Taiwan High Speed Rail Corporation

Financial Statements for the
Nine Months Ended September 30, 2017 and 2016 and
Independent Auditors' Review Report

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Taiwan High Speed Rail Corporation

We have reviewed the accompanying balance sheets of Taiwan High Speed Rail Corporation as of September 30, 2017 and 2016, and the related statements of comprehensive income for the three months ended September 30, 2017 and 2016 and for the nine months ended September 30, 2017 and 2016, as well as the statements of changes in equity and cash flows for the nine months ended September 30, 2017 and 2016. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36, "Review of Financial Statements," issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34, "Interim Financial Reporting," endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 7, 2017

<u>Notice to Readers</u>

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 review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' review 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' review report and financial statements shall prevail.

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	September 30, 2017 (Reviewed)		December 31, 2016 (Audited)		September 30, 2016 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 3,027,345	1	$ 237,457	-	$ 2,958,508	1
Available-for-sale financial assets (Note 7)	318,335	-	311,693	-	311,291	-
Hedging derivative assets (Note 8)	-	-	225	-	171	-
Notes and accounts receivable	242,277	-	550,033	-	238,550	-
Inventories (Note 9)	2,113,512	-	2,005,154	1	2,204,420	-
Other financial assets (Notes 10 and 27)	7,253,229	2	24,714,305	5	21,859,099	5
Prepayments and other current assets (Note 13)	352,932	-	909,415	-	218,545	-
Total current assets	13,307,630	3	28,728,282	6	27,790,584	6
NON-CURRENT ASSETS						
Property, plant and equipment (Note 11)	108,434	-	65,305	-	57,556	-
Operating concession asset (Note 12)	416,356,706	95	426,020,379	92	429,666,138	93
Computer software, net (Note 12)	41,151	-	34,994	-	37,357	-
Deferred tax assets (Note 22)	4,173,187	1	4,285,765	1	4,118,175	1
Other financial assets (Notes 10 and 27)	2,123,791	1	2,060,388	1	2,070,092	-
Other non-current assets (Note 13)	15,863	-	12,259	-	6,634	-
Total non-current assets	422,819,132	97	432,479,090	94	435,955,952	94
TOTAL	$ 436,126,762	100	$ 461,207,372	100	$ 463,746,536	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 14)	$ 108,563	-	$ 60,130	-	$ 66,122	-
Hedging derivative liabilities (Note 8)	433	-	-	-	-	-
Accounts payable	298,242	-	247,519	-	309,491	-
Operating concession liability (Note 15)	494,716	-	3,180,612	1	3,160,375	1
Other payables (Notes 14 and 17)	2,376,142	1	2,755,992	1	2,467,996	1
Payable for construction	453,943	-	889,292	-	1,050,124	-
Current tax liabilities	504,831	-	474,723	-	100,339	-
Provisions (Note 16)	299,419	-	301,701	-	306,430	-
Current portion of long-term debt (Note 14)	-	-	10,944,843	2	10,944,841	2
Other current liabilities (Note 17)	840,541	-	960,682	-	730,423	-
Total current liabilities	5,376,830	1	19,815,494	4	19,136,141	4
NON-CURRENT LIABILITIES						
Long-term debt (Note 14)	286,081,067	66	316,279,751	69	321,750,437	69
Long-term bills payable (Note 14)	15,955,911	4	-	-	-	-
Provisions (Note 16)	2,880,204	1	280,289	-	-	-
Long-term interest payable (Note 14)	9,468,191	2	9,582,166	2	9,328,697	2
Operating concession liability (Note 15)	54,392,951	12	53,990,329	12	53,717,134	12
Other non-current liabilities (Notes 17 and 22)	207,535	-	195,662	-	126,994	-
Total non-current liabilities	368,985,859	85	380,328,197	83	384,923,262	83
Total liabilities	374,362,689	86	400,143,691	87	404,059,403	87
EQUITY (Note 19)						
Capital stock						
Common stock	56,282,930	13	56,282,930	12	56,052,930	12
Capital surplus	172,981	-	172,981	-	-	-
Retained earnings						
Legal reserve	866,090	-	451,180	-	451,180	-
Unappropriated earnings	4,441,237	1	4,155,897	1	3,182,079	1
Total retained earnings	5,307,327	1	4,607,077	1	3,633,259	1
Unrealized gain on available-for-sale financial assets	835	-	693	-	944	-
Total equity	61,764,073	14	61,063,681	13	59,687,133	13
TOTAL	$ 436,126,762	100	$ 461,207,372	100	$ 463,746,536	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)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 20 and 26)	$ 10,613,824	100	$ 10,016,203	100	$ 32,026,143	100	$ 30,062,188	100
OPERATING COSTS (Notes 21 and 26)	(6,202,359)	(58)	(6,647,037)	(67)	(18,006,753)	(56)	(19,126,616)	(64)
GROSS PROFIT	4,411,465	42	3,369,166	33	14,019,390	44	10,935,572	36
OPERATING EXPENSES (Note 21)	(267,555)	(3)	(224,797)	(2)	(788,396)	(2)	(681,678)	(2)
INCOME FROM OPERATIONS	4,143,910	39	3,144,369	31	13,230,994	42	10,253,894	34
NON-OPERATING INCOME AND EXPENSES								
Interest income (Note 21)	15,244	-	21,583	-	75,271	-	93,456	-
Interest expense (Notes 14, 21 and 26)	(1,841,013)	(17)	(2,030,082)	(20)	(5,718,055)	(18)	(6,362,816)	(21)
Stabilization reserve expense (Note 16)	(917,396)	(9)	-	-	(2,599,915)	(8)	-	-
Other gains and losses (Note 21)	(3,174)	-	(43,883)	-	(41,140)	-	(228,164)	(1)
Total non-operating income and expenses	(2,746,339)	(26)	(2,052,382)	(20)	(8,283,839)	(26)	(6,497,524)	(22)
INCOME BEFORE INCOME TAX	1,397,571	13	1,091,987	11	4,947,155	16	3,756,370	12
INCOME TAX EXPENSE (Note 22)	(232,538)	(2)	(185,866)	(2)	(869,929)	(3)	(628,907)	(2)
NET INCOME	1,165,033	11	906,121	9	4,077,226	13	3,127,463	10
OTHER COMPREHENSIVE INCOME								
Items that may be reclassified subsequently to profit or loss								
Unrealized gain/(loss) on available-for-sale financial assets	325	-	(540)	-	142	-	389	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 1,165,358	11	$ 905,581	9	$ 4,077,368	13	$ 3,127,852	10
EARNINGS PER SHARE (Note 23)								
Basic earnings per share	$ 0.20		$ 0.16		$ 0.72		$ 0.56	

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)
(Reviewed, Not Audited)

	Capital Stock		Retained Earnings			Unrealized Gain/ (Loss) on Available-for-sale Financial Assets	
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Total		Total Equity
BALANCE, JANUARY 1, 2017	$ 56,282,930	$ 172,981	$ 451,180	$ 4,155,897	$ 4,607,077	$ 693	$ 61,063,681
Appropriations of prior year's earnings							
Legal reserve	-	-	414,910	(414,910)	-	-	-
Cash dividends to shareholders - NT$0.6 per share	-	-	-	(3,376,976)	(3,376,976)	-	(3,376,976)
	-	-	414,910	(3,791,886)	(3,376,976)	-	(3,376,976)
Net income for the nine months ended September 30, 2017	-	-	-	4,077,226	4,077,226	-	4,077,226
Other comprehensive income for the nine months ended September 30, 2017	-	-	-	-	-	142	142
Total comprehensive income for the nine months ended September 30, 2017	-	-	-	4,077,226	4,077,226	142	4,077,368
BALANCE, SEPTEMBER 30, 2017	$ 56,282,930	$ 172,981	$ 866,090	$ 4,441,237	$ 5,307,327	$ 835	$ 61,764,073
BALANCE, JANUARY 1, 2016	$ 56,052,930	$ -	$ 40,285	$ 4,108,952	$ 4,149,237	$ 555	$ 60,202,722
Appropriations of prior year's earnings							
Legal reserve	-	-	410,895	(410,895)	-	-	-
Cash dividends to shareholders - NT$0.65 per share	-	-	-	(3,643,441)	(3,643,441)	-	(3,643,441)
	-	-	410,895	(4,054,336)	(3,643,441)	-	(3,643,441)
Net income for the nine months ended September 30, 2016	-	-	-	3,127,463	3,127,463	-	3,127,463
Other comprehensive income for the nine months ended September 30, 2016	-	-	-	-	-	389	389
Total comprehensive income for the nine months ended September 30, 2016	-	-	-	3,127,463	3,127,463	389	3,127,852
BALANCE, SEPTEMBER 30, 2016	$ 56,052,930	$ -	$ 451,180	$ 3,182,079	$ 3,633,259	$ 944	$ 59,687,133

