

Ticket Symbol: 2633



Taiwan High Speed Rail Corporation

Credit Suisse 18th Annual Asian Technology Conference





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AGENDA

I. CURRENT OPERATIONS OVERVIEW

II. FINANCIAL PERFORMANCE

III. PROSPECTS





I. CURRENT OPERATIONS OVERVIEW

1. About the Company
2. Operational Performance
3. Market Share
4. Recap of Recent Important Events

1. About the Company



1) Key Milestones



- Founded by 5 prominent local business groups, namely Continental Engineering Group, Evergreen Group, Fubon Group, Pacific Electric Wire & Cable Group, and Teco Group in May 1998.
- Signed Construction and Operation Agreement (“C&OA”) with the MoTC in July 1998:
 - 35 years for construction and operation.
 - 50 years for development and usage of Station Development Areas.
- Commenced construction in Q1 2000 and commenced operations in Jan 2007.
- Signed a NT\$382bn refinancing contract with 8 local banks in Jan 2010.
- Extended the concession period from 35 years to 70 years, effective Oct 2015.
- Added 3 stations (Miaoli, Changhua, and Yunlin) on HSR route in Dec 2015.
- Added Nangang station in July 2016.
- Listed IPO in Oct 2016.



2) System Map



- 12 stations and 5 depots.
- Total route length: around 350 km
- Peak speed: 300 km/hour

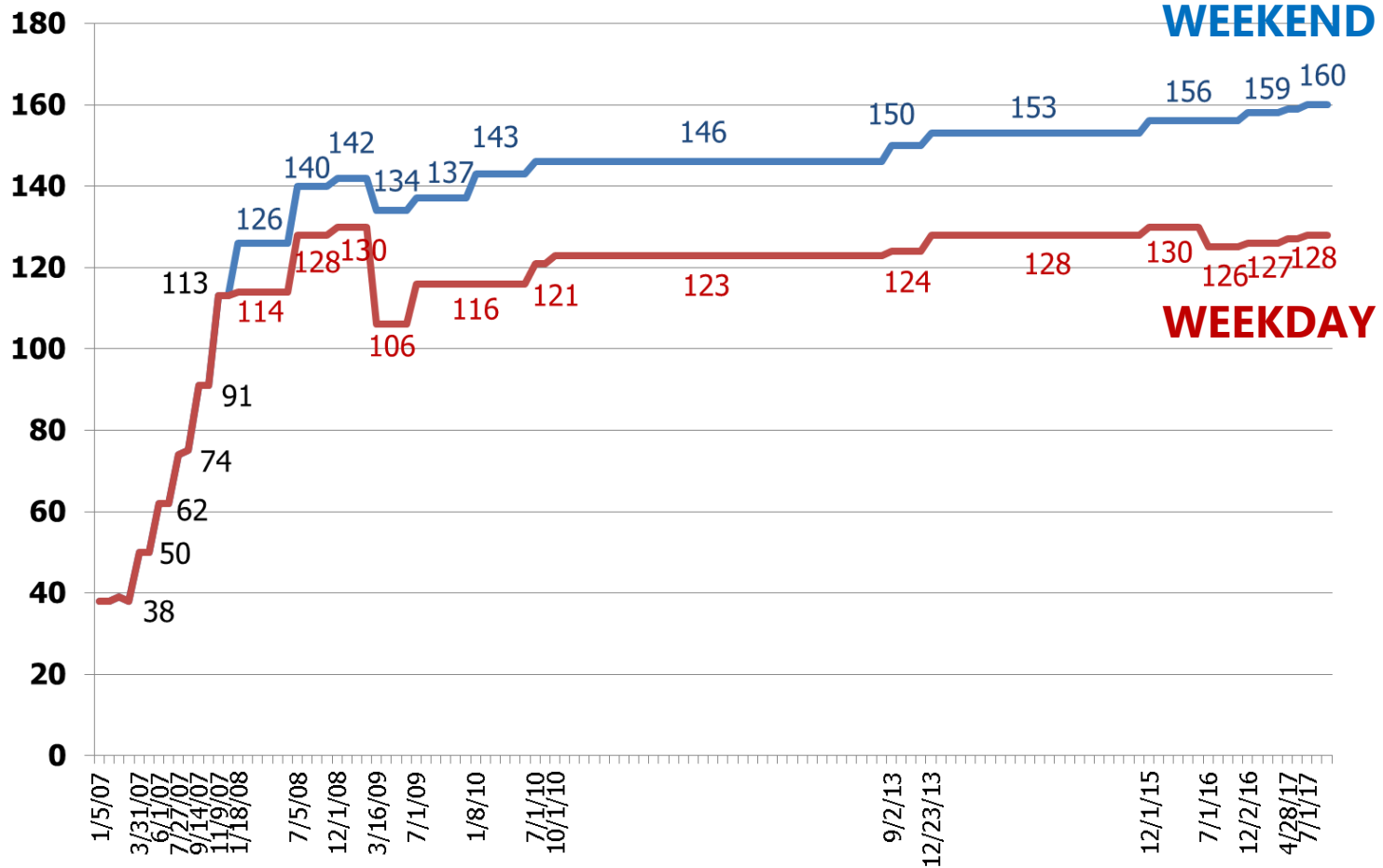


2. Operational Performance



1) Train Frequency

Daily Frequency





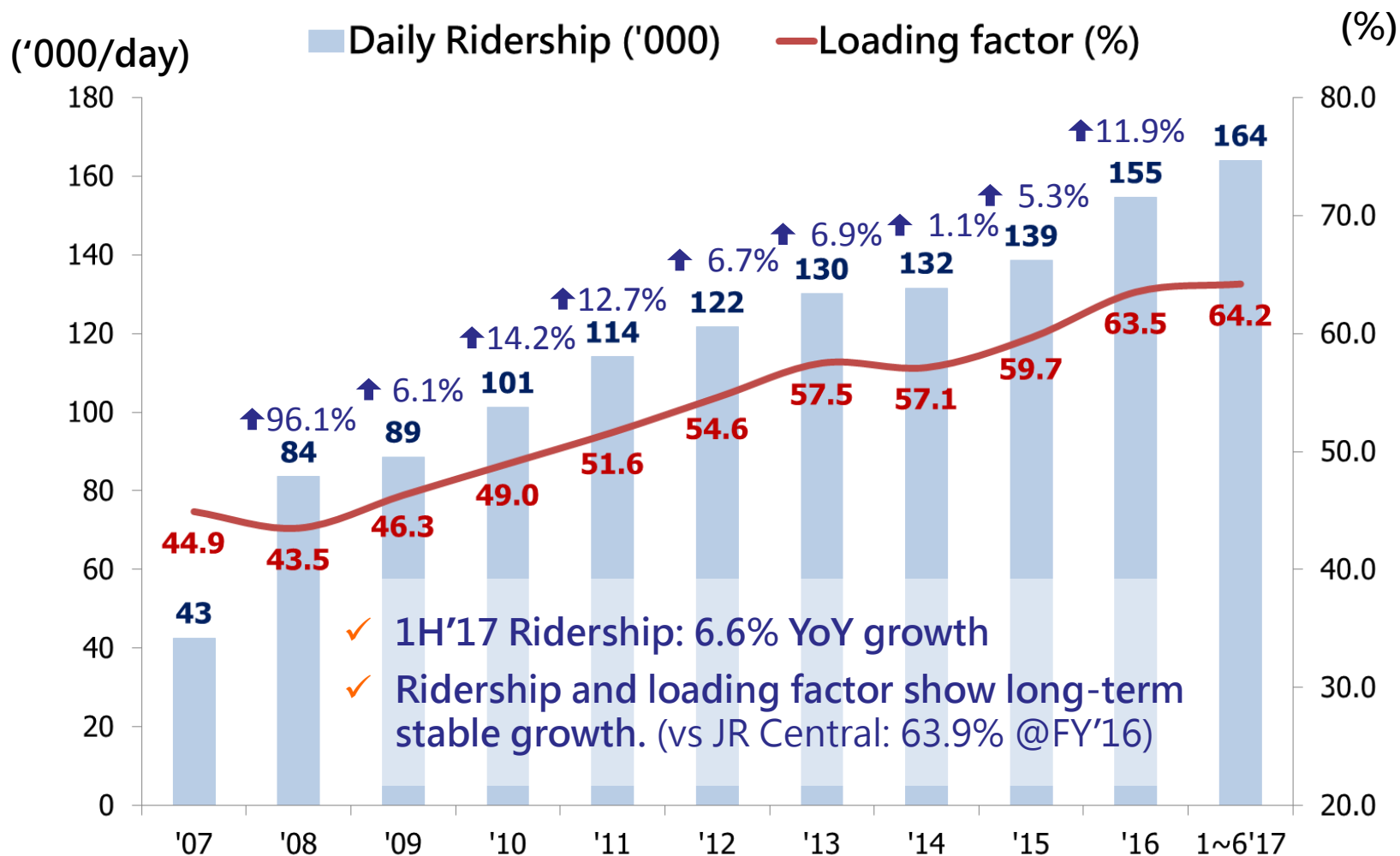
2) Operational Schedule (as of July 1, 2017)

