage to roads and bridges, and leaving many people in urgent need of aid. Immediately after the earthquake, THSRC announced a donation of NT\$5 million to help the victims rebuild their homes and also launched the "Hualien earthquake relief program" at the first instance, providing free transport for disaster relief workers and medical personnel to the Greater Taipei area, after which they were rapidly transferred to Hualien. THSRC's act of kindness and social contribution was acknowledged by the Ministry of Health and Welfare in late June and THSRC was awarded a certificate of appreciation.

B. 823 low pressure flood relief program

In August 2018, a low-pressure system brought heavy rains to Taiwan and caused flooding in many areas south of Yunlin. In the spirit of corporate social responsibility, THSRC immediately launched the "823 low pressure flood relief program," allowing south-bound relief workers and medical personnel to apply for free transport on the high-speed rail as we strove to do our part in collaboration with the government. A total of 1,200 tickets were provided under this program, allowing relief workers to travel to and from disaster areas as they helped the victims rebuild their homes.

(2) Environmental Protection

Travelling with saplings program

THSRC collaborated with the Wutong Foundation and the Executive Yuan Taiwan Forestry Research Institute (TFRI) to launch the “Travelling with saplings” program at HSR Hsinchu station on Arbor Day (March 12). We gifted more than a thousand tree saplings to passengers, including *Quercus glauca*, *Rhaphiolepis umbellata*, and *Podocarpus macrophyllus*. Experts were also on hand to explain information about these plants and plant-rearing techniques. THSRC hopes that this program can help passengers spread beauty and strengthen environmental protection. HSR is an environmentally friendly and green transport provider, and THSRC hopes to encourage passengers to achieve common goal of living a green life and retaining natural sights for future generations.



Pheasant-Tailed Jacana Preservation

In 1998, the pheasant-tailed jacana, also known as the “water chestnut bird” and the “ripple fairy,” which was listed as a Level 2 protected species, faced a survival crisis as HSR’s mainline passed through their habitat in Hulubei, Guantian District in Tainan. In order to conserve these pheasant-tailed jacana, THSRC worked with relevant units and, starting from 2000, invested more than 50 million to build the first artificial habitat recovery ground in Guantian under three-way collaboration with the government, construction units, and civil society organizations. Many volunteers have participated in the processes of habitat assessment, land rental, and construction, and many professionals and academics have also been involved in this work, raising the number of jacanas from 9 in 2000 to 1,292 in 2018 and gradually increasing the jacana habitat. In 2007, we renamed the recovered habitat Jacana Park and opened the park to the public. More than 200,000 visitors have been recorded to date. To strengthen the educational value of this park, we created tour devices, galleries, and interactive displays to present the results of our native species restoration efforts and help the public better understand wildlife conservation. This project has also drawn the attention of international environmental units and conservation activists as one of the few successful cases where development and conservation can co-exist.



The Old Camphor Tree of Hsinchu and the Land God Temple

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

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

Green low-carbon initiatives: Save energy and reduce plastics for environmental sustainability

Almost 1,600 HSR employees have participated in beach clean-ups from 2016 to 2018 on wetlands, sandy beaches, and tetrapod-filled beaches. HSR employees from north to south have cleared about 7,055kg of ocean waste over the past three years.

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



(3) Exchanges and Events

HSR camps

THSR is responsible for providing transportation along Taiwan's western corridor, connecting major cities at speeds of up to 300 kilometers per hour and providing safe, comfortable, convenient, and high-quality travel for passengers. The number of passengers has been growing year by year, and THSRC continues to fulfill our corporate social responsibilities. THSRC launched a railway camp during the winter and summer vacations starting in 2008, providing a variety of courses for students of different ages and visits to our Operational Control Center, Maintenance Base, and the THSR Museum. THSRC staff gave lectures and information on the construction, operation, and maintenance of the high-speed rail, providing participants with a wealth of knowledge.

THSR ART Together Program

THSRC launched the "THSR ART Together Program" in 2015, providing free space in HSR stations for group performances and individual singing, dancing, or musical performances. In 2017, THSRC was awarded the "13th Arts and Business Awards for cultural development" by the Ministry of Culture. As of year-end 2018, 399 groups and 9,976 individuals have performed at 9 HSR stations (Taoyuan, Hsinchu, Miaoli, Taichung, Changhua, Yunlin, Chiayi, Tainan, and Zuoying). THSRC hopes that the "THSR ART Together Program" allows passengers to appreciate the beauty of the arts while traveling with the high-speed rail.



THSR Transported 500 million people

THSRC passenger numbers hit a new high this year. To thank passengers for their support and to implement our corporate mission of "To be the platform for advancement and enjoyment." THSRC launched the "Across 500 million" campaign: the 500-millionth passenger and the two passengers before and after the 500 million mark were gifted amazing prizes, including one year of free high-speed rail rides and a THSR holiday package for two. Additionally, starting from the 499 millionth passenger, every 100 thousandth passenger received 4 business class high-speed rail tickets. THSRC also organized "Facebook check-in" lotteries at 12 stations and gifted 150 members of the public vouchers for 2 standard class high-speed rail tickets.



Preserving Railway Culture - THSR Museum

The THSR Museum is the first and only museum in Taiwan that showcases the corporate image of THSR, displaying a series of artifacts and explanations relating to railway cultural assets compiled by THSRC, allowing the public to experience the journey THSRC has taken from construction to operation.

The THSR Museum does not charge for admission. Group visits and tours are scheduled through appointment. Since the museum opened in January 2017, the well-designed interactive technical devices, the detailed displays of railway developments in Taiwan and around the world, and the many THSR stories have attracted many visitors from at home and abroad. A total of 11 railway culture seminars were held in spring and autumn of 2018, attracting many railway enthusiasts and members of the general public and gaining great acclaim. As of year-end 2018, a total of 1,445 groups and 45,000 people have visited the museum.



Celebrating the 20th anniversary of THSRC

THSRC was founded in 1998 to pave the way toward a new era of high-speed railways in Taiwan. Looking back on the past 20 years, THSRC has undergone many challenges during corporate organization, bid preparation, bid winning, construction preparation, and construction, but we successfully passed all tests and have since commenced operations. Additionally, after improving our finances and operational structure, we have also officially gone public.

To express our gratitude to all those who helped, supported, and cared for us over the past few years, THSRC hosted a 20th anniversary dinner at the Grand Hotel where we held our “Inheritance and Appreciation Ceremony” to mark the commencement of railway operations in 2007. Looking to the future, THSRC hopes to achieve our goal of “To be the platform for advancement and enjoyment” as we work to improve life quality in Taiwan.



(4) Technical Exchanges and Visitations

1) Group field visits

THSRC facilitates interactions with domestic and international railway transportation industry members, other industries, the government, and academics, conducting frequent technical exchanges that allow us to keep up to date with service and operational strategies and continue to innovate. We have devoted ourselves whole-heartedly to our operations and have accumulated a number of results and insights. Since 2006, we have organized a number of visitations to allow domestic and international transportation industry members to observe our core values. Our professional tours cover important information and artifacts at the THSR Museum relating to the preparation, construction, and operation eras of THSRC, all HSR stations, and our Maintenance Base and Operations Building. Visitors have included the Taipei Rapid Transit Corporation, the Department of Logistics Management at the National Defense University, congressional staff from the United States, JR members (West Japan, East Japan, Hokkaido), and so on. In 2018 we welcomed a total of 46 groups and 630 visitors.



2) Taiwan High Speed Rail and JR Kyushu train attendant job observation and experience exchange

THSRC has conducted job observation and experience exchanges with the Kyushu Railway Company (JR Kyushu) since 2014 to learn different railway cultures and service skills, thus improving our quality of service.

Two train masters and three train attendants from THSRC underwent 10 days of observation from November 4th to 13th in 2018, while five train attendants from JR Kyushu underwent 5 days of observation at THSRC from December 11th to 20th in 2018.

In December 2018, the THSRC Operation Control Center and the JR Kyushu Hakata General Control Center jointly organized the very first two-way exchange activity where experiences and observations were discussed and exchanged. The controllers that took part in this activity all agree that this exchange provided good references for response techniques and operation efficiency in the future. A mutual friendship was also established between the two units.



Governance

5. Effectiveness of Corporate Governance System

(1) Preliminary Review by Functional Committees

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

(2) Independence and Professionalism of Independent Directors

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

(3) Management Implementation

The Management fully understands the framework and spirit of corporate governance, and complies with applicable by-laws and regulations and resolutions of shareholders' meeting or Board of Directors when performing their duties and fulfilling their duty of care.



(4) Strengthen Information Disclosure

For the convenience of shareholders and stakeholders, our corporate governance information is disclosed on the Market Observation Post System (<http://mops.twse.com.tw>). In addition, we publish our corporate governance information on our corporate website (<http://www.thsrc.com.tw>) to further enhance transparency.

Furthermore, we not only communicate all issues of concern to our stakeholders through multiple channels, but also established a stakeholder section and stakeholder contacts on our corporate website. Appropriate communication allows us to understand the reasonable expectations and needs of our stakeholders and respond accordingly to major issues of concern.

In view of the effectiveness of the implementation of our corporate governance system, we participated in the 4th TWSE Corporate Governance Evaluation (for 2017) after one year of public listing and were ranked among the top 5% of publicly listed companies. Additionally, on June 26, 2018, we were awarded an “Excellent” certification by the Taiwan Corporate Governance Association under their CG6011 corporate governance evaluations for 2017. In future, we will focus on the ongoing influence of functional committees and independent directors. Furthermore, we will uphold the principles of enterprise autonomy, consistently review the framework and mechanisms of corporate governance, and embrace corporate governance evaluations in order to build a sound corporate governance system and set Taiwan High Speed Rail Corporation as a benchmark for corporate governance.

Details of our corporate governance implementations can be found in Chapter 4 of this report or on the “Corporate governance” section of our website.

8

Financial Overview



1. Five-Year Financial Summary

(1) Condensed Balance Sheet

Unit: NT\$ thousands

Item	Year	Financial Summary for the Last Five Years				
		2014	2015	2016	2017	2018
Current Assets		57,324,949	60,148,335	28,728,282	20,090,816	22,796,549
Property, Plant and Equipment		75,312	70,928	65,305	107,354	98,085
Operating Concession Asset		440,330,659	439,626,852	426,020,379	413,166,373	401,168,964
Other Assets		3,929,787	6,758,101	6,393,406	6,695,914	8,993,471
Total Assets		501,660,707	506,604,216	461,207,372	440,060,457	433,057,069
Current Liabilities	Before Distribution	10,995,461	36,153,835	19,815,494	6,549,408	13,814,046
	After Distribution	10,995,461	39,797,276	23,192,470	10,770,628	(Note 1)
Non-Current Liabilities		445,674,044	410,247,659	380,328,197	370,492,700	349,830,010
Total Liabilities	Before Distribution	456,669,505	446,401,494	400,143,691	377,042,108	363,644,056
	After Distribution	456,669,505	450,044,935	403,520,667	381,263,328	(Note 1)
Capital Stock		105,322,243	56,052,930	56,282,930	56,282,930	56,282,930
Capital Surplus		-	-	172,981	172,981	172,981
Retained Earnings	Before Distribution	(46,658,745)	4,149,237	4,607,077	6,561,953	12,957,102
	After Distribution	(46,658,745)	505,796	1,230,101	2,340,733	(Note 1)
Other Equity		(13,672,296)	555	693	485	-
Total Equity	Before Distribution	44,991,202	60,202,722	61,063,681	63,018,349	69,413,013
	After Distribution	44,991,202	56,559,281	57,686,705	58,797,129	(Note 1)

Note 1: Pending shareholders' approval.

(2) Condensed Statement of Comprehensive Income

Unit: NT\$ thousands,
Except Basic Earnings Per Share

Item	Year	Financial Summary for the Last Five Years				
		2014	2015	2016	2017	2018
Operating Revenue		38,508,784	51,901,392	40,610,906	43,435,042	45,415,007
Gross Profit		12,810,805	21,401,932	14,637,733	18,821,397	20,333,613
Income from Operations		11,890,101	20,556,496	13,699,496	17,754,984	19,144,964
Non-Operating Income and Expenses		(9,217,314)	(1,722,661)	(8,701,921)	(11,276,484)	(11,833,141)
Income Before Income Tax		2,672,787	18,833,835	4,997,575	6,478,500	7,311,823
Net Income		5,534,408	20,872,630	4,149,098	5,339,905	10,696,381
Other Comprehensive Income		(9,687)	(49,309)	(47,679)	(8,261)	(80,497)
Total Comprehensive Income for the Year		5,524,721	20,823,321	4,101,419	5,331,644	10,615,884
Basic Earnings Per Share(NT\$)		1.39	7.19	0.74	0.95	1.90

(3) Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	Name of CPA	Audit Opinion
2014	Deloitte & Touche	Jui-Hsuan Ho and Mei-Yen Chiang	Unqualified Opinion with an emphasis of matter paragraph
2015	Deloitte & Touche	Jui-Hsuan Ho and Mei-Yen Chiang	Unqualified opinion with an emphasis of matter paragraph
2016	Deloitte & Touche	Jui-Hsuan Ho and Kwan-Chung Lai	Unmodified Opinion
2017	Deloitte & Touche	Jui-Hsuan Ho and Kwan-Chung Lai	Unmodified Opinion
2018	Deloitte & Touche	Mei-Yen Chiang and Kwan-Chung Lai	Unmodified Opinion

2. Five-Year Financial Analysis

Item (Note 2)	Year	Financial Analysis for the Last Five Years					
		2014	2015	2016	2017	2018	
Financial Structure (%)	Debt ratio	91.03	88.12	86.76	85.68	83.97	
	Ratio of long-term capital to property, plant and equipment	651,510.05	663,278.79	675,892.93	403,814.53	427,428.27	
	Ratio of long-term capital to operating concession asset	111.43	107.01	103.61	104.92	104.51	
Solvency	Current ratio (%)	521.35	166.37	144.98	306.76	165.02	
	Quick ratio (%)	491.66	159.24	130.55	263.76	143.81	
	Times interest earned (times)	1.28	3.03	1.60	1.87	2.10	
Operating performance	Accounts receivable turnover (times)	131.42	237.31	106.84	96.81	106.50	
	Average collection days	2.78	1.54	3.41	3.77	3.42	
	Inventory turnover (times)	-	-	-	-	-	
	Accounts payable turnover (times)	-	-	-	-	-	
	Average days in sales	-	-	-	-	-	
	Property, plant and equipment turnover (times)	461.75	709.81	596.20	503.13	442.13	
	Operating concession asset turnover (times)	0.09	0.12	0.09	0.10	0.11	
	Total asset turnover (times)	0.08	0.10	0.08	0.10	0.10	
	Profitability	Return on total assets (%)	3.01	5.98	2.29	2.55	4.25
		Return on total equity (%)	12.57	39.68	6.84	8.61	16.15
Pre-tax income to paid-in capital ratio (%)		2.54	33.60	8.88	11.51	12.99	
Profit ratio (%)		14.37	40.22	10.22	12.29	23.55	
Earnings per share (NT\$) (Note 1)		1.39	7.19	0.74	0.95	1.90	
Cash flow (%)	Cash flow ratio	201.90	63.49	29.93	329.89	189.78	
	Cash flow adequacy ratio	391.55	374.41	310.89	338.04	345.23	
	Cash flow reinvestment ratio	45.99	85.84	19.66	111.18	185.72	
Leverage	Operating leverage ratio	2.98	2.37	2.73	2.25	2.18	
	Financial leverage ratio	5.09	1.82	2.57	1.73	1.53	

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

1. The decreases in current ratio, quick ratio, and cash flow ratio were mainly due to reclassification of long-term bills payable due within one year to current liabilities in 2018.
2. The increases in profitability ratios and earnings per share were mainly due to increases in income from operations, income before income tax, and income tax benefit in 2018.
3. The increase in cash flow reinvestment ratio was mainly due to increase of cash flow from operating activities and decrease of working capital in 2018.

Note 1: Basic earnings per share have been adjusted retrospectively to reflect the effects of common stock capital reduction totaling NT\$39,079,396 thousand on October 20, 2015.

Note 2: The above financial analysis ratios were calculated using the following equations:

1. Financial structure

(1) Debt ratio = Total liabilities / Total assets

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

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

2. Solvency

(1) Current ratio = Current assets / Current liabilities

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

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

3. Operating performance

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

(2) Average collection days = 365 / Receivable turnover

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

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

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

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

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

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

4. Profitability

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

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

(3) Profit ratio = Net income / Net sales

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

5. Cash flow

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

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

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

6. Leverage

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

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

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

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 Business Report and Financial Statements. The CPA of Deloitte & Touche, Mei-Yen Chiang and Kwan-Chung Lai, were retained to audit THSRC's Financial Statements and have issued an audit report relating to the Financial Statements. The Business Report and Financial Statements have been reviewed and determined to be correct and accurate by the Audit Committee members of Taiwan High Speed Rail Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Taiwan High Speed Rail Corporation

Chairman of the Audit Committee: Kung-Wha Ding



February 20, 2019

Audit Committee's Review Report

The Board of Directors has prepared the Company's 2018 proposal for allocation of profits, and the proposal has been reviewed and determined to be correct and accurate by the Audit Committee members of Taiwan High Speed Rail Corporation. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this report.