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 4,947,155	$ 3,756,370
Adjustments for:		
Depreciation	27,166	25,668
Amortization	10,162,982	11,716,858
Gain on reversal of inventory write-down	(9,276)	(7,688)
Interest expense	5,718,055	6,362,816
Interest income	(75,271)	(93,456)
Loss (gain) on foreign currency exchange, net	(1,482)	90,062
Stabilization reserve expense	2,599,915	-
Others	6,436	(20,229)
Changes in operating assets and liabilities		
Derivative financial assets for hedging	658	(171)
Notes and accounts receivable	307,756	(28,362)
Inventories	(96,472)	(40,652)
Prepayments and other current assets	557,234	304,873
Other non-current assets	(6,455)	(3,519)
Accounts payable	51,909	(132,930)
Other payable	(323,564)	275,830
Payment for provisions - controversial overtime	(4,889)	(218,367)
Payment for provisions - preferred stock compensation	-	(15,155,212)
Other current liabilities	(120,141)	(38,013)
Other non-current liabilities	(4,545)	(4,552)
Cash generated from operations	23,737,171	6,789,326
Interest received	74,479	106,809
Interest paid	(5,026,274)	(4,751,232)
Interest paid with respect to operating concession liabilities	(3,180,612)	(1,883,383)
Income tax refund (paid)	(727,029)	13,286
Net cash generated from operating activities	14,877,735	274,806
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(141,500)	(109,000)
Proceeds from disposal of available-for-sale financial assets	135,742	401,606
Decrease in other financial assets	17,394,563	32,615,191
Acquisition of property, plant and equipment	(27,710)	(12,477)
Proceeds from disposal of property, plant and equipment	-	457
Acquisition of intangible assets	(979,014)	(2,214,239)
Proceeds from disposal of intangible assets	278	134
Net cash generated from investing activities	16,382,359	30,681,672

(Continued)

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2017	**2016**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term borrowings	$ 51,130	$ 22,980
Issuance of long-term bills payable	16,000,000	-
Repayment of long-term debt	(41,160,564)	(26,473,265)
Increase in other non-current liabilities	16,204	4,229
Cash dividends	(3,376,976)	(3,643,433)
Net cash used in financing activities	(28,470,206)	(30,089,489)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	-	(54,877)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,789,888	812,112
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	237,457	2,146,396
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 3,027,345	$ 2,958,508

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

1. GENERAL

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were reported to the board of directors on November 7, 2017.

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")

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

   The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction.

If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

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

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application effective from 2018

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

As of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of above standards and interpretations will have on the Corporation's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

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

Effective Date Announced by IASB	New IFRSs
January 1, 2019	Amendment to IFRS 9 "Prepayment Features with Negative Compensation"
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, 2021	IFRS 17 "Insurance Contracts"
Effective date to be determined by IASB	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

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

1) IFRS 16 "Leases"

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

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

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

   The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed by the FSC. The financial statements do not present all the disclosures required for a complete set of annual financial statements prepared under the IFRSs.

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 investments in bonds with resale agreements with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

f. Available-for-sale financial assets

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

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

g. Impairment of accounts receivable

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

h. Inventories

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

i. Property, plant and equipment

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

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

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

j. Intangible assets

1) Operating concession asset

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

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

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

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

2) Computer software

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

k. Operating concession liability

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

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

l. Impairment of assets

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

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

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

m. Hedging derivatives

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

n. Provisions

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

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

o. Revenue recognition

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

Sales of tickets that grant 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 consideration allocated to the reward credits is measured by reference to the fair value of the reward, which is the amount the reward 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 reward credits are redeemed and the Corporation’s obligations have been fulfilled.

p. Borrowing costs

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

q. Retirement benefit costs

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

r. Taxation

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

1) Current tax

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

The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the income before income tax of the interim period.

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

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

2) Deferred tax

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Controversial overtime

As of September 30, 2017, the Corporation recognized a provision for controversial overtime in the amount of $293,566 thousand. The estimated provision could differ from the actual amount payable which is subject to the result of the administrative judgement or the agreement to be signed with the employees. Please refer to Note 16 for further information.

b. Stabilization reserve

As of September 30, 2017, the Corporation recognized a provision for stabilization reserve in the amount of $2,880,204 thousand in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability of the Corporation during 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 September 30, 2017, December 31, 2016 and September 30, 2016, the carrying amounts of deferred tax assets in relation to deductible temporary differences were $4,173,187 thousand, $4,285,765 thousand and $4,118,175 thousand, respectively. As of September 30, 2017, December 31, 2016 and September 30, 2016, $995 thousand, $995 thousand and $729 thousand, respectively, were not recognized as deferred tax assets due to future income fluctuation.

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

d. Amortization of intangible assets - operating concession asset

In the commercial operation of the transportation system, the Corporation has accumulated extensive experience, including the skills of self-maintenance. From this extensive experience, the Corporation is able to assess the anticipated beneficial usage, as well as external economic changes and other factors. The Corporation has assessed that the useful lives of certain operating concession assets as previously estimated need revision. In order to reasonably reflect future economic benefits and appropriately amortize the cost of the assets, the Corporation held a meeting of the Asset Review Committee on September 15, 2017. The Committee thereby decided to modify the estimated amortization lives of certain operation concession assets. The revised estimated amortization lives became effective on October 1, 2017. The amortization expense for the three months from October 1, 2017 to December 31, 2017 will increase by $308,183 thousand due to the revision of the amortization lives of certain operating concession assets.

6. CASH AND CASH EQUIVALENTS

	September 30, 2017	December 31, 2016	September 30, 2016
Cash on hand	$ 144,577	$ 179,701	$ 71,755
Checking accounts	19	19	16
Demand deposits	114,704	49,729	1,032,159
Time deposits	8,045	8,008	1,854,578
Repurchase agreement collateralized by government bonds	2,760,000	-	-
	$ 3,027,345	$ 237,457	$ 2,958,508

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

	September 30, 2017	December 31, 2016	September 30, 2016
Demand deposits	0.001%-0.23%	0.001%-0.14%	0.001%-0.08%
Time deposits	0.62%	0.62%	0.15%-1.37%
Repurchase agreement collateralized by government bonds	0.39%-0.43%	-	-

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Open-end money market funds	$ 318,335	$ 311,693	$ 311,291

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	September 30, 2017	December 31, 2016	September 30, 2016
Hedging derivative assets			
Fair value hedges - forward exchange contracts	$ -	$ 225	$ 171
Hedging derivative liabilities			
Fair value hedges - forward exchange contracts	$ 433	$ -	$ -

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)
September 30, 2017			
Buy	US$/JPY	October 2017	JPY 140,887
Buy	NT$/US$	October 2017	US$ 1,276
December 31, 2016			
Buy	US$/JPY	January 2017	JPY 173,140
Buy	NT$/US$	January 2017	US$ 1,689
September 30, 2016			
Buy	US$/JPY	October 2016	JPY 78,041
Buy	NT$/US$	October 2016	US$ 768

9. INVENTORIES

	September 30, 2017	December 31, 2016	September 30, 2016
Spare parts and supplies	$ 2,104,632	$ 1,995,508	$ 2,195,216
Merchandise	8,880	9,646	9,204
	$ 2,113,512	$ 2,005,154	$ 2,204,420

As of September 30, 2017, December 31, 2016 and September 30, 2016, allowance for loss on inventories amounted to $596,687 thousand, $605,963 thousand and $524,690 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Repurchase agreement collateralized by government bonds	$ 5,599,000	$ 21,682,200	$ 21,624,800
Time deposits	3,767,174	2,945,641	94,041
Demand deposits	6,170	130,463	201,050
Performance guarantee for customs duties and others	4,676	16,389	9,300
Performance guarantee for the C&O Agreement	-	2,000,000	2,000,000
	$ 9,377,020	$ 26,774,693	$ 23,929,191