| Route Information | Nangang | Taipei | Banciao | Taoyuan | Hsinchu | Miaoli | Taichung | Changhua | Yunlin | Chiayi | Tainan | Zuoying | Daily Frequency (Weekend; Southbound) | Daily Frequency (Weekend; Northbound) |
|-------------------|---------|--------|--------------|---------|---------|--------|----------|----------|--------|--------|--------|---------|---------------------------------------|---------------------------------------|
| B | ● | ● | ● | — | — | — | ● | — | — | — | — | ● | 15 | 14 |
| B'' | ● | ● | ● | — | — | — | ● | — | — | — | ● | ● | 9 | 13 |
| C | ● | ● | — | ● | — | — | ● | ● | ● | ● | ● | ● | 1 | 2 |
| D | ● | ● | ● | ● | ● | — | ● | — | — | ● | ● | ● | 27 | 29 |
| E | ● | ● | ● | ● | ● | ● | ● | — | — | — | — | — | 6 | 10 |
| E' | — | — | — | — | — | — | ● | ● | ● | ● | ● | ● | 1 | 1 |
| F | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | 16 | 16 |
| | | | Total | | | | | | | | | | 75 | 85 |

- Service hours ⇒ 06:00 ~ 24:00
- First train ⇒ 06:00
- Last train ⇒ 22:50(from Nangang), 22:55(from Zuoying)



3) Ridership and Loading Factor





4) Operational Performance to Date

| 2007.01.05 ~ 2017.06.30 | |
|---|--|
| Train Services | 486,661 trains |
| Ridership | 434 million passengers |
| Passenger Kilometers | 85,201 million passenger-kilometers |
| Load Factor | 53.96% |
| Reliability | 99.57% (excluding natural disasters) |
| Punctuality | 99.45% (excluding natural disasters, delay < 5 min.) |
| Average Delay Time | 0.22 minutes (vs JR Central: 0.4 min @FY'16) |
| Accidents resulting in Liabilities | 0 |

3. Market Share



| Year 2013 | Short Distance (20~100km) | Medium Distance (100~200km) | Long Distance (200km+) |
|-------------------|---|---|--|
| Weekday | <p>THSRC 1.7%</p> <p>TRA 13.9%</p> <p>Freeway Bus 7.8%</p> <p>Passenger Car 76.6%</p> | <p>THSRC 13%</p> <p>TRA 6%</p> <p>Freeway Bus 6%</p> <p>Passenger Car 75%</p> | <p>THSRC 31%</p> <p>Passenger Car 57%</p> <p>Freeway Bus 9%</p> <p>TRA 3%</p> |
| Weekend & Holiday | <p>THSRC 1.4%</p> <p>TRA 13.0%</p> <p>Freeway Bus 5.9%</p> <p>Passenger Car 79.7%</p> | <p>THSRC 9%</p> <p>TRA 7%</p> <p>Freeway Bus 7%</p> <p>Passenger Car 77%</p> | <p>THSRC 27%</p> <p>Passenger Car 59%</p> <p>Freeway Bus 11%</p> <p>TRA 3%</p> |

Source: The 5th Taiwan Area Comprehensive Transportation Planning Research Series - Intercity Travel Survey and Preliminary Analysis, Institute of Transportation, MOTC

4. Recap of Recent Important Events (1/2)



| Date | Event |
|-----------|--|
| 2017.1.24 | <p>The Company signed joint underwriting commercial paper agreement with 10 financial institutions:</p> <ul style="list-style-type: none">✓ 2-Year revolving unsecured commercial paper✓ Total amount raised: NT\$20bn. |
| 2017.3.1 | <p>The Company issued commercial paper totaling NT\$16bn (effective interest rate: 0.928%) for early redemption of syndicated loans.</p> |
| 2017.3.27 | <p>Board of Directors' Meeting approved the following capital expenditures:</p> <ul style="list-style-type: none">✓ Replacement of Traffic Control System (TCS), project term 33 months, total expenditure JPY6,788 mn (tax inclusive).✓ Establishment of Aging Bay (AGB; applied to Signal Systems), project term 24 months, total expenditure NT\$690 mn (tax inclusive). |

4. Recap of Recent Important Events (2/2)



| Date | Event |
|-----------|---|
| 2017.5.24 | 2017 Annual General Shareholders' Meeting approved the following major resolutions: <ul style="list-style-type: none">✓ Distribution of NT\$0.6 cash dividend per common share.✓ Early election of 13 directors (including 3 independent directors). |
| 2017.5.31 | Added to MSCI Taiwan Index. |
| 2017.6.8 | Board of Directors' Meeting approved the capital expenditures for "Automatic Ticketing System Update and Maintenance Service Procurement Project", project term 115 months, total expenditure NT\$601 mn (tax inclusive). |
| 2017.6.19 | Added to Taiwan 50 Index. |
| 2017.7.4 | Early redemption of syndicated loans totaling NT\$20 bn. |
| 2017.8.24 | Hosted seminar for "Localized business opportunities of the Taiwanese Railway Industry" |



II. FINANCIAL PERFORMANCE

1. Financial Reporting
2. Operating Revenues & Net Profits
3. EBITDA & EBITDA Margin
4. Financial Risk Management
5. Earnings Distribution
6. Corporate Credit Ratings & Market Cap

1. FINANCIAL REPORTING



1) Income Statement

| (NT\$m) | 1H'17 | 1H'16 | Favorable (Unfavor.) Variance Amount | Variance % |
|-----------------------------------|--------------|--------------|---|---------------|
| Operating revenues | 21,412 | 20,046 | 1,366 | 6.8% |
| Operating costs | (11,804) | (12,480) | 675 | -5.4% |
| Gross Profit | 9,608 | 7,566 | 2,042 | 27.0% |
| Operating expenses | (521) | (457) | (64) | 14.0% |
| Net Operating Income | 9,087 | 7,110 | 1,978 | 27.8% |
| Non-operating income and expenses | | | | |
| Interest expenses | (3,877) | (4,333) | 456 | -10.5% |
| Stabilization reserve | (1,683) | 0 | (1,683) | - |
| Others | 22 | (112) | 134 | 119.6% |
| Net Income before Tax | 3,550 | 2,664 | 885 | 33.2% |
| Income tax | (637) | (443) | (194) | 43.9% |
| Net Income | 2,912 | 2,221 | 691 | 31.1% |
| EPS | 0.52 | 0.40 | | |



