

Taiwan High Speed Rail Corporation

**Financial Statements for the
Nine Months Ended September 30, 2018 and 2017 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Taiwan High Speed Rail Corporation

Introduction

We have reviewed the accompanying balance sheets of Taiwan High Speed Rail Corporation as of September 30, 2018 and 2017 and the related statements of comprehensive income for the three months ended September 30, 2018 and 2017 and for the nine months ended September 30, 2018 and 2017, as well as the statements of changes in equity and cash flows for the nine months ended September 30, 2018 and 2017, and related notes, including a summary of significant accounting policies (collectively referred to as "the financial statements"). Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China ("ROC"). Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and of applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as at September 30, 2018 and 2017, its financial performance for the three months ended September 30, 2018 and 2017, and its financial performance and its cash flows for the nine months ended September 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of ROC.

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



Deloitte & Touche
Taipei, Taiwan
Republic of China

November 6, 2018

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in Taiwan, 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 Taiwan, the Republic of China.

For the convenience of readers, the independent auditors' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in Taiwan, 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 independent auditors' review report and financial statements shall prevail.

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	September 30, 2018 (Reviewed)		December 31, 2017 (Audited)		September 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 2,967,180	1	\$ 7,187,917	2	\$ 3,027,345	1
Financial assets at fair value through profit or loss (Note 7)	323,319	-	-	-	-	-
Available-for-sale financial assets (Note 7)	-	-	319,985	-	318,335	-
Hedging derivative financial assets (Note 8)	-	-	5	-	-	-
Notes and accounts receivable (Note 20)	427,916	-	347,275	-	242,277	-
Current tax assets	191,330	-	24,547	-	24,547	-
Inventories (Note 9)	2,179,473	1	1,927,723	1	2,113,512	-
Other financial assets (Notes 10 and 27)	9,215,632	2	9,365,363	2	7,253,229	2
Other current assets (Note 13)	349,478	-	918,001	-	328,385	-
Total current assets	15,654,328	4	20,090,816	5	13,307,630	3
NON-CURRENT ASSETS						
Property, plant and equipment (Note 11)	93,653	-	107,354	-	108,434	-
Operating concession asset (Note 12)	403,865,284	94	413,166,373	94	416,356,706	95
Computer software, net (Note 12)	54,577	-	54,167	-	41,151	-
Deferred tax assets (Note 22)	6,394,279	2	4,504,698	1	4,173,187	1
Other financial assets (Notes 10 and 27)	2,070,447	-	2,122,265	-	2,123,791	1
Other non-current assets (Note 13)	51,056	-	14,784	-	15,863	-
Total non-current assets	412,529,296	96	419,969,641	95	422,819,132	97
TOTAL	\$ 428,183,624	100	\$ 440,060,457	100	\$ 436,126,762	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 14)	\$ 99,929	-	\$ 39,888	-	\$ 108,563	-
Hedging derivative financial liabilities (Note 8)	-	-	-	-	433	-
Hedging financial liabilities (Note 8)	242	-	-	-	-	-
Accounts payable	293,145	-	248,017	-	298,242	-
Operating concession liability (Note 15)	565,331	-	647,850	-	494,716	-
Other payables (Notes 14 and 17)	2,411,648	1	2,950,253	1	2,376,142	1
Payable for construction	268,894	-	605,926	-	453,943	-
Current tax liabilities	100,779	-	1,102,942	1	504,831	-
Provisions (Note 16)	289,307	-	292,515	-	299,419	-
Current portion of long-term bills payable (Note 14)	7,988,733	2	-	-	-	-
Other current liabilities (Notes 17 and 20)	559,939	-	662,017	-	840,541	-
Total current liabilities	12,577,947	3	6,549,408	2	5,376,830	1
NON-CURRENT LIABILITIES						
Long-term debt (Notes 14 and 26)	276,092,000	64	286,082,766	65	286,081,067	66
Long-term bills payable (Note 14)	-	-	15,963,546	4	15,955,911	4
Provisions (Note 16)	7,976,614	2	4,145,851	1	2,880,204	1
Long-term interest payable (Note 14)	9,040,477	2	9,531,465	2	9,468,191	2
Operating concession liability (Note 15)	54,802,468	13	54,542,215	12	54,392,951	12
Other non-current liabilities (Notes 17, 18 and 22)	229,727	-	226,857	-	207,535	-
Total non-current liabilities	348,141,286	81	370,492,700	84	368,985,859	85
Total liabilities	360,719,233	84	377,042,108	86	374,362,689	86
EQUITY (Note 19)						
Capital stock						
Common stock	56,282,930	13	56,282,930	13	56,282,930	13
Capital surplus	172,981	-	172,981	-	172,981	-
Retained earnings						
Legal reserve	1,400,081	1	866,090	-	866,090	-
Unappropriated earnings	9,608,399	2	5,695,863	1	4,441,237	1
Total retained earnings	11,008,480	3	6,561,953	1	5,307,327	1
Unrealized gain on available-for-sale financial assets	-	-	485	-	835	-
Total equity	67,464,391	16	63,018,349	14	61,764,073	14
TOTAL	\$ 428,183,624	100	\$ 440,060,457	100	\$ 436,126,762	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			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 20 and 26)	\$ 11,304,722	100	\$ 10,613,824	100	\$ 33,671,319	100	\$ 32,026,143	100
OPERATING COSTS (Notes 21 and 26)	<u>(6,322,004)</u>	<u>(56)</u>	<u>(6,202,359)</u>	<u>(58)</u>	<u>(18,507,151)</u>	<u>(55)</u>	<u>(18,006,753)</u>	<u>(56)</u>
GROSS PROFIT	4,982,718	44	4,411,465	42	15,164,168	45	14,019,390	44
OPERATING EXPENSES (Note 21)	<u>(283,373)</u>	<u>(2)</u>	<u>(267,555)</u>	<u>(3)</u>	<u>(857,534)</u>	<u>(2)</u>	<u>(788,396)</u>	<u>(2)</u>
INCOME FROM OPERATIONS	<u>4,699,345</u>	<u>42</u>	<u>4,143,910</u>	<u>39</u>	<u>14,306,634</u>	<u>43</u>	<u>13,230,994</u>	<u>42</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income (Note 21)	22,782	-	15,244	-	78,557	-	75,271	-
Interest expense (Notes 14, 21 and 26)	(1,640,209)	(14)	(1,841,013)	(17)	(4,985,220)	(15)	(5,718,055)	(18)
Stabilization reserve expense (Note 16)	(1,339,080)	(12)	(917,396)	(9)	(3,830,763)	(11)	(2,599,915)	(8)
Other gains and losses (Note 21)	<u>5,833</u>	<u>-</u>	<u>(3,174)</u>	<u>-</u>	<u>84,097</u>	<u>-</u>	<u>(41,140)</u>	<u>-</u>
Total non-operating income and expenses	<u>(2,950,674)</u>	<u>(26)</u>	<u>(2,746,339)</u>	<u>(26)</u>	<u>(8,653,329)</u>	<u>(26)</u>	<u>(8,283,839)</u>	<u>(26)</u>
INCOME BEFORE INCOME TAX	1,748,671	16	1,397,571	13	5,653,305	17	4,947,155	16
INCOME TAX BENEFIT (EXPENSE) (Note 22)	<u>359,166</u>	<u>3</u>	<u>(232,538)</u>	<u>(2)</u>	<u>3,011,398</u>	<u>9</u>	<u>(869,929)</u>	<u>(3)</u>
NET INCOME	2,107,837	19	1,165,033	11	8,664,703	26	4,077,226	13
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss:								
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 22)	-	-	-	-	2,559	-	-	-
Items that may be reclassified subsequently to profit or loss:								
Unrealized gain on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>142</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 2,107,837</u>	<u>19</u>	<u>\$ 1,165,358</u>	<u>11</u>	<u>\$ 8,667,262</u>	<u>26</u>	<u>\$ 4,077,368</u>	<u>13</u>
EARNINGS PER SHARE (Note 23)								
Basic earnings per share	<u>\$ 0.37</u>		<u>\$ 0.20</u>		<u>\$ 1.54</u>		<u>\$ 0.72</u>	

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 Per Share Information) (Reviewed, Not Audited)