Taiwan High Speed Rail Corporation

Chairman of the Audit Committee: Kung-Wha Ding

Ding, Kung-Wha

March 20, 2019

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

(1) Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan High Speed Rail Corporation

Opinion

We have audited the accompanying financial statements of Taiwan High Speed Rail Corporation (the "Corporation"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations of IFRS ("IFRIC"), and Interpretations of IAS ("SIC") endorsed by the Financial Supervisory Commission ("FSC") of Taiwan, the Republic of China ("ROC").

Basis of Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The descriptions of the key audit matters of the 2018 financial statements are as follows:

Provision for Stabilization Reserve

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

According to the Taiwan North-South High Speed Rail Construction and Operation Agreement (the "C&O Agreement"), which was amended on July 27, 2015, the Corporation established the financial stabilization mechanism ("FSM") in 2016 in order to serve the purpose of returning the major portion of the excess earnings, which is defined under the C&O Agreement, to the ROC government. Started in 2017, the Corporation reports the status of the implementation of the aforementioned FSM to the Ministry of Transportation and Communications ("MOTC"), including the provision, contribution, and accumulated balance of the stabilization reserve in accordance with the C&O Agreement. Because 1) the provision for the stabilization reserve is related to the profitability of the remaining concession period under the C&O Agreement, 2) the reserve amount is material and can vary significantly, depending on the expiration or termination of the C&O Agreement, and 3) the implementation of the FSM involves critical accounting judgments and estimates, the recognition of provision for stabilization reserve is deemed a key audit matter.

Since earnings to be made in the remaining concession period, which will end in the year 2068 or any year where the C&O Agreement might be early terminated, cannot be reliably estimated, the stabilization reserve, totaling NT\$9,560,897 thousand as of December 31, 2018, was provided based on the earnings achieved in 2018 and on the requirements as stipulated in the C&O Agreement.

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

Railroad Transportation Revenue

Refer to Note 4, o. for revenue recognition policies and Note 20 for the details of revenue.

The railroad transportation revenue is the main source of revenue of the Corporation, and the related revenue amounted to NT\$44,098,796 thousand, representing 97% of total operating revenues for 2018. Among the regular ticket sales system, the Corporation also offers four types of pre-sales plans which all highly rely on the operation of the related ticketing systems. Therefore, the timing of revenue recognition has significant impact on the Corporation's financial performance. Thus, recognition of railroad transportation revenue is considered as one of the key audit matters.

We tested the information environment relevant to the Automatic Fare Collection System, Operating Revenue Management System and the other related internal control systems. Additionally, we investigated information transfer process among the aforementioned systems to ensure that the operating revenue and the cash flows were processed properly. We obtained an understanding of how the reports of ticketing related systems were generated, and performed recalculations to check the accuracy of the revenue recognized and the balance of unearned revenue.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the FSC of the ROC, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 2018 financial statements and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Mei-Yen Chiang and Kwan-Chung Lai.



Deloitte & Touche
Taipei, Taiwan
Republic of China

February 20, 2019

Notice to Readers

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

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

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	December 31			
	2018		2017	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 6,947,850	2	\$ 7,187,917	2
Financial assets at fair value through profit or loss (Note 7)	327,446	-	-	-
Available-for-sale financial assets (Note 7)	-	-	319,985	-
Hedging derivative financial assets (Note 8)	-	-	5	-
Notes and accounts receivable (Note 20)	505,565	-	347,275	-
Current tax assets	166,783	-	24,547	-
Inventories (Note 9)	2,028,925	1	1,927,723	1
Other financial assets (Notes 10 and 27)	11,881,545	2	9,365,363	2
Other current assets (Notes 13 and 26)	938,435	-	918,001	-
	22,796,549	5	20,090,816	5
Total current assets				
NON-CURRENT ASSETS				
Property, plant and equipment (Note 11)	98,085	-	107,354	-
Operating concession asset (Note 12)	401,168,964	93	413,166,373	94
Computer software, net (Note 12)	54,245	-	54,167	-
Deferred tax assets (Note 22)	6,808,133	2	4,504,698	1
Other financial assets (Notes 10 and 27)	2,083,255	-	2,122,265	-
Other non-current assets (Note 13)	47,838	-	14,784	-
	410,260,520	95	419,969,641	95
Total non-current assets				
TOTAL	\$ 433,057,069	100	\$ 440,060,457	100

	December 31			
	2018		2017	
	Amount	%	Amount	%
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	\$ 147,865	-	\$ 39,888	-
Accounts payable	274,404	-	248,017	-
Operating concession liabilities (Note 15)	731,182	-	647,850	-
Other payables (Notes 14 and 17)	3,031,763	1	2,950,253	1
Payable for construction	535,830	-	605,926	-
Current tax liabilities	123,204	-	1,102,942	1
Provisions (Note 16)	283,279	-	292,515	-
Current portion of long-term bills payable (Note 14)	7,986,870	2	-	-
Other current liabilities (Notes 17 and 20)	699,649	-	662,017	-
Total current liabilities	13,814,046	3	6,549,408	2
NON-CURRENT LIABILITIES				
Long-term debt (Notes 14 and 26)	276,093,677	64	286,082,766	65
Long-term bills payable (Note 14)	-	-	15,963,546	4
Provisions (Note 16)	9,560,897	2	4,145,851	1
Long-term interest payable (Note 14)	8,921,744	2	9,531,465	2
Operating concession liabilities (Note 15)	54,914,835	13	54,542,215	12
Other non-current liabilities (Notes 17, 18 and 22)	338,857	-	226,857	-
Total non-current liabilities	349,830,010	81	370,492,700	84
Total liabilities	363,644,056	84	377,042,108	86
EQUITY (Note 19)				
Capital stock				
Common stock	56,282,930	13	56,282,930	13
Capital surplus	172,981	-	172,981	-
Retained earnings				
Legal reserve	1,400,081	-	866,090	-
Unappropriated earnings	11,557,021	3	5,695,863	1
Total retained earnings	12,957,102	3	6,561,953	1
Unrealized gain on available-for-sale financial assets	-	-	485	-
Total equity	69,413,013	16	63,018,349	14
TOTAL	\$ 433,057,069	100	\$ 440,060,457	100

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

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

	For the Years Ended December 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 20 and 26)	\$ 45,415,007	100	\$ 43,435,042	100
OPERATING COSTS (Notes 21 and 26)	<u>(25,081,394)</u>	<u>(55)</u>	<u>(24,613,645)</u>	<u>(57)</u>
GROSS PROFIT	20,333,613	45	18,821,397	43
OPERATING EXPENSES (Note 21)	<u>(1,188,649)</u>	<u>(3)</u>	<u>(1,066,413)</u>	<u>(2)</u>
INCOME FROM OPERATIONS	<u>19,144,964</u>	<u>42</u>	<u>17,754,984</u>	<u>41</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 21)	106,859	-	96,076	-
Interest expense (Notes 14, 21 and 26)	(6,618,272)	(14)	(7,463,329)	(17)
Stabilization reserve expense (Note 16)	(5,415,046)	(12)	(3,865,562)	(9)
Other gains and losses (Note 21)	<u>93,318</u>	<u>-</u>	<u>(43,669)</u>	<u>-</u>
Total non-operating income and expenses	<u>(11,833,141)</u>	<u>(26)</u>	<u>(11,276,484)</u>	<u>(26)</u>
INCOME BEFORE INCOME TAX	7,311,823	16	6,478,500	15
INCOME TAX BENEFIT (EXPENSE) (Note 22)	<u>3,384,558</u>	<u>7</u>	<u>(1,138,595)</u>	<u>(3)</u>
NET INCOME	<u>10,696,381</u>	<u>23</u>	<u>5,339,905</u>	<u>12</u>
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(103,820)	-	(9,702)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	23,323	-	1,649	-
Items that may be reclassified subsequently to profit or loss:				
Unrealized loss on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>(208)</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(80,497)</u>	<u>-</u>	<u>(8,261)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 10,615,884</u>	<u>23</u>	<u>\$ 5,331,644</u>	<u>12</u>

	For the Years Ended December 31			
	2018		2017	
	Amount	%	Amount	%
EARNINGS PER SHARE (Note 23)				
Basic earnings per share	\$ 1.90		\$ 0.95	

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CHANGES IN EQUITY

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

	Capital Stock			Capital Surplus	
	Common Stock				
BALANCE AT JANUARY 1, 2018	\$	56,282,930	\$	172,981	
Effect of retrospective application		-		-	
BALANCE AT JANUARY 1, 2018 AFTER RETROSPECTIVE ADJUSTMENT		56,282,930		172,981	
Appropriation of prior year's earnings					
Legal reserve		-		-	
Cash dividends to shareholders - NT\$0.75 per share		-		-	
		-		-	
Net income for the year ended December 31, 2018		-		-	
Other comprehensive loss for the year ended December 31, 2018		-		-	
Total comprehensive income for the year ended December 31, 2018		-		-	
BALANCE AT DECEMBER 31, 2018	\$	56,282,930	\$	172,981	
BALANCE AT JANUARY 1, 2017	\$	56,282,930	\$	172,981	
Appropriation of prior year's earnings					
Legal reserve		-		-	
Cash dividends to shareholders - NT\$0.6 per share		-		-	
		-		-	
Net income for the year ended December 31, 2017		-		-	
Other comprehensive loss for the year ended December 31, 2017		-		-	
Total comprehensive income for the year ended December 31, 2017		-		-	
BALANCE AT DECEMBER 31, 2017	\$	56,282,930	\$	172,981	

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

Legal Reserve	Retained Earnings		Unrealized Gain/Loss on Available-for-sale Financial Assets	Total Equity
	Unappropriated Earnings	Total		
\$ 866,090	\$ 5,695,863	\$ 6,561,953	\$ 485	\$ 63,018,349
-	485	485	(485)	-
866,090	5,696,348	6,562,438	-	63,018,349
533,991	(533,991)	-	-	-
-	(4,221,220)	(4,221,220)	-	(4,221,220)
533,991	(4,755,211)	(4,221,220)	-	(4,221,220)
-	10,696,381	10,696,381	-	10,696,381
-	(80,497)	(80,497)	-	(80,497)
-	10,615,884	10,615,884	-	10,615,884
<u>\$ 1,400,081</u>	<u>\$ 11,557,021</u>	<u>\$ 12,957,102</u>	<u>\$ -</u>	<u>\$ 69,413,013</u>
\$ 451,180	\$ 4,155,897	\$ 4,607,077	\$ 693	\$ 61,063,681
414,910	(414,910)	-	-	-
-	(3,376,976)	(3,376,976)	-	(3,376,976)
414,910	(3,791,886)	(3,376,976)	-	(3,376,976)
-	5,339,905	5,339,905	-	5,339,905
-	(8,053)	(8,053)	(208)	(8,261)
-	5,331,852	5,331,852	(208)	5,331,644
<u>\$ 866,090</u>	<u>\$ 5,695,863</u>	<u>\$ 6,561,953</u>	<u>\$ 485</u>	<u>\$ 63,018,349</u>

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 7,311,823	\$ 6,478,500
Adjustments for:		
Depreciation	35,921	37,137
Amortization	13,740,294	13,865,570
Write-downs (reversal) of inventories	(87)	14,322
Interest expense	6,618,272	7,463,329
Interest income	(106,859)	(96,076)
Loss on foreign currency exchange, net	4,185	8,096
Stabilization reserve expenses	5,415,046	3,865,562
Others	13,765	9,405
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(7,461)	-
Financial instruments for hedging	5	220
Notes and accounts receivable	(158,331)	202,758
Inventories	(101,115)	65,719
Other current assets	17,726	(29,152)
Other non-current assets	(6,170)	(6,455)
Accounts payable	24,424	1,677
Other payables	40,909	234,236
Payment for provisions	(6,480)	(9,971)
Other current liabilities	37,632	(298,665)
Other non-current liabilities	(7,295)	(924)
Cash generated from operations	32,866,204	31,805,288
Interest received	101,781	92,008
Interest paid	(6,061,159)	(6,381,962)
Interest paid with respect to operating concession liabilities	(647,850)	(3,180,612)
Income tax paid	(42,075)	(728,768)
Net cash generated from operating activities	26,216,901	21,605,954
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	-	(372,500)
Proceeds from disposal of available-for-sale financial assets	-	365,430
Decrease (increase) in other financial assets	(2,465,579)	15,274,999
Acquisition of property, plant and equipment	(26,361)	(36,279)
Proceeds from disposal of property, plant and equipment	182	-
Acquisition of intangible assets	(1,864,550)	(1,354,079)
Proceeds from disposal of intangible assets	-	530
Net cash (used in) generated from investing activities	(4,356,308)	13,878,101

	For the Years Ended December 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term borrowings	\$ 105,249	\$ (19,580)
Issuance of long-term bills payable	-	16,000,000
Repayment of long-term debt	(10,000,000)	(41,160,564)
Repayment of long-term bills payable	(8,000,000)	-
Increase in other non-current liabilities	15,468	23,525
Cash dividends	(4,221,220)	(3,376,976)
	<u>(22,100,503)</u>	<u>(28,533,595)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(157)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(240,067)	6,950,460
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>7,187,917</u>	<u>237,457</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 6,947,850</u>	<u>\$ 7,187,917</u>

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

TAIWAN HIGH SPEED RAIL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

1. GENERAL

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation’s board of directors on February 20, 2019.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

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

1) IFRS 9 “Financial Instruments” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

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

- 2) IFRS 15 “Revenue from Contracts with Customers” and related amendment
 IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

The Corporation elected to recognize the cumulative effect of retrospectively applying IFRS 15 in retained earnings on January 1, 2018 and is detailed as follows:

	<u>As Originally Classified as of January 1, 2018</u>	<u>Adjustments Arising from Initial Application</u>	<u>Reclassified as of January 1, 2018</u>
<u>Other current liabilities</u>			
Unearned receipts	\$ 472,176	\$ (472,176)	\$ -
Deferred revenue	49,762	(49,762)	-
Contract liability	-	<u>521,938</u>	521,938
Total effect on liabilities		<u>\$ -</u>	

The impact of continuing the application of IAS 18 instead of IFRS 15 for the year ended December 31, 2018 is detailed as follows:

	<u>December 31, 2018</u>
Decrease in contract liability - current	\$ (665,541)
Increase in unearned receipts	545,074
Increase in deferred revenue	<u>120,467</u>
Total effect on liabilities	<u>\$ -</u>

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

<u>Effective Date Announced by IASB</u>	<u>New, Revised or Amended Standards and Interpretations</u>
January 1, 2019	Annual Improvements to IFRSs 2015-2017 Cycle
January 1, 2019	IFRS 16 “Leases”
January 1, 2019	Amendment to IAS 28 “Long-term Interests in Associates and Joint Ventures”
January 1, 2019	IFRIC 23 “Uncertainty over Income Tax Treatments”
January 1, 2019	Amendment to IAS 19 “Plan Amendment, Curtailment or Settlement”

- 1) IFRS 16 “Leases”
 IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease” as well as a number of related interpretations.

Definition of a lease

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

The Corporation as lessee

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

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

Lease liabilities were recognized on January 1, 2019 for the leases that are classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities, their carrying amount as if IFRS 16 has been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Corporation applies IAS 36 to all right-of-use assets.

The Corporation will apply the following practical expedients:

- a) The Corporation will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Corporation will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Corporation will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Corporation as lessor

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

Anticipated impact on assets and liabilities on January 1, 2019

	<u>Carrying Amount as of December 31, 2018</u>	<u>Adjustments Arising from Initial Application</u>	<u>Adjusted Carrying Amount as of January 1, 2019</u>
Right-of-use assets	\$ -	\$ 781,422	\$ 781,422
Prepayments - current	901,172	(10,322)	890,850
Prepayments - non-current	31,481	<u>(31,481)</u>	-
Total effect on assets		<u>\$ 739,619</u>	
Lease liabilities - current	-	\$ 152,673	152,673
Lease liabilities - non-current	-	<u>586,946</u>	586,946
Total effect on liabilities		<u>\$ 739,619</u>	

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

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

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

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

Effective Date Announced by IASB (Note 1)	New, Revised or Amended Standards and Interpretations
January 1, 2020 (Note 2)	Amendments to IFRS 3 “Definition of a Business”
January 1, 2020 (Note 3)	Amendments to IAS 1 and IAS 8 “Definition of Material”
January 1, 2021	IFRS 17 “Insurance Contracts”
To be determined by IASB	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The Corporation shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Statement of compliance**

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

b. Basis of preparation

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

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

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

d. Foreign currencies

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

e. Cash equivalents

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

f. Financial asset at fair value through profit or loss (2018) /Available-for-sale financial assets (2017)

2018

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL.