2) Balance Sheet

| (NT\$m) | 2017.6.30 | 2016.12.31 | 2016.6.30 |
|---|----------------|----------------|----------------|
| Current assets | 31,861 | 28,728 | 28,092 |
| Operating concession assets | 419,452 | 426,020 | 433,460 |
| Other non-current assets | 6,109 | 6,459 | 6,370 |
| TOTAL ASSETS | 457,421 | 461,207 | 467,922 |
| Current Liabilities | 29,089 | 19,815 | 24,746 |
| Long-term debt | 286,079 | 316,280 | 321,748 |
| Long-term bills payable | 15,951 | - | - |
| Operating concession liabilities | 54,230 | 53,990 | 53,440 |
| Other non-current liabilities | 11,473 | 10,058 | 9,206 |
| Total Liabilities | 396,823 | 400,144 | 409,140 |
| Common stock | 56,283 | 56,283 | 56,053 |
| Capital surplus | 173 | 173 | - |
| Retained earnings & others | 4,143 | 4,608 | 2,729 |
| Total Equities | 60,599 | 61,064 | 58,782 |
| TOTAL LIABILITIES & EQUITIES | 457,421 | 461,207 | 467,922 |



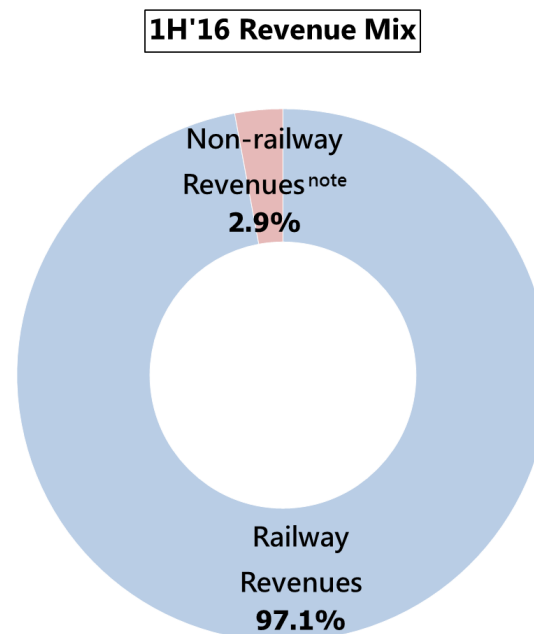
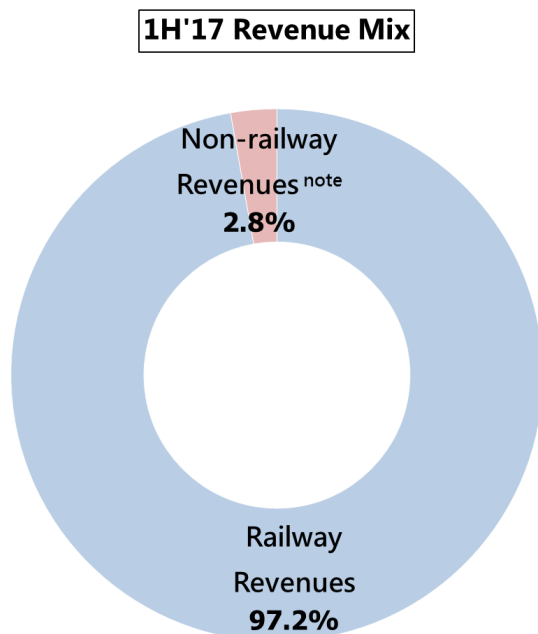
3) Statement of Cash Flows

| (NT\$m) | 1H'17 | 1H'16 | Variance Amount |
|---|---------------|--------------|-----------------|
| Cash & cash equivalents at the beginning of the period | 237 | 2,146 | (1,909) |
| Cash flows from operating activities | 9,338 | (5,611) | 14,949 |
| Cash flows from investing activities | 18,673 | 30,538 | (11,865) |
| Cash flows from financing activities | (5,212) | (24,422) | 19,211 |
| Net increase in cash & cash equivalents | 22,800 | 505 | 22,294 |
| Cash & cash equivalents at the end of the period | 23,037 | 2,652 | 20,385 |

2. Operating Revenues & Net Profits



1) Revenue Mix



Note: Non-railway revenues mainly include rental incomes, advertising revenues, and onboard sales.