(Continued)

	September 30, 2017	December 31, 2016	September 30, 2016
Current	$ 7,253,229	$ 24,714,305	$ 21,859,099
Non-current	2,123,791	2,060,388	2,070,092
	$ 9,377,020	$ 26,774,693	$ 23,929,191

(Concluded)

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

	September 30, 2017	December 31, 2016	September 30, 2016
Repurchase agreement collateralized by government bonds	0.42%-0.44%	0.30%-0.51%	0.29%-0.36%
Time deposits	0.15%-1.83%	0.15%-1.21%	0.15%-1.21%
Demand deposits	0.05%-0.08%	0.08%	0.08%

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

11. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2017	December 31, 2016	September 30, 2016
Land	$ 28	$ 28	$ 28
Machinery and equipment	47,407	42,691	33,857
Transportation equipment	-	-	-
Office equipment	11,243	6,695	6,121
Leasehold improvements	311	1,114	1,381
Other equipment	49,445	14,777	16,169
	$ 108,434	$ 65,305	$ 57,556

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost							
Balance at January 1, 2017	$ 28	$ 241,472	$ 310	$ 119,082	$ 79,370	$ 204,090	$ 644,352
Additions	-	19,903	-	6,404	-	1,403	27,710
Disposals	-	(2,305)	(68)	(2,380)	-	(281)	(5,034)
Transfer	-	-	-	-	-	42,586	42,586
Balance at September 30, 2017	28	259,070	242	123,106	79,370	247,798	709,614
Accumulated depreciation							
Balance at January 1, 2017	-	198,781	310	112,387	78,256	189,313	579,047
Depreciation	-	15,187	-	1,856	803	9,320	27,166
Disposals	-	(2,305)	(68)	(2,380)	-	(281)	(5,034)
Transfer	-	-	-	-	-	1	1
Balance at September 30, 2017	-	211,663	242	111,863	79,059	198,353	601,180
	$ 28	$ 47,407	$ -	$ 11,243	$ 311	$ 49,445	$ 108,434

(Continued)

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost							
Balance at January 1, 2016	$ 28	$ 260,124	$ 344	$ 115,931	$ 79,324	$ 214,322	$ 670,073
Additions	-	7,920	-	2,165	46	2,346	12,477
Disposals	-	(5,020)	(34)	(509)	-	(11,780)	(17,343)
Transfer	-	-	-	318	-	-	318
Balance at September 30, 2016	28	263,024	310	117,905	79,370	204,888	665,525
Accumulated depreciation							
Balance at January 1, 2016	-	220,381	344	110,013	77,211	191,196	599,145
Depreciation	-	13,806	-	2,258	778	8,894	25,736
Disposals	-	(5,020)	(34)	(487)	-	(11,371)	(16,912)
Balance at September 30, 2016	-	229,167	310	111,784	77,989	188,719	607,969
	$ 28	$ 33,857	$ -	$ 6,121	$ 1,381	$ 16,169	$ 57,556

(Concluded)

12. INTANGIBLE ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Operating concession asset	$ 416,356,706	$ 426,020,379	$ 429,666,138
Computer software, net	41,151	34,994	37,357
	$ 416,397,857	$ 426,055,373	$ 429,703,495

a. Movements of the intangible assets

	Operating Concession Assets						
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress	Total	Computer Software, Net	Total
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	169,404	-	-	359,801	529,205	15,342	544,547
Disposals	(64,144)	-	-	-	(64,144)	-	(64,144)
Transfer	201,834	-	-	(243,919)	(42,085)	4,400	(37,685)
Balance at September 30, 2017	472,278,491	69,972,043	12,701,819	279,102	555,231,455	397,347	555,628,802
Accumulated amortization							
Balance at January 1, 2017	115,041,859	13,445,248	300,993	-	128,788,100	342,611	129,130,711
Amortization	9,142,748	823,205	180,594	-	10,146,547	13,585	10,160,132
Disposals	(59,897)	-	-	-	(59,897)	-	(59,897)
Transfer	(1)	-	-	-	(1)	-	(1)
Balance at September 30, 2017	124,124,709	14,268,453	481,587	-	138,874,749	356,196	139,230,945
	$ 348,153,782	$ 55,703,590	$ 12,220,232	$ 279,102	$ 416,356,706	$ 41,151	$ 416,397,857
Cost							
Balance at January 1, 2016	$ 464,442,873	$ 69,972,043	$ 12,701,819	$ 5,958,958	$ 553,075,693	$ 364,623	$ 553,440,316
Additions	94,090	-	-	1,702,893	1,796,983	10,461	1,807,444
Disposals	(298,632)	-	-	-	(298,632)	-	(298,632)
Transfer	7,571,666	-	-	(7,593,445)	(21,779)	-	(21,779)
Balance at September 30, 2016	471,809,997	69,972,043	12,701,819	68,406	554,552,265	375,084	554,927,349
Accumulated amortization							
Balance at January 1, 2016	101,041,001	12,347,640	60,200	-	113,448,841	323,385	113,772,226
Amortization	10,697,653	823,205	180,595	-	11,701,453	14,342	11,715,795
Disposals	(247,824)	-	-	-	(247,824)	-	(247,824)
Transfer	(16,343)	-	-	-	(16,343)	-	(16,343)
Balance at September 30, 2016	111,474,487	13,170,845	240,795	-	124,886,127	337,727	125,223,854
	$ 360,335,510	$ 56,801,198	$ 12,461,024	$ 68,406	$ 429,666,138	$ 37,357	$ 429,703,495

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

	September 30, 2017	December 31, 2016	September 30, 2016
Operating assets, net			
Land improvements	$ 172,765,970	$ 175,355,929	$ 176,221,337
Buildings	28,916,698	29,323,517	29,449,175
Machinery and equipment	32,110,394	34,120,242	35,309,695
Transportation equipment	114,344,721	118,113,532	119,338,007
Other equipment	15,999	16,318	17,296
	$ 348,153,782	$ 356,929,538	$ 360,335,510
Construction in progress			
Prepayments for equipment	$ 279,102	$ 163,220	$ 68,406

13. OTHER ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Prepayments and other current assets			
Prepayments	$ 293,490	$ 853,011	$ 159,513
Other receivable	38,622	39,180	36,789
Others	20,820	17,224	22,243
	$ 352,932	$ 909,415	$ 218,545
Other non-current assets			
Others	$ 15,863	$ 12,259	$ 6,634

14. BORROWINGS AND LONG-TERM BILLS PAYABLE

a. Short-term borrowings

	September 30, 2017	December 31, 2016	September 30, 2016
JPY letters of credit	$ 108,563	$ 53,250	$ 66,122
USD letters of credit	-	6,880	-
	$ 108,563	$ 60,130	$ 66,122

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

	September 30, 2017	December 31, 2016	September 30, 2016
JPY letters of credit	0.59%-0.82%	0.7%-0.79%	0.61%-0.77%
USD letters of credit	-	2.6%	-

b. Long-term debt

	September 30, 2017	December 31, 2016	September 30, 2016
Syndicated loan			
Tranche A1 Facility	$ 130,000,000	$ 130,000,000	$ 130,000,000
Tranche A2 Facility	156,205,117	176,205,117	176,205,117
Tranche C Facility	-	21,160,563	26,633,828
	286,205,117	327,365,680	332,838,945
Less: Unamortized cost of long-term debt	(124,050)	(141,086)	(143,667)
	286,081,067	327,224,594	332,695,278
Less: Current portion (including unamortized cost of long-term debt)			
Tranche C Facility	-	(10,946,529)	(10,946,529)
Unamortized cost of long-term debt	-	1,686	1,688
	-	(10,944,843)	(10,944,841)
	$ 286,081,067	$ 316,279,751	$ 321,750,437

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

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

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

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

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

a) Term of loan and repayment method

	Term of Loan	Number of Semi-annual Installment Repayment	Ratio of Repayment
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050 (after early repayment made on July 4, 2017, the last installment repayment date is May 4, 2048)	Installments 59	4.0% per installment
Tranche C Facility	May 4, 2016-May 4, 2020 (repaid on March 2, 2017 before its maturity)	Installments 01-09	Fixed payment per installment
Tranche D Facility	May 4, 2013-May 4, 2017 (repaid on April 13, 2016 before its maturity)	Installments 01-09	Fixed payment per installment

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below, effective May 4, 2010 (the first drawdown date). Due to the step-up spread mechanism, the Corporation shall make up for the deficit of the interests below the agreed interest rate to the bank syndicate if early redemption occurs. As of September 30, 2017, December 31, 2016 and September 30, 2016, the reference rate remained unchanged at 1.06%.