	Capital Stock		Legal Reserve	Retained Earnings		Unrealized Gain on Available-for-sale Financial Assets	Total Equity
	Common Stock	Capital Surplus		Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2018	\$ 56,282,930	\$ 172,981	\$ 866,090	\$ 5,695,863	\$ 6,561,953	\$ 485	\$ 63,018,349
Effect of retrospective application	-	-	-	485	485	(485)	-
BALANCE AT JANUARY 1, 2018 AFTER RETROSPECTIVE ADJUSTMENT	<u>56,282,930</u>	<u>172,981</u>	<u>866,090</u>	<u>5,696,348</u>	<u>6,562,438</u>	<u>-</u>	<u>63,018,349</u>
Appropriations of prior year's earnings	-	-	-	-	-	-	-
Legal reserve	-	-	533,991	(533,991)	-	-	-
Cash dividends to shareholders - NT\$0.75 per share	-	-	-	(4,221,220)	(4,221,220)	-	(4,221,220)
	-	-	533,991	(4,755,211)	(4,221,220)	-	(4,221,220)
Net income for the nine months ended September 30, 2018	-	-	-	8,664,703	8,664,703	-	8,664,703
Other comprehensive income for the nine months ended September 30, 2018	-	-	-	2,559	2,559	-	2,559
Total comprehensive income for the nine months ended September 30, 2018	-	-	-	8,667,262	8,667,262	-	8,667,262
BALANCE, SEPTEMBER 30, 2018	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 1,400,081</u>	<u>\$ 9,608,399</u>	<u>\$ 11,008,480</u>	<u>\$ -</u>	<u>\$ 67,464,391</u>
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	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 866,090</u>	<u>\$ 4,441,237</u>	<u>\$ 5,307,327</u>	<u>\$ 835</u>	<u>\$ 61,764,073</u>

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	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 5,653,305	\$ 4,947,155
Adjustments for:		
Depreciation	26,792	27,166
Amortization	10,297,641	10,162,982
Gain on reversal of inventory write-down	(5,288)	(9,276)
Interest expense	4,985,220	5,718,055
Interest income	(78,557)	(75,271)
Gain on foreign currency exchange, net	(25,604)	(1,482)
Stabilization reserve expense	3,830,763	2,599,915
Others	15,307	6,436
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(3,334)	-
Financial instruments for hedging	247	658
Notes and accounts receivable	(80,641)	307,756
Inventories	(246,462)	(96,472)
Other current assets	575,559	557,234
Other non-current assets	(7,108)	(6,455)
Accounts payable	46,807	51,909
Other payables	(559,615)	(323,564)
Payment for provisions - controversial overtime	(5,030)	(4,889)
Other current liabilities	(102,078)	(120,141)
Other non-current liabilities	(6,534)	(4,545)
Cash generated from operations	24,311,390	23,737,171
Interest received	78,993	74,479
Interest paid	(4,603,200)	(5,026,274)
Interest paid with respect to operating concession liabilities	(647,850)	(3,180,612)
Income tax paid	(39,810)	(727,029)
Net cash generated from operating activities	<u>19,099,523</u>	<u>14,877,735</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	-	(141,500)
Proceeds from disposal of available-for-sale financial assets	-	135,742
Decrease in other financial assets	227,827	17,394,563
Acquisition of property, plant and equipment	(13,446)	(27,710)
Acquisition of intangible assets	(1,380,857)	(979,014)
Proceeds from disposal of intangible assets	179	278
Net cash (used in) generated from investing activities	<u>(1,166,297)</u>	<u>16,382,359</u>

(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	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term borrowings	\$ 62,613	\$ 51,130
Issuance of long-term bills payable	-	16,000,000
Repayment of long-term debt	(10,000,000)	(41,160,564)
Repayment of long-term bills payable	(8,000,000)	-
Increase in other non-current liabilities	4,678	16,204
Cash dividends	<u>(4,221,220)</u>	<u>(3,376,976)</u>
Net cash used in financing activities	<u>(22,153,929)</u>	<u>(28,470,206)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(34)</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,220,737)	2,789,888
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>7,187,917</u>	<u>237,457</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 2,967,180</u>	<u>\$ 3,027,345</u>

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

(Concluded)

TAIWAN HIGH SPEED RAIL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

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

(Reviewed, Not Audited)

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 between the Corporation and 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 listed 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 6, 2018.

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

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

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

- 1) IFRS 9 “Financial Instruments” and related amendment

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

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

The requirements for classification, measurement and impairment of financial assets and hedging cost have been applied retrospectively from January 1, 2018, and the other requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized at December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Corporation has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Corporation’s financial assets as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark	
	IAS 39	IFRS 9	IAS 39	IFRS 9		
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 7,187,917	\$ 7,187,917	Note 1	
Mutual funds	Available-for-sale	Mandatorily at fair value through profit or loss (i.e. FVTPL)	319,985	319,985	Note 2	
Derivatives	Hedging derivative instruments	Hedging instruments	5	5		
Notes and accounts receivable	Loans and receivables	Amortized cost	347,275	347,275	Note 1	
Other receivables	Loans and receivables	Amortized cost	17,244	17,244	Note 1	
Other financial assets (current and non-current)	Loans and receivables	Amortized cost	11,487,628	11,487,628	Note 1	
	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTPL</u>	\$ -	\$ -	\$ -	\$ -	\$ -	
Add: Reclassification from available-for-sale (IAS 39)	-	319,985	319,985	485	(485)	Note 2
	<u>-</u>	<u>319,985</u>	<u>319,985</u>	<u>485</u>	<u>(485)</u>	
<u>Amortized cost</u>	-	-	-	-	-	
Add: Reclassification from loans and receivables (IAS 39)	-	19,040,064	19,040,064	-	-	Note 1
	<u>-</u>	<u>19,040,064</u>	<u>19,040,064</u>	<u>-</u>	<u>-</u>	
	<u>\$ -</u>	<u>\$ 19,360,049</u>	<u>\$ 19,360,049</u>	<u>\$ 485</u>	<u>\$ (485)</u>	

Note 1: Cash and cash equivalents, notes receivable, accounts receivable, other receivables, and other financial assets are classified as measured at amortized cost under IFRS 9.

Note 2: Mutual funds previously classified as available-for-sale under IAS 39 are mandatorily classified as FVTPL under IFRS 9.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

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

Impact on liabilities on January 1, 2018

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

The impact of continuing the application of IAS 18 instead of IFRS 15 for the nine months ended September 30, 2018 is detailed as follows:

	September 30, 2018
Decrease in contract liability - current	\$ (526,250)
Increase in unearned receipts	414,663
Increase in deferred revenue	<u>111,587</u>
Total effect on liabilities	<u>\$ -</u>

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

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

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Definition of a lease

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

The Corporation as lessee

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

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

The Corporation expects to apply the following practical expedients:

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

The Corporation as lessor

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

2) IFRIC 23 “Uncertainty over Income Tax Treatments”

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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 repurchase agreement collateralized by government bonds with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

2018

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

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

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

2017

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

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

g. Impairment of accounts receivable

2018

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

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

2017

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

h. Inventories

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

i. Property, plant and equipment

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

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

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

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

2018

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

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

2017

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

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

p. Borrowing costs

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

q. Government grants

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

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

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

r. Retirement benefit costs

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

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

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 pre-tax income 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, 2018, December 31, 2017 and September 30, 2017, the Corporation recognized a provision for controversial overtime in the amount of \$283,454 thousand, \$286,662 thousand and \$293,566 thousand, respectively. 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, 2018, December 31, 2017 and September 30, 2017, the Corporation recognized a provision for stabilization reserve in the amount of \$7,976,614 thousand, \$4,145,851 thousand, and \$2,880,204 thousand, respectively, in accordance with the stabilization mechanism under the C&O Agreement. The actual payment for the stabilization reserve may change and is subject to the profitability 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, 2018, December 31, 2017 and September 30, 2017, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$6,394,279 thousand, \$4,504,698 thousand and \$4,173,187 thousand, respectively. As of September 30, 2018, December 31, 2017 and September 30, 2017, deductible temporary differences of \$1,171 thousand, \$995 thousand and \$995 thousand, respectively, were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

d. Amortization of intangible assets - operating concession asset

In the commercial operation of the transportation system, the Corporation has accumulated extensive experience, including the skills of self-maintenance. From this extensive experience, the Corporation is able to assess the anticipated beneficial usage, 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.

6. CASH AND CASH EQUIVALENTS

	September 30, 2018	December 31, 2017	September 30, 2017
Cash on hand	\$ 203,177	\$ 187,023	\$ 144,577
Checking accounts	10	19	19
Demand deposits	134,898	89,817	114,704
Time deposits	8,095	8,058	8,045
Repurchase agreement collateralized by government bonds	<u>2,621,000</u>	<u>6,903,000</u>	<u>2,760,000</u>
	<u>\$ 2,967,180</u>	<u>\$ 7,187,917</u>	<u>\$ 3,027,345</u>

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

	September 30, 2018	December 31, 2017	September 30, 2017
Demand deposits	0.001%-0.38%	0.001%-0.30%	0.001%-0.23%
Time deposits	0.62%	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.47%-0.50%	0.40%-0.44%	0.39%-0.43%

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

	September 30, 2018	December 31, 2017	September 30, 2017
Open-end money market funds	<u>\$ 323,319</u>	<u>\$ 319,985</u>	<u>\$ 318,335</u>

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

8. FINANCIAL INSTRUMENTS FOR HEDGING

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Financial assets- current</u>			
Fair value hedges - forward exchange contracts	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>
<u>Financial liabilities - current</u>			
Fair value hedges - forward exchange contracts	<u>\$ 242</u>	<u>\$ -</u>	<u>\$ 433</u>