2) Historical Operating Revenues and Net Income

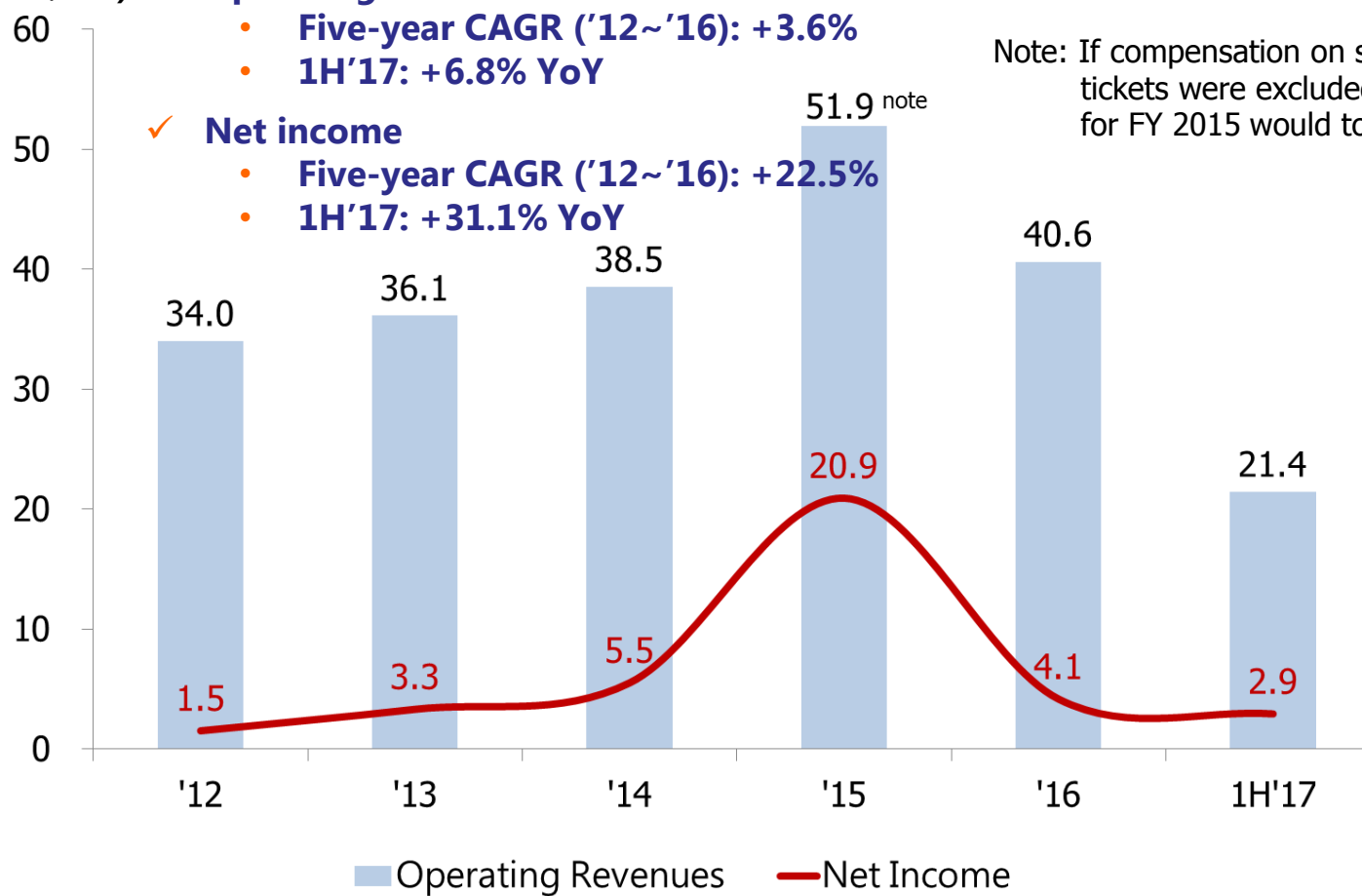
(NT\$bn) ✓ **Operating revenues**

- **Five-year CAGR ('12~'16): +3.6%**
- **1H'17: +6.8% YoY**

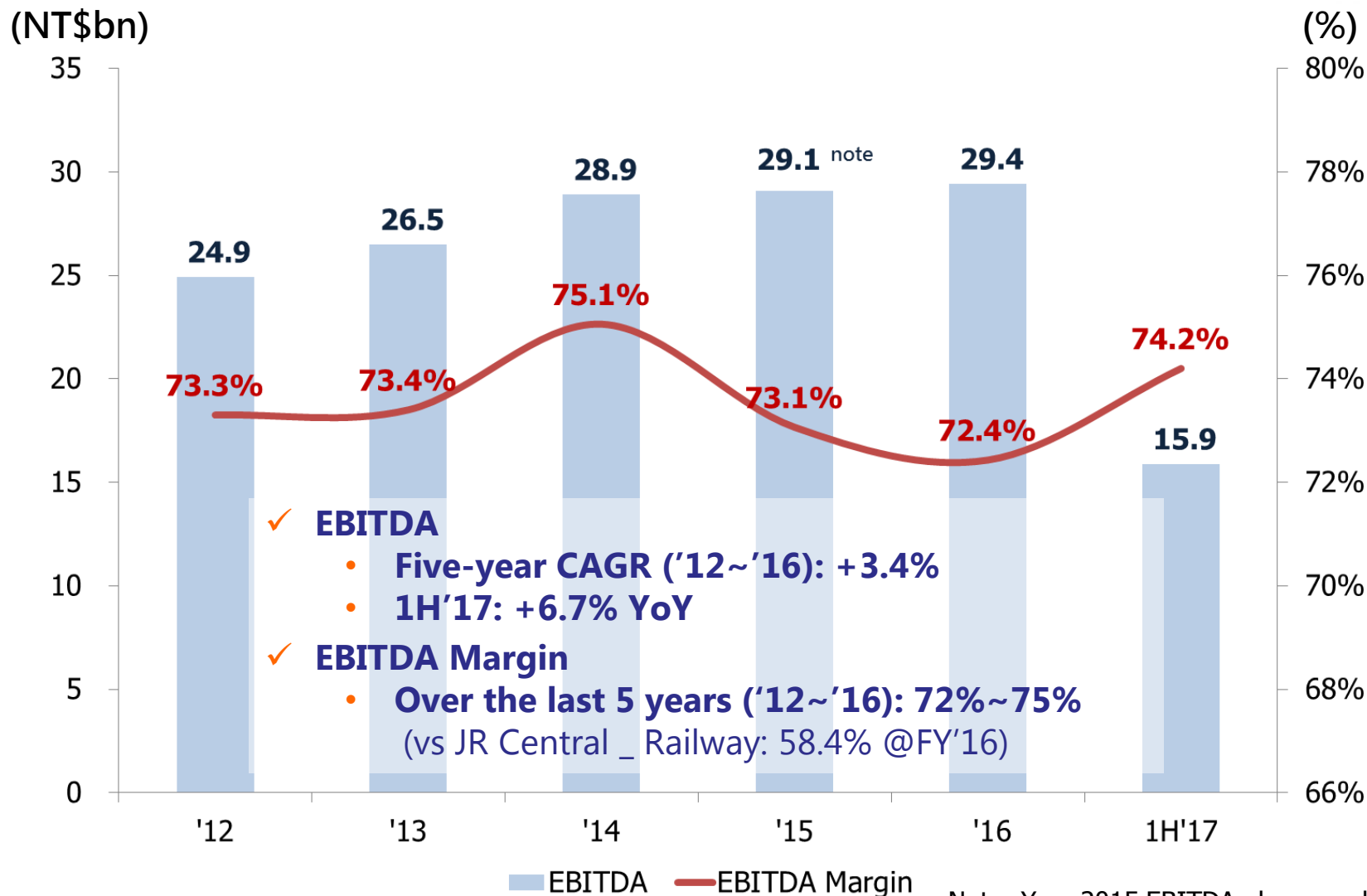
✓ **Net income**

- **Five-year CAGR ('12~'16): +22.5%**
- **1H'17: +31.1% YoY**

Note: If compensation on statutory discount tickets were excluded, operating revenues for FY 2015 would total \$39.8bn.