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

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

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

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

5) The interest on Tranche A1 and A2 Facilities is calculated based on the Syndicated Loan Agreement. The Corporation computes interest expense by the effective interest method. Interest payment that is due longer than one year is recognized as long-term interest payable according to the agreement. The effective interest rates, accrued interest expense, and interest expense were summarized as follows:

a) Effective interest rates

	September 30, 2017	**December 31, 2016**	**September 30, 2016**
Tranche A1 Facility	2.07%	2.07%	2.06%
Tranche A2 Facility	2.07%	2.08%	2.08%
Tranche C Facility	-	1.96%	1.96%

b) Accrued interest expense (included in other payables)

	September 30, 2017	**December 31, 2016**	**September 30, 2016**
Syndicated loan			
Tranche A1 Facility	$ 197,949	$ 192,932	$ 186,709
Tranche A2 Facility	237,851	261,505	253,069
Tranche C Facility	-	35,187	42,860
	$ 435,800	$ 489,624	$ 482,638

c) Long-term interest payable

	September 30, 2017	**December 31, 2016**	**September 30, 2016**
Syndicated loan			
Tranche A1 Facility	$ 4,525,808	$ 4,268,856	$ 4,163,608
Tranche A2 Facility	4,942,383	5,313,310	5,165,089
	$ 9,468,191	$ 9,582,166	$ 9,328,697

d) Interest expense

	For the Three Months Ended September 30		**For the Nine Months Ended September 30**	
	2017	**2016**	**2017**	**2016**
Syndicated loan				
Interest expense	$ 1,495,476	$ 1,733,893	$ 4,717,983	$ 5,470,066
Capitalized interest	$ -	$ -	$ -	$ 42,272

c. Long-term bills payable

	September 30, 2017
Long-term bills payable	$ 16,000,000
Less: Unamortized discount on long-term bills payable	(21,415)
Less: Unamortized cost of long-term bills payable	(22,674)
	$ 15,955,911

On January 24, 2017, the Corporation (as the issuer), International Bills Finance Corporation (as the lead arranger), and the other 9 financial institutions (as the underwriters) entered into a joint underwriting agreement on the $20 billion 2-year revolving underwriting facility for the issuance of unsecured commercial paper, with terms ranging from 90 days to 1 year. The utilization of the facility has a validity period of 3 months from the date of agreement, and any remaining unutilized facility will become invalid. The Corporation issued unsecured commercial papers totaling $16 billion under the facility on March 1, 2017, and decided not to utilize the remaining facility. The effective interest rate of the long-term bills payable was 0.92% on September 30, 2017.

15. OPERATING CONCESSION LIABILITY

	September 30, 2017	December 31, 2016	September 30, 2016
Operating concession liabilities	$ 76,374,210	$ 80,314,799	$ 79,907,296
Value of returned superficies for offset of profit sharing payable	(21,486,543)	(23,143,858)	(23,029,787)
	$ 54,887,667	$ 57,170,941	$ 56,877,509
Current	$ 494,716	$ 3,180,612	$ 3,160,375
Non-current	54,392,951	53,990,329	53,717,134
	$ 54,887,667	$ 57,170,941	$ 56,877,509

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/Period	Amortization Expense	Interest Expense	Total
As of December 31, 2016	$ 13,445,248	$ 15,158,623	$ 28,603,871
Nine months ended September 30, 2017	823,205	1,243,544	2,066,749
	14,268,453	16,402,167	30,670,620

(Continued)

Year/Period	Amortization Expense	Interest Expense	Total
Three months ending December 31, 2017 (estimate)	$ 274,403	$ 419,069	$ 693,472
2018 (estimate)	1,097,608	1,535,866	2,633,474
2019 (estimate)	1,097,608	1,566,583	2,664,191
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022-2033 (estimate)	13,171,296	14,876,484	28,047,780
2034-2068 (estimate)	37,867,459	-	37,867,459
	55,703,590	21,625,790	77,329,380
	$ 69,972,043	$ 38,027,957	$ 108,000,000

(Concluded)

According to the Financial Resolution Plan, the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement that became effective on October 30, 2015, the Corporation used the appraised fair value of returned superficies of $22,613,234 thousand to proportionally offset the operating concession 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 superficies for offset of profit sharing payable within the concession period is summarized as follows:

Year/Period	Other Gain	Deduction of Interest Expense	Total
As of December 31, 2016	$ 22,613,234	$ 530,624	$ 23,143,858
Nine months ended September 30, 2017	-	346,206	346,206
	22,613,234	876,830	23,490,064
Three months ending December 31, 2017 (estimate)	-	116,670	116,670
2018 (estimate)	-	432,064	432,064
2019 (estimate)	-	440,706	440,706
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022-2033 (estimate)	-	4,397,321	4,397,321
	-	6,294,791	6,294,791
	$ 22,613,234	$ 7,171,621	$ 29,784,855

As of September 30, 2017, the Corporation’s accumulated profit sharing payments paid to the MOTC amounted to $7,996,479 thousand (or accumulated profit sharing payments in the amount of $10,000,000 thousand less the deductible amount of returned superficies in the amount of $2,003,521 thousand).

16. PROVISIONS

a. Provisions

	September 30, 2017	December 31, 2016	September 30, 2016
Current			
Controversial overtime	$ 293,566	$ 293,566	$ 298,455
Preferred stock compensation	5,853	5,853	5,853
Other provisions	-	2,282	2,122
	$ 299,419	$ 301,701	$ 306,430
Non-current			
Stabilization reserve	$ 2,880,204	$ 280,289	$ -

b. Movements in provisions were as follows:

	Balance at January 1, 2017	Addition	Usage	Balance at September 30, 2017
Current				
Controversial overtime	$ 293,566	$ -	$ -	$ 293,566
Preferred stock compensation	5,853	-	-	5,853
Other provisions	2,282	198	(2,480)	-
	$ 301,701	$ 198	$ (2,480)	$ 299,419
Non-current				
Stabilization reserve	$ 280,289	$ 2,599,915	$ -	$ 2,880,204

	Balance at January 1, 2016	Addition	Usage	Reversal	Balance at September 30, 2016
Current					
Controversial overtime	$ 596,542	$ -	$ (221,965)	$ (76,122)	$ 298,455
Preferred stock compensation	2,148,652	-	(2,142,799)	-	5,853
Other provisions	1,562	560	-	-	2,122
	$ 2,746,756	$ 560	$ (2,364,764)	$ (76,122)	$ 306,430

1) Controversial overtime

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. In regard to the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts shall cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the abovementioned adjusted national holidays and working hours of two consecutive weeks within six months, and within a month after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation.

The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of September 30, 2017, the provision for controversial overtime in the amount of $293,566 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 September 30, 2017, the Corporation had entered into agreements with preferred stock shareholders and paid preferred stock compensation in the amount of $15,155,212 thousand. The Corporation has a remaining provision of $5,853 thousand for one preferred stock shareholder who is not in agreement with the Corporation's proposal; the information on the shareholder is as follows:

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

3) Stabilization reserve

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

17. OTHER LIABILITIES

	September 30, 2017	December 31, 2016	September 30, 2016
Other payables			
Accrued expenses	$ 1,781,127	$ 2,001,271	$ 1,835,559
Accrued interest expense	435,832	489,642	482,653
Business tax payable	142,409	236,871	128,777
Others	16,774	28,208	21,007
	$ 2,376,142	$ 2,755,992	$ 2,467,996
Other current liabilities			
Unearned receipts	$ 699,004	$ 803,576	$ 567,826
Deferred revenue	37,743	35,760	35,688
Receipts under custody	12,127	21,621	21,890
Others	91,667	99,725	105,019
	$ 840,541	$ 960,682	$ 730,423
Other non-current liabilities			
Net defined benefit liability	$ 101,505	$ 104,740	$ 47,417
Guaranteed deposits received	96,847	80,643	79,548
Deferred revenue	7,861	9,171	-
Deferred tax liabilities	1,322	1,108	29
	$ 207,535	$ 195,662	$ 126,994

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.