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

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>September 30, 2018</u>			
Buy	US\$/JPY	October 2018	JPY 129,067
Buy	NT\$/US\$	October 2018	US\$ 1,144
<u>December 31, 2017</u>			
Buy	US\$/JPY	January 2018	JPY 83,929
Buy	NT\$/US\$	January 2018	US\$ 742
<u>September 30, 2017</u>			
Buy	US\$/JPY	October 2017	JPY 140,887
Buy	NT\$/US\$	October 2017	US\$ 1,276

9. INVENTORIES

	September 30, 2018	December 31, 2017	September 30, 2017
Spare parts and supplies	\$ 2,169,845	\$ 1,919,058	\$ 2,104,632
Merchandise	<u>9,628</u>	<u>8,665</u>	<u>8,880</u>
	<u>\$ 2,179,473</u>	<u>\$ 1,927,723</u>	<u>\$ 2,113,512</u>

As of September 30, 2018, December 31, 2017 and September 30, 2017, allowance for loss on inventories amounted to \$614,997 thousand, \$620,285 thousand and \$596,687 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Repurchase agreement collateralized by government bonds	\$ 7,455,000	\$ 7,655,000	\$ 5,599,000
Time deposits	3,821,284	3,789,902	3,767,174
Demand deposits	5,437	37,776	6,170
Performance guarantee for customs duties and others	<u>4,358</u>	<u>4,950</u>	<u>4,676</u>
	<u>\$ 11,286,079</u>	<u>\$ 11,487,628</u>	<u>\$ 9,377,020</u>
Current	\$ 9,215,632	\$ 9,365,363	\$ 7,253,229
Non-current	<u>2,070,447</u>	<u>2,122,265</u>	<u>2,123,791</u>
	<u>\$ 11,286,079</u>	<u>\$ 11,487,628</u>	<u>\$ 9,377,020</u>

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

	September 30, 2018	December 31, 2017	September 30, 2017
Repurchase agreement collateralized by government bonds	0.48%-0.50%	0.42%-0.44%	0.42%-0.44%
Time deposits	0.15%-3.00%	0.15%-1.95%	0.15%-1.83%
Demand deposits	0.05%-0.08%	0.05%-0.08%	0.05%-0.08%

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

11. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2018	December 31, 2017	September 30, 2017
Land	\$ 28	\$ 28	\$ 28
Machinery and equipment	41,291	46,069	47,407
Transportation equipment	-	-	-
Office equipment	10,443	11,035	11,243
Leasehold improvements	1,017	44	311
Other equipment	<u>40,874</u>	<u>50,178</u>	<u>49,445</u>
	<u>\$ 93,653</u>	<u>\$ 107,354</u>	<u>\$ 108,434</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2018	\$ 28	\$ 263,048	\$ 242	\$ 122,805	\$ 79,370	\$ 251,241	\$ 716,734
Additions	-	10,120	-	2,031	1,024	271	13,446
Disposals	-	(1,423)	(87)	(3,996)	-	(1,522)	(7,028)
Transfer	-	(468)	-	-	-	104	(364)
Balance at September 30, 2018	<u>28</u>	<u>271,277</u>	<u>155</u>	<u>120,840</u>	<u>80,394</u>	<u>250,094</u>	<u>722,788</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	-	216,979	242	111,770	79,326	201,063	609,380
Depreciation	-	14,439	-	2,623	51	9,679	26,792
Disposals	-	(1,423)	(87)	(3,996)	-	(1,522)	(7,028)
Transfer	-	(9)	-	-	-	-	(9)
Balance at September 30, 2018	<u>-</u>	<u>229,986</u>	<u>155</u>	<u>110,397</u>	<u>79,377</u>	<u>209,220</u>	<u>629,135</u>
	<u>\$ 28</u>	<u>\$ 41,291</u>	<u>\$ -</u>	<u>\$ 10,443</u>	<u>\$ 1,017</u>	<u>\$ 40,874</u>	<u>\$ 93,653</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2017	\$ 28	\$ 241,472	\$ 310	\$ 119,082	\$ 79,370	\$ 204,090	\$ 644,352
Additions	-	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	<u>28</u>	<u>259,070</u>	<u>242</u>	<u>123,106</u>	<u>79,370</u>	<u>247,798</u>	<u>709,614</u>
<u>Accumulated depreciation</u>							
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	<u>-</u>	<u>211,663</u>	<u>242</u>	<u>111,863</u>	<u>79,059</u>	<u>198,353</u>	<u>601,180</u>
	<u>\$ 28</u>	<u>\$ 47,407</u>	<u>\$ -</u>	<u>\$ 11,243</u>	<u>\$ 311</u>	<u>\$ 49,445</u>	<u>\$ 108,434</u>

12. INTANGIBLE ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Operating concession asset	\$ 403,865,284	\$ 413,166,373	\$ 416,356,706
Computer software, net	<u>54,577</u>	<u>54,167</u>	<u>41,151</u>
	<u>\$ 403,919,861</u>	<u>\$ 413,220,540</u>	<u>\$ 416,397,857</u>

a. Movements of the intangible assets

	Operating Concession Assets				Total	Computer Software, Net	Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress			
<u>Cost</u>							
Balance at January 1, 2018	\$ 472,404,197	\$ 69,972,043	\$ 12,701,819	\$ 551,084	\$ 555,629,143	\$ 412,868	\$ 556,042,011
Additions	135,460	-	-	895,188	1,030,648	8,168	1,038,816
Disposals	(150,770)	-	-	-	(150,770)	(3,584)	(154,354)
Transfer	316,467	-	-	(362,589)	(46,122)	6,487	(39,635)
Balance at September 30, 2018	<u>472,705,354</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>1,083,683</u>	<u>556,462,899</u>	<u>423,939</u>	<u>556,886,838</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2018	127,378,129	14,542,855	541,786	-	142,462,770	358,701	142,821,471
Amortization	9,276,178	823,206	180,594	-	10,279,978	14,236	10,294,214
Disposals	(145,133)	-	-	-	(145,133)	(3,584)	(148,717)
Transfer	-	-	-	-	-	9	9
Balance at September 30, 2018	<u>136,509,174</u>	<u>15,366,061</u>	<u>722,380</u>	<u>-</u>	<u>152,597,615</u>	<u>369,362</u>	<u>152,966,977</u>
	<u>\$ 336,196,180</u>	<u>\$ 54,605,982</u>	<u>\$ 11,979,439</u>	<u>\$ 1,083,683</u>	<u>\$ 403,865,284</u>	<u>\$ 54,577</u>	<u>\$ 403,919,861</u>

(Continued)

	Operating Concession Assets				Total	Computer Software, Net	Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress			
<u>Cost</u>							
Balance at January 1, 2017	\$ 471,971,397	\$ 69,972,043	\$ 12,701,819	\$ 163,220	\$ 554,808,479	\$ 377,605	\$ 555,186,084
Additions	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	<u>472,278,491</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>279,102</u>	<u>555,231,455</u>	<u>397,347</u>	<u>555,628,802</u>
<u>Accumulated amortization</u>							
Balance at January 1, 2017	115,041,859	13,445,248	300,993	-	128,788,100	342,611	129,130,711
Amortization	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	<u>124,124,709</u>	<u>14,268,453</u>	<u>481,587</u>	<u>-</u>	<u>138,874,749</u>	<u>356,196</u>	<u>139,230,945</u>
	<u>\$ 348,153,782</u>	<u>\$ 55,703,590</u>	<u>\$ 12,220,232</u>	<u>\$ 279,102</u>	<u>\$ 416,356,706</u>	<u>\$ 41,151</u>	<u>\$ 416,397,857</u>

(Concluded)

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

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Operating assets, net</u>			
Land improvements	\$ 169,309,796	\$ 171,900,000	\$ 172,765,970
Buildings	28,260,026	28,781,767	28,916,698
Machinery and equipment	29,553,041	31,343,947	32,110,394
Transportation equipment	109,060,270	112,983,614	114,344,721
Other equipment	<u>13,047</u>	<u>16,740</u>	<u>15,999</u>
	<u>\$ 336,196,180</u>	<u>\$ 345,026,068</u>	<u>\$ 348,153,782</u>
<u>Construction in progress</u>			
Prepayments for equipment	<u>\$ 1,083,683</u>	<u>\$ 551,084</u>	<u>\$ 279,102</u>

- c. Operating concession- rental

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure and pays the rental every year, including routes, maintenance bases, and stations. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in future price of public-owned land and usage and other factors. The Corporation prepays the rental for the following year by the end of each year, and if the price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of September 30, 2018, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 0837-0000 of Kuanghua Section, Hsinchuang District, New Taipei City located on the north to Land Lot No. 0419-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

13. OTHER ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Other current assets</u>			
Prepayments	\$ 312,397	\$ 888,350	\$ 293,490
Other receivable	16,885	17,244	14,075
Others	<u>20,196</u>	<u>12,407</u>	<u>20,820</u>
	<u>\$ 349,478</u>	<u>\$ 918,001</u>	<u>\$ 328,385</u>
<u>Other non-current assets</u>			
Prepayments	\$ 32,593	\$ -	\$ -
Others	<u>18,463</u>	<u>14,784</u>	<u>15,863</u>
	<u>\$ 51,056</u>	<u>\$ 14,784</u>	<u>\$ 15,863</u>