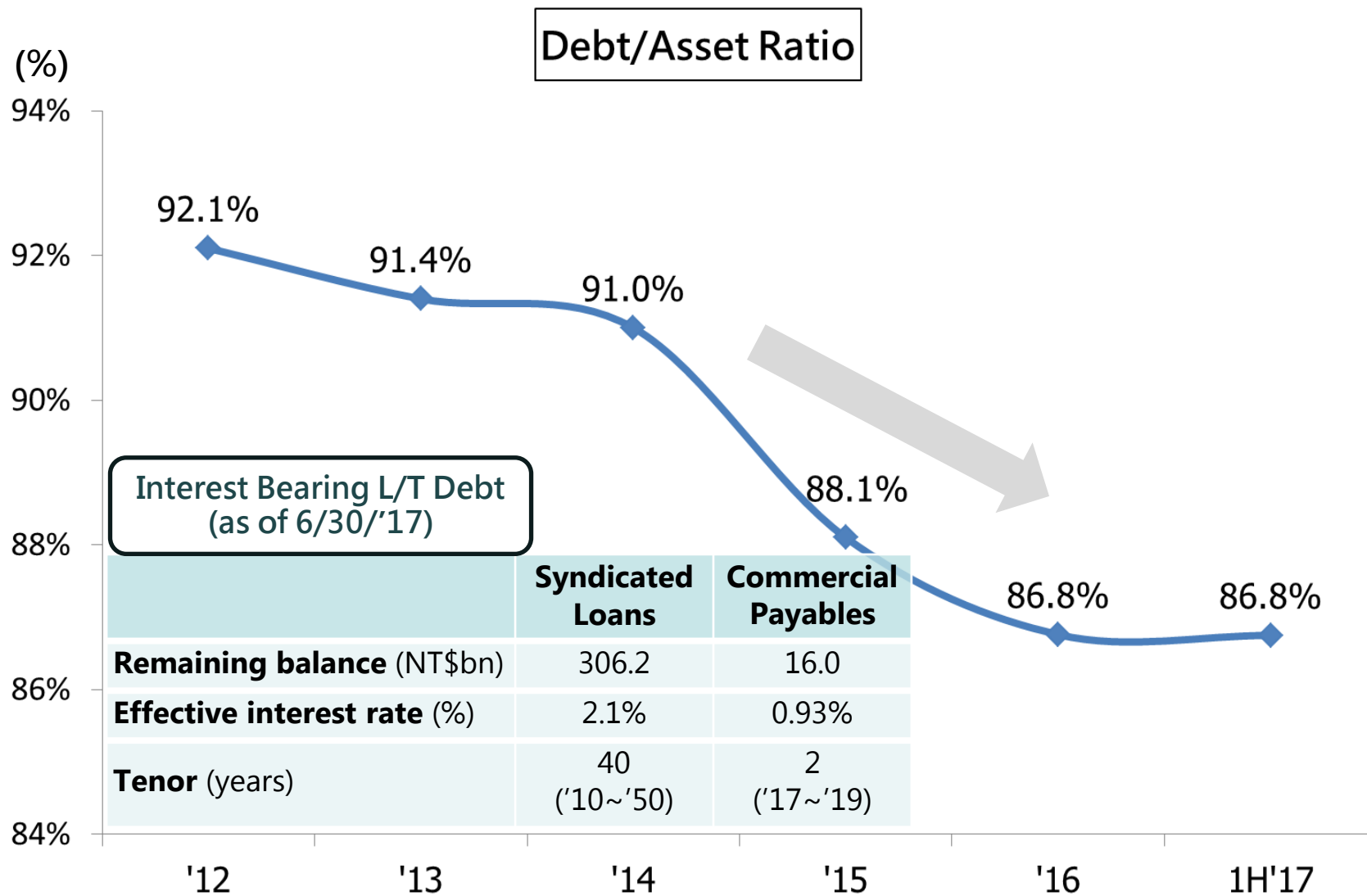


3. EBITDA & EBITDA Margin



Note: Year 2015 EBITDA above excludes the compensation of \$12.1bn on statutory discount tickets.

4. Financial Risk Management



5. Earnings Distribution



1) Dividend Policy

Taking into consideration current and future developments, investment environments, funding demands, domestic and international competition, shareholder interests and other relevant factors, the Company adopts a stable and balanced dividend policy as summarized below:

- ✓ The Company shall pay out at least 60% of the earnings available for distribution to shareholders.
- ✓ Of this, cash dividends shall exceed 50% of total distribution in any given fiscal year.

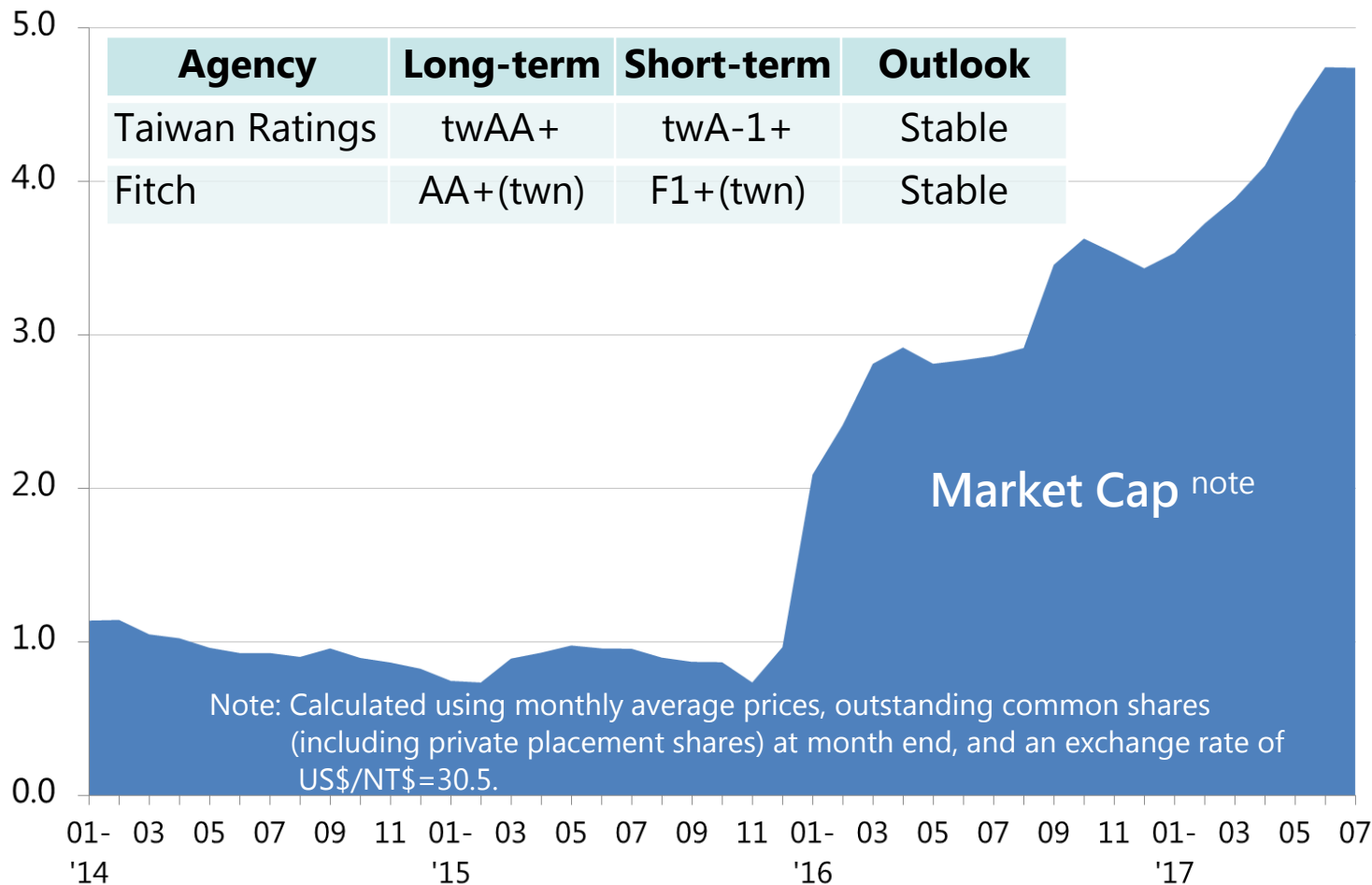
2) Dividend History

| | 2015 | 2016 |
|--|-------|-------|
| Cash dividend (NT\$/share) | 0.65 | 0.60 |
| Cash dividend over earnings available for distribution (%) | 98.5% | 89.9% |

6. Corporate Credit Ratings & Market Cap



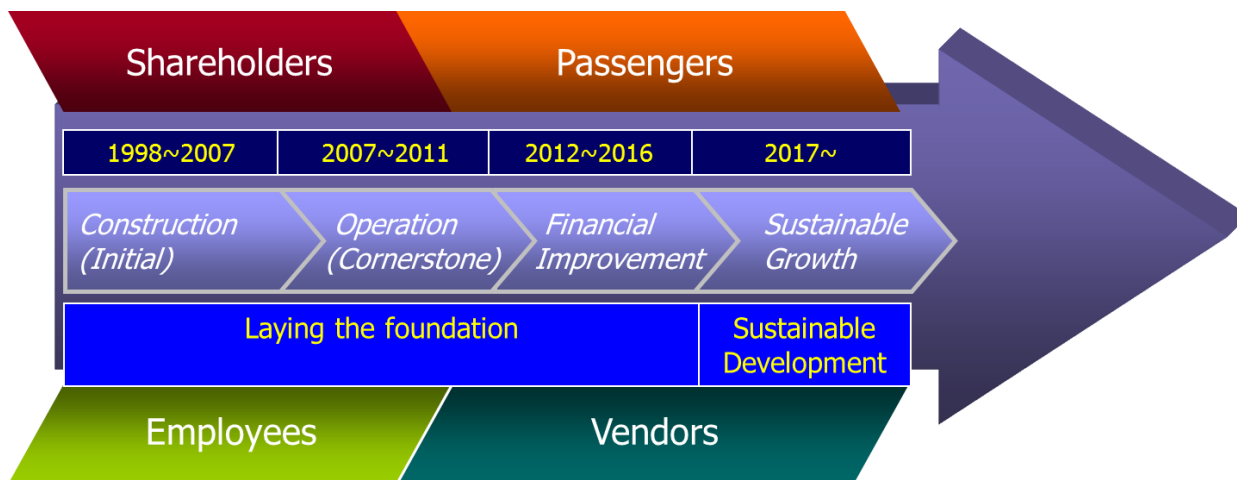
Market Cap
(US\$bn)