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

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

2017

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

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

g. Impairment of accounts receivable

2018

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

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

2017

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

h. Inventories

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

i. Property, plant and equipment

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

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

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

j. Intangible assets

1) Operating concession asset

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

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

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

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

2) Computer software

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

k. Operating concession liability

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

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

i. Impairment of assets

The Corporation estimates the recoverable amount of an asset at the balance sheet date if there was an indication that it might be impaired.

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

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

m. Hedging derivatives

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

n. Provisions

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

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

o. Revenue recognition

2018

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

Sales of tickets that grant reward credits to customers under the Corporation's reward scheme are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the tickets sold and the reward credits granted. The transaction price of the reward credits is allocated to the contract's performance obligations based on the relatively separate sales price. Such consideration is not recognized as revenue at the time of the initial sale transaction but is recognized as contract liabilities; revenue is recognized when the reward credits are redeemed and the Corporation's obligations have been fulfilled.

2017

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

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

p. Borrowing costs

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

q. Government grants

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

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

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

r. Retirement benefit costs

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

s. Taxation

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

1) Current tax

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

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

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

2) Deferred tax

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Controversial overtime

As of December 31, 2018 and 2017, the Corporation recognized a provision for controversial overtime in the amount of \$283,279 thousand and \$286,662 thousand, respectively. The estimated provision could differ from the actual amount payable which is subject to the result of the administrative judgment or the agreement to be signed with the employees. Please refer to Note 16 for further information.

b. Stabilization reserve

As of December 31, 2018 and 2017, the Corporation recognized a provision for stabilization reserve in an amount of \$9,560,897 thousand and \$4,145,851 thousand, respectively, in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability for the remaining concession period which ends in the year 2068 or earlier if so terminated. Refer to Note 16 and Note 28, a., 3) for further information.

c. Income taxes

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

As of December 31, 2018 and 2017, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$6,808,133 thousand and \$4,504,698 thousand, respectively. As of December 31, 2017, deductible temporary differences remained unchanged at \$995 thousand, and were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

d. Amortization of intangible assets - operating concession asset

In the commercial operation of the transportation system, the Corporation has accumulated extensive experience, including the skills of self-maintenance. From this extensive experience, the Corporation is able to assess the anticipated beneficial usage, external economic changes, scheduling of railcar maintenance and impair and other factors. The Corporation has assessed that the amortization lives of certain operating concession assets as previously estimated need revision. In order to reasonably reflect future economic benefits and appropriately amortize the cost of the assets, the Corporation held a meeting of the Asset Review Committee on September 6 and December 4, 2018. The Committee thereby decided to modify the estimated amortization lives of certain operating concession assets. The revised estimated amortization lives became effective on January 1, 2019. The adjustment of the estimated amortization lives of certain operating concession assets will increase the amortization expense by \$716,166 thousand and \$691,150 thousand, respectively, for the years ended December 31, 2019 and 2020.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 148,780	\$ 187,023
Checking accounts	10	19
Demand deposits	113,952	89,817
Time deposits	8,108	8,058
Repurchase agreement collateralized by government bonds	6,677,000	6,903,000
	<u>\$ 6,947,850</u>	<u>\$ 7,187,917</u>

The interest rate intervals of cash and cash equivalents at the end of the reporting period were as follows:

	December 31	
	2018	2017
Demand deposits	0.001%-0.50%	0.001%-0.30%
Time deposits	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.51%-0.62%	0.40%-0.44%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (2018) / AVAILABLE-FOR-SALE FINANCIAL ASSETS (2017)

	December 31	
	2018	2017
Open-end money market funds	\$ 327,446	\$ 319,985

The financial assets previously classified as available-for-sale under IAS 39 are mandatorily classified as FVTPL under IFRS 9.

8. HEDGING DERIVATIVE FINANCIAL ASSETS

	December 31	
	2018	2017
<u>Financial assets - current</u>		
Fair value hedges - forward exchange contracts	\$ -	\$ 5

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

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

9. INVENTORIES

	December 31	
	2018	2017
Spare parts and supplies	\$ 2,021,109	\$ 1,919,058
Merchandise	7,816	8,665
	<u>\$ 2,028,925</u>	<u>\$ 1,927,723</u>

As of December 31, 2018 and 2017, allowance for inventory valuation losses amounted to \$620,198 thousand and \$620,285 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	December 31	
	2018	2017
Repurchase agreement collateralized by government bonds	\$ 10,130,000	\$ 7,655,000
Time deposits	3,812,847	3,789,902
Demand deposits	17,107	37,776
Other performance guarantee	4,846	4,950
	<u>\$ 13,964,800</u>	<u>\$ 11,487,628</u>
Current	\$ 11,881,545	\$ 9,365,363
Non-current	2,083,255	2,122,265
	<u>\$ 13,964,800</u>	<u>\$ 11,487,628</u>

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

	December 31	
	2018	2017
Repurchase agreement collateralized by government bonds	0.51%-0.62%	0.42%-0.44%
Time deposits	0.15%-3.10%	0.15%-1.95%
Demand deposits	0.05%-0.08%	0.05%-0.08%

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

11. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2018	2017
Land	\$ 28	\$ 28
Machinery and equipment	44,286	46,069
Transportation equipment	-	-
Office equipment	11,435	11,035
Leasehold improvements	1,053	44
Other equipment	41,283	50,178
	<u>\$ 98,085</u>	<u>\$ 107,354</u>

	<u>Land</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Other Equipment</u>	<u>Total</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 28	\$ 263,048	\$ 242	\$ 122,805	\$ 79,370	\$ 251,241	\$ 716,734
Additions	-	18,069	-	3,924	1,168	3,200	26,361
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(403)	-	28	-	657	282
Balance at December 31, 2018	<u>28</u>	<u>275,437</u>	<u>155</u>	<u>121,048</u>	<u>80,448</u>	<u>252,813</u>	<u>729,929</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	\$ -	\$ 216,979	\$ 242	\$ 111,770	\$ 79,326	\$ 201,063	\$ 609,380
Depreciation	-	19,458	-	3,552	159	12,752	35,921
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(9)	-	-	-	-	(9)
Balance at December 31, 2018	<u>-</u>	<u>231,151</u>	<u>155</u>	<u>109,613</u>	<u>79,395</u>	<u>211,530</u>	<u>631,844</u>
	<u>\$ 28</u>	<u>\$ 44,286</u>	<u>\$ -</u>	<u>\$ 11,435</u>	<u>\$ 1,053</u>	<u>\$ 41,283</u>	<u>\$ 98,085</u>

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

12. INTANGIBLE ASSETS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Operating concession asset	\$ 401,168,964	\$ 413,166,373
Computer software, net	54,245	54,167
	\$ 401,223,209	\$ 413,220,540

a. Movements of the intangible assets

	<u>Operating Concession Asset</u>					<u>Computer Software, Net</u>	<u>Total</u>
	<u>Operating Assets</u>	<u>Profit Sharing Payments</u>	<u>Period Extension Cost</u>	<u>Construction in Progress</u>	<u>Total</u>		
<u>Cost</u>							
Balance at January 1, 2018	\$ 472,404,197	\$ 69,972,043	\$ 12,701,819	\$ 551,084	\$ 555,629,143	\$ 412,868	\$ 556,042,011
Additions	294,933	-	-	1,477,114	1,772,047	11,584	1,783,631
Disposals	(162,040)	-	-	-	(162,040)	(3,584)	(165,624)
Transfer	625,181	-	-	(672,341)	(47,160)	7,543	(39,617)
Balance at December 31, 2018	473,162,271	69,972,043	12,701,819	1,355,857	557,191,990	428,411	557,620,401

(Continued)

	Operating Concession Asset				Total	Computer Software, Net	Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress			
<u>Accumulated amortization</u>							
Balance at January 1, 2018	127,378,129	14,542,855	541,786	-	142,462,770	358,701	142,821,471
Amortization	12,378,258	1,097,609	240,792	-	13,716,659	19,040	13,735,699
Disposals	(156,403)	-	-	-	(156,403)	(3,584)	(159,987)
Transfer	-	-	-	-	-	9	9
Balance at December 31, 2018	<u>139,599,984</u>	<u>15,640,464</u>	<u>782,578</u>	<u>-</u>	<u>156,023,026</u>	<u>374,166</u>	<u>156,397,192</u>
	<u>\$ 333,562,287</u>	<u>\$ 54,331,579</u>	<u>\$ 11,919,241</u>	<u>\$ 1,355,857</u>	<u>\$ 401,168,964</u>	<u>\$ 54,245</u>	<u>\$ 401,223,209</u>

Cost

Balance at January 1, 2017	\$ 471,971,397	\$ 69,972,043	\$ 12,701,819	\$ 163,220	\$ 554,808,479	\$ 377,605	\$ 555,186,084
Additions	345,887	-	-	701,599	1,047,486	25,548	1,073,034
Disposals	(174,809)	-	-	-	(174,809)	(1,915)	(176,724)
Transfer	261,722	-	-	(313,735)	(52,013)	11,630	(40,383)
Balance at December 31, 2017	<u>472,404,197</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>551,084</u>	<u>555,629,143</u>	<u>412,868</u>	<u>556,042,011</u>

Accumulated amortization

Balance at January 1, 2017	115,041,859	13,445,248	300,993	-	128,788,100	342,611	129,130,711
Amortization	12,505,163	1,097,607	240,793	-	13,843,563	18,077	13,861,640
Disposals	(168,964)	-	-	-	(168,964)	(1,915)	(170,879)
Transfer	71	-	-	-	71	(72)	(1)
Balance at December 31, 2017	<u>127,378,129</u>	<u>14,542,855</u>	<u>541,786</u>	<u>-</u>	<u>142,462,770</u>	<u>358,701</u>	<u>142,821,471</u>
	<u>\$ 345,026,068</u>	<u>\$ 55,429,188</u>	<u>\$ 12,160,033</u>	<u>\$ 551,084</u>	<u>\$ 413,166,373</u>	<u>\$ 54,167</u>	<u>\$ 413,220,540</u>

(Concluded)

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

	December 31	
	2018	2017
<u>Operating assets, net</u>		
Land improvements	\$ 168,450,930	\$ 171,900,000
Buildings	28,121,114	28,781,767
Machinery and equipment	29,283,877	31,343,947
Transportation equipment	107,691,997	112,983,614
Other equipment	14,369	16,740
	<u>\$ 333,562,287</u>	<u>\$ 345,026,068</u>
<u>Construction in progress</u>		
Prepayments for equipment	<u>\$ 1,355,857</u>	<u>\$ 551,084</u>

c. Operating concession- rental

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure and pays the rental every year, including routes, maintenance bases, and stations. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in future price of public-owned land and usage and other factors. The Corporation prepays the rental for the following year by the end of each year, and if the price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of December 31, 2018, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 0837-0000 of Kuanghua Section, Hsinchuang District, New Taipei City located on the north to Land Lot No. 0419-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

13. OTHER ASSETS

	December 31	
	2018	2017
<u>Other current assets</u>		
Prepayments	\$ 901,172	\$ 888,350
Others	37,263	29,651
	<u>\$ 938,435</u>	<u>\$ 918,001</u>
<u>Other non-current assets</u>		
Prepayments	\$ 31,481	\$ -
Others	16,357	14,784
	<u>\$ 47,838</u>	<u>\$ 14,784</u>

14. BORROWINGS

a. Short-term borrowings

	December 31	
	2018	2017
Japanese yen ("JPY") letters of credit	\$ 147,865	\$ 39,888

The range of interest rates at the end of the reporting period was as follows:

	December 31	
	2018	2017
JPY letters of credit	0.61%-0.66%	0.58%-0.83%

b. Long-term debt

	December 31	
	2018	2017
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 120,000,000	\$ 130,000,000
Tranche A2 Facility	156,205,117	156,205,117
	276,205,117	286,205,117
Less: Unamortized cost of long-term debt	(111,440)	(122,351)
	<u>\$ 276,093,677</u>	<u>\$ 286,082,766</u>

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

- 1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. The main purposes of the agreement are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements of operations. Tranches A1, A2, C and D are credit facilities, Tranche C is convertible bond guarantee facility, and Tranche B is performance guarantee facility. Tranche A3, C and D were fully redeemed and cannot be issued afterwards.
- 2) The Corporation provided assets (refer to assets to be transferred to the MOTC under the C&O Agreement) as collateral for the syndicated loan (the Corporation’s assets are not required to be registered with the syndicated banks for creating rights attached to the Corporation’s such assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with Bank of Taiwan and the MOTC for solutions. However, if an agreement cannot be reached within 45 days after the date of the negotiation notice issued by Bank of Taiwan, the Corporation should redeem the difference immediately. The aforementioned collateral is inspected in May and November every year. The re-assessment mechanism for collateral value is inactive when Tranche C and D Facilities are fully redeemed, and Tranche B Facility is not utilized.
- 3) According to the Syndicated Loan Agreement, the Corporation opened capital account and reserve account at Bank of Taiwan for deposits and financial instruments. The Corporation is free to use the capital account; however, the reserve account is restricted and pledged as collateral to Bank of Taiwan, and is recorded as other financial assets. Please refer to Notes 10 and 27 for further information.
- 4) The syndicated period, repayment method and interest rates of the Syndicated Loan Agreement are as follows:
 - a) Term of loan and repayment method

	<u>Term of Loan</u>	<u>Number of Semi-annual Installment Repayment</u>	<u>Ratio of Repayment</u>
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050 (after early repayment of Installments 58-59 made on July 3, 2018, the last installment repayment date is May 4, 2049)	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment

(Continued)

	Term of Loan	Number of Semi-annual Installment Repayment	Ratio of Repayment
	May 4, 2050 (after early repayment of Installments 56-59 made on July 4, 2017, the last installment repayment date is May 4, 2048)	Installments 59	4.0% per installment
Tranche C Facility	May 4, 2016-May 4, 2020 (repaid on March 2, 2017 before its maturity)	Installments 01-09	Fixed payment per installment
Tranche D Facility	May 4, 2013-May 4, 2017 (repaid on April 13, 2016 before its maturity)	Installments 01-09	Fixed payment per installment

(Concluded)

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. Due to the step-up spread mechanism, the Corporation shall make up for the deficit of the interests below the agreed interest rate to the bank syndicate if early redemption occurs. As of December 31, 2018 and 2017, the reference rate remained unchanged at 1.06%.

Syndicated Period	Markup Interest Rates	
	Fourth Amendment of Syndicated Loan	
	After Effectiveness (Effective on October 13, 2017)	Before Effectiveness
May 4, 2010 - May 3, 2012	0.10%	0.10%
May 4, 2012 - May 3, 2013	0.20%	0.20%
May 4, 2013 - May 3, 2014	0.30%	0.30%
May 4, 2014 - May 3, 2015	0.40%	0.40%
May 4, 2015 - May 3, 2016	0.50%	0.50%
May 4, 2016 - May 3, 2017	0.60%	0.60%
May 4, 2017 - May 3, 2018	0.70%	0.70%
May 4, 2018 - May 3, 2040	0.92%	1.08%
May 4, 2040 - May 4, 2049	1.08%	1.08%

The Corporation made early loan repayments to the syndicate of banks. The repayments were \$10 billion for Tranche A1 Facility on July 3, 2018, \$20 billion for Tranche A2 Facility on July 4, 2017, and \$21,160,563 thousand for C Facility on March 2, 2017. The Corporation also paid interest differentials on the early repayments of the loans; the amounts were \$366,615 thousand for the A1 Facility and \$719,842 thousand for the A2 Facility.

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

a) Effective interest rates

	December 31	
	2018	2017
Tranche A1 Facility	1.91%	1.93%
Tranche A2 Facility	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	December 31	
	2018	2017
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 212,417	\$ 204,547
Tranche A2 Facility	276,505	245,780
	<u>\$ 488,922</u>	<u>\$ 450,327</u>

c) Long-term interest payable

	December 31	
	2018	2017
<u>Syndicated loan</u>		
Tranche A1 Facility	\$ 4,081,969	\$ 4,555,466
Tranche A2 Facility	4,839,775	4,975,999
	<u>\$ 8,921,744</u>	<u>\$ 9,531,465</u>

d) Interest expense

	For the Year Ended December 31	
	2018	2017
<u>Syndicated loan</u>		
Interest expense	\$ 5,394,685	\$ 6,117,711

c. Long-term bills payable

	December 31	
	2018	2017
Long-term bills payable	\$ 8,000,000	\$ 16,000,000
Less: Unamortized discount on long-term bills payable	(11,795)	(17,780)
Less: Unamortized cost of long-term bills payable	(1,335)	(18,674)
	<u>7,986,870</u>	<u>15,963,546</u>
Less: Current portion of long-term bills payable	(7,986,870)	-
	<u>\$ -</u>	<u>\$ 15,963,546</u>

On January 24, 2017, the Corporation (as the issuer), International Bills Finance Corporation (as the lead arranger), and the other 9 financial institutions (as the underwriters) entered into a joint underwriting agreement on the \$20 billion 2-year revolving underwriting facility for the issuance of unsecured commercial paper, with terms ranging from 90 days to 1 year. The utilization of the facility has a validity period of 3 months from the date of agreement, and any remaining unutilized facility will become invalid.