14. BORROWINGS

a. Short-term borrowings

	September 30, 2018	December 31, 2017	September 30, 2017
Japanese yen (“JPY”) letters of credit	<u>\$ 99,929</u>	<u>\$ 39,888</u>	<u>\$ 108,563</u>

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

	September 30, 2018	December 31, 2017	September 30, 2017
JPY letters of credit	0.63%-0.77%	0.58%-0.83%	0.59%-0.82%

b. Long-term debt

	September 30, 2018	December 31, 2017	September 30, 2017
Syndicated loan			
Tranche A1 Facility	\$ 120,000,000	\$ 130,000,000	\$ 130,000,000
Tranche A2 Facility	<u>156,205,117</u>	<u>156,205,117</u>	<u>156,205,117</u>
	276,205,117	286,205,117	286,205,117
Less: Unamortized cost of long-term debt	<u>(113,117)</u>	<u>(122,351)</u>	<u>(124,050)</u>
	<u>\$ 276,092,000</u>	<u>\$ 286,082,766</u>	<u>\$ 286,081,067</u>

The Corporation has entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (the “Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the NT\$382 billion Syndicated Loan Agreement with respect to Taiwan North-South High Speed Rail Construction and Operation Project (the “Syndicated Loan Agreement”) with a group of eight syndicated banks. The Corporation has entered into the First Amendment of the Tripartite Agreement, and the Second Amendment of the Syndicated Loan Agreement on August 3, 2015, respectively. The Corporation has entered into the Third Amendment of the Syndicated Loan

Agreement on February 15, 2017, and the Second Amendment of the Tripartite Agreement on April 7, 2017, respectively. The Corporation has entered into the Fourth Amendment of Syndicated Loan Agreement on October 13, 2017, respectively. The syndicated banks of the Syndicated Loan Agreement consists of Bank of Taiwan, Mega International Commercial Bank, Taiwan Cooperative Bank, Land Bank of Taiwan, First Commercial Bank, Taiwan Business Bank, Chang Hwa Commercial Bank, and Hua Nan Commercial Bank. The significant terms are as follows:

- 1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. The main purposes of the agreement are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements of operations.
- 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 are not required to be registered with the syndicated banks for creating rights attached to the Corporation's such assets). When the value of the collateral is less than the balance of the outstanding syndicated loan, the Corporation shall negotiate with Bank of Taiwan and the MOTC for solutions. However, if an agreement cannot be reached within 45 days after the date of the negotiation notice issued by Bank of Taiwan, the Corporation should redeem the difference immediately. The aforementioned collateral is inspected in May and November every year. The re-assessment mechanism for collateral value is inactive when Tranche C and D Facilities are fully redeemed, and Tranche B Facility is not utilized.
- 3) According to the Syndicated Loan Agreement, the Corporation opened bank accounts at Bank of Taiwan for deposits and financial instruments, which are designated for loan repayments, acquisitions, and replacement of assets. Part of the funds in the accounts can be used to cover costs and expenses for the operation of high speed rail. 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 (after early repayment of Installments 58-59 made on July 3, 2018, the last installment repayment date is May 4, 2049)	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050 (after early repayment of Installments 56-59 made on July 4, 2017, the last installment repayment date is May 4, 2048)	Installments 59	4.0% per installment
Tranche C Facility	May 4, 2016-May 4, 2020 (repaid on March 2, 2017 before its maturity)	Installments 01-09	Fixed payment per installment
Tranche D Facility	May 4, 2013-May 4, 2017 (repaid on April 13, 2016 before its maturity)	Installments 01-09	Fixed payment per installment

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. 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, 2018, December 31, 2017 and September 30, 2017, the reference rate remained unchanged at 1.06%.

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

The Corporation made early repayment of the Tranche A1 Facility in the amount of \$10 billion on July 3, 2018, and repaid interest differences in the amount of \$366,615 thousand due to the early repayment of the loan.

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, 2018	December 31, 2017	September 30, 2017
Tranche A1 Facility	1.91%	1.93%	2.07%
Tranche A2 Facility	1.92%	1.92%	2.07%

b) Accrued interest expense (included in other payables)

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Syndicated loan</u>			
Tranche A1 Facility	\$ 205,564	\$ 204,547	\$ 197,949
Tranche A2 Facility	<u>267,586</u>	<u>245,780</u>	<u>237,851</u>
	<u>\$ 473,150</u>	<u>\$ 450,327</u>	<u>\$ 435,800</u>

c) Long-term interest payable

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Syndicated loan</u>			
Tranche A1 Facility	\$ 4,135,153	\$ 4,555,466	\$ 4,525,808
Tranche A2 Facility	<u>4,905,324</u>	<u>4,975,999</u>	<u>4,942,383</u>
	<u>\$ 9,040,477</u>	<u>\$ 9,531,465</u>	<u>\$ 9,468,191</u>

d) Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
<u>Syndicated loan</u>				
Interest expense	<u>\$ 1,334,891</u>	<u>\$ 1,495,476</u>	<u>\$ 4,062,423</u>	<u>\$ 4,717,983</u>

c. Long-term bills payable

	September 30, 2018	December 31, 2017	September 30, 2017
Long-term bills payable	\$ 8,000,000	\$ 16,000,000	\$ 16,000,000
Less: Unamortized discount on long-term bills payable	(7,931)	(17,780)	(21,415)
Less: Unamortized cost of long-term bills payable	<u>(3,336)</u>	<u>(18,674)</u>	<u>(22,674)</u>
	7,988,733	15,963,546	15,955,911
Less: Current portion of long-term bills payable	<u>(7,988,733)</u>	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 15,963,546</u>	<u>\$ 15,955,911</u>

On January 24, 2017, the Corporation (as the issuer), International Bills Finance Corporation (as the lead arranger), and the other 9 financial institutions (as the underwriters) entered into a joint underwriting agreement on the \$20 billion 2-year revolving underwriting facility for the issuance of unsecured commercial paper, with terms ranging from 90 days to 1 year. The utilization of the facility has a validity period of 3 months from the date of agreement, and any remaining unutilized facility will become invalid. The Corporation issued unsecured commercial papers totaling \$16 billion under the facility on March 1, 2017, and the remaining facility was expired on April 24, 2017. On February 13, 2018 and August 10, 2018, the facility was reduced by \$4 billion each time, and the unsecured commercial paper was also reduced by the same amount. As of September 30, 2018, December 31, 2017 and September 30, 2017, the effective interest rates of the long-term bills payable were 0.93%, 0.92% and 0.92%, respectively.

15. OPERATING CONCESSION LIABILITY

	September 30, 2018	December 31, 2017	September 30, 2017
Operating concession liabilities	\$ 77,294,173	\$ 76,793,279	\$ 76,374,210
Value of returned superficies for offset of profit sharing payable	<u>(21,926,374)</u>	<u>(21,603,214)</u>	<u>(21,486,543)</u>
	<u>\$ 55,367,799</u>	<u>\$ 55,190,065</u>	<u>\$ 54,887,667</u>
Current	\$ 565,331	\$ 647,850	\$ 494,716
Non-current	<u>54,802,468</u>	<u>54,542,215</u>	<u>54,392,951</u>
	<u>\$ 55,367,799</u>	<u>\$ 55,190,065</u>	<u>\$ 54,887,667</u>

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

Year	Amortization Expense	Interest Expense	Total
Up to December 31, 2017	\$ 14,542,855	\$ 16,821,237	\$ 31,364,092
Nine months ended September 30, 2018	<u>823,206</u>	<u>1,148,743</u>	<u>1,971,949</u>
	<u>15,366,061</u>	<u>17,969,980</u>	<u>33,336,041</u>
Three months ending December 31, 2018 (estimate)	274,403	387,122	661,525
2019 (estimate)	1,097,608	1,566,583	2,664,191
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022 (estimate)	1,097,608	1,662,470	2,760,078
2023-2033 (estimate)	12,073,688	13,214,014	25,287,702
2034-2068 (estimate)	<u>37,867,459</u>	<u>-</u>	<u>37,867,459</u>
	<u>54,605,982</u>	<u>20,057,977</u>	<u>74,663,959</u>
	<u>\$ 69,972,043</u>	<u>\$ 38,027,957</u>	<u>\$ 108,000,000</u>

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

Year	Other Gain	Deduction of Interest Expense	Total
Up to December 31, 2017	\$ 22,613,234	\$ 993,501	\$ 23,606,735
Nine months ended September 30, 2018	<u>-</u>	<u>323,160</u>	<u>323,160</u>
	<u>22,613,234</u>	<u>1,316,661</u>	<u>23,929,895</u>
Three months ending December 31, 2018 (estimate)	-	108,904	108,904
2019 (estimate)	-	440,706	440,706
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023-2033 (estimate)	<u>-</u>	<u>3,929,640</u>	<u>3,929,640</u>
	<u>-</u>	<u>5,854,960</u>	<u>5,854,960</u>
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of September 30, 2018, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$8,644,329 thousand (or accumulated profit sharing payments in the amount of \$10,647,850 thousand less the deductible amount of returned superfices in the amount of \$2,003,521 thousand).