III. PROSPECTS

1. Optimize Company Financial Structure to Lower Interest Rate Risk and Enhance Profitability
2. Sustain Revenue Growth Drivers
3. Strengthen In-House Maintenance and Innovative Capabilities
4. Facilitate International Technical Exchanges



1. Optimize Company Financial Structure to Lower Interest Rate Risk and Enhance Profitability



Early redemption of syndicated loans

After taking L/T & S/T finance/operation funding demands and liquidity risks, into consideration, the Company made early redemptions of syndicated loans:

- ✓ Totaling \$21.0 bn in 4/'16 and 7/'16.
- ✓ \$21.2 bn in 3/'17.
- ✓ \$20.0 bn in 7/'17.

Issuance of direct financial instruments to pay off syndicated loans

To ensure appropriate L/T & S/T capital allocation and to enhance profitability, the Company issued the following direct financial instruments (i.e., corporate bonds, commercial papers):

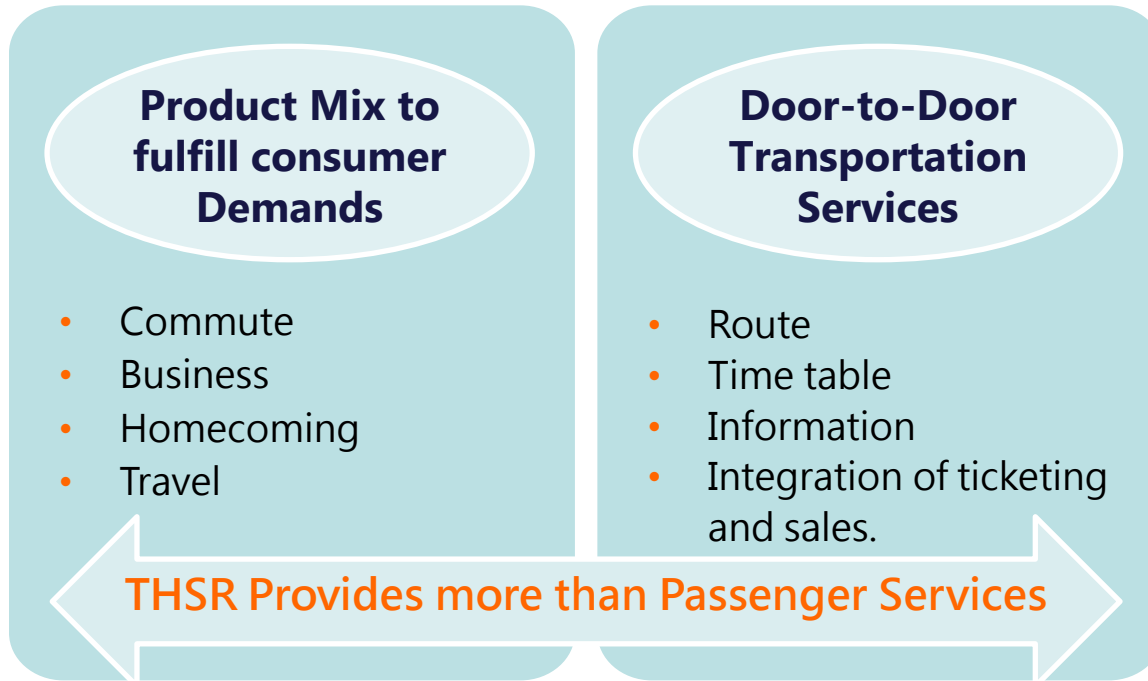
- ✓ Issuance of 2-year revolving commercial papers totaling \$16.0 bn (effective interest rate: 0.93%) in 3/'17 to pay off a portion of syndicated loans.

Negotiation with syndicate banks to lower interest rates

In order to reflect current/future credit risks and in keeping with shareholder interests, the Company continues to negotiate with syndicate banks for lower interest rates.