The Corporation issued unsecured commercial papers totaling \$16 billion under the facility on March 1, 2017, and the remaining facility was expired on April 24, 2017. On February 13, 2018 and August 10, 2018, the facility was reduced by \$4 billion each time, and the unsecured commercial paper was also reduced by the same amount. The effective interest rate of the long-term bills payable was 0.93% and 0.92%, respectively, on December 31, 2018 and 2017.

15. OPERATING CONCESSION LIABILITIES

	December 31	
	2018	2017
Operating concession liabilities	\$ 77,681,295	\$ 76,793,279
Value of returned superfices for offset of profit sharing payable	(22,035,278)	(21,603,214)
	<u>\$ 55,646,017</u>	<u>\$ 55,190,065</u>
Current	\$ 731,182	\$ 647,850
Non-current	<u>54,914,835</u>	<u>54,542,215</u>
	<u>\$ 55,646,017</u>	<u>\$ 55,190,065</u>

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

Year	Amortization Expense	Interest Expense	Total
Up to December 31, 2018	\$ 15,640,464	\$ 18,357,102	\$ 33,997,566
2019 (estimate)	1,097,608	1,566,583	2,664,191
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022 (estimate)	1,097,608	1,662,470	2,760,078
2023-2033 (estimate)	12,073,688	13,214,014	25,287,702
2034-2068 (estimate)	37,867,459	-	37,867,459
	<u>\$ 69,972,043</u>	<u>\$ 38,027,957</u>	<u>\$ 108,000,000</u>

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

Year	Other Gain	Deduction of Interest Expense	Total
Up to December 31, 2018	\$ 22,613,234	\$ 1,425,565	\$ 24,038,799
2019 (estimate)	-	440,706	440,706
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023-2033 (estimate)	-	3,929,640	3,929,640
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of December 31, 2018, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$8,644,329 thousand (or accumulated profit sharing payments in the amount of \$10,647,850 thousand less the deductible amount of returned superfices in the amount of \$2,003,521 thousand).

16. PROVISIONS

a. Provisions

	December 31	
	2018	2017
<u>Current</u>		
Provision for controversial overtime pay	\$ 283,279	\$ 286,662
Provision for preferred stock compensation	-	5,853
	<u>\$ 283,279</u>	<u>\$ 292,515</u>
<u>Non-current</u>		
Provision for stabilization reserve	<u>\$ 9,560,897</u>	<u>\$ 4,145,851</u>

b. Movements in provisions were as follows:

	Balance at January 1, 2018	Addition	Usage	Reversal	Balance at December 31, 2018
<u>Current</u>					
Provision for controversial overtime pay	\$ 286,662	\$ -	\$ (3,383)	\$ -	\$ 283,279
Provision for preferred stock compensation	5,853	-	(4,293)	(1,560)	-
	<u>\$ 292,515</u>	<u>\$ -</u>	<u>\$ (7,676)</u>	<u>\$ (1,560)</u>	<u>\$ 283,279</u>
<u>Non-current</u>					
Stabilization reserve	<u>\$ 4,145,851</u>	<u>\$ 5,415,046</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,560,897</u>
	Balance at January 1, 2017	Addition	Usage	Balance at December 31, 2017	
<u>Current</u>					
Provision for controversial overtime pay	\$ 293,566	\$ -	\$ (6,904)	\$ 286,662	
Provision for preferred stock compensation	5,853	-	-	5,853	
Other provisions	2,282	198	(2,480)	-	
	<u>\$ 301,701</u>	<u>\$ 198</u>	<u>\$ (9,384)</u>	<u>\$ 292,515</u>	
<u>Non-current</u>					
Provision for stabilization reserve	<u>\$ 280,289</u>	<u>\$ 3,865,562</u>	<u>\$ -</u>	<u>\$ 4,145,851</u>	

1) Controversial overtime pay

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. In regard to the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts shall cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the abovementioned adjusted national holidays and working hours of two consecutive weeks, and after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018, but the Corporation lodged an appeal against the verdict on July 6, 2018.

The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of December 31, 2018, the provision for controversial overtime pay in the amount of \$283,279 thousand had been recognized.

2) Preferred stock compensation

In order to implement the Financial Resolution Plan, the Corporation has redeemed all of the preferred stock on August 7, 2015. The provisions for redemption of preferred stock previously recognized were adjusted to zero. The proposal to pay the accumulated unpaid preferred stock dividends was resolved by the shareholders in the special shareholders' meeting on September 10, 2015. According to the Financial Resolution Plan, the Corporation recognized a provision for preferred stock compensation and a related expenditure each in the amount of \$15,161,065 thousand on October 30, 2015 as the Fourth Amendment of C&O Agreement became effective. The provisions for interest expense on delayed payments and court costs with respect to preferred stock litigations previously recognized were adjusted to zero accordingly. Before the payment of preferred stock compensation, the preferred stock shareholders should waive the claims to the interest expense on delayed payments, court costs and other expenses arising from the litigations, and should reach agreements with the Corporation to settle all of the rights and obligations between them and the Corporation. As of December 31, 2018, the preferred stock compensation had been completely settled.

3) Stabilization reserve

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

17. OTHER LIABILITIES

	December 31	
	2018	2017
<u>Other payables</u>		
Accrued expenses	\$ 2,234,095	\$ 2,208,749
Accrued interest expense	488,975	450,348
Business tax payable	264,260	258,125
Others	44,433	33,031
	<u>\$ 3,031,763</u>	<u>\$ 2,950,253</u>
<u>Other current liabilities</u>		
Contract liabilities (Note 20)	\$ 665,541	\$ -
Unearned receipts	-	472,176
Deferred revenue	-	49,762
Receipts under custody	25,090	24,369
Others	9,018	115,710
	<u>\$ 699,649</u>	<u>\$ 662,017</u>
<u>Other non-current liabilities</u>		
Net defined benefit liability	\$ 210,698	\$ 111,553
Guaranteed deposits received	119,643	104,167
Deferred revenue	8,516	11,136
Deferred tax liabilities	-	1
	<u>\$ 338,857</u>	<u>\$ 226,857</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

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

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk

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

2) Interest risk

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

3) Salary risk

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

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

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ (782,888)	\$ (662,674)
Fair value of plan assets	572,190	551,121
Net defined benefit liability	<u>\$ (210,698)</u>	<u>\$ (111,553)</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2017	\$ (650,217)	\$ 545,477	\$ (104,740)
Current service cost	(14,659)	-	(14,659)
Net interest income (expense)	(9,587)	8,163	(1,424)
Recognized in profit or loss	(24,246)	8,163	(16,083)
Remeasurement			
Return on plan assets	-	(2,816)	(2,816)
Actuarial gain - experience adjustments	12,225	-	12,225
Actuarial loss - changes in financial assumptions	(19,111)	-	(19,111)
Recognized in other comprehensive income	(6,886)	(2,816)	(9,702)
Contributions from the employer	\$ -	\$ 18,972	\$ 18,972
Benefits paid	18,675	(18,675)	-
Balance at December 31, 2017	(662,674)	551,121	(111,553)
Current service cost	(12,791)	-	(12,791)
Net interest income (expense)	(9,734)	8,210	(1,524)
Recognized in profit or loss	(22,525)	8,210	(14,315)
Remeasurement			
Return on plan assets	-	14,016	14,016
Actuarial loss - experience adjustments	(107,949)	-	(107,949)
Actuarial loss - changes in financial assumptions	(9,887)	-	(9,887)
Recognized in other comprehensive income	(117,836)	14,016	(103,820)
Contributions from the employer	-	18,990	18,990
Benefits paid	20,147	(20,147)	-
Balance at December 31, 2018	\$ (782,888)	\$ 572,190	\$ (210,698)

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

	Measurement Date	
	December 31	
	2018	2017
Discount rate	1.40%	1.50%
Expected salary growth rate	2.25%	2.25%

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

	December 31	
	2018	2017
Discount rate		
Increase 0.5%	\$ (47,819)	\$ (37,628)
Decrease 0.5%	\$ 52,021	\$ 40,873
Expected salary growth rate		
Increase 0.5%	\$ 51,655	\$ 40,362
Decrease 0.5%	\$ (47,969)	\$ (37,544)

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ 19,125	\$ 27,510
The average duration of the defined benefit obligation	11.4 years	11.9 years

c. Please refer to Note 21, a. for the expenses of the defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income for the years ended December 31, 2018 and 2017.

19. EQUITY

a. Capital stock

	December 31	
	2018	2017
Number of shares authorized (in thousands)	12,000,000	12,000,000
Shares authorized	\$ 120,000,000	\$ 120,000,000
Number of shares issued and fully paid (in thousands)	5,628,293	5,628,293
Share capital issued and outstanding	\$ 56,282,930	\$ 56,282,930

A holder of issued common stock with par value of \$10 is entitled to vote and to receive dividends.

On November 26, 2015, the Corporation conducted capital injection and issued 3,000,000 thousand shares of common stock through a private placement at par value of \$10, or a total of \$30,000,000 thousand. The rights and obligations of the privately placed common stock are the same as other common stock issued, except hasn't been applied to be listed and traded on the Taiwan Stock Exchange yet.

b. Capital surplus

	December 31	
	2018	2017
Issuance of common shares	\$ 171,885	\$ 171,885
Forfeited employee share options	1,096	1,096
	<u>\$ 172,981</u>	<u>\$ 172,981</u>

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

c. Legal reserve and appropriation of earnings

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

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

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

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on May 24, 2018 and May 24, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2017	For Fiscal Year 2016	For Fiscal Year 2017	For Fiscal Year 2016
Legal reserve	\$ 533,991	\$ 414,910		
Cash dividends	<u>4,221,220</u>	<u>3,376,976</u>	\$ 0.75	\$ 0.60
	<u>\$ 4,755,211</u>	<u>\$ 3,791,886</u>		

Information on the appropriations of earnings, which is resolved by the board of directors and shareholders, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

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

Balance at January 1, 2017	\$	693
Unrealized gain arising on revaluation of available-for-sale financial assets		1,222
Cumulative gain (loss) transferred to profit or loss on sale of available-for-sale financial assets		(1,430)
Balance at December 31, 2017		485
Effect of retrospective application of IFRS 9		(485)
Balance at January 1, 2018 per IFRS 9	\$	-

20. REVENUE

	For the Year Ended December 31	
	2018	2017
Railroad transportation revenue	\$ 44,098,796	\$ 42,221,888
Other operating revenue	1,316,211	1,213,154
	<u>\$ 45,415,007</u>	<u>\$ 43,435,042</u>

a. Contract balances

	December 31, 2018
Notes and accounts receivable	\$ 505,565
Contract liabilities	
Railroad transportation revenue	\$ 534,736
Customer loyalty programmer	120,467
Others	10,338
	<u>\$ 665,541</u>

The changes in the balances of contract liabilities primarily result from the timing difference between the Corporation's performance and the customer's payment.

Revenue of the current year recognized from the beginning contract liability is as follows:

	For the Year Ended December 31, 2018
From the beginning contract liability	
Railroad transportation revenue	\$ 463,965
Customer loyalty programmer	40,494
Others	3,983
	<u>\$ 508,442</u>

b. Disaggregation of revenue

The Corporation is engaged only in the operation of HSR and related facilities. Consequently, there is no other reportable segment. Revenue is disaggregated into railroad transportation revenue and other operating revenue.

c. Partially completed contracts

For the performance obligations that are not fully satisfied, the expected timing for recognition of revenue are as follows.

	December 31, 2018
Railroad transportation revenue	
In 2019	\$ 529,520
In 2020	5,216
	<u>534,736</u>
Customer loyalty programmer	
In 2019	101,405
In 2020	19,062
	<u>120,467</u>
Others	
In 2019	10,338
	<u>10,338</u>
	<u>\$ 665,541</u>

21. INCOME BEFORE INCOME TAX

Income before income tax was as follows:

a. Employee benefit expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plan	\$ 175,141	\$ 167,919
Defined benefit plan	14,315	16,083
	<u>189,456</u>	<u>184,002</u>
Short-term benefits		
Payroll	3,990,757	3,719,412
Insurance	333,439	320,873
Others	190,462	186,568
	<u>4,514,658</u>	<u>4,226,853</u>
	<u>\$ 4,704,114</u>	<u>\$ 4,410,855</u>
An analysis of employee benefit expense by function		
Operating costs	\$ 3,907,755	\$ 3,689,056
Operating expenses	796,359	721,799
	<u>\$ 4,704,114</u>	<u>\$ 4,410,855</u>

As of December 31, 2018 and 2017, the number of employees of the Corporation was 4,475 and 4,412, respectively. As of December 31, 2018 and 2017, the number of professional service employees was 10 and 11, respectively. For the years ended December 31, 2018 and 2017, the professional service fee was \$9,725 thousand and \$24,622 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated by income before income tax (net of the employees' compensation and remuneration to directors) according to the aforementioned policy. For the years ended December 31, 2018 and 2017, the estimated employees' compensation in cash was \$149,986 thousand and \$105,879 thousand, and the estimated remuneration to directors in cash was \$37,497 thousand and \$33,087 thousand, respectively.

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

The employees' compensation of \$149,986 thousand and the remuneration to directors of \$37,497 thousand for the year ended December 31, 2018 payable in cash had been resolved by the board of directors on February 20, 2019. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2018.

The employees' compensation of \$105,879 thousand and the remuneration to directors of \$33,087 thousand for the year ended December 31, 2017 payable in cash had been resolved by the board of directors on February 13, 2018. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2017.

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

b. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
An analysis of depreciation and amortization expenses by assets		
Property, plant and equipment	\$ 35,921	\$ 37,137
Intangible assets	13,735,699	13,861,640
Other non-current assets	4,595	3,930
	<u>\$ 13,776,215</u>	<u>\$ 13,902,707</u>

	For the Year Ended December 31	
	2018	2017
An analysis of depreciation by function		
Operating costs	\$ 24,015	\$ 27,232
Operating expenses	11,906	9,905
	<u>\$ 35,921</u>	<u>\$ 37,137</u>
An analysis of amortization by function		
Operating costs	\$ 13,735,620	\$ 13,862,560
Operating expenses	4,674	3,010
	<u>\$ 13,740,294</u>	<u>\$ 13,865,570</u>

c. Interest income

	For the Year Ended December 31	
	2018	2017
Interest income of repurchase agreement collateralized by government bonds	\$ 69,934	\$ 69,111
Interest income of bank deposits	36,895	26,965
Others	30	-
	<u>\$ 106,859</u>	<u>\$ 96,076</u>

d. Interest expense

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	\$ 5,401,938	\$ 6,125,535
Interest on operating concession liabilities	1,103,802	1,199,736
Interest on long-term bills payable	111,729	137,044
Others	803	1,014
	<u>\$ 6,618,272</u>	<u>\$ 7,463,329</u>

e. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Compensation gain	\$ 58,228	\$ 4,112
Government grants	26,669	1,965
Foreign exchange gain (loss), net	7,332	(38,719)
Gain on disposal of financial assets	1,424	1,430
Amortization of cost for early repayment of long-term debt and bills payable	(10,634)	(11,433)
Loss on disposal of intangible assets, net	(5,455)	(5,315)
Others	15,754	4,291
	<u>\$ 93,318</u>	<u>\$ (43,669)</u>

22. INCOME TAXES**a. Income tax recognized in profit or loss**

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ (107,542)	\$ (1,327,777)
Income tax on unappropriated earnings	(57,745)	(30,939)
Adjustments for prior years	1,269,732	1,730
Deferred tax		
In respect of the current year	1,487,726	218,391
Adjustments to deferred tax attributable to changes in tax rates and laws	792,387	-
Income tax benefit (expense)	<u>\$ 3,384,558</u>	<u>\$ (1,138,595)</u>

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

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	\$ (1,462,365)	\$ (1,101,345)
Nondeductible expenses in determining taxable income	(6,601)	(8,041)
Change in unrecognized deductible temporary differences	1,171	-
Income tax on unappropriated earnings	(57,745)	(30,939)
Change in tax rate	792,387	-
Income tax exemption effect	2,841,765	-
Adjustments for prior years	1,269,732	1,730
Others	6,214	-
Income tax benefit (expense) recognized in profit or loss	<u>\$ 3,384,558</u>	<u>\$ (1,138,595)</u>

In 2017, the applicable corporate income tax rate used by the Corporation in the ROC is 17%. The Income Tax Act in the ROC was amended in February, 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%.