16. PROVISIONS

a. Provisions

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Current</u>			
Provision for controversial overtime pay	\$ 283,454	\$ 286,662	\$ 293,566
Provision for preferred stock compensation	<u>5,853</u>	<u>5,853</u>	<u>5,853</u>
	<u>\$ 289,307</u>	<u>\$ 292,515</u>	<u>\$ 299,419</u>
<u>Non-current</u>			
Provision for stabilization reserve	<u>\$ 7,976,614</u>	<u>\$ 4,145,851</u>	<u>\$ 2,880,204</u>

b. Movements in provisions were as follows:

	Balance at January 1, 2018	Addition	Usage	Balance at September 30, 2018
<u>Current</u>				
Provision for controversial overtime pay	\$ 286,662	\$ -	\$ (3,208)	\$ 283,454
Provision for preferred stock compensation	<u>5,853</u>	<u>-</u>	<u>-</u>	<u>5,853</u>
	<u>\$ 292,515</u>	<u>\$ -</u>	<u>\$ (3,208)</u>	<u>\$ 289,307</u>
<u>Non-current</u>				
Provision for stabilization reserve	<u>\$ 4,145,851</u>	<u>\$ 3,830,763</u>	<u>\$ -</u>	<u>\$ 7,976,614</u>
	Balance at January 1, 2017	Addition	Usage	Balance at September 30, 2017
<u>Current</u>				
Provision for controversial overtime pay	\$ 293,566	\$ -	\$ -	\$ 293,566
Provision for preferred stock compensation	5,853	-	-	5,853
Other provisions	<u>2,282</u>	<u>198</u>	<u>(2,480)</u>	<u>-</u>
	<u>\$ 301,701</u>	<u>\$ 198</u>	<u>\$ (2,480)</u>	<u>\$ 299,419</u>
<u>Non-current</u>				
Provision for stabilization reserve	<u>\$ 280,289</u>	<u>\$ 2,599,915</u>	<u>\$ -</u>	<u>\$ 2,880,204</u>

1) Controversial overtime pay

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

incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018, but the Corporation lodged an appeal against the verdict on July 6, 2018.

The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of September 30, 2018, the provision for controversial overtime pay in the amount of \$283,454 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, 2018, 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, 2018	December 31, 2017	September 30, 2017
<u>Other payables</u>			
Accrued expenses	\$ 1,779,357	\$ 2,208,749	\$ 1,781,127
Accrued interest expense	473,200	450,348	435,832
Business tax payable	136,541	258,125	142,409
Others	<u>22,550</u>	<u>33,031</u>	<u>16,774</u>
	<u>\$ 2,411,648</u>	<u>\$ 2,950,253</u>	<u>\$ 2,376,142</u>
<u>Other current liabilities</u>			
Contract liabilities (Note 20)	\$ 526,250	\$ -	\$ -
Unearned receipts	-	472,176	699,004
Deferred revenue	-	49,762	37,743
Receipts under custody	25,369	24,369	12,127
Others	<u>8,320</u>	<u>115,710</u>	<u>91,667</u>
	<u>\$ 559,939</u>	<u>\$ 662,017</u>	<u>\$ 840,541</u>
<u>Other non-current liabilities</u>			
Guaranteed deposits received	\$ 108,812	\$ 104,167	\$ 96,847
Net defined benefit liability	106,984	111,553	101,505
Deferred revenue	9,171	11,136	7,861
Deferred tax liabilities	<u>4,760</u>	<u>1</u>	<u>1,322</u>
	<u>\$ 229,727</u>	<u>\$ 226,857</u>	<u>\$ 207,535</u>

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The Corporation also adopted a defined benefit plan under the Labor Standards Law (the "LSL"). Under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committees' name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in a one-time appropriation that shall be made before the end of March of the next year.

Employee benefit expenses under defined benefit plans were calculated using the actuarially determined pension cost discount rate.

- c. Please refer to Note 21, a. for the expenses of defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income.

19. EQUITY

- a. Capital stock

	September 30, 2018	December 31, 2017	September 30, 2017
Number of shares authorized (in thousands)	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>
Shares authorized	<u>\$ 120,000,000</u>	<u>\$ 120,000,000</u>	<u>\$ 120,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>	<u>5,628,293</u>
Share capital issued and outstanding	<u>\$ 56,282,930</u>	<u>\$ 56,282,930</u>	<u>\$ 56,282,930</u>

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

On November 26, 2015, the Corporation conducted capital injection and issued 3,000,000 thousand shares of common stock through a private placement at par value of \$10, or a total of \$30,000,000 thousand. The rights and obligations of the privately placed common stock are subject to the restrictions prescribed under the Securities and Exchange Act. In addition, the common shares issued through a private placement cannot be listed on 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, 2018	December 31, 2017	September 30, 2017
Issuance of common shares	\$ 171,885	\$ 171,885	\$ 171,885
Forfeited employee share options	<u>1,096</u>	<u>1,096</u>	<u>1,096</u>
	<u>\$ 172,981</u>	<u>\$ 172,981</u>	<u>\$ 172,981</u>

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

- c. Legal reserve and appropriation of earnings

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

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

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

The appropriations of earnings for 2017 and 2016 approved in the shareholders' meetings on May 24, 2018 and May 24, 2017, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Fiscal Year 2017</u>	<u>For Fiscal Year 2016</u>	<u>For Fiscal Year 2017</u>	<u>For Fiscal Year 2016</u>
Legal reserve	\$ 533,991	\$ 414,910		
Cash dividends	<u>4,221,220</u>	<u>3,376,976</u>	\$0.75	\$0.60
	<u>\$ 4,755,211</u>	<u>\$ 3,791,886</u>		

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

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

Balance at January 1, 2017	\$ 693
Unrealized gain arising on revaluation of available-for-sale financial assets	884
Cumulative gain (loss) transferred to profit or loss on sale of available-for-sale financial assets	<u>(742)</u>
Balance at September 30, 2017	<u>\$ 835</u>
Balance at January 1, 2018 per IAS 39	\$ 485
Effect of retrospective application of IFRS 9	<u>(485)</u>
Balance at January 1, 2018 per IFRS 9	<u>\$ -</u>

20. REVENUE

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue from contracts with customers				
Railroad transportation revenue	\$ 10,953,627	\$ 10,304,571	\$ 32,686,173	\$ 31,118,745
Other operating revenue	<u>351,095</u>	<u>309,253</u>	<u>985,146</u>	<u>907,398</u>
	<u>\$ 11,304,722</u>	<u>\$ 10,613,824</u>	<u>\$ 33,671,319</u>	<u>\$ 32,026,143</u>

a. Contract balances

	September 30, 2018
Notes and accounts receivable	<u>\$ 427,916</u>
Contract liabilities	
Railroad transportation revenue	\$ 407,291
Customer loyalty programmer	111,587
Others	<u>7,372</u>
	<u>\$ 526,250</u>

The changes in the balances of contract liabilities primarily result from the timing difference between the Corporation's performance and the customer's payment.

Revenue of the reporting period recognized from the beginning contract liability is as follows:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
From the beginning contract liability		
Railroad transportation revenue	\$ 1,605	\$ 462,988
Customer loyalty programmer	10,374	29,579
Others	<u>-</u>	<u>3,983</u>
	<u>\$ 11,979</u>	<u>\$ 496,550</u>

b. Disaggregation of revenue

The Corporation is engaged only in the operation of HSR and related facilities. Consequently, there is no other reportable segment. Revenue is disaggregated into railroad transportation revenue and other operating revenue.

21. INCOME BEFORE INCOME TAX

a. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Post-employment benefits				
Defined contribution plan	\$ 44,679	\$ 42,470	\$ 130,719	\$ 126,221
Defined benefit plan	<u>3,579</u>	<u>4,020</u>	<u>10,736</u>	<u>12,062</u>
	<u>48,258</u>	<u>46,490</u>	<u>141,455</u>	<u>138,283</u>

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term benefits				
Payroll	\$ 954,604	\$ 913,805	\$ 2,889,488	\$ 2,764,458
Insurance	80,788	77,997	252,658	243,694
Others	<u>47,281</u>	<u>44,711</u>	<u>140,762</u>	<u>138,485</u>
	<u>1,082,673</u>	<u>1,036,513</u>	<u>3,282,908</u>	<u>3,146,637</u>
	<u>\$ 1,130,931</u>	<u>\$ 1,083,003</u>	<u>\$ 3,424,363</u>	<u>\$ 3,284,920</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 934,108	\$ 905,091	\$ 2,816,360	\$ 2,725,298
Operating expenses	<u>196,823</u>	<u>177,912</u>	<u>608,003</u>	<u>559,622</u>
	<u>\$ 1,130,931</u>	<u>\$ 1,083,003</u>	<u>\$ 3,424,363</u>	<u>\$ 3,284,920</u>

(Concluded)

As of September 30, 2018 and 2017, the number of employees of the Corporation was 4,419 and 4,398, respectively.