To Ensure Long-Term Financial Stability

2. Sustain Revenue Growth Drivers

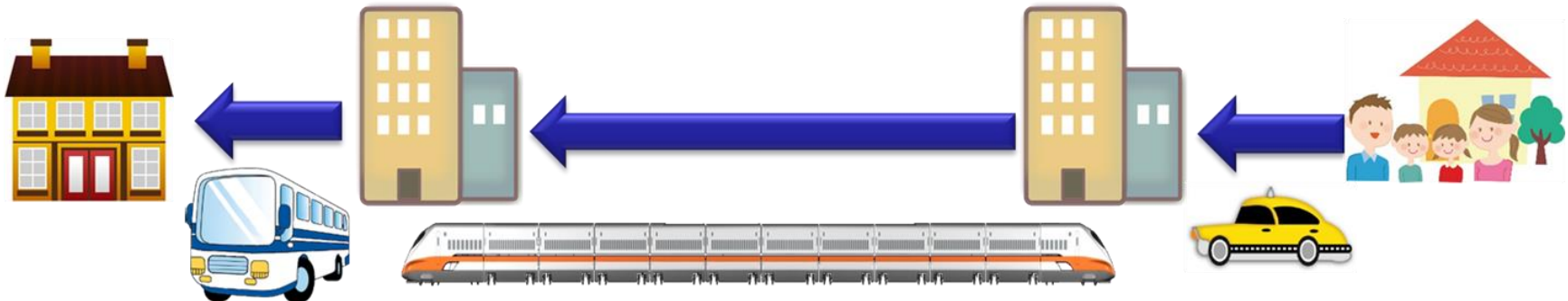


Destination

Arrival Station

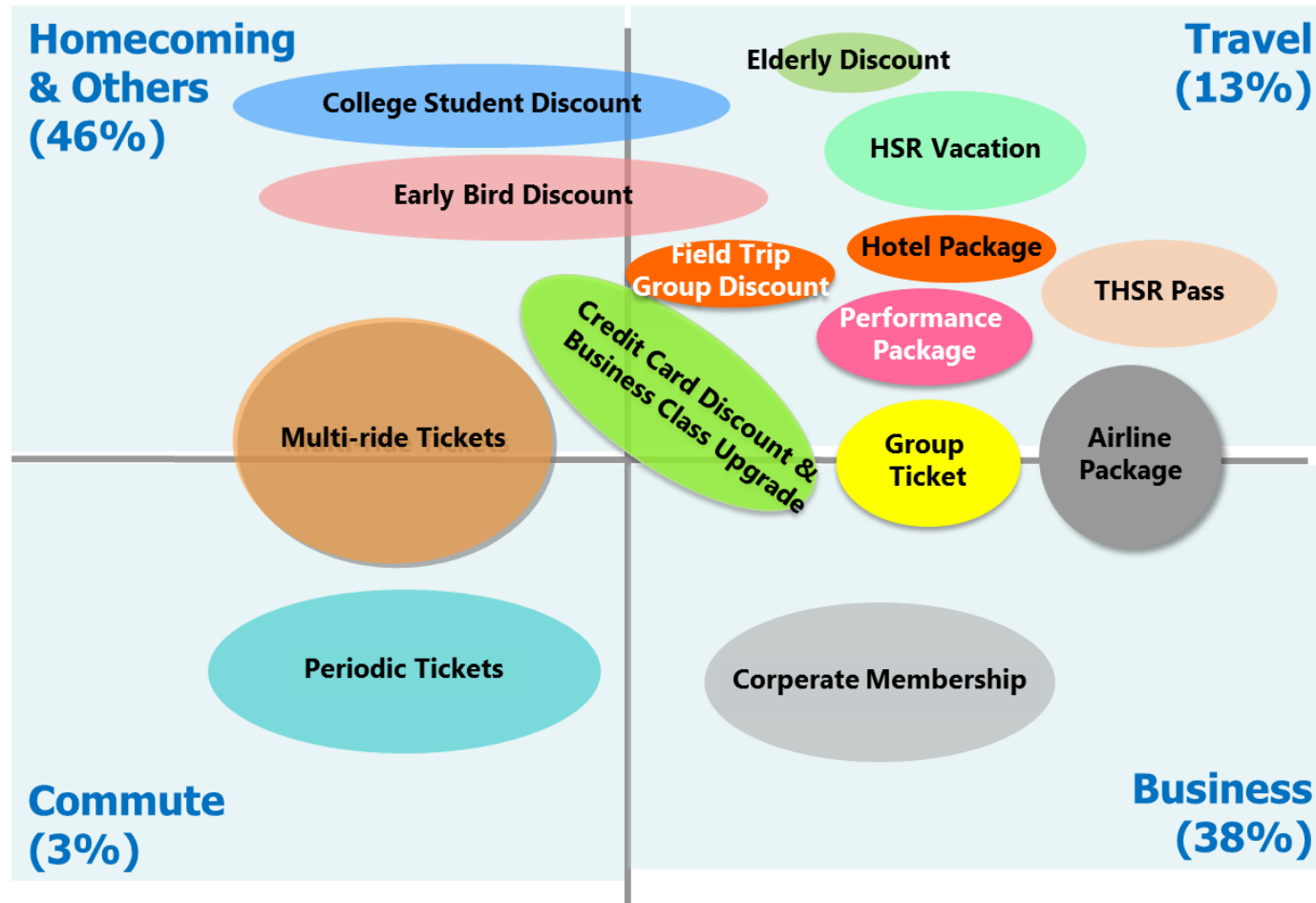
Departure Station

Home





1) Launching a Variety of Products for Different Trip Types



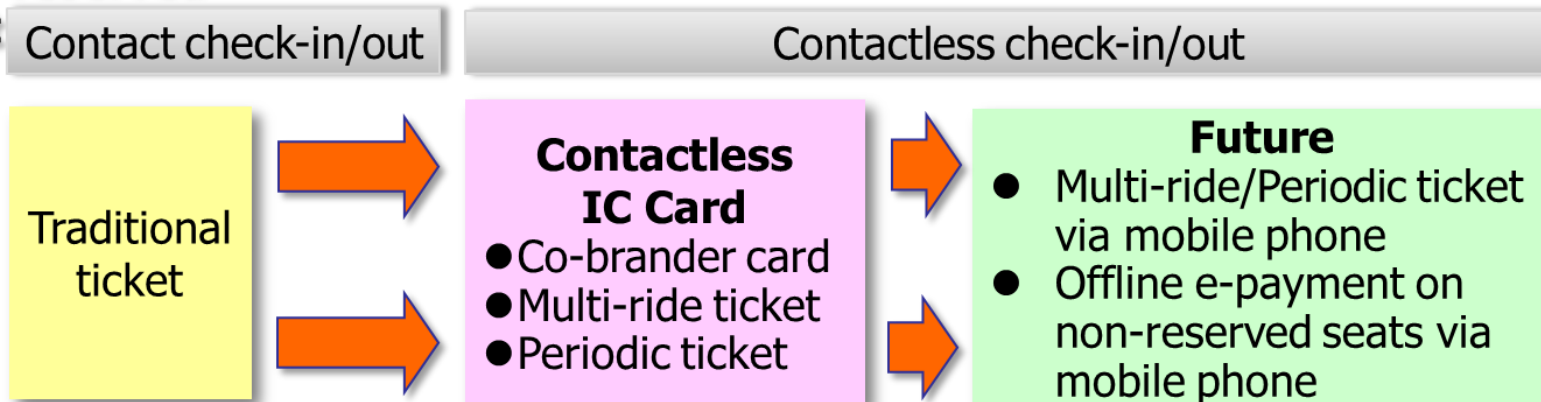
Source: Year 2015 high-speed rail passenger satisfaction survey.



2) Convenient Ticketing Services

| Reserved Seat | Station | Travel Agent | Internet | Convenient Store | Mobile |
|----------------------|---------|---|----------|------------------|-----------------|
| Booking | ● | ● | ● | ● | ● |
| Payment | ● | ● | ● | ● | ● |
| Ticket pick-up | ● | ● QRCode Issued by travel agent | | ● QRCode | ● QRCode |