Employee benefits expense under the defined benefit plan was calculated using the actuarially determined pension cost discount rate.

c. Please refer to Note 21, a. for the expenses of the defined contribution plan and defined benefit plan recognized as employee benefits expenses in comprehensive income.

19. EQUITY

a. Capital stock

	September 30, 2017	December 31, 2016	September 30, 2016
Number of shares authorized (in thousands)	12,000,000	12,000,000	12,000,000
Shares authorized	$ 120,000,000	$ 120,000,000	$ 120,000,000
Number of shares issued and fully paid (in thousands)	5,628,293	5,628,293	5,605,293
Shares issued	$ 56,282,930	$ 56,282,930	$ 56,052,930

A holder of issued common stock with par value of $10 is entitled to vote and to receive dividends.

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

On November 26, 2015, the Corporation conducted capital injection and issued 3,000,000 thousand shares of common stock through a private placement at par value of $10, or a total of $30,000,000 thousand. The rights and obligations of the privately placed common stock are subject to the restrictions prescribed under the Securities and Exchange Act. In addition, the common shares issued through a private placement cannot be traded in the Taiwan Stock Exchange until the application for listing is approved by the authority in charge. The application for listing can only be lodged three years after the delivery of the shares. Except for the abovementioned restrictions, there are no other differences between privately placed common stock and other common stock issued.

b. Capital surplus

	September 30, 2017	December 31, 2016	September 30, 2016
Issuance of common shares	$ 171,885	$ 171,885	$ -
Forfeited employee share options	1,096	1,096	-
	$ 172,981	$ 172,981	$ -

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

c. Legal reserve and appropriation of earnings

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

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

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

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

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

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

Information on the appropriations of earnings is available at the Market Observation Post System website of the Taiwan Stock Exchange.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Balance, beginning of period	$ 510	$ 1,484	$ 693	$ 555
Unrealized gain arising on revaluation of available-for-sale financial assets	325	245	884	1,342
Cumulative gain (loss) transferred to profit or loss on sale of available-for-sale financial assets	-	(785)	(742)	(953)
Balance, end of period	$ 835	$ 944	$ 835	$ 944

20. REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Railroad transportation revenue	$ 10,304,571	$ 9,718,022	$ 31,118,745	$ 29,180,916
Other operating revenue	309,253	298,181	907,398	881,272
	$ 10,613,824	$ 10,016,203	$ 32,026,143	$ 30,062,188

21. INCOME BEFORE INCOME TAX

a. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Post-employment benefits				
Defined contribution plan	$ 42,470	$ 39,661	$ 126,221	$ 111,315
Defined benefit plan	4,020	3,594	12,062	10,671
	46,490	43,255	138,283	121,986
Short-term benefits				
Payroll	913,805	868,029	2,764,458	2,503,237
Insurance	77,997	74,000	243,694	211,751
Professional service	5,660	13,982	18,842	32,876
Others	44,711	44,988	138,485	128,544
	1,042,173	1,000,999	3,165,479	2,876,408
	$ 1,088,663	$ 1,044,254	$ 3,303,762	$ 2,998,394

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
An analysis of employee benefit expense by function				
Operating costs	$ 908,022	$ 895,483	$ 2,736,260	$ 2,549,661
Operating expenses	180,641	148,771	567,502	448,733
	$ 1,088,663	$ 1,044,254	$ 3,303,762	$ 2,998,394

(Concluded)

As of September 30, 2017 and 2016, the number of employees of the Corporation was 4,398 and 4,188, respectively; the number of professional service employees was 12 and 19, respectively.

Under the Corporation's Articles of Incorporation amended on March 18, 2016, if there is any profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated at 1% of income before income tax (net of the employees' compensation and remuneration to directors) according to the aforementioned policy. For the three months and nine months ended September 30, 2017, the estimated employees' compensation in cash was $14,261 thousand and $50,481 thousand, and the estimated remuneration to directors in cash was $14,261 thousand and $50,481 thousand, respectively. For the three months and nine months ended September 30, 2016, the estimated employees' compensation in cash was $11,142 thousand and $38,330 thousand, and the estimated remuneration to directors in cash was $11,142 thousand and $38,330 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 $81,593 thousand and the remuneration to directors of $50,996 thousand for the year ended December 31, 2016 payable in cash have been resolved by the board of directors on March 21, 2017, and reported in the shareholders' meeting on May 24, 2017. The employees' compensation of $50,996 thousand and the remuneration to directors of $50,996 thousand were accrued in 2016. The differences between the approved amounts and the accrued amounts of $30,597 thousand and $0, respectively, were recognized as expense in 2017.

The employees' compensation of $21,124 thousand and the remuneration to directors of $21,124 thousand for the year ended December 31, 2015 payable in cash had been resolved by the board of directors on March 29, 2016 and reported in the shareholders' meeting on June 24, 2016. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2015.

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 Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
An analysis of depreciation, and amortization expenses by assets				
Property, plant and equipment	$ 10,221	$ 8,446	$ 27,166	$ 25,668
Intangible assets	3,387,745	3,962,323	10,160,132	11,715,741
Other non-current assets	1,073	473	2,850	1,117
	$ 3,399,039	$ 3,971,242	$ 10,190,148	$ 11,742,526
An analysis of depreciation by function				
Operating costs	$ 7,269	$ 6,863	$ 20,313	$ 21,021
Operating expenses	2,952	1,583	6,853	4,647
	$ 10,221	$ 8,446	$ 27,166	$ 25,668
An analysis of amortization by function				
Operating costs	$ 3,388,095	$ 3,962,224	$ 10,160,982	$ 11,715,055
Operating expenses	723	572	2,000	1,803
	$ 3,388,818	$ 3,962,796	$ 10,162,982	$ 11,716,858

c. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Interest income of repurchase agreement collateralized by government bonds	$ 7,822	$ 18,173	$ 56,457	$ 80,465
Interest income of bank balance	7,422	3,410	18,814	12,991
	$ 15,244	$ 21,583	$ 75,271	$ 93,456

d. Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Interest on bank loans	$ 1,497,278	$ 1,736,645	$ 4,723,896	$ 5,479,266
Interest on operating concession liabilities	302,400	293,433	897,338	882,779
Interest on long-term bills payable	41,318	-	95,871	-
Others	17	4	950	771
	$ 1,841,013	$ 2,030,082	$ 5,718,055	$ 6,362,816

The information of capitalized interest was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Capitalized interest	$ -	$ -	$ -	$ 44,248
Capitalization rate	-	-	-	2.10%-2.25%

e. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Foreign exchange loss, net	$ (282)	$ (6,684)	$ (34,195)	$ (145,333)
Handling charge for early repayment of long-term debt and amortization of cost of long-term debt	(8,680)	(379)	(11,433)	(13,325)
Loss on disposal of intangible assets, net	(917)	(12,074)	(3,969)	(50,674)
Compensation loss	-	(28,800)	(4)	(28,800)
Gain on disposal of available-for-sale financial assets	-	785	742	953
Others	6,705	3,269	7,719	9,015
	$ (3,174)	$ (43,883)	$ (41,140)	$ (228,164)

22. INCOME TAXES

a. Income tax recognized in profit or loss

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Current tax	$ (504,159)	$ (105,512)	$ (757,137)	$ (111,018)
Deferred tax	271,621	(80,354)	(112,792)	(517,889)
Income tax expense	$ (232,538)	$ (185,866)	$ (869,929)	$ (628,907)

b. Deferred tax assets and liabilities

	September 30, 2017	December 31, 2016	September 30, 2016
Deferred tax assets			
Profit sharing payments	$ 3,623,723	$ 4,145,509	$ 4,031,123
Provisions	528,979	97,943	51,363
Others	20,485	42,313	35,689
	$ 4,173,187	$ 4,285,765	$ 4,118,175
Deferred tax liabilities			
Others	$ 1,322	$ 1,108	$ 29

c. Items for which no deferred tax assets have been recognized

	September 30, 2017	December 31, 2016	September 30, 2016
Deductible temporary differences	$ 995	$ 995	$ 729

d. Integrated income tax

	September 30, 2017	December 31, 2016	September 30, 2016
Imputation credits accounts	$ 42,619	$ 13,657	$ 1,119