According to Article 28 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, the Corporation applied for a five-year income tax exemption. On April 13, 2018, the application for income tax exemption was approved by the Ministry of Finance, and the qualified exemption income is railroad and freight transportation income according to Article 3, Section 1, Item 1 of the Regulations Governing Application of Profit-seeking Enterprise Income Tax Exemption to Private Institutions Participating in Transportation and Communication Infrastructure Projects. The Corporation chose to start and has started its consecutive five-year income tax exemption period from January 1, 2017 according to Article 28, Section 2 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Change in tax rates	\$ 2,559	\$ -
In respect of the current year		
Remeasurement of defined benefit plan	20,764	1,649
	<u>\$ 23,323</u>	<u>\$ 1,649</u>

c. Deferred tax assets and liabilities

For the year ended December 31, 2018

	<u>Beginning Balance</u>	<u>Recognized in Profit or Loss</u>	<u>Recognized in Other Comprehensive Income</u>	<u>Ending Balance</u>
<u>Deferread tax assets</u>				
Temporary differences				
Profit sharing payments	\$ 3,727,289	\$ 1,047,641	\$ -	\$ 4,774,930
Provisions	753,528	1,215,307	-	1,968,835
Deferred revenue	8,459	15,635	-	24,094
Defined benefit obligation	14,502	-	23,323	37,825
Others	920	1,529	-	2,449
	<u>\$ 4,504,698</u>	<u>\$ 2,280,112</u>	<u>\$ 23,323</u>	<u>\$ 6,808,133</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Others	\$ 1	\$ (1)	\$ -	\$ -

For the year ended December 31, 2017

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

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

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Deductible temporary differences	\$ -	\$ 995

e. Income tax assessments

The tax returns through 2015 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Basic earnings per share (NT\$)	\$ 1.90	\$ 0.95

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

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Earnings attributable to common shareholders	\$ 10,696,381	\$ 5,339,905
Weighted average number of common shares in the computation of basic earnings per share (in thousands)	5,628,293	5,628,293

24. CAPITAL MANAGEMENT

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

25. FINANCIAL INSTRUMENTS

a. Financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Financial assets at fair value through profit or loss	\$ 327,446	\$ -
Available-for-sale financial assets	-	319,985
Hedging derivative financial assets	-	5
Financial assets at amortized cost		
Other financial assets	13,964,800	-
Others (Note 1)	7,475,772	-
Loans and receivables		
Other financial assets	-	11,487,628
Others (Note 1)	-	7,552,436

Financial liabilities

Financial liabilities carried at amortized cost (Note 2)	351,192,835	369,294,384
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Note 1: The balances included financial assets measured at amortized cost, which comprised cash and cash equivalents, notes and accounts receivable, and other receivables (included in other current assets).

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

b. Fair value of financial instruments

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

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

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

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

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

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

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

December 31, 2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss				
Open-end money market funds	\$ 327,446	\$ -	\$ -	\$ 327,446

December 31, 2017

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

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

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

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

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.
- b) The fair values of derivative financial instruments are determined using valuation techniques because no market prices are available. Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

c. Financial risk management objectives and policies

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

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

1) Market risk

a) Foreign currency risk

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

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

	December 31, 2018		
	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>New Taiwan Dollars</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,748	30.733	\$ 668,387
JPY	4,931	0.2782	1,372
<u>Financial liabilities</u>			
Monetary items			
USD	33	30.733	1,029
JPY	1,436,946	0.2782	399,758
	December 31, 2017		
	<u>Foreign Currencies</u>	<u>Exchange Rate</u>	<u>New Taiwan Dollars</u>
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,249	29.848	\$ 634,227
JPY	3	0.2650	1
<u>Financial liabilities</u>			
Monetary items			
USD	20	29.848	610
JPY	847,777	0.2650	224,661

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by \$6,674 thousand and \$6,336 thousand, respectively, for the years ended December 31, 2018 and 2017. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$3,984 thousand and \$2,024 thousand, respectively, for the years ended December 31, 2018 and 2017.

The significant unrealized exchange gain and loss were as follows:

Foreign Currency	For the Year Ended December 31				
	2018		2017		
	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net	
USD	30.733	\$ 11,728	29.848	\$ (12,436)	
JPY	0.2782	(15,748)	0.2650	4,211	

b) Interest rate risk

As of December 31, 2018 and 2017, the Corporation's syndicated loan with floating interest rates amounted to \$276,205,117 thousand and \$286,205,117 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by \$2,762,051 thousand and \$2,862,051 thousand, respectively, for the years ended December 31, 2018 and 2017.

c) Other price risk

The investments in open-end money market funds (recorded as FVTPL and available-for-sale financial assets, respectively as of December 31, 2018 and 2017) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax and other comprehensive income before income tax would have decreased by \$3,274 thousand and \$3,200 thousand, respectively, for the years ended December 31, 2018 and 2017.

2) Credit risk

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

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

3) Liquidity risk

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

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

December 31, 2018

<u>Repayment Period</u>	<u>Long-term Debt</u>	<u>Long-term Bills Payable (Including Current Portion)</u>	<u>Interest on Long-term Debt</u>	<u>Operating Concession Liability</u>	<u>Total</u>
2019.1.1-2019.3.31	\$ -	\$ 8,000,000	\$ 1,749,124	\$ -	\$ 9,749,124
2019.4.1-2019.12.31	-	-	5,247,372	731,182	5,978,554
2020	-	-	8,688,551	700,606	9,389,157
2021	9,186,153	-	9,039,422	161,106	18,386,681
2022	9,186,153	-	8,952,193	8,507,011	26,645,357
2023	9,186,153	-	8,620,899	116,525	17,923,577
2024-2033	91,861,535	-	73,858,350	59,354,386	225,074,271
2034-2049	156,785,123	-	47,259,388	-	204,044,511
	<u>\$ 276,205,117</u>	<u>\$ 8,000,000</u>	<u>\$ 163,415,299</u>	<u>\$ 69,570,816</u>	<u>\$ 517,191,232</u>

December 31, 2017

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

26. TRANSACTIONS WITH RELATED PARTIES

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

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

a. Name of related party and relationship

Related Party	Relationship with the Corporation
MOTC	An investor with significant influence over the Corporation
Bank of Taiwan and seven other syndicated banks	A government-related entity controlled by the central government
China Steel Corporation	A director of the Corporation
Others	Directors of the Corporation, and individuals and entities controlled by the directors, key management personnel and their relatives, and related parties in substance

b. Operating revenue

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

c. Operating costs

1) Profit sharing payments

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

2) Operating concession - rental

The transactions between the Corporation and the MOTC were as follows, and, as for the nature, please refer to Note 12, c. for further details:

a) Rental expense

	For the Year Ended December 31	
	2018	2017
Railway Bureau, MOTC (Note)	\$ 787,298	\$ 756,175
Taiwan Railways Administration, MOTC	48,303	75,547
	<u>\$ 835,601</u>	<u>\$ 831,722</u>

b) Prepaid rentals (included in other current assets)

	December 31	
	2018	2017
Railway Bureau, MOTC (Note)	\$ 786,036	\$ 791,379
Taiwan Railways Administration, MOTC	48,303	50,365
	<u>\$ 834,339</u>	<u>\$ 841,744</u>

Note: On June 11, 2018, Taiwan Executive Yuan approved the merger of Railway Reconstruction Bureau of MOTC and Bureau of High Speed Rail of MOTC into Railway Bureau of MOTC.

d. Non-operating income and expenses - interest expense

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

e. Long-term debt

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

f. Executory contract

In August 2018, the Corporation entered into the "OCS Maintenance Vehicle Manufacturing and Supply Procurement Contract" with China Steel Corporation, and the total amount of the contract (business tax included) was \$1,232,000 thousands.

g. Compensation of key management personnel

Compensation of key management personnel was as follows:

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 99,124	\$ 94,365
Post-employment benefits	854	843
	<u>\$ 99,978</u>	<u>\$ 95,208</u>

27. RESTRICTED ASSETS

Pledged Assets	Pledged to Secure	December 31	
		2018	2017
Other financial assets - current:			
Repurchase agreement collateralized by government bonds	Syndicated loan	\$ 1,572,000	\$ 1,450,000
Time deposits	Trust deposit of unearned revenue	68,000	-
Time deposits	Guarantee for office lease	954	17,232
Time deposits	Guarantee for project subsidy	-	27,000
Time deposits	Guarantee for oil purchase	-	3,120
Demand deposits	Trust deposit of unearned revenue	15,654	9,375
Demand deposits	Syndicated loan	1,453	1,401
Demand deposits	Project subsidy	-	27,000
		<u>1,658,061</u>	<u>1,535,128</u>
Other financial assets - non-current:			
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000
Time deposits	Guarantee for customs duties	42,378	42,315
Time deposits	Guarantee for office lease	15,324	-
Time deposits	Guarantee for project subsidy	10,520	-
Time deposits	Guarantee for parking lease	7,067	7,000
Time deposits	Guarantee for oil purchase	3,120	-
Time deposits	Trust deposit of unearned revenue	-	68,000
		<u>2,078,409</u>	<u>2,117,315</u>
		<u>\$ 3,736,470</u>	<u>\$ 3,652,443</u>

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Construction and operation agreement

The significant provisions of the C&O Agreement were as follows:

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

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

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

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

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

- 3) The Corporation should establish a financial stabilization mechanism starting from 2016.
- a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments that resulted from the change in accounting policies exceed \$3.5 billion, the stabilization reserve should be provided as described below:
- i. If the Corporation's EBT in the current year is higher than A1 but less than A2, the EBT is regarded as operation incentive and no stabilization reserve should be provided (please refer to the note below for the definitions of EBT, A1, A2 and A3).
 - ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:
 $(EBT - A2) \times 50\%$
 - iii. If the Corporation's EBT in the current year is higher than A3, the stabilization reserve should be provided in the current year as follows:
 $(A3 - A2) \times 50\% + (EBT - A3) \times 70\%$
 EBT = Income (loss) before income tax, net of the stabilization reserve and the compensation and remuneration set out in Article 235-1 of the Company Act.
 A1 = Net income of \$3.5 billion \div (1 - the statutory tax rate)
 A2 = Net income of \$4.0 billion \div (1 - the statutory tax rate)
 A3 = Net income of \$4.5 billion \div (1 - the statutory tax rate)
- b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent of the accumulated stabilization reserve equals zero.

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

- e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.
- 4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years before the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.
- 5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.
- 6) The Corporation provided a \$5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, \$0.5 billion of the performance bond can be returned each year. However, the total returned amount cannot exceed \$3 billion.

As of December 31, 2018 and 2017, the amount of the aforementioned performance bond remained unchanged at \$2 billion, and was recognized as other financial assets.

b. As of December 31, 2018, unused letters of credit amounted to JPY 2,408,369 thousand.

c. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long time, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation shall compensate the residents of \$8,338 thousand. The Corporation disagreed with the ruling and filed an appeal to Miaoli District Court. On November 23, 2018, Miaoli District Court declared that the Corporation won the first instance, and the defendant has filed an appeal on December 11, 2018. On December 17, 2018, the residents filed a claim under the same reason, and requested for a payment of \$5,700 thousand. As of December 31, 2018, the lawsuit is still under the review of the court.

d. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY 5,123,358 thousand and NT\$495,547 thousand. As of December 31, 2018, payments for the contract amounted to JPY 2,637,305 thousand and NT\$230,382 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

29. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On January 23, 2019, the board of directors approved to adjust the estimated amortization lives of certain operating concession assets. The revised estimated amortization lives will be effective on January 1, 2019. Please refer to Note 5, d. for further information.

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

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

31. SEPARATELY DISCLOSED ITEMS

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

32. SEGMENT INFORMATION

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

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item
The Corporation	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss
	Jih Sun Money Market Fund	-	"
	Franklin Templeton Sinoam Money Market Fund	-	"
	Prudential Financial Money Market Fund	-	"
	Central Government Bonds 2016-11	-	Cash and cash equivalents
	Central Government Bonds 2015-12	-	"
	Central Government Bonds 2014-6	-	"
	Central Government Bonds 2013-8	-	"
	Central Government Bonds 2013-B 1st	-	"
	Central Government Bonds 2012-8	-	"
	Central Government Bonds 2012-5	-	"
	Central Government Bonds 2008-5	-	"
	Central Government Bonds 2007-7	-	"
	Central Government Bonds 2004-9	-	"
	Central Government Bonds 2004-6	-	"
	Central Government Bonds 2000-13	-	"
	Central Government Bonds 2016-11	-	Other financial assets - current
	Central Government Bonds 2015-12	-	"
	Central Government Bonds 2013-6	-	"
	Central Government Bonds 2011-7	-	"
	Central Government Bonds 2010-4	-	"
	Central Government Bonds 2008-5	-	"
	Central Government Bonds 2004-6	-	"
	Central Government Bonds 2000-13	-	"
	Central Government Bonds 2000-B 1st	-	"

December 31, 2018				Note
Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
7,236	\$ 110,536	-	\$ 110,536	
7,081	104,747	-	104,747	
4,846	50,016	-	50,016	
3,935	62,147	-	62,147	
\$ 2,361,000	2,554,000	-	2,554,000	
594,000	660,000	-	660,000	
401,400	446,000	-	446,000	
67,500	75,000	-	75,000	
90,000	100,000	-	100,000	
90,000	100,000	-	100,000	
477,000	530,000	-	530,000	
170,100	189,000	-	189,000	
137,700	153,000	-	153,000	
90,000	100,000	-	100,000	
265,500	295,000	-	295,000	
1,475,000	1,475,000	-	1,475,000	
4,474,000	4,875,000	-	4,875,000	
642,600	714,000	-	714,000	
435,600	484,000	-	484,000	
334,800	372,000	-	372,000	
133,200	148,000	-	148,000	
183,600	204,000	-	204,000	
117,000	130,000	-	130,000	
2,051,000	2,051,000	-	2,051,000	
1,152,000	1,152,000	-	1,152,000	

TAIWAN HIGH SPEED RAIL CORPORATION
MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF
AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
The Corporation	Central Government Bonds 2017-4	Note	-	-	\$ -	\$ -
	Central Government Bonds 2016-13	"	-	-	-	-
	Central Government Bonds 2016-11	"	-	-	3,419,000	3,736,000
	Central Government Bonds 2016-4	"	-	-	50,400	56,000
	Central Government Bonds 2015-13	"	-	-	1,647,000	1,783,000
	Central Government Bonds 2015-12	"	-	-	-	-
	Central Government Bonds 2015-6	"	-	-	-	-
	Central Government Bonds 2014-10	"	-	-	830,000	900,000
	Central Government Bonds 2014-9	"	-	-	566,100	629,000
	Central Government Bonds 2014-6	"	-	-	674,100	749,000
	Central Government Bonds 2013-11	"	-	-	70,200	78,000
	Central Government Bonds 2013-10	"	-	-	421,200	468,000
	Central Government Bonds 2013-8	"	-	-	283,500	315,000
	Central Government Bonds 2013-6	"	-	-	210,600	234,000
	Central Government Bonds 2013-B 1st	"	-	-	86,400	96,000
	Central Government Bonds 2012-9	"	-	-	-	-
	Central Government Bonds 2012-8	"	-	-	99,000	110,000
	Central Government Bonds 2012-5	"	-	-	499,500	555,000
	Central Government Bonds 2012-2	"	-	-	-	-
	Central Government Bonds 2012-B 2nd	"	-	-	680,400	756,000
	Central Government Bonds 2012-B 1st	"	-	-	-	-
	Central Government Bonds 2011-9	"	-	-	131,400	146,000
	Central Government Bonds 2011-7	"	-	-	342,900	381,000
	Central Government Bonds 2011-5	"	-	-	504,000	560,000
	Central Government Bonds 2010-8	"	-	-	-	-
	Central Government Bonds 2010-7	"	-	-	90,000	100,000
	Central Government Bonds 2010-4	"	-	-	451,800	502,000
	Central Government Bonds 2008-5	"	-	-	53,100	59,000
	Central Government Bonds 2007-7	"	-	-	169,200	188,000
	Central Government Bonds 2007-2	"	-	-	196,200	218,000
	Central Government Bonds 2005-8	"	-	-	-	-
	Central Government Bonds 2005-5	"	-	-	-	-
	Central Government Bonds 2004-6	"	-	-	362,700	403,000
	Central Government Bonds 2004-3	"	-	-	-	-
	Central Government Bonds 2003-3	"	-	-	88,200	98,000
	Central Government Bonds 2002-7	"	-	-	-	-
	Central Government Bonds 2002-3	"	-	-	-	-
	Central Government Bonds 2001-8	"	-	-	377,100	419,000
	Central Government Bonds 2001-4	"	-	-	-	-
	Central Government Bonds 2001-2	"	-	-	-	-
	Central Government Bonds 2001-B 1st	"	-	-	91,800	102,000