As of September 30, 2018 and 2017, the number of professional service employees was 9 and 12, respectively. For the three months and nine months ended September 30, 2018, the professional service fee was \$1,243 thousand and \$8,232 thousand, respectively. For the three months and nine months ended September 30, 2017, the professional service fee was \$5,660 thousand and \$18,842 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated based on income before income tax (net of the employees' compensation and remuneration to directors) according to the above policy. For the three months and nine months ended September 30, 2018, the estimated employees' compensation in cash was \$28,725 thousand and \$92,867 thousand, and the estimated remuneration to directors in cash was \$17,953 thousand and \$58,042 thousand, respectively. 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.

Material differences between estimated amounts and the amounts resolved by the board of directors on or before the date the annual financial statements are approved are adjusted in the year the compensation and remuneration were recognized. If there is a change in the resolved amounts after the annual financial statements were approved, the differences are recorded as a change in accounting estimate and adjusted in the following year.

The employees' compensation of \$105,879 thousand and the remuneration to directors of \$33,087 thousand for the year ended December 31, 2017 payable in cash had been resolved by the board of directors on February 13, 2018. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2017.

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

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

b. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
An analysis of depreciation, and amortization expenses by assets				
Property, plant and equipment	\$ 8,911	\$ 10,221	\$ 26,792	\$ 27,166
Intangible assets	3,432,055	3,387,745	10,294,214	10,160,132
Other non-current assets	<u>1,172</u>	<u>1,073</u>	<u>3,427</u>	<u>2,850</u>
	<u>\$ 3,442,138</u>	<u>\$ 3,399,039</u>	<u>\$ 10,324,433</u>	<u>\$ 10,190,148</u>
An analysis of depreciation by function				
Operating costs	\$ 5,927	\$ 7,269	\$ 17,931	\$ 20,313
Operating expenses	<u>2,984</u>	<u>2,952</u>	<u>8,861</u>	<u>6,853</u>
	<u>\$ 8,911</u>	<u>\$ 10,221</u>	<u>\$ 26,792</u>	<u>\$ 27,166</u>
An analysis of amortization by function				
Operating costs	\$ 3,432,038	\$ 3,388,095	\$ 10,294,155	\$ 10,160,982
Operating expenses	<u>1,189</u>	<u>723</u>	<u>3,486</u>	<u>2,000</u>
	<u>\$ 3,433,227</u>	<u>\$ 3,388,818</u>	<u>\$ 10,297,641</u>	<u>\$ 10,162,982</u>

c. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest income of repurchase agreement collateralized by government bonds	\$ 13,217	\$ 7,822	\$ 51,787	\$ 56,457
Interest income of bank deposits	9,558	7,422	26,750	18,814
Others	<u>7</u>	<u>-</u>	<u>20</u>	<u>-</u>
	<u>\$ 22,782</u>	<u>\$ 15,244</u>	<u>\$ 78,557</u>	<u>\$ 75,271</u>

d. Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest on bank loans	\$ 1,336,716	\$ 1,497,278	\$ 4,067,834	\$ 4,723,896
Interest on operating concession liabilities	278,218	302,400	825,583	897,338
Interest on long-term bills payable	25,236	41,318	91,018	95,871
Others	<u>39</u>	<u>17</u>	<u>785</u>	<u>950</u>
	<u>\$ 1,640,209</u>	<u>\$ 1,841,013</u>	<u>\$ 4,985,220</u>	<u>\$ 5,718,055</u>

e. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Compensation gain	\$ 42	\$ 3,847	\$ 54,102	\$ 4,059
Government grants	655	655	26,014	1,310
Foreign exchange gain (loss), net	11,916	(282)	13,310	(34,195)
Gain on disposal of financial assets	-	-	727	742
Amortization of cost for early repayment of long-term debt and bills payable	(6,453)	(8,680)	(10,634)	(11,433)
Loss on disposal of intangible assets, net	(3,463)	(917)	(5,458)	(3,969)
Others	<u>3,136</u>	<u>2,203</u>	<u>6,036</u>	<u>2,346</u>
	<u>\$ 5,833</u>	<u>\$ (3,174)</u>	<u>\$ 84,097</u>	<u>\$ (41,140)</u>

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	
	2018	2017	2018	2017
Current tax				
In respect of the current period	\$ (29,281)	\$ (504,159)	\$ (82,851)	\$ (727,927)
Income tax on unappropriated earnings	-	-	(57,745)	(30,940)
Adjustments for prior periods	-	-	1,269,732	1,730
Deferred tax				
In respect of the current period	388,447	271,621	1,089,875	(112,792)
Adjustment to deferred tax attributable to change in tax rates and law	<u>-</u>	<u>-</u>	<u>792,387</u>	<u>-</u>
Income tax benefit (expense)	<u>\$ 359,166</u>	<u>\$ (232,538)</u>	<u>\$ 3,011,398</u>	<u>\$ (869,929)</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in income tax rate on deferred tax was fully recognized in profit or loss in the period in which the change in income tax rate occurred. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%.

According to Article 28 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, the Corporation applied for a five-year income tax exemption. On April 13, 2018, the application for income tax exemption was approved by the Ministry of Finance, and the qualified exemption income is railroad and freight transportation income according to Article 3, Section 1, Item 1 of the Regulations Governing Application of Profit-seeking Enterprise Income Tax Exemption to Private Institutions Participating in Transportation and Communication Infrastructure Projects. The Corporation chose to start and has started its consecutive five-year income tax exemption period from January 1, 2017 according to Article 28, Section 2 of the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects.

b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Deferred tax				
Adjustment to deferred tax attributable to change in tax rates and law	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,559</u>	<u>\$ -</u>

c. Deferred tax assets and liabilities

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Deferred tax assets</u>			
Profit sharing payments	\$ 4,673,043	\$ 3,727,289	\$ 3,623,723
Provisions	1,680,040	753,528	528,979
Others	<u>41,196</u>	<u>23,881</u>	<u>20,485</u>
	<u>\$ 6,394,279</u>	<u>\$ 4,504,698</u>	<u>\$ 4,173,187</u>
<u>Deferred tax liabilities</u>			
Others	<u>\$ 4,760</u>	<u>\$ 1</u>	<u>\$ 1,322</u>

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

	September 30, 2018	December 31, 2017	September 30, 2017
Deductible temporary differences	<u>\$ 1,171</u>	<u>\$ 995</u>	<u>\$ 995</u>

e. Income tax assessments

The tax returns through 2015 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	
	2018	2017	2018	2017
Basic earnings per share (NT\$)	<u>\$ 0.37</u>	<u>\$ 0.20</u>	<u>\$ 1.54</u>	<u>\$ 0.72</u>

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	
	2018	2017	2018	2017
Earnings attributable to common shareholders	<u>\$ 2,107,837</u>	<u>\$ 1,165,033</u>	<u>\$ 8,664,703</u>	<u>\$ 4,077,226</u>
Weighted average number of common shares in the computation of basic earnings per share (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>	<u>5,628,293</u>	<u>5,628,293</u>

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, 2018	December 31, 2017	September 30, 2017
<u>Financial assets</u>			
Financial assets at fair value through profit or loss	\$ 323,319	\$ -	\$ -
Available-for-sale financial assets	-	319,985	318,335
Hedging financial assets	-	5	-
Financial assets at amortized cost			
Other financial assets	11,286,079	-	-
Others (Note 1)	3,411,981	-	-
Loans and receivables			
Other financial assets	-	11,487,628	9,377,020
Others (Note 1)	-	7,552,436	3,283,697
<u>Financial liabilities</u>			
Hedging financial liabilities	242	-	433
Financial liabilities carried at amortized cost (Note 2)	350,587,379	369,294,384	368,644,176

Note 1: The balances included financial assets measured at amortized cost, which comprised cash and cash equivalents, notes and accounts receivable, and other receivables.

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, long-term bills payable (including current portion) and long-term interest payable. However, short-term employee benefits payable and business tax payable were not included.

b. Fair value of financial instruments

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

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

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

The following table provides an analysis of financial instruments that are measured at fair value subsequent to initial recognition. The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable 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, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Open-end money market funds	<u>\$ 323,319</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 323,319</u>
Hedging financial liabilities				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 242</u>	<u>\$ -</u>	<u>\$ 242</u>

December 31, 2017

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

September 30, 2017

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

There were no transfers between Levels 1 and Level 2 for the nine months ended September 30, 2018 and 2017.

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

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

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.
- b) The fair values of derivative financial instruments are determined using valuation techniques because no market prices are available. Forward exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

c. Financial risk management objectives and policies

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

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

1) Market risk

a) Foreign currency risk

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

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

	September 30, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,602	30.551	\$ 659,951
JPY	4,715	0.2695	1,271
<u>Financial liabilities</u>			
Monetary items			
JPY	1,243,922	0.2695	335,237

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,249	29.848	\$ 634,227
JPY	3	0.2650	1
<u>Financial liabilities</u>			
Monetary items			
USD	20	29.848	610
JPY	847,777	0.2650	224,661
	September 30, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,159	30.305	\$ 641,232
JPY	3	0.2694	1
<u>Financial liabilities</u>			
Monetary items			
JPY	1,118,645	0.2694	301,363

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by \$6,600 thousand and \$6,412 thousand for the nine months ended September 30, 2018 and 2017, respectively. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$2,992 thousand and \$2,634 thousand for the nine months ended September 30, 2018 and 2017, respectively.