All of the Corporation's unappropriated earnings were generated after January 1, 1998. The actual creditable ratio for distribution of earnings for the years ended December 31, 2016 and 2015 is 11.71% and 1.8%, respectively.

e. Income tax assessments

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

23. EARNINGS PER SHARE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Basic earnings per share (NT$)	$ 0.20	$ 0.16	$ 0.72	$ 0.56

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Earnings attributable to common shareholders	$ 1,165,033	$ 906,121	$ 4,077,226	$ 3,127,463
Weighted average number of common shares in the computation of basic earnings per share (in thousands)	5,628,293	5,605,293	5,628,293	5,605,293

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

	September 30, 2017	December 31, 2016	September 30, 2016
Financial assets			
Available-for-sale financial assets	$ 318,335	$ 311,693	$ 311,291
Hedging derivative assets	-	225	171
Loans and receivables			
Other financial assets	9,377,020	26,774,693	23,929,191
Others (Note 1)	3,283,697	802,123	3,209,299
Financial liabilities			
Hedging derivative liabilities	433	-	-
Financial liabilities carried at amortized cost (Note 2)	368,644,176	396,719,474	401,874,262

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

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

b. Fair value of financial instruments

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

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

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

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

September 30, 2017

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Open-end money market funds	$ 318,335	$ -	$ -	$ 318,335
Hedging derivative liabilities				
Forward exchange contracts	$ -	$ 433	$ -	$ 433

December 31, 2016

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

September 30, 2016

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Open-end money market funds	$ 311,291	$ -	$ -	$ 311,291
Hedging derivative assets				
Forward exchange contracts	$ -	$ 171	$ -	$ 171

There were no transfers between Level 1 and Level 2 for the nine months ended September 30, 2017 and 2016.

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

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

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

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

c. Financial risk management objectives and policies

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

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

1) Market risk

a) Foreign currency risk

The Corporation's deposits, accounts payable and payable for construction denominated in foreign currencies exposed the Corporation to foreign currency risk. To 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):

	September 30, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 21,159	30.305	$ 641,232
JPY	3	0.2694	1
Financial liabilities			
Monetary items			
JPY	1,118,645	0.2694	301,363

	December 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 20,947	32.279	$ 676,136
JPY	3	0.2757	1
Financial liabilities			
Monetary items			
USD	1,092	32.279	35,249
JPY	1,206,188	0.2757	332,546

	September 30, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 20,895	31.366	$ 655,380
JPY	3	0.3105	1
Financial liabilities			
Monetary items			
USD	2,292	31.366	71,888
JPY	2,056,934	0.3105	638,678

The Corporation was mainly exposed to USD and JPY. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by $6,412 thousand and $5,835 thousand for the nine months ended September, 2017 and 2016, respectively. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by $2,634 thousand and $6,144 thousand for the nine months ended September 30, 2017 and 2016, respectively.

The significant unrealized exchange gain and loss were as follows:

	For the Three Months Ended September 30			
	2017		2016	
Foreign Currency	Exchange Rate	Exchange Gain, Net	Exchange Rate	Exchange Gain (Loss), Net
USD	30.305	$ 9,711	31.366	$ (12,245)
JPY	0.2694	1,776	0.3105	16,288

	For the Nine Months Ended September 30			
	2017		2016	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Loss, Net
USD	30.305	$ (3,046)	31.366	$ (48,273)
JPY	0.2694	4,813	0.3105	(41,829)

b) Interest rate risk

As of September 30, 2017 and 2016, the Corporation's syndicated loan with floating interest rates amounted to $286,205,117 thousand and $332,838,945 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 $2,146,538 thousand and $2,496,292 thousand for the nine months ended September 30, 2017 and 2016, respectively.

c) Other price risk

The investments in open-end money market funds (recorded as available-for-sale financial assets) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, other comprehensive income before income tax would have decreased by $3,183 thousand and $3,113 thousand for the nine months ended September 30, 2017 and 2016, respectively.

2) Credit risk

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

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

3) Liquidity risk

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

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

September 30, 2017

Repayment Period	Long-term Debt (Including Current Portion)	Interest on Long-term Bills Payable	Interest on Long-term Debt	Operating Concession Liability	Total
2017.10.1-2017.12.31	$ -	$ -	$ 1,214,252	$ -	$ 1,214,252
2018.1.1-2018.9.30	-	-	6,595,824	56,972	6,652,796
2018.10.1-2019.9.30	-	16,000,000	8,955,965	-	24,955,965
2019.10.1-2020.9.30	-	-	8,990,313	147,511	9,137,824
2020.10.1-2021.9.30	4,593,077	-	9,256,836	161,106	14,011,019
2021.10.1-2022.9.30	9,186,153	-	9,282,421	10,280,328	28,748,902
2022.10.1-2033.9.30	101,047,688	-	86,951,505	59,572,749	247,571,942
2033.10.1-2050	171,378,199	-	55,830,678	-	227,208,877
	$ 286,205,117	$ 16,000,000	$ 187,077,794	$ 70,218,666	$ 559,501,577

The interest on long-term debt in the above table was estimated according to the Fourth Amendment of Syndicated Loan Agreement effective on October 13, 2017.

December 31, 2016

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

September 30, 2016

	Long-term Debt (Including Current Portion)	Interest on Long-term Debt	Operating Concession Liabilities	Preferred Stock Compensation Payable	Total
2016.10.1-2016.12.31	$ 5,473,265	$ 2,014,646	$ -	$ -	$ 7,487,911
2017.01.1-2017.09.30	5,473,264	6,693,107	3,180,612	5,853	15,352,836
2017.10.1-2018.09.30	10,946,529	9,720,657	56,972	-	20,724,158
2018.10.1-2019.09.30	4,740,770	10,020,987	-	-	14,761,757
2019.10.1-2020.09.30	-	10,013,120	147,511	-	10,160,631
2020.10.1-2021.09.30	4,593,077	10,294,401	161,106	-	15,048,584
2021.10.1-2033.09.30	110,233,842	108,215,855	69,853,078	-	288,302,775
2033.10.1-2050	191,378,198	70,467,440	-	-	261,845,638
	$ 332,838,945	$ 227,440,213	$ 73,399,279	$ 5,853	$ 633,684,290

26. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interest in the Corporation's outstanding common shares. Under IAS 24, the Corporation is a government-related entity which is significantly influenced by the central government. The Corporation is a related party with the government-related entities (e.g., government-owned businesses) which are controlled by the Executive Yuan. However, the Corporation is not a related party with those government-related entities which are only significantly influenced but not controlled by the Executive Yuan.

The Corporation is not required to disclose transactions and outstanding balances with the government-related entities. In addition to the C&O Agreement entered into with MOTC as stated in Note 28, the names of related parties, relationships, and the nature and amounts of the significant transactions were summarized as follows:

a. Name of related party and relationship

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

b. Operating revenues

The Corporation is mainly engaged in the operation of the North-South High Speed Railway. According to the fare rate standard, timing and procedures of fare adjustment as prescribed in the C&O Agreement and regulated by the MOTC, the Corporation's ticket price setting and adjustment shall be reported to the MOTC before they are announced and implemented. The transportation services and ticket prices provided to related parties were the same as those provided to general public passengers.

c. Operating costs

1) Profit sharing payments

According to the C&O Agreement, during the operating period, the Corporation shall make profit sharing payments at 10% of the operating profit before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. The minimum commitment to profit sharing payments of $108 billion was discounted and recognized as intangible assets - operating concession asset and operating concession liability, and related amortization expense and interest expense, respectively, are recognized during the concession period. Please refer to Note 15 and Note 28, a., 2) for further information.