Acquisition		Disposal				Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
\$ 1,413,000	\$ 1,529,000	\$ 1,413,000	\$ 1,530,604	\$ 1,529,000	\$ 1,604	\$ -	\$ -
995,400	1,106,000	995,400	1,106,359	1,106,000	359	-	-
13,096,000	14,237,000	9,680,000	10,554,314	10,544,000	10,314	6,835,000	7,429,000
253,800	282,000	304,200	338,220	338,000	220	-	-
1,107,000	1,197,000	2,754,000	2,982,885	2,980,000	2,885	-	-
2,224,800	2,472,000	988,200	1,099,086	1,098,000	1,086	1,236,600	1,374,000
1,769,300	1,912,000	1,769,300	1,913,990	1,912,000	1,990	-	-
3,381,300	3,656,000	4,211,300	4,560,681	4,556,000	4,681	-	-
565,200	628,000	1,131,300	1,258,072	1,257,000	1,072	-	-
822,600	914,000	1,095,300	1,218,120	1,217,000	1,120	401,400	446,000
297,000	330,000	367,200	408,315	408,000	315	-	-
1,113,300	1,237,000	1,534,500	1,706,214	1,705,000	1,214	-	-
857,700	953,000	1,073,700	1,194,177	1,193,000	1,177	67,500	75,000
909,000	1,010,000	684,000	760,560	760,000	560	435,600	484,000
396,000	440,000	392,400	436,401	436,000	401	90,000	100,000
1,106,100	1,229,000	1,106,100	1,229,798	1,229,000	798	-	-
460,800	512,000	469,800	522,611	522,000	611	90,000	100,000
1,378,800	1,532,000	1,401,300	1,557,996	1,557,000	996	477,000	530,000
1,054,800	1,172,000	1,054,800	1,172,992	1,172,000	992	-	-
768,600	854,000	1,449,000	1,611,537	1,610,000	1,537	-	-
479,700	533,000	479,700	533,482	533,000	482	-	-
1,084,500	1,205,000	1,215,900	1,352,076	1,351,000	1,076	-	-
1,044,900	1,161,000	1,053,000	1,171,147	1,170,000	1,147	334,800	372,000
754,200	838,000	1,258,200	1,399,452	1,398,000	1,452	-	-
1,079,100	1,199,000	1,079,100	1,199,407	1,199,000	407	-	-
1,097,100	1,219,000	1,187,100	1,320,228	1,319,000	1,228	-	-
1,547,100	1,719,000	1,865,700	2,075,030	2,073,000	2,030	133,200	148,000
739,800	822,000	439,200	488,282	488,000	282	353,700	393,000
792,000	880,000	823,500	915,634	915,000	634	137,700	153,000
297,900	331,000	494,100	549,517	549,000	517	-	-
1,393,200	1,548,000	1,393,200	1,549,042	1,548,000	1,042	-	-
592,200	658,000	592,200	658,489	658,000	489	-	-
1,579,500	1,755,000	1,559,700	1,734,272	1,733,000	1,272	382,500	425,000
2,205,900	2,451,000	2,205,900	2,453,754	2,451,000	2,754	-	-
5,301,700	5,847,000	5,389,900	5,950,713	5,945,000	5,713	-	-
634,500	705,000	634,500	705,459	705,000	459	-	-
696,600	774,000	696,600	774,808	774,000	808	-	-
1,281,600	1,424,000	1,658,700	1,844,341	1,843,000	1,341	-	-
666,900	741,000	666,900	741,362	741,000	362	-	-
321,300	357,000	321,300	357,046	357,000	46	-	-
472,500	525,000	564,300	627,632	627,000	632	-	-

(Continued)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance	
					Face Value	Carrying Amount
	Central Government Bonds 2000-13	"	-	-	117,000	130,000
	Central Government Bonds 2000-B 1st	"	-	-	510,300	567,000
	Central Government Bonds 1999-3	"	-	-	-	-
	Central Government Bonds 1999-B 1st	"			108,000	120,000

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

Acquisition		Disposal				Ending Balance	
Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
3,625,000	3,636,000	216,000	240,128	240,000	128	3,526,000	3,526,000
1,152,000	1,152,000	510,300	567,547	567,000	547	1,152,000	1,152,000
504,000	560,000	504,000	560,552	560,000	552	-	-
492,300	547,000	600,300	667,688	667,000	688	-	-

(Concluded)

TAIWAN HIGH SPEED RAIL CORPORATION
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SCHEDULE 1

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Cash		
Cash on hand		\$ 148,780
Checking accounts		10
Demand deposits	Interest rate: 0.001%-0.5%	113,952
Time deposits		
New Taiwan dollars	Expired in January 2019; interest rate: 0.62%	8,108
Cash equivalents		
Repurchase agreement collateralized by government bonds	Can be redeemed between January and March 2019; interest rate: 0.51%-0.62%	6,677,000
		<u>\$ 6,947,850</u>

SCHEDULE 2

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2018

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

Name of Funds	Units (In Thousands)	Acquisition Cost	Net Value (NT\$)	Total Amount
Open-end money market funds				
FSITC Taiwan Money Market Fund	7,236	\$ 110,430	15.2765	\$ 110,536
Jih Sun Money Market Fund	7,081	104,500	14.7935	104,747
Franklin Templeton Sinoam Money Fund	4,846	50,000	10.3209	50,016
Prudential Financial Money Market Fund	3,935	62,000	15.7938	62,147
		<u>\$ 326,930</u>		<u>\$ 327,446</u>

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF INVENTORIES
 DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Spare parts and supplies	\$ 2,641,285
Merchandise	7,838
	<u>2,649,123</u>
Less: Allowance for inventory valuation losses	<u>(620,198)</u>
	<u>\$ 2,028,925</u>

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF SHORT-TERM BORROWINGS
 DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

<u>Type of Loans</u>	<u>Name of Creditors</u>	<u>Ending Balance</u>	<u>Credit Period</u>	<u>Interest Rate (%)</u>	<u>Loan Commitments</u>	<u>Collateral</u>
JPY letters of credit						
	Bank of Taiwan	\$ 76,749	2018.12.21-2019.3.21	0.63	\$ 1,536,650	None
	Chang Hwa Commercial Bank	67,621	2018.11.14-2019.3.21	0.63	921,990	None
	Cathay United Bank	3,410	2018.12.21-2019.3.21	0.61	921,990	None
	E.SUN Commercial Bank	85	2018.12.27-2019.3.27	0.66	460,995	None
		<u>\$ 147,865</u>				

Note: The credit line is recorded at the exchange rate of JPY1:0.2782 at December 31, 2018.

SCHEDULE 5

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF ACCOUNTS PAYABLE
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Supplier Name	Amount
National Chung-Shan Institute of Science & Technology	\$ 40,952
Kawasaki Heavy Industries, Ltd.	17,692
Kaohsiung Airport Catering Services	16,853
Toshiba Electronic Components Taiwan Corporation	14,633
Others (Note)	184,274
	<u>\$ 274,404</u>

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

SCHEDULE 6

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF PAYABLE FOR CONSTRUCTION
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Supplier Name	Amount
Taiwan Hitachi Asia Pacific Co., Ltd.	\$ 124,958
Taiwan Shinkansen Corporation	70,256
Qin Xiang Co., Ltd.	35,696
Others (Note)	304,920
	<u>\$ 535,830</u>

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

SCHEDULE 7

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF OPERATING REVENUE
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>
Railroad transportation revenue	11,559 million passenger - kilometers; 63.96 million passengers	\$ 44,098,796
Others		<u>1,316,211</u>
		<u>\$ 45,415,007</u>

SCHEDULE 8

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF OPERATING COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Amortization expense	\$ 13,735,620
Employee benefit expense	3,907,755
Electricity fee	1,786,161
Spare parts and supplies	1,262,678
Repair and maintenance expense	1,042,017
Others	<u>3,347,163</u>
	<u>\$ 25,081,394</u>

SCHEDULE 9

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Employee benefit expense	\$ 796,359
Advertisement expense	89,615
Professional service expense	57,771
Repair and maintenance expense	45,924
Rental expense	41,205
Others	157,775
	<u>\$ 1,188,649</u>

SCHEDULE 10

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF SUMMARY OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION EXPENSE BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	For the Year 2018			For the Year 2017		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefit expense						
Payroll	\$ 3,335,786	\$ 603,711	\$ 3,939,497	\$ 3,124,111	\$ 548,698	\$ 3,672,809
Insurance	288,142	45,297	333,439	280,953	39,920	320,873
Pension	161,429	28,027	189,456	159,090	24,912	184,002
Remuneration to directors	-	53,701	53,701	-	49,609	49,609
Other personnel expense	122,398	65,623	188,021	124,902	58,660	183,562
	<u>\$ 3,907,755</u>	<u>\$ 796,359</u>	<u>\$ 4,704,114</u>	<u>\$ 3,689,056</u>	<u>\$ 721,799</u>	<u>\$ 4,410,855</u>
Depreciation expense	\$ 24,015	\$ 11,906	\$ 35,921	\$ 27,232	\$ 9,905	\$ 37,137
Amortization expense	\$ 13,735,620	\$ 4,674	\$ 13,740,294	\$ 13,862,560	\$ 3,010	\$ 13,865,570

Note: The number of employees for current year and prior year was 4,475 and 4,412, respectively, while the number of directors not being employees concurrently were both 13.

(2) Consolidated Financial Statements and Independent Auditors' Report: None.

5. If the corporation or its affiliates have experienced financial difficulties in the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report, the annual report shall explain how said difficulties will affect the corporation's financial situation: None.

6. Review of Financial Conditions, Financial Performance, and Risk Management

(1) Analysis of Financial Status

Item	Year	Unit: NT\$ thousands			
		2018	2017	Difference	%
Current Assets		22,796,549	20,090,816	2,705,733	13.47
Property, Plant and Equipment		98,085	107,354	(9,269)	(8.63)
Operating Concession Asset		401,168,964	413,166,373	(11,997,409)	(2.90)
Other Assets		8,993,471	6,695,914	2,297,557	34.31
Total Assets		433,057,069	440,060,457	(7,003,388)	(1.59)
Current Liabilities		13,814,046	6,549,408	7,264,638	110.92
Non-Current Liabilities		349,830,010	370,492,700	(20,662,690)	(5.58)
Total Liabilities		363,644,056	377,042,108	(13,398,052)	(3.55)
Capital Stock		56,282,930	56,282,930	-	-
Capital Surplus		172,981	172,981	-	-
Retained Earnings		12,957,102	6,561,953	6,395,149	97.46
Other Equity		-	485	(485)	(100.00)
Total Equity		69,413,013	63,018,349	6,394,664	10.15

Analysis of differences over 20%:

1. The increase in other assets was mainly due to increase of deferred tax assets.
2. The increase in current liabilities was mainly due to increase of long-term bills payable due within one year.
3. The increase in retained earnings was mainly due to net income of 2018, which was partially offset by the distribution of 2017 earnings.
4. The decrease in other equity was mainly due to decrease of unrealized gain on revaluation of available-for-sale financial assets.

(2) Analysis of Financial Performance

Unit: NT\$ thousands

Item	Year	2018	2017	Difference	%
Operating Revenue		45,415,007	43,435,042	1,979,965	4.56
Operating Costs		25,081,394	24,613,645	467,749	1.90
Gross Profit		20,333,613	18,821,397	1,512,216	8.03
Operating Expenses		1,188,649	1,066,413	122,236	11.46
Income from Operations		19,144,964	17,754,984	1,389,980	7.83
Non-Operating Income and Expenses		(11,833,141)	(11,276,484)	(556,657)	4.94
Income Before Income Tax		7,311,823	6,478,500	833,323	12.86
Income Tax Benefit (Expense)		3,384,558	(1,138,595)	4,523,153	397.26
Net Income		10,696,381	5,339,905	5,356,476	100.31
Other Comprehensive Income		(80,497)	(8,261)	(72,236)	874.42
Total Comprehensive Income for the Year		10,615,884	5,331,644	5,284,240	99.11

Analysis of differences over 20%:

- The increase in income tax benefit was mainly due to the approval of income tax exemption by the government on April 13, 2018, and has started its consecutive five-year exemption period from January 1, 2017.
- The increases in net income and total comprehensive income were mainly due to increase in income tax benefit.
- The variation in other comprehensive income was mainly due to the adjustment of remeasurement of defined benefit plans based on actuarial calculations in 2018.

(3) Analysis of Cash Flow

1) Cash Flow Analysis for the Current Year:

- Net cash generated by operating activities was NT\$ 26,216,901 thousand, mainly from cash inflows provided by operating activities and partially offset by payments of interests and profit sharing.
- Net cash used in investing activities was NT\$ 4,356,308 thousand, mainly from increase of other financial assets and purchase of operating concession assets.
- Net cash used in financing activities was NT\$ 22,100,503 thousand, mainly from repayment of syndicated loans and long-term bills payable, and cash dividend payments.

2) Improvement plan for insufficient liquidity: Not applicable.

3) Cash flow analysis for the coming year:

Unit: NT\$ thousands

Beginning balance (1)	Estimated net cash flow from annual operating activities (2)	Estimated annual cash outflow (3)	Estimated cash surplus (insufficient) amount (1)+(2)-(3)	Expected remedies for insufficient cash	
				Investment plan	Financial plan
6,947,850	25,579,000	29,579,850	2,947,000	—	—

(4) The Impact of Recent Major Capital Expenditures on Financial Operations

1) The utilization of major capital expenditures and sources of funding

Unit: NT\$ thousands

Project	Actual or expected source of funding	Actual or expected completion date	Total funds required	Actual or scheduled use of funds		
				1997-2017	2018	2019
High-speed rail project	Private funds and bank loans	2006.12	479,562,862	472,541,312	1,864,550	5,157,000

Note: The high-speed rail construction was completed and began officially operating in January 2007. Major capital expenditures for the year 2018 and 2019 were mainly equipment replacement and spare parts maintenance. The above capital expenditure does not include non-capitalization cost of during the construction period.

2) Expected benefits generated:

The Taiwan North-South High-Speed Railway commenced operations on January 5, 2007; the number of passengers broke the benchmark of 500 million on July 23, 2018, and the number of passengers continued to grow: as of December 31, 2018, a total of more than 528 million passenger travel services were provided. Also, we transported 63.96 million passengers in 2018, and an average of 175,000 passengers travelled the western corridor of Taiwan via high-speed rail every day. The Corporation is market-oriented, and adopts marketing strategies to adjust train frequencies to promote revenue growth based on passengers' demand. We will also strive to implement various plans for cost reduction; moreover, in order to live up to the expectations of the public, the Corporation will continue improving operation quality to offer passengers with safe, reliable, comfortable, and convenient travel services.

In addition to providing fast and safe transportation services, the construction and operation of high-speed rail projects has external benefits such as saving time and costs, increasing government revenue, creating employment opportunities, integrating community development, and maintaining environmental resources.

(5) The most recent annual investment policy, the main reason for its profit or loss, the improvement plan and the investment plan for the next year: None.

7. Analysis of Risk Management

(1) Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

1) Interest rates

In terms of domestic interest rates, our interest rates for 2018 were not affected by the rise in US interest rates, and rediscount rates remained at 1.375% for the whole year. THSRC is engaged in the capital-intensive construction and operation of public infrastructure, and our operations are regulated by related concession contracts. Interest payments for bank loans in 2018 were NT\$5,401,938 thousand, accounting for 11.89% of the Corporation's operating revenue. Looking forward, the short-term interest rate of the NT dollar is expected to remain at a relatively low level, which is conducive to reduction of interest burdens for financing loans. The Corporation also continues to decrease liabilities and interest expenses through various measures such as prepayment of bank loans. In future, we will make timely adjustments to utilization of funds according to changes in interest rates.

2) Foreign exchange rates

Market predictions state that the US Federal Reserve Board (FED) may find it difficult to continue raising interest rates, and this is likely to affect exchange rates against the US dollar and the Japanese yen, though future policies have yet to be revealed. It is expected that exchange rates for the NT dollar will continue to be influenced by the US dollar, the Korean won, and the Chinese RMB. In 2018, the Corporation's ratio for foreign currency exchange profit (loss) to operating revenue was 0.02%, indicating that exchange rate changes have little impact on our revenue and operations. In line with foreign currency payments required by various contracts, the Corporation uses forward exchange contracts to reduce exchange rate risks. In future, we will continue to seek favorable opportunities to hedge against the impact of exchange rate changes.