The significant unrealized exchange gain and loss were as follows:

For the Three Months Ended September 30				
2018			2017	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain, Net
USD	30.551	\$ (12,541)	30.305	\$ 9,711
JPY	0.2695	10,901	0.2694	1,776

For the Nine Months Ended September 30				
2018			2017	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	30.551	\$ 26,340	30.305	\$ (3,046)
JPY	0.2695	(723)	0.2694	4,813

b) Interest rate risk

As of September 30, 2018 and 2017, the Corporation's syndicated loan with floating interest rates amounted to \$276,205,117 thousand and \$286,205,117 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by \$2,071,538 thousand and \$2,146,538 thousand for the nine months ended September 30, 2018 and 2017, respectively.

c) Other price risk

The investments in open-end money market funds (recorded as FVTPL and available-for-sale financial assets, respectively, as of September 30, 2018 and 2017) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax and other comprehensive income before income tax would have decreased by \$3,233 thousand and \$3,183 thousand for the nine months ended September 30, 2018 and 2017, 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 hedging financial instruments and non-hedging financial liabilities that are to be settled within one year from the balance sheet date):

September 30, 2018

Repayment Period	Long-term Debt	Long-term Bills Payable (Including Current Portion)	Interest on Long-term Debt	Operating Concession Liability	Total
2018.10.1-2018.12.31	\$ -	\$ -	\$ 1,479,934	\$ -	\$ 1,479,934
2019.1.1-2019.9.30	-	8,000,000	6,535,910	695,600	15,231,510
2019.10.1-2020.9.30	-	-	8,695,050	147,511	8,842,561
2020.10.1-2021.9.30	4,593,077	-	8,951,705	161,106	13,705,888
2021.10.1-2022.9.30	9,186,153	-	8,974,000	9,095,688	27,255,841
2022.10.1-2023.9.30	9,186,153	-	8,703,722	116,525	18,006,400
2023.10.1-2033.9.30	91,861,535	-	74,578,835	59,354,386	225,794,756
2033.10.1-2050	<u>161,378,199</u>	<u>-</u>	<u>48,694,128</u>	<u>-</u>	<u>210,072,327</u>
	<u>\$ 276,205,117</u>	<u>\$ 8,000,000</u>	<u>\$ 166,613,284</u>	<u>\$ 69,570,816</u>	<u>\$ 520,389,217</u>

December 31, 2017

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

September 30, 2017

Repayment Period	Long-term Debt (Including Current Portion)	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	<u>171,378,199</u>	<u>-</u>	<u>55,830,678</u>	<u>-</u>	<u>227,208,877</u>
	<u>\$ 286,205,117</u>	<u>\$ 16,000,000</u>	<u>\$ 187,077,794</u>	<u>\$ 70,218,666</u>	<u>\$ 559,501,577</u>

26. TRANSACTIONS WITH RELATED PARTIES

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

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

a. Name of related party and relationship

<u>Related Party</u>	<u>Relationship with the Corporation</u>
MOTC	An investor with 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 net income before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as intangible assets - operating concession asset and operating concession liability, and related amortization expense and interest expense, respectively, are recognized during the concession period. Please refer to Note 15 and Note 28, a. 2) for further information.

2) Operating concession - rental

The transactions between the Corporation and the MOTC were as follows, and, as for the nature, please refer to Note 12, c. for further details:

a) Rental expense

	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Railway Bureau, MOTC (Note)	\$ 197,845	\$ 122,121	\$ 593,535	\$ 555,920

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Taiwan Railways Administration, MOTC	\$ 12,591	\$ 62,956	\$ 37,773	\$ 62,956
	<u>\$ 210,436</u>	<u>\$ 185,077</u>	<u>\$ 631,308</u>	<u>\$ 618,876</u> (Concluded)

b) Prepaid rentals (included in other current assets)

	September 30, 2018	December 31, 2017	September 30, 2017
Railway Bureau, MOTC (Note)	\$ 197,845	\$ 791,379	\$ 197,945
Taiwan Railways Administration, MOTC	<u>12,591</u>	<u>50,365</u>	<u>12,591</u>
	<u>\$ 210,436</u>	<u>\$ 841,744</u>	<u>\$ 210,536</u>

Note: On June 11, 2018, Taiwan Executive Yuan approved the merger of Railway Reconstruction Bureau of MOTC and Bureau of High Speed Rail of MOTC into Railway Bureau of MOTC.

d. Non-operating income and expenses - interest expense

Please refer to Note 15 for the interest expense recognized on the operating concession liability, and the deduction of interest expense recognized on the value of returned 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	
	2018	2017	2018	2017
Short-term employee benefits	\$ 35,620	\$ 27,762	\$ 105,755	\$ 97,648
Post-employment benefits	<u>279</u>	<u>218</u>	<u>662</u>	<u>646</u>
	<u>\$ 35,899</u>	<u>\$ 27,980</u>	<u>\$ 106,417</u>	<u>\$ 98,294</u>

27. RESTRICTED ASSETS

Pledged Assets	Pledged to Secure	September 30, 2018	December 31, 2017	September 30, 2017
Other financial assets - current:				
Repurchase agreement collateralized by government bonds	Syndicated loan	\$ 1,663,000	\$ 1,450,000	\$ 1,555,000
Time deposits	Trust deposit of unearned revenue	68,000	-	-
Time deposits	Guarantee for oil purchase	1,800	3,120	1,320
Time deposits	Guarantee for office lease	954	17,232	17,232
Time deposits	Guarantee for project subsidy	-	27,000	-
Demand deposits	Trust deposit of unearned revenue	4,042	9,375	5,700
Demand deposits	Syndicated loan	1,395	1,401	470
Demand deposits	Project subsidy	-	27,000	-
		<u>1,739,191</u>	<u>1,535,128</u>	<u>1,579,722</u>
Other financial assets - non-current:				
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000	2,000,000
Time deposits	Guarantee for customs duties	42,378	42,315	42,315
Time deposits	Guarantee for office lease	15,324	-	-
Time deposits	Guarantee for parking lease	7,067	7,000	7,000
Time deposits	Guarantee for oil purchase	1,320	-	1,800
Time deposits	Trust deposit of unearned revenue	-	68,000	68,000
		<u>2,066,089</u>	<u>2,117,315</u>	<u>2,119,115</u>
		<u>\$ 3,805,280</u>	<u>\$ 3,652,443</u>	<u>\$ 3,698,837</u>

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Construction and operation agreement

The significant provisions of the C&O Agreement were as follows:

- 1) The concession period, including the construction period and operating period, for the construction and operation of HSR is 70 years from the date of agreement, and can be extended pursuant to the C&O Agreement.

- 2) During the operating period, the Corporation shall make profit sharing payments at 10% of the net income before income tax to the MOTC each year for the development and construction of HSR infrastructure and facilities. However, if the accumulated amount of the profit sharing payments is less than the amount listed in the table below, the latter shall prevail.

As of the end of the fifth year of full operation	\$ 2 billion
As of the end of the tenth year of full operation	10 billion
As of the end of the fifteenth year of full operation	25 billion
As of the end of the twentieth year of full operation	48 billion
As of the end of the twenty-fifth year of full operation	75 billion
As of July 23, 2033	108 billion

According to the SZD Termination Agreement, the Corporation and MOTC engaged impartial and professional appraisal firms to appraise the fair value of the superficies returned to the MOTC in the amount of \$22,613,234 thousand. The value of the returned superficies is allowed by the MOTC to offset the profit sharing payments in the amount of \$29,784,855 thousand at the end of every five years as follows:

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

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

- 3) The Corporation should establish a financial stabilization mechanism starting from 2016.
- a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments that resulted from the change in accounting policies exceed \$3.5 billion, the stabilization reserve should be provided as described below:
- 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).
 - If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:

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

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

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

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

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

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

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

- b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be $(A1 - EBT)$, but only to the extent of the accumulated stabilization reserve equals zero.
- c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") at Bank of Taiwan.
 - i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.
 - ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:
 - i) Fare discount or fare reduction;
 - ii) Construction of HSR infrastructure and facilities; and
 - iii) In compliance with the government's policies.
 - iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.
 - iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.
- d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period
 - i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.
 - ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.
 - iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.
 - iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.

- e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.
- 4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years before the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.
- 5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.
- 6) The Corporation provided a \$5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, \$0.5 billion of the performance bond can be returned each year. However, the total returned amount cannot exceed \$3 billion.

As of September 30, 2018, December 31, 2017 and September 30, 2017, the amount of the aforementioned performance bond remained unchanged at \$2 billion, and was recognized as other financial assets.