2) Rental

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

d. Non-operating income and expenses - interest expense

Please refer to Note 15 for the interest expense recognized on the operating concession liability, and the deduction of interest expense recognized on the value of returned superficies for offset of profit sharing payable using the effective interest method due to termination of the SZD Agreement.

e. Long-term debt

The Corporation has entered into the Tripartite Agreement and the Syndicated Loan Agreement with the MOTC and Bank of Taiwan. If an early termination of the C&O Agreement occurs, the MOTC shall assume the remaining obligations under Tranche A Facility of the Syndicated Loan Agreement. Please refer to Note 14, b. for further information on the major terms, the term of loan, repayment method, interest rates, and early repayment of loan with respect to the Syndicated Loan Agreement.

f. Compensation of key management personnel:

Compensation of key management personnel was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Short-term employee benefits	$ 27,762	$ 27,827	$ 97,648	$ 94,800
Post-employment benefits	218	245	646	699
	$ 27,980	$ 28,072	$ 98,294	$ 95,499

27. RESTRICTED ASSETS

Pledged Assets	Pledged to Secure	September 30, 2017	December 31, 2016	September 30, 2016
Other financial assets - current:				
Repurchase agreement collateralized by government bonds	Syndicated loan	$ 1,555,000	$ 21,682,200	$ 21,624,800
Time deposits	Guarantee for office lease	17,232	17,232	-
Time deposits	Guarantee for oil purchase	1,320	-	-
Time deposits	Trust deposit of unearned revenue	-	28,500	28,500
Time deposits	Syndicated loan	-	4,749	1,810
Time deposits	Guarantee for station land lease	-	-	2,939
Demand deposits	Trust deposit of unearned revenue	5,700	47,705	44,896
Demand deposits	Syndicated loan	470	82,758	156,154
		1,579,722	21,863,144	21,859,099

(Continued)

Pledged Assets	Pledged to Secure	September 30, 2017	December 31, 2016	September 30, 2016
Other financial assets - non-current:				
Time deposits	Performance guarantee for the C&O Agreement	$ 2,000,000	$ -	$ -
Time deposits	Trust deposit of unearned revenue	68,000	-	-
Time deposits	Guarantee for customs duties	42,315	42,239	42,240
Time deposits	Guarantee for parking lease	7,000	-	-
Time deposits	Guarantee for oil purchase	1,800	1,320	1,320
Time deposits	Guarantee for office lease	-	-	17,232
		2,119,115	43,559	60,792
		$ 3,698,837	$ 21,906,703	$ 21,919,891

(Concluded)

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 operating profit before income tax (representing the profit after deduction of all costs and expenses necessary for operations from revenues) 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) × 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) × 50% + (EBT - A3) × 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 ÷ (1 - the statutory tax rate)

A2 = Net income of \$4.0 billion ÷ (1 - the statutory tax rate)

A3 = Net income of \$4.5 billion ÷ (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") in Bank of Taiwan.

i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.

ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:

i) Fare discount or fare reduction;

ii) Construction of HSR infrastructure and facilities; and

iii) In compliance with the government's policies.

iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.

iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.

d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period

i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.

ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.

iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.

iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.

e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.

4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years before the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.

5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.

6) The Corporation provided a $5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, $0.5 billion of the performance bond can be returned each year. However, the total returned amount cannot exceed $3 billion.

As of September 30, 2017, December 31, 2016 and September 30, 2016, the amount of the aforementioned performance bond remained unchanged at $2 billion. In June 2017, the Corporation provided certificate of time deposit in place of cash guarantee, and recognized it as other financial assets.

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

1) Rental expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	**2016**	**2017**	**2016**
Bureau of High Speed Rail, MOTC	$ 122,121	$ 217,210	$ 555,920	$ 491,004
Taiwan Railways Administration, MOTC	62,956	-	62,956	-
	$ 185,077	$ 217,210	$ 618,876	$ 491,004

2) Prepaid rentals

	September 30, 2017	December 31, 2016	September 30, 2016
Bureau of High Speed Rail, MOTC	$ 197,945	$ 788,578	$ 99,224
Taiwan Railways Administration, MOTC	12,591	-	-
	$ 210,536	$ 788,578	$ 99,224

3) Rentals payable (included in other payables)

	September 30, 2017	December 31, 2016	September 30, 2016
Bureau of High Speed Rail, MOTC	$ -	$ 39,530	$ 192,441

c. As of September 30, 2017, unused letters of credit amounted to JPY2,087,338 thousand.

d. In May 2012, the Corporation entered into a purchase agreement for type 700T rolling stock. As of September 30, 2017, the Corporation has acquired four sets of type 700T rolling stock. Furthermore, the Corporation will negotiate with the supplier for additional purchases of type 700T rolling stock up to four sets at the unit price ranging from JPY4,328,424 thousand to JPY4,500,000 thousand (net of customs duties and business tax) before the end of March of 2018.

e. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long time, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation shall compensate the residents of $8,338 thousand. The Corporation disagreed the ruling and filed an appeal to Miaoli District Court. As of September 30, 2017, the lawsuit is still under the review of the court.

f. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY5,123,358 thousand and NT$495,547 thousand. As of September 30, 2017, payments for the contract amounted to JPY325,053 thousand and NT$47,685 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

29. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

a. The Corporation has entered into the Fourth Amendment of Syndicated Loan Agreement to reduce interest rates with a bank syndicate consisting of eight (8) banks on October 13, 2017. Please refer to Note 14, b. for further information.

b. On October 19, 2017, the Corporation’s board of directors resolved to modify the amortization lives of certain operation concession assets, effective on October 1, 2017. 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. OTHERS

Superficies

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure, including routes, maintenance bases, and stations. As of September 30, 2017, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 0837-0000 of Kuanghua Section, Hsinchuang District, New Taipei City located on the north to Land Lot No. 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.

32. 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.

33. SEGMENT INFORMATION

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

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2017
(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	September 30, 2017				Note
				Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
The Corporation	Allianz Global Investors Taiwan Money Market Fund	-	Available-for-sale financial assets - current	5,319	$ 66,191	-	$ 66,191	
	FSITC Taiwan Money Market Fund	-	〃	6,788	103,116	-	103,116	
	Jih Sun Money Market Fund	-	〃	2,622	38,569	-	38,569	
	Franklin Templeton Sinoam Money Market Fund	-	〃	4,899	50,275	-	50,275	
	Prudential Financial Money Market Fund	-	〃	3,832	60,184	-	60,184	
	Central Government Bonds 2016-8	-	Cash and cash equivalents	$ 465,300	517,000	-	517,000	
	Central Government Bonds 2015-6	-	〃	685,000	743,000	-	743,000	
	Central Government Bonds 2014-10	-	〃	339,000	367,000	-	367,000	
	Central Government Bonds 2013-2	-	〃	187,200	208,000	-	208,000	
	Central Government Bonds 2013-6	-	〃	249,300	277,000	-	277,000	
	Central Government Bonds 2011-7	-	〃	88,200	98,000	-	98,000	
	Central Government Bonds 2003-3	-	〃	210,000	230,000	-	230,000	
	Central Government Bonds 2001 B 1st	-	〃	108,000	120,000	-	120,000	
	Central Government Bonds 2000-7	-	〃	180,000	200,000	-	200,000	
	Central Government Bonds 2016-4	-	Other financial assets - current	72,900	81,000	-	81,000	
	Central Government Bonds 2016-8	-	〃	96,300	107,000	-	107,000	
	Central Government Bonds 2015-6	-	〃	850,600	928,000	-	928,000	
	Central Government Bonds 2014-9	-	〃	157,500	175,000	-	175,000	
	Central Government Bonds 2014-10	-	〃	1,168,000	1,265,000	-	1,265,000	
	Central Government Bonds 2013-2	-	〃	58,500	65,000	-	65,000	
	Central Government Bonds 2013-8	-	〃	369,000	410,000	-	410,000	
	Central Government Bonds 2013 B 1st	-	〃	88,200	98,000	-	98,000	
	Central Government Bonds 2012-2	-	〃	162,000	180,000	-	180,000	
	Central Government Bonds 2012-8	-	〃	235,800	262,000	-	262,000	
	Central Government Bonds 2012 B 1st	-	〃	270,000	300,000	-	300,000	
	Central Government Bonds 2010-5	-	〃	76,500	85,000	-	85,000	
	Central Government Bonds 2007-2	-	〃	256,500	285,000	-	285,000	
	Central Government Bonds 2004-6	-	〃	279,900	311,000	-	311,000	
	Central Government Bonds 2004-9	-	〃	76,500	85,000	-	85,000	
	Central Government Bonds 2003-3	-	〃	668,200	725,000	-	725,000	
	Central Government Bonds 2001-4	-	〃	90,000	100,000	-	100,000	
	Central Government Bonds 2000 B 1st	-	〃	90,000	100,000	-	100,000	
	Central Government Bonds 1999-3	-	〃	33,300	37,000	-	37,000	