3) Inflation

In terms of current inflation conditions, the Directorate-General of Budget, Accounting, and Statistics estimated that the annual growth rate of the consumer price index (CPI) in Taiwan for 2018 was 1.35%, and domestic prices for relevant products are holding stable. The Corporation's fares are adjusted in accordance with inflation rates, and therefore the impacts of inflation are low.

(2) Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

THSRC so far has not been involved in the lending of funds to others; our endorsement guarantee is only a guarantee of the customs duties handled by the Corporation itself, and our balance as of December 31, 2018 was NT\$ 42,000 thousand, while our balance as of March 31, 2019 was NT\$ 42,000 thousand.

The Corporation's transactions in derivative products adhere to our internal management regulations " Handling Procedure to Engage in the Transaction of Derivative Products", and are used for hedging purposes. We do not engage in speculative financial operations and each transaction is audited by certified public accountants. We will continue to deal in derivative products when it is appropriate to hedge risks.

(3) Future Research & Development Projects and Corresponding Budget

In the future, we plan to continue investment in the enhancement of communication systems, including development of remote microphones for our public address system, development of trackside Direct Line Telephone System, localization of TEL IP Server, localization of trackside radio battery backup system, development and research of monitoring and management system for terminal communication equipment, and development of smart and green energy S700K switch machine by the Electronic Service Center (ESC). Additionally, in terms of signaling systems, we plan to invest in development of position monitoring devices. We hope that these investments can help us to establish self-reliant maintenance capabilities and promote local industries.

For our rolling stock system, we are working with the NCSIST to study train EMI interference problems, and are also working in collaboration with national universities and local companies to develop maintenance equipment. Our localization of maintenance equipment not only reduces costs and single sourcing risks, but also helps to improve inventory management efficiency, enhance timeliness of emergency component purchase, and facilitate technology transfers to local manufacturers. For our track and power system, we are continuing to work with the NCSIST on the development of an automatic measurement system for rolling stock vibrations, and with the CSC on OCS maintenance vehicles manufactured in Taiwan.

R&D projects and expenditures for 2018 are as follows:

Item	R&D project name	R&D project summary	R&D benefits	Current progress	Expected future investments (NT\$ in thousands)
Communication System Research	Development of remote microphones for public address system	Cooperated with NKUST to develop a device compatible with current system.	Maintains system function while reducing maintenance costs.	A prototype has been developed and tested.	924
	Development of trackside Direct Line Telephone	Cooperated with NKUST to develop a device compatible with current system.	Maintains system function while reducing maintenance costs.	Prototype function tests.	988
	Localization of TEL IP server for Direct Line Telephone	Localization to replace products purchased from Germany.	Maintains system function while reducing maintenance costs.	Function tests of local equipment.	1,680
	Localization of battery backup system for trackside radio	Localization to replace products purchased from Germany.	Maintains system function while reducing maintenance costs.	Procurement of local equipment.	800
	Monitoring and management system for terminal communication equipment.	Cooperated with NKUST to develop a system that provides flexible monitoring of each communication terminal device.	Change in maintenance methods, and reduction of maintenance costs and customer complaints.	Project in planning stage.	2,499
	Development of self-reliant maintenance capabilities for passenger information service system (PIS) software	Increase of self-reliant maintenance capabilities for passenger information service system to reduce technical dependence on overseas PIS vendors.	Enhance customer service and operational management and upgrade system consistency to provide better service quality through new technologies and products.	Execution of third and fourth projects expected to take place in 2019.	2019: 136,861 2020: 138,500 2021: 199,910 2022: 4,994 2023: 4,994
	THSR train Wi-Fi service	Provide Wi-Fi service in all HSR stations and trains.	Enhancement of overall passenger service quality.	THSR Wi-Fi service contract was signed in 2018. Contract period: 2018/3~2020/12.	2019: 10,000 2020: 10,000
Signaling System Research	Development of position detection and monitoring device	Addition of position detection devices inside railroad switches to improve turnout monitoring capabilities.	Maintains system function while reducing maintenance costs.	Project in planning stage.	68,000
	Improvement and research of railway turnout controller reliability	In-house design and development of alternative PLC Turnout Controller which is to be constructed using new technology from commercial off-the-shelf electronic products.	Prevention of impacts to passenger services caused by failures in Turnout Controller component.	A Procurement Contract for the Programmable Logic Controller (PLC) Turnout Controller Development Project was awarded in January 2018 to manufacture one Turnout Controller prototype for testing and validation. Construction and validation are scheduled to be completed in 27 months. A Consultancy Contract for Independent Verification and Validation (IV&V) activities was awarded by our Quality Assurance Office in June 2018.	2019: Development 4,175; Verification 2,401 2020: Development 596

Item	R&D project name	R&D project summary	R&D benefits	Current progress	Expected future investments (NT\$ in thousands)
Electronic Service Center (ESC)	Smart and green energy S700K switch machine.	Cooperated with NKUST to develop a device compatible with the smart and green energy S700K switch machine.	Maintains system function while reducing maintenance costs.	Currently under development.	145
Rolling Stock Improvement	Train EMI improvement project.	Used insulating materials to coat interference source.	Reduction of train ATC BPU (protection control unit) control system failure events caused by EMI problems.	EMI improvements were implemented on 24 trains in 2018, and EMI improvements for the remaining 6 trains are expected to be completed in 2019.	6,450
	Bogie noise detection equipment.	Used a spectrum analyzer to determine the source of train operation noise.	Shortening of repair time.	First draft of this project was submitted on 2019/1/7.	1,200
Localization of Materials	Luggage racks.	Commissioned from local manufacturers.	Improvement of maintenance skill and expansion of local supplier sources.	Sample installation and operation tests are expected to be carried out on 2019/1/23.	3,740
	Localization of paint materials.	Commissioned from local manufacturers.	Reduction of costs and expansion of local supplier sources.	Testing in progress.	R & D expense: 0
	Disc bolts.	Commissioned from local manufacturers.	Reduction of costs and expansion of local supplier sources.	Testing in progress.	2019: 48,384 2020: 48,384
	Diesel locomotives.	Commissioned from local manufacturers.	Improvement of maintenance efficiency and shortening of repair/rescue time in the event of accidents.	Preparing project commencement.	300,000
Track & Power System	Collaboration with NCSIST on development of automatic measurement system for rolling stock vibrations.	Rolling stock automatic vibration measurement and report system.	Measurement data can automatically be delivered via internet to offices for real-time monitoring of track alignment conditions.	Completed cable laying and installation for 3/34 rolling stock.	2019: 8,637 2020: 5,449
	Localization of OCS maintenance vehicles.	8 MV type vehicles and 2 sets of CS vehicles (4 vehicles).	Combine and integrate 6 existing Japanese/Germany vehicle types to 2 types, resulting in less investment and improvement of maintenance efficiency and safety.	This contract was awarded to CSC in September of 2018, and is currently in progress.	(2018~2024) 1,232,000

(4) Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

Major changes made to domestic and overseas laws and government policies over the past year have had no significant adverse impacts on the Corporation.

In terms of regulation changes, the MOTC recently revised the Railway Act and related sub-laws, enhancing railway safety and protection of passenger rights. The Corporation adheres to all relevant regulations and welcomes continued government review of established regulations.

(5) Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales

Technological Changes:

We have integrated new technologies into various facets of passenger service since commencement of operations. Our convenience store ticketing system was launched in February 2010, our Seat Management Information System was launched in March 2011, and T Express, our smartphone ticketing system, was introduced in October 2011. Support for mobile payments was launched in November 2017, allowing passengers to pay via Apple Pay and Android Pay, and support for Samsung Pay at station ticketing counters and ticket vending machines were launched in February 2018. In November of the same year, the Taiwan Pay payment option was added to our online reservation system. The launch of these services shows that we not only adapt well to technological changes, but also have the ability to develop passenger services using new technologies. In future, we will continue to utilize cloud management and transportation efficiency advances in technology, and we plan to expand our 4T program (Transportation, Technology, Taiwan, and Touch) to provide better services to the public and establish ourselves as a creative lifestyle services provider.

Industrial Changes:

THSRC is entering into its 13th year of operations. Our convenient, comfortable, safe, high-quality, efficient, and punctual services have completely revolutionized transport in Taiwan's western corridor. HSR now serves as the main form of transport for passengers travelling over long distances, and is used in combination with TRA, buses, taxis, or rental cars. HSR has shortened the distance between the northern and southern regions, and continues to see steady increases in ridership. In the future, we will continue to improve our systems and equipment to provide better services for our passengers. In addition, we will adhere to all safety regulations and procedures and implement appropriate risk evaluation and safety management mechanisms to minimize potential passenger injuries or operational accidents.

(6) The Impact of Changes in Corporate Image on Corporate Risk Management, and the Corporation's Response Measures

THSRC's core business of transportation adheres to the highest standards of safety. We have established transparent channels for external communication through our corporate website, spokesperson, and public email address, and we periodically publish corporate social responsibility reports to maintain a good corporate image and convey important information to domestic and foreign mass media, consumers, our shareholders, governmental units, and other stakeholders. Additionally, we assimilate relevant information to fully understand potential crises and to fulfill our duties of prevention and warning. As of the publication of our 2018 Annual Report, there have been no incidents jeopardizing our corporate image change.

(7) **Expected benefits from, risks relating to and response to merger and acquisition plans: None.**

(8) **Expected benefits, possible risks and response measures for plant expansion: None.**

(9) **Risks and countermeasures in the concentration of incoming goods or sales: None.**

(10) **Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%**

Over the past year, there was no incidence where a major quantity of shares belonging to a director, supervisor, or shareholder holding more than a 10 percent stake in the Corporation was transferred.

(11) **Effects of, Risks Relating to and Response to the Changes in Management Rights**

We have gradually implemented our shareholder-approved Principles of Corporate Governance to establish a sound corporate governance system. Therefore, we are able to avoid significant adverse impacts due to changes of Corporation Chairmen, Presidents, or operating rights.

(12) **Litigious and non-litigious matters. List major litigious, non-litigious or administrative disputes (that have been concluded by means of a final and unappealable judgment, or are still under litigation) that involve the company and/or any company director, any company supervisor, the general manager, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the company; where such a dispute could materially affect shareholders' equity or the prices of the company's securities, the annual report shall disclose the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of publication of the annual report.**

1) List of current open lawsuits, non-litigation disputes, or administrative proceedings:

No.	Year	Parties involved	Case summary	Case status	Impact on Corporation finances
1	2013	Plaintiff: Bank of Panhsin Defendant: THSRC	Liability claim against THSRC over capital and dividends for Preferred Stock A issued by THSRC (NT\$ 11,572,603) 1. Claim filed for NT\$ 11,572,603 and interest payments calculated at an annual rate of 5% on NT\$ 10,000,000 starting from February 27, 2010 to the settlement date. 2. Amount claimed includes NT\$ 1,000,000 of capital for Preferred Stock A and NT\$ 1,572,603 of stock dividends for Preferred Stock A from the period of January 5, 2007 to February 26, 2010.	1. The court of first instance ruled in favor of the defendant on stock dividends and partially in favor of the plaintiff on stock capital (2013 Su-Zi Ruling No. 370 of the Taiwan Shilin District Court on February 26, 2014). Judgment on stock dividends was made irrevocable as there was no appeal from the plaintiff. 2. On May 13, 2015, 2015 Shang-Zi Ruling No. 294 of the Taiwan High Court found in favor of the plaintiff regarding stock capital and defendant appealed to the Supreme Court. Said appeal and claim for litigation costs were rejected by the Supreme Court on July 17, 2017 and remanded to the Taiwan High Court for retrial under 2017 Zhong-Shang-Geng-(Yi)-Zi No. 117 of the Taiwan High Court. 3. All legal action was withdrawn on December 20, 2018.	None.
2	2014	Plaintiff: THSRC Defendants: Wu and 26 others	Public nuisance dispute lawsuit with Wu and 54 other residents of Chengbei, Tongxiao Township, Miaoli. A public ruling by the EPA found that 26 people had been impacted from the period of February 2007 to August 2014 and ordered THSRC to pay compensation of NT\$ 8,338,000. THSRC disagreed with the ruling and filed an appeal of declaratory judgment counterclaim for invalidity on July 14, 2015.	1. Under 2015 Zhong-Su-Zi No. 69 of the Taiwan Miaoli District Court, the Taiwan Miaoli District Court confirmed the invalidity of claims filed by local residents on November 19, 2018, finding in favor of THSRC and ruling that litigations costs should be borne by the defendants. 2. Defendants filed for appeal on December 10, 2018. 3. Currently in trial under 2019 Zhong-Su-Zi No. 9 of the Taiwan High Court Taichung Branch Court.	None.
3	2015	Plaintiff: THSRC Defendant: Taipei City Government	The Taipei City Government found THSRC in violation of laws relating to overtime pay and vacation days and imposed a fine of NT\$ 300,000 (and order to publish names of disciplined persons) on March 3, 2015. THSRC disagreed with the ruling and filed an appeal which was later rejected. THSRC filed administrative proceedings in November 2015.	1. Case was tried under 2016 Su-Zi No. 342 of the Taiwan High Administrative Court. 2. The Taiwan High Administrative Court rejected plaintiff's appeal on June 7, 2018. 3. THSRC filed an appeal on July 6, 2018.	None.
4	2018	Plaintiffs: Wu and 26 others Defendant: THSRC	Plaintiffs filed civil tort claims against THSRC for damages of NT\$ 5,700,000 due to infringements caused from the period of September 2014 to October 2018 based on the 2014 public nuisance dispute lawsuit filed against the residents of Chengbei, Tongxiao Township, Miaoli.	Currently in trial under 2018 Su-Zi No. 586 of the Taiwan Miaoli District Court.	None.

2) Concluded or ongoing major litigious, non-litigious, or administrative disputes that may have significant impact upon shareholder interests or share prices that involve Corporation directors, supervisors, general managers, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by the Corporation that occurred over the past two years and up the publication date of our prospectus:

Current list of open major lawsuits, non-litigation disputes, or administrative proceedings concerning THSRC directors are as follows: (Taken from 2017 financial reports of said directors)