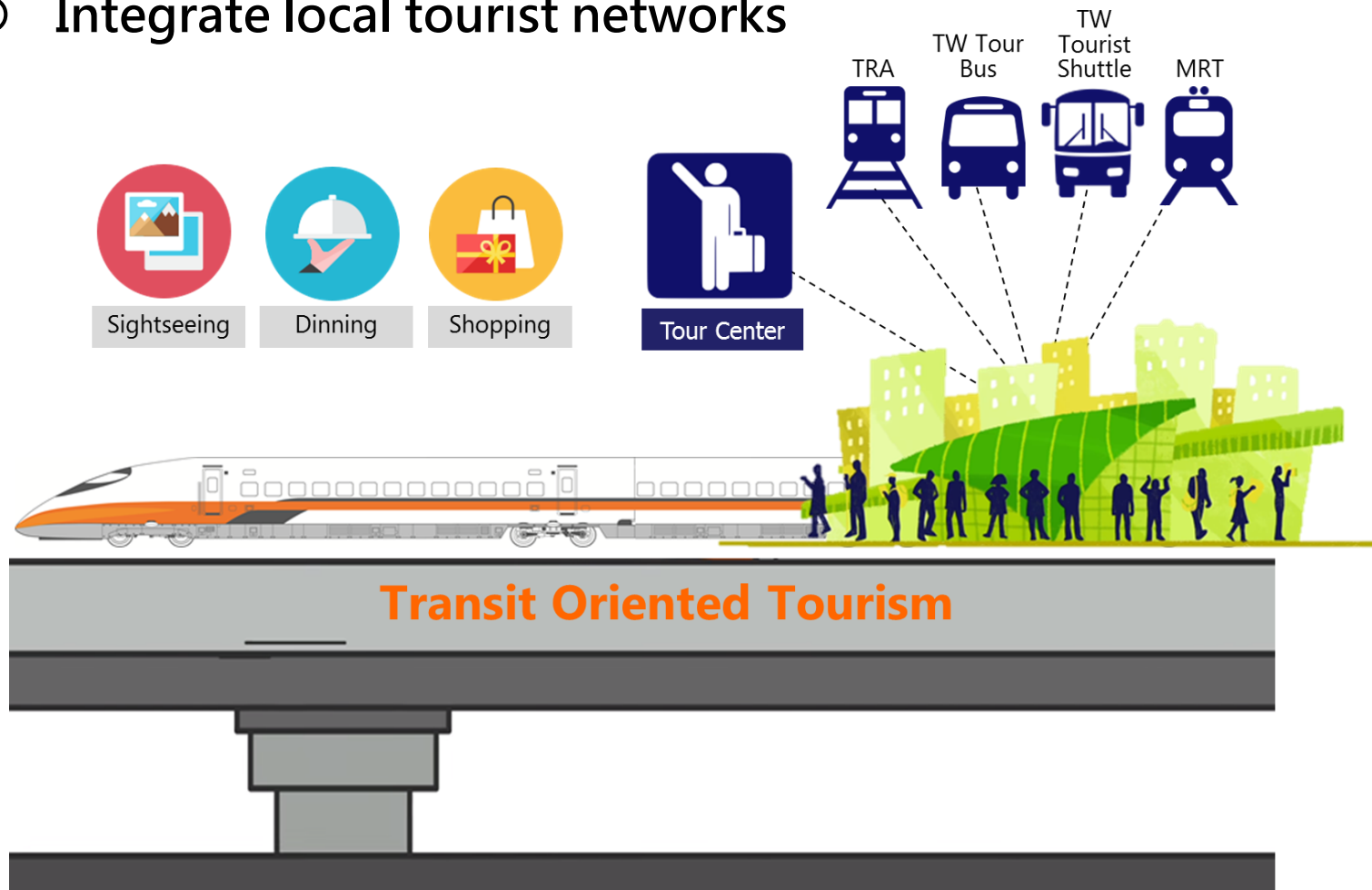
Non-reserved Seat





3) Make THSR the Backbone of Transit Oriented Tourism

① Integrate local tourist networks





3) Make THSR the Backbone of Transit Oriented Tourism

② Launch a variety of tourism products



3. Strengthen In-House Maintenance and Innovative Capabilities



1) Enhance autonomous maintenance capabilities

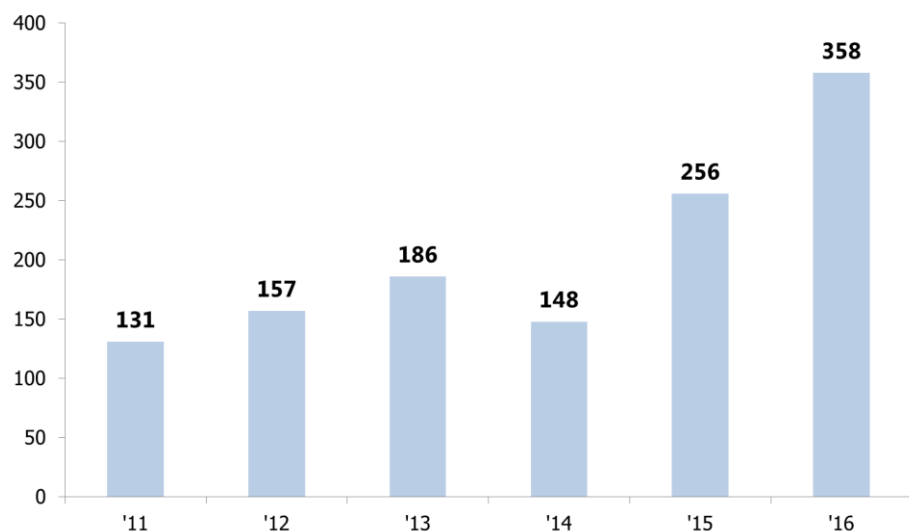
- Cooperate with domestic R&D institutes to establish railway equipment laboratories.
- Cooperate with Japan railway companies to accelerate technology transfers.
- Establish electrical, mechanical, and welding factories.





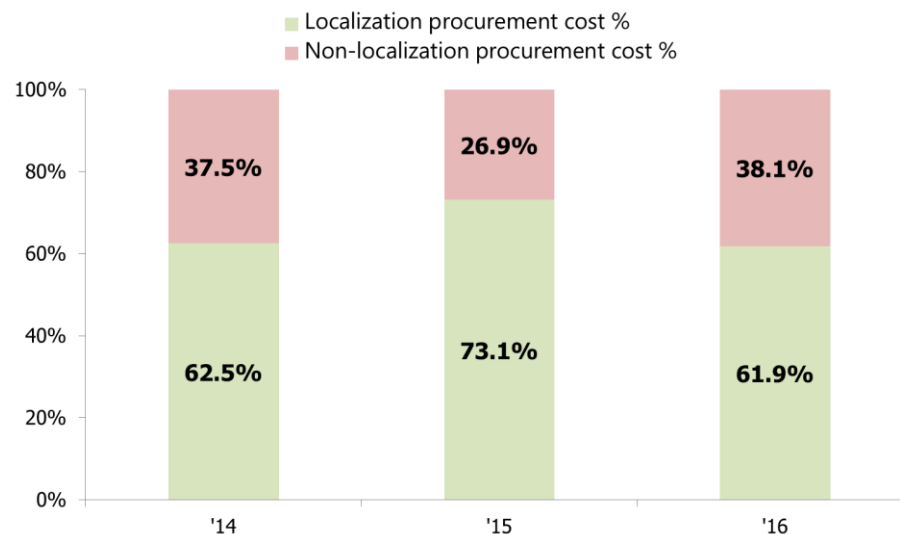
2) Implement Materials Localization

(NT\$m) Procurement Cost Savings on Localized Materials



(%)

Procurement %: Localization vs Non-localization



- ✓ THSRC works with national top R&D institutes (i.e. National Chung-Shan Institute of Science and Technology, Industrial Technology Research Institute, etc.) to assist qualified local suppliers in carrying out HSR material development and technology transfers while maintaining standards of traffic safety. The benefits for the Company include shortened delivery period for materials, reduced procurement costs, and fulfillment of corporate social responsibilities while supporting domestic enterprises.
- ✓ During the period between 2011 to 2016, 88 alternative manufacturers were identified; cost savings were more than NT\$1.2 bn, and savings continue to increase every year.



3) Information Session of Materials Localization Business Opportunities for Taiwan Railway Industry



- ✓ The Company hosted seminar for localized business opportunities of the Taiwanese railway industry in Aug 2017.
- ✓ In response to the government's promoting on the Forward-looking Infrastructure Development Program, the Company identifies localization demands on materials, maintenance equipment, system replacement and technology services, and proposes future procurement totaling around NT\$17 bn for the next 10 years.
- ✓ The current in-house maintenance ratio has over 80%, and it still continues upward pace.
- ✓ The Company targets the current railway materials localization ratio of 15% to 30% in Year 2022.



4. Facilitate International Technical Exchanges



- ✓ In May 2014, THSRC and the International Railway Union (UIC) jointly hosted the 1st UIC Conference on Natural Disaster Management of Railway Systems to establish innovative benchmarks for natural disaster responses in the railway industry.



- ✓ In May 2016, the annual meeting of the International High Speed Railway Association (IHRA) was held in Taipei for the first time. This was a significant breakthrough for future international cooperation and exportation of operational know-how and maintenance technologies.



- ✓ In June 2017, Rail Engineering Society of Taiwan engaged THSRC to host the 2017 Annual Conference to enhance technical and service quality of domestic railways, and to assist the government in future track development projects.



Conclusion

The Company will implement the following three principles: (1). abiding by operational philosophies of integrity, (2). strengthening corporate governance, and (3). fulfilling corporate social responsibilities in the future, in order to:

- ❑ Make THSR a high-quality **4T** culture and creative lifestyle industry in Taiwan
 - Transportation
 - Technology
 - Taiwan
 - Touch
- ❑ Integrate railway-related industries to enhance domestic technologies and become a pioneer of the Taiwan railway industry.
- ❑ Provide more comprehensive and intimate transportation services, and set an example as public transportation business in Taiwan.



Thank You For Your Attention