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Face Value	Carrying Amount	Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
The Corporation	Central Government Bonds 2016-1	Note	-	-	$ -	$ -	$ 613,800	$ 682,000	$ 613,800	$ 682,548	$ 682,000	$ 548	$ -	$ -
	Central Government Bonds 2016-8	〃	-	-	409,500	455,000	842,000	933,000	689,900	764,415	764,000	415	561,600	624,000
	Central Government Bonds 2016-12	〃	-	-	311,400	346,000	-	-	311,400	346,317	346,000	317	-	-
	Central Government Bonds 2015-1	〃	-	-	-	-	2,178,700	2,420,600	2,178,700	2,421,967	2,420,600	1,367	-	-
	Central Government Bonds 2015-6	〃	-	-	830,000	900,500	2,423,200	2,639,000	1,717,600	1,869,831	1,868,500	1,331	1,535,600	1,671,000
	Central Government Bonds 2015-12	〃	-	-	-	-	2,147,300	2,385,300	2,147,300	2,385,801	2,385,300	501	-	-
	Central Government Bonds 2015-13	〃	-	-	-	-	2,060,000	2,230,500	2,060,000	2,232,520	2,230,500	2,020	-	-
	Central Government Bonds 2014-2	〃	-	-	72,900	81,000	285,000	308,000	357,900	389,171	389,000	171	-	-
	Central Government Bonds 2014-4	〃	-	-	-	-	944,900	1,028,300	944,900	1,028,783	1,028,300	483	-	-
	Central Government Bonds 2014-6	〃	-	-	300,000	333,000	663,300	737,000	963,300	1,070,406	1,070,000	406	-	-
	Central Government Bonds 2014-9	〃	-	-	353,800	393,100	1,269,700	1,406,211	1,466,000	1,625,059	1,624,311	748	157,500	175,000
	Central Government Bonds 2014-10	〃	-	-	-	-	2,118,000	2,285,000	611,000	653,256	653,000	256	1,507,000	1,632,000
	Central Government Bonds 2014-15	〃	-	-	2,677,000	2,920,000	3,145,600	3,434,333	5,822,600	6,360,208	6,354,333	5,875	-	-
	Central Government Bonds 2013-2	〃	-	-	-	-	1,343,200	1,481,600	1,097,500	1,209,340	1,208,600	740	245,700	273,000
	Central Government Bonds 2013-6	〃	-	-	300,300	333,000	414,000	460,000	465,000	516,439	516,000	439	249,300	277,000
	Central Government Bonds 2013-8	〃	-	-	-	-	1,074,400	1,193,778	705,400	783,835	783,778	57	369,000	410,000
	Central Government Bonds 2013-10	〃	-	-	838,400	931,400	1,378,400	1,530,344	2,216,800	2,463,369	2,461,744	1,625	-	-
	Central Government Bonds 2013-11	〃	-	-	144,000	160,000	261,000	290,000	405,000	450,363	450,000	363	-	-
	Central Government Bonds 2012-2	〃	-	-	63,000	70,000	621,000	690,000	522,000	580,439	580,000	439	162,000	180,000
	Central Government Bonds 2012-5	〃	-	-	129,000	140,000	947,900	1,053,156	1,076,900	1,193,836	1,193,156	680	-	-
	Central Government Bonds 2012-6	〃	-	-	346,000	384,000	666,800	739,500	1,012,800	1,124,186	1,123,500	686	-	-
	Central Government Bonds 2012-7	〃	-	-	100,000	108,000	620,000	684,300	720,000	792,602	792,300	302	-	-

(Continued)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Face Value	Carrying Amount	Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
	Central Government Bonds 2012-9	〃	-	-	$ 177,300	$ 197,000	$ 1,535,400	$ 1,705,900	$ 1,712,700	$ 1,904,202	$ 1,902,900	$ 1,302	$ -	$ -
	Central Government Bonds 2012 B 1st	〃	-	-	-	-	1,001,700	1,113,000	731,700	813,523	813,000	523	270,000	300,000
	Central Government Bonds 2012 B 2nd	〃	-	-	-	-	841,500	935,000	841,500	935,301	935,000	301	-	-
	Central Government Bonds 2011-5	〃	-	-	416,000	460,000	-	-	416,000	460,358	460,000	358	-	-
	Central Government Bonds 2011-7	〃	-	-	165,000	179,000	387,900	431,000	464,700	512,535	512,000	535	88,200	98,000
	Central Government Bonds 2011-9	〃	-	-	1,270,300	1,411,400	605,700	673,000	1,876,000	2,086,360	2,084,400	1,960	-	-
	Central Government Bonds 2010-4	〃	-	-	667,700	741,800	1,787,900	1,985,200	2,455,600	2,728,526	2,727,000	1,526	-	-
	Central Government Bonds 2010-5	〃	-	-	-	-	2,045,300	2,266,000	1,968,800	2,181,738	2,181,000	738	76,500	85,000
	Central Government Bonds 2010-7	〃	-	-	92,000	100,000	1,143,000	1,270,000	1,235,000	1,371,006	1,370,000	1,006	-	-
	Central Government Bonds 2010-8	〃	-	-	-	-	825,300	917,000	825,300	917,498	917,000	498	-	-
	Central Government Bonds 2009-6	〃	-	-	-	-	1,908,900	2,121,000	1,908,900	2,123,801	2,121,000	2,801	-	-
	Central Government Bonds 2008-3	〃	-	-	-	-	303,700	336,667	303,700	336,842	336,667	175	-	-
	Central Government Bonds 2008-5	〃	-	-	212,000	229,000	437,600	483,000	649,600	712,503	712,000	503	-	-
	Central Government Bonds 2008-6	〃	-	-	757,400	840,600	1,350,000	1,500,000	2,107,400	2,342,774	2,340,600	2,174	-	-
	Central Government Bonds 2007-2	〃	-	-	-	-	794,700	883,000	538,200	598,339	598,000	339	256,500	285,000
	Central Government Bonds 2006-7	〃	-	-	252,000	273,000	141,000	153,000	393,000	426,438	426,000	438	-	-
	Central Government Bonds 2005-8	〃	-	-	-	-	2,610,000	2,900,000	2,610,000	2,901,793	2,900,000	1,793	-	-
	Central Government Bonds 2004-6	〃	-	-	-	-	702,900	781,000	423,000	470,097	470,000	97	279,900	311,000
	Central Government Bonds 2003-3	〃	-	-	40,500	45,000	2,190,600	2,390,000	1,352,900	1,481,068	1,480,000	1,068	878,200	955,000
	Central Government Bonds 2002-3	〃	-	-	-	-	741,600	824,000	741,600	824,145	824,000	145	-	-
	Central Government Bonds 2002-7	〃	-	-	894,500	993,800	1,013,100	1,125,667	1,907,600	2,120,596	2,119,467	1,129	-	-
	Central Government Bonds 2001-2	〃	-	-	354,200	393,000	2,148,700	2,383,000	2,502,900	2,777,427	2,776,000	1,427	-	-
	Central Government Bonds 2001-4	〃	-	-	965,100	1,071,000	552,700	613,500	1,427,800	1,585,736	1,584,500	1,236	90,000	100,000
	Central Government Bonds 2001-8	〃	-	-	-	-	669,000	720,000	669,000	720,563	720,000	563	-	-
	Central Government Bonds 2001 B 1st	〃	-	-	1,187,200	1,314,000	1,311,500	1,443,500	2,390,700	2,639,642	2,637,500	2,142	108,000	120,000
	Central Government Bonds 2000-7	〃	-	-	-	-	1,155,500	1,267,500	975,500	1,067,952	1,067,500	452	180,000	200,000

(Continued)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Face Value	Carrying Amount	Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
	Central Government Bonds 2000-13	〃	-	-	$ 3,384,800	$ 3,641,800	$ 1,881,100	$ 2,083,900	$ 5,265,900	$ 5,730,864	$ 5,725,700	$ 5,164	$ -	$ -
	Central Government Bonds 2000 B 1st	〃	-	-	467,700	519,000	90,000	100,000	467,700	519,497	519,000	497	90,000	100,000
	Central Government Bonds 1999-3	〃	-	-	844,600	938,000	1,112,400	1,236,000	1,923,700	2,138,481	2,137,000	1,481	33,300	37,000
	Central Government Bonds 1999 B 1st	〃	-	-	640,900	711,800	2,940,000	3,230,200	3,580,900	3,942,972	3,942,000	972	-	-

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

(Concluded)