Shareholder appointing director representative: Taiwan Sugar Corporation

Parties involved	Case summary and amount under dispute	Case status
1. Fong-Chien Construction Co., Ltd.	Taiwan Sugar Corporation and Fong-Chien Construction Co., Ltd. (hereinafter "Fong-Chien") collaborated on a construction project in Puzi, Chiayi (land serial number: 216). After the contract was signed by both parties in 2007, negotiations were conducted for three extensions of contracted payment times, but Fong-Chien still failed to complete payment of NT\$ 34,668,000. Previous payments and performance bonds totaling NT\$ 39,668,000 were therefore forfeited under the provisions of the contract. Fong-Chien filed a lawsuit against Taiwan Sugar in the Taiwan Chiayi District Court seeking declaratory judgment for invalidity of contract.	<ol style="list-style-type: none"> 1. The Taiwan High Court Tainan Branch Court ruled in favor of Taiwan Sugar Corporation in a second remanded trial, rejecting claims surpassing NT\$ 2,749,451. Fong-Chien filed an appeal with the Supreme Court. 2. The Supreme Court rejected Fong-Chien's appeal and claim for NT\$ 31,918,239 and remanded the case to the Taiwan High Court Tainan Branch Court. 3. On August 22, 2017, the Taiwan High Court Tainan Branch Court reversed the original ruling in a third remanded trial; Taiwan Sugar Corporation was ordered to return NT\$ 31,918,239 plus interest to Fong-Chien and the provisional execution of said order. 4. The Taiwan High Court Tainan Branch Court reversed the original ruling where Taiwan Sugar Corporation was ordered to return NT\$ 31,918,239 plus interest to Fong-Chien, rejecting both the lawsuit in first instance and the application for provisional execution. Fong-Chien filed an appeal to the Supreme Court. 5. The Supreme Court dismissed Fong-Chien's appeal on July 13, 2018.
2. Fu Jia Tian Xia Co., Ltd.	Taiwan Sugar Corporation granted Fu Jia Tian Xia Co., Ltd. (hereinafter "FJTX") right of superficies over a piece of land in Chiayi (land serial number 149) from the period of June 11, 2007 to June 10, 2037. On July 1, 2011, FJTX informed Taiwan Sugar Corporation of their intent to abandon right of superficies and requested the interest-free return of performance bonds and proportional return of license fees. Taiwan Sugar Corporation responded to FJTX with a statement that license fees were forfeited under the provisions of the contract.	<ol style="list-style-type: none"> 1. On July 14, 2013, the Taiwan High Court Tainan Branch Court ruled that Taiwan Sugar Corporation should return default penalties of NT\$ 36,379,000 to FJTX. Taiwan Sugar Corporation filed an appeal. 2. On January 6, 2015, the Taiwan High Court ruled that Taiwan Sugar Corporation should return default penalties of NT\$ 20,980,000 to FJTX. Lawyers commissioned by Taiwan Sugar Corporation filed an appeal to the Supreme Court. 3. On February 22, 2017, the Supreme Court rejected Taiwan Sugar Corporation's appeal and claims for litigation costs and remanded the case to the Taiwan High Court Tainan Branch Court. The Supreme Court also dismissed FJTX's appeal. On December 21, 2017, the Taiwan High Court Tainan Branch Court reversed their original ruling on damage payments, provisional execution, and payment of litigation costs, rejecting FJTX's lawsuit in the first instance and request for provisional execution. FJTX filed an appeal to the Supreme Court. 4. The Supreme Court dismissed FJTX's appeal on March 29, 2018.
3. Consumers' Foundation, Chinese Taipei	Taiwan Sugar Corporation was engaged in a damages compensation dispute involving the Consumers' Foundation, Chinese Taipei (hereinafter "Consumers' Foundation") due to unintentional use of a toxic plasticizer provided by a subcontractor in one of its dietary supplement products. The Consumers' Foundation therefore sued Taiwan Sugar Corporation for joint liability. Taiwan Sugar Corporation could incur potential losses of up to NT\$ 162,030,000 if defeated.	<ol style="list-style-type: none"> 1. On August 24, 2016, the Taiwan High Court ruled that Taiwan Sugar Corporation and its subcontractor should jointly pay the amount of NT\$ 50,000 to the Consumers' Foundation. The Consumers' Foundation filed an appeal to the Supreme Court. 2. The Supreme Court dismissed the Consumers' Foundation's appeal on July 31, 2018.
4. Taiwan Cooperative Bank	Taiwan Sugar Corporation was involved in a contractual dispute with Celerity Pacemaker Logistics Inc. (hereinafter "Celerity") and requested the return of fines, royalties, rent, default fines, and unjust enrichment equivalent to rent. Taiwan Sugar Corporation was awarded damages in March 2012 so sought to recover its claims from Celerity. The Taiwan Cooperative Bank filed a subrogation lawsuit against Taiwan Sugar Corporation for non-payment of "system usage fees" to Celerity and requested return of NT\$ 114,027,000 in "system usage fees" from the period of June 2001 to April 2003 and NT\$ 7,500,000 in performance bonds.	<ol style="list-style-type: none"> 1. Following defeat in the court of second instance, Taiwan Sugar Corporation filed an appeal to the Supreme Court. On October 13, 2016, the Supreme Court reversed the previous ruling and remanded the case to the Taiwan High Court. 2. On May 2, 2017, the Taiwan High Court rejected Taiwan Sugar Corporation's appeal in a remanded trial and ruled that Celerity should pay NT\$ 590,400,054 to Taiwan Sugar Corporation. Simultaneously, Taiwan Sugar Corporation should pay NT\$ 121,527,053 to Celerity, of which annual interest rates of 5% would be calculated starting on January 19, 2004 for NT\$ 114,027,053, and starting on March 30, 2013 for the remaining NT\$ 750,000; payment would be collected by the Taiwan Cooperative Bank based on its subrogation right. Both parties filed an appeal to the Supreme Court. 3. The Supreme Court reversed and remanded the previous ruling on July 20, 2018.

Parties involved	Case summary and amount under dispute	Case status
5. Dept. of Environmental Protection, New Taipei City Government	The Dept. of Environmental Protection, New Taipei City Government announced on September 11, 2013 that land held by a company acquired by Taiwan Sugar Corporation in 1984 (portions of said land were sold in 1989) constituted part of a soil pollution control zone. Taiwan Sugar Corporation was therefore identified as a “polluter” and was requested to propose follow-up measures.	On November 7, 2013, The EPA ordered Taiwan Sugar Corporation to comply with the proceedings announced by the Dept. of Environmental Protection, New Taipei City Government. Taiwan Sugar Corporation disagreed with the order and filed an appeal to the Supreme Court which was dismissed on December 11, 2014. Pollution investigation and evaluation plans must be reviewed and approved by the Dept. of Environmental Protection, New Taipei City Government, and pollution remediation plans must be submitted for approval based on investigation results. Therefore, as of December 31, 2017, it is not yet possible to estimate the costs of remediation.

The aforementioned litigation, non-litigation, or administrative dispute with Taiwan Sugar Corporation does not affect the Corporation’s financial relationship with said company and is not expected to have significant impact on our shareholder equity or share prices.

- 3). In the past two years and as of the publication date of our prospectus, were there any directors, supervisors, managers, and major shareholders holding more than 10% of shares in violation of the provisions in Article 157 of the Securities and Exchange Act, and if yes, the response measures taken by the company: None.

(13) Other major risks: None.

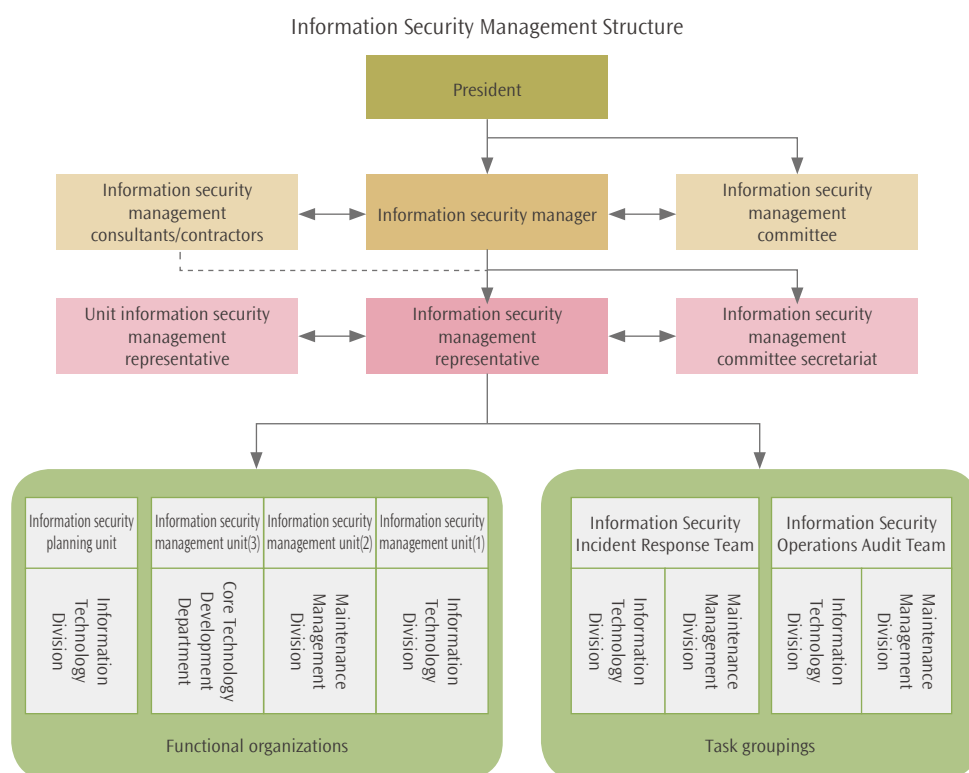
8. Other Important Disclosure Items

Management measures relating to information security implemented in 2018 were as follows:

(1) Information security management system:

In order to enhance management of information security, the Corporation established an “Information Security Management Committee” on October 25, 2017 and designated cross-departmental information security representatives to convene information security management audit meetings and information security representative meetings every quarter. The information technology division is then responsible for compiling annual reports on implementation performance to the Board of Directors. Implementation results for 2018 is as follows:

- 1) The Corporation’s president acts as the convener, and the operation senior vice president acts as CISO (Chief Information Security Officer) and the chairman of the information security management audit meeting. Regular meetings are held every quarter to assess information security developments and strategies, ensuring that information security management systems can continue to operate in a stable manner.
- 2) Each office and department unit assigns an information security representative, and the head of the system maintenance department in the information technology office acts as the information security management representative. These representatives convened “Information Security Representative Meetings” every quarter starting from May 2018 to assess information security plans under development and implementation results, and to promote relevant information security policies and implementation highlights.
- 3) Relevant information security management report and implementation results were submitted to the 15th board meeting of the 8th Board of Directors on June 12, 2018.

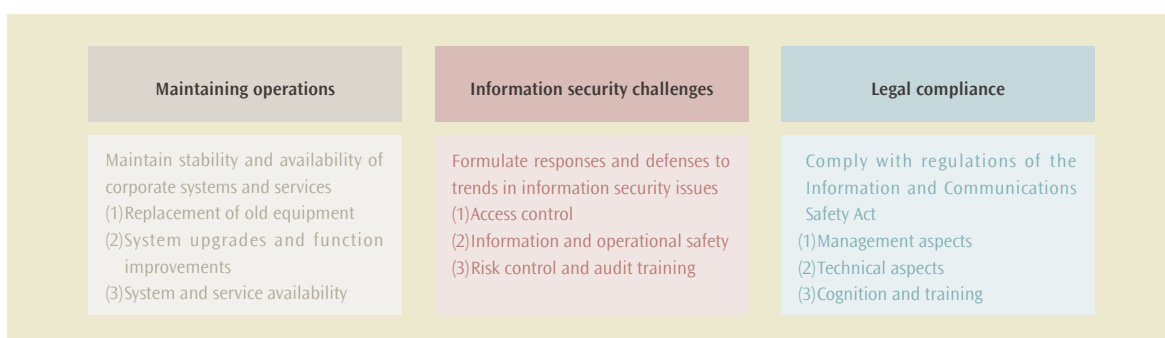


(2) Information security policies:

The Corporation periodically assesses its information security policies every year. Following approval from the chairman on May 17, 2018, these policies were published on our corporate website. More details can be found in Chapter 4 of this report.

(3) Specific management plans:

- 1) The Corporation has established its “Regulations for Governing Information Security” to ensure that our hardware, software, data, and personnel adhere to the principles of C (Confidentiality), I (Integrity), A (Accessibility), and C (Legal Compliance). Our information security system is built on the three aspects of Maintaining operations, Information security challenges, and Legal compliance, and we are gradually improving relevant management measures.



- 2) In 2018, the Corporation took out hardware, equipment, and electronics insurance policies for operational assets relating to maintenance of information systems and internet equipment; security monitoring measures were also put in place to prevent incidents of theft and malicious destruction.
- 3) In light of the fact that information security insurance is a new type of insurance policy, and in consideration of all issues relating to insurance scope, claim scope for damages, identification of damages, and qualification of identification institutes, the Corporation has temporarily refrained from taking out information security insurance policies. However, the following strategies have been adopted in response to current challenges such as APT (Advanced Persistent Threat) attacks, DDoS (Distributed Denial of Service) attacks, ransomware, social engineering attacks, and information theft:
 - ☑ Continued annual review of trends in information environments and technical information in accordance with our corporate information security policies, and establishment of protective measures and solutions.
 - ☑ Implementation of annual security checks, information and communication security health checks, and drills of social engineering and information breach scenarios to strengthen employee awareness of information security crises and response capabilities, in hopes of efficiently preventing and detecting threats and halting proliferation at the first instance.
- 4) The Corporation received BSI verification for ISO27001 information security management systems in December 2017, and passed annual follow-up checks in October 2018 with “zero defects.” On December 7 of the same year, the Corporation was awarded the “Information Security in Practice Award” by BSI at the annual International Information Security Standards Awards Ceremony.

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Special Disclosures



1. Information on Affiliated Businesses: None.

2. Information on Private Placement of Securities in the most recent year and up to the Publication Date of this Annual Report

Project	Private placement in 2015 Issue date: November 26, 2015					
Private placement securities	Common shares					
Date and amount approved by the shareholders' meeting	September 10, 2015 / No more than 3,000,000 thousand shares					
Basis and rationality of price setting	<ol style="list-style-type: none"> The Board of Directors of the Corporation set November 12, 2015 as the pricing date. According to the resolution of the shareholders' meeting held on September 10, 2015, the private placement price of common stock should not be less than 80% of the reference price. The reference price shall be determined by the higher of the following conditions: (a) The share price calculated as the sum of all transaction amounts of Corporation common shares in the Emerging Stock Computerized Price Negotiation and Click System in each business day for 30 business days prior to the price determination date, divided by the sum of the number of shares traded in each business day, after adjustments for any distribution of stock dividends, cash dividends, or capital reduction; (b) The net worth per share shown on the financial report audited and certified or reviewed by a certified public accountant (CPA) for the period closest to the price determination date. The privately placed common stock reference price is set at \$10.15, and the issue price is set at \$10, consistent with the resolution of the shareholders' temporary meeting stating that the private placement price shall not be lower than 80% of the reference price. 					
Selection of qualified persons	The persons or funds selected for this private placement fulfill the qualifications set out by the resolutions of the Legislative Yuan and Article 43-6, Paragraph 1 of the Securities and Exchange Act and Rule No. 091003455 of the Securities and Futures Bureau of Financial Supervisory Commission dated June 13, 2002.					
Necessity for private placement	The percentage of government holdings in the Corporation was increased in order to implement the "High-Speed Rail Financial Resolution Plan" and in accordance with relevant resolutions taken by the Legislative Yuan. Additionally, private placements are characterized by quick and convenient access, and Corporation common shares issued through private placement are not freely transferable within the first 3 years, ensuring a long-term equity relationship between the Corporation and government entities. The Corporation placed common shares with specific parties according to the provisions of Article 43-6 of the Securities and Exchange Act.					
Payment completion date	November 26, 2015					
Applicants		Private placement entity	Qualifications	Subscription quantity	Relationship with THSRC	Participation in Corporation's operations
		Ministry of Transportation and Communications	Paragraph 1	2,420,000 thousand shares	THSRC director: Government entity	THSRC director and largest shareholder and governing authority of THSRC
		China Aviation Development Foundation	Paragraph 3	260,000 thousand shares	THSRC director	THSRC director
		Mega International Commercial Bank	Paragraph 1	71,100 thousand shares	None	None
		First Commercial Bank	Paragraph 1	53,300 thousand shares	None	None
		Hua Nan Commercial Bank	Paragraph 1	53,300 thousand shares	None	None
		Taiwan Corporative Bank	Paragraph 1	53,300 thousand shares	None	None
		Chang Hwa Commercial Bank	Paragraph 1	44,500 thousand shares	None	None
	Taiwan Business Bank	Paragraph 1	44,500 thousand shares	None	None	
Actual subscription (or conversion) price	NT\$10 per share					

Project	Private placement in 2015 Issue date: November 26, 2015
The difference between actual subscription (or conversion) price and reference price	The actual subscription price was \$10 per share, 98.52% of the reference price set at \$10.15.
Impacts of private placement on shareholders' equity (for example increase of cumulative losses)	A total of 3 billion privately placed common stock was issued, generating stock income of \$30 billion, and bringing paid-in capital to \$56,052,930,580, which will help the Corporation stabilize its operations and development, and bring positive benefits to shareholders' equity.
Fund utilization of private placement and project implementation progress	Collected private equity funds were used to enrich working capital, purchase machinery and equipment, and implement preferred stock compensation schemes. In the second quarter of 2016, \$14.3 billion was used to enrich working capital, \$600 million was used to purchase machinery and equipment, and \$15.1 billion was used for preferred stock compensation programs.
Private placement benefits	Enrich the Corporation's funds, improve the Corporation's financial structure, aid implementation of preferred stock compensation programs, and stabilize the Corporation's operations and development.

3. Information on Shares Held or Sold by Subsidiaries in the most recent year and up to Publication Date of Annual Report: None

4. Other Supplementary Information Required: None.

5. Has the corporation experienced any events as described in Article 36, Paragraph 3, Item 2 of the Securities and Exchange Act that have had major impacts on shareholders' equity or share prices in the most recent year and up to the publication date of this Annual Report: None.

Headquarters

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

Website: www.thsrc.com.tw

Tel: +886-2-8789-2000

THSRC Spokesperson: Johnson Sun

Title: Business Senior Vice President

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

Email: Spokesman_MBOX@thsrc.com.tw

THSRC Deputy Spokesperson: Elaine Tsou

Title: Assistant Vice President

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

Email: Spokesman_MBOX@thsrc.com.tw

Share Transfer Agent and Registrar

Company: Fubon Securities Transfer Agency Department

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

Website: www.fubon.com.tw

Tel: +886-2-2361-1300

Auditors of Current Financial Report

Auditor Names: Mei-Yen Chiang, Kwan-Chung Lai

Company: Deloitte & Touche

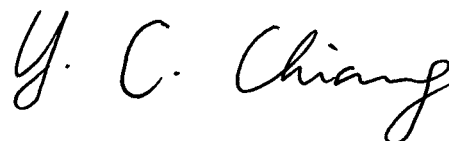
Address: 20F., No.100, Songren Rd., Xinyi District,
Taipei, Taiwan, R.O.C.

Website: www.deloitte.com.tw

Tel: +886-2-2725-9988

TAIWAN HIGH SPEED RAIL CORPORATION

CHAIRMAN



Public listings and securities trading in overseas stock
exchanges: None.



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