- b. As of September 30, 2018, unused letters of credit amounted to JPY2,756,480 thousand.
- c. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long time, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation shall compensate the residents of \$8,338 thousand. The Corporation disagreed the ruling and filed an appeal to Miaoli District Court. As of September 30, 2018, the lawsuit is still under the review of the court.
- d. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY5,123,358 thousand and NT\$495,547 thousand. As of September 30, 2018, payments for the contract amounted to JPY1,811,571 thousand and NT\$176,825 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.
- e. In August 2018, the Corporation entered into the OCS Maintenance Vehicle Manufacturing and Supply Procurement contract, and the total amounts of the contract (business tax included) were NT\$1,232,000 thousand.

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

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

30. 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.

31. 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, 2018

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	September 30, 2018				Note
				Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
The Corporation	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss	6,955	\$ 106,125	-	\$ 106,125	
	Jih Sun Money Market Fund	-	"	7,081	104,620	-	104,620	
	Franklin Templeton Sinoam Money Market Fund	-	"	4,899	50,502	-	50,502	
	Prudential Financial Money Market Fund	-	"	3,935	62,072	-	62,072	
	Central Government Bonds 2015-6	-	Cash and cash equivalents	\$ 92,000	100,000	-	100,000	
	Central Government Bonds 2014-10	-	"	1,036,500	1,118,000	-	1,118,000	
	Central Government Bonds 2013-11	-	"	99,000	110,000	-	110,000	
	Central Government Bonds 2013-8	-	"	189,900	211,000	-	211,000	
	Central Government Bonds 2013 B 1st	-	"	99,000	110,000	-	110,000	
	Central Government Bonds 2012-8	-	"	183,600	204,000	-	204,000	
	Central Government Bonds 2010-4	-	"	99,000	110,000	-	110,000	
	Central Government Bonds 2007-7	-	"	88,200	98,000	-	98,000	
	Central Government Bonds 2005-8	-	"	98,100	109,000	-	109,000	
	Central Government Bonds 2004-6	-	"	81,000	90,000	-	90,000	
	Central Government Bonds 2004-3	-	"	272,700	303,000	-	303,000	
	Central Government Bonds 2003-3	-	"	52,200	58,000	-	58,000	
	Central Government Bonds 2018-6	-	Other financial assets - current	63,000	70,000	-	70,000	
	Central Government Bonds 2015-6	-	"	194,000	209,000	-	209,000	
	Central Government Bonds 2014-10	-	"	2,094,000	2,265,000	-	2,265,000	
	Central Government Bonds 2013-8	-	"	131,400	146,000	-	146,000	
	Central Government Bonds 2012-2	-	"	354,600	394,000	-	394,000	
	Central Government Bonds 2012 B 1st	-	"	167,400	186,000	-	186,000	
	Central Government Bonds 2011-7	-	"	313,200	348,000	-	348,000	
	Central Government Bonds 2010-4	-	"	466,200	518,000	-	518,000	
	Central Government Bonds 2005-5	-	"	178,200	198,000	-	198,000	
	Central Government Bonds 2004-6	-	"	299,700	333,000	-	333,000	
	Central Government Bonds 2004-3	-	"	885,600	984,000	-	984,000	
	Central Government Bonds 2003-3	-	"	1,400,000	1,554,000	-	1,554,000	
	Central Government Bonds 1999 B 1st	-	"	225,000	250,000	-	250,000	

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(In Thousands of New Taiwan Dollars)

Company	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 2017-4	Note	-	-	\$ -	\$ -	\$ 1,413,000	\$ 1,529,000	\$ 1,413,000	\$ 1,530,604	\$ 1,529,000	\$ 1,604	\$ -	\$ -
	Central Government Bonds 2016-13	"	-	-	-	-	995,400	1,106,000	995,400	1,106,359	1,106,000	359	-	-
	Central Government Bonds 2016-11	"	-	-	3,419,000	3,736,000	6,261,000	6,808,000	9,680,000	10,554,314	10,544,000	10,314	-	-
	Central Government Bonds 2016-4	"	-	-	50,400	56,000	253,800	282,000	304,200	338,220	338,000	220	-	-
	Central Government Bonds 2015-13	"	-	-	1,647,000	1,783,000	1,107,000	1,197,000	2,754,000	2,982,885	2,980,000	2,885	-	-
	Central Government Bonds 2015-12	"	-	-	-	-	988,200	1,098,000	988,200	1,099,086	1,098,000	1,086	-	-
	Central Government Bonds 2015-6	"	-	-	-	-	1,769,300	1,912,000	1,483,300	1,604,644	1,603,000	1,644	286,000	309,000
	Central Government Bonds 2014-10	"	-	-	830,000	900,000	3,381,300	3,656,000	1,080,800	1,174,100	1,173,000	1,100	3,130,500	3,383,000
	Central Government Bonds 2014-9	"	-	-	566,100	629,000	565,200	628,000	1,131,300	1,258,072	1,257,000	1,072	-	-
	Central Government Bonds 2014-6	"	-	-	674,100	749,000	-	-	674,100	749,618	749,000	618	-	-
	Central Government Bonds 2013-11	"	-	-	70,200	78,000	297,000	330,000	268,200	298,217	298,000	217	99,000	110,000
	Central Government Bonds 2013-10	"	-	-	421,200	468,000	1,113,300	1,237,000	1,534,500	1,706,214	1,705,000	1,214	-	-
	Central Government Bonds 2013-8	"	-	-	283,500	315,000	790,200	878,000	752,400	836,779	836,000	779	321,300	357,000
	Central Government Bonds 2013-6	"	-	-	210,600	234,000	473,400	526,000	684,000	760,560	760,000	560	-	-
	Central Government Bonds 2013 B 1st	"	-	-	86,400	96,000	306,000	340,000	293,400	326,282	326,000	282	99,000	110,000
	Central Government Bonds 2012-9	"	-	-	-	-	1,106,100	1,229,000	1,106,100	1,229,798	1,229,000	798	-	-
	Central Government Bonds 2012-8	"	-	-	99,000	110,000	370,800	412,000	286,200	318,386	318,000	386	183,600	204,000
	Central Government Bonds 2012-5	"	-	-	499,500	555,000	901,800	1,002,000	1,401,300	1,557,996	1,557,000	996	-	-
	Central Government Bonds 2012-2	"	-	-	-	-	1,054,800	1,172,000	700,200	778,539	778,000	539	354,600	394,000
	Central Government Bonds 2012 B 2nd	"	-	-	680,400	756,000	768,600	854,000	1,449,000	1,611,537	1,610,000	1,537	-	-
	Central Government Bonds 2012 B 1st	"	-	-	-	-	479,700	533,000	312,300	347,270	347,000	270	167,400	186,000

(Continued)

Company	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 2011-9	"	-	-	\$ 131,400	\$ 146,000	\$ 1,084,500	\$ 1,205,000	\$ 1,215,900	\$ 1,352,076	\$ 1,351,000	\$ 1,076	\$ -	\$ -
	Central Government Bonds 2011-7	"	-	-	342,900	381,000	710,100	789,000	739,800	822,763	822,000	763	313,200	348,000
	Central Government Bonds 2011-5	"	-	-	504,000	560,000	754,200	838,000	1,258,200	1,399,452	1,398,000	1,452	-	-
	Central Government Bonds 2010-8	"	-	-	-	-	1,079,100	1,199,000	1,079,100	1,199,407	1,199,000	407	-	-
	Central Government Bonds 2010-7	"	-	-	90,000	100,000	550,800	612,000	640,800	712,578	712,000	578	-	-
	Central Government Bonds 2010-4	"	-	-	451,800	502,000	1,413,900	1,571,000	1,300,500	1,446,325	1,445,000	1,325	565,200	628,000
	Central Government Bonds 2008-5	"	-	-	53,100	59,000	386,100	429,000	439,200	488,282	488,000	282	-	-
	Central Government Bonds 2007-7	"	-	-	169,200	188,000	654,300	727,000	735,300	817,542	817,000	542	88,200	98,000
	Central Government Bonds 2007-2	"	-	-	196,200	218,000	297,900	331,000	494,100	549,517	549,000	517	-	-
	Central Government Bonds 2005-8	"	-	-	-	-	1,393,200	1,548,000	1,295,100	1,439,947	1,439,000	947	98,100	109,000
	Central Government Bonds 2005-5	"	-	-	-	-	592,200	658,000	414,000	460,267	460,000	267	178,200	198,000
	Central Government Bonds 2004-6	"	-	-	362,700	403,000	1,197,000	1,330,000	1,179,000	1,310,795	1,310,000	795	380,700	423,000
	Central Government Bonds 2004-3	"	-	-	-	-	2,205,900	2,451,000	1,047,600	1,165,339	1,164,000	1,339	1,158,300	1,287,000
	Central Government Bonds 2003-3	"	-	-	88,200	98,000	5,301,700	5,847,000	3,937,700	4,336,914	4,333,000	3,914	1,452,200	1,612,000
	Central Government Bonds 2002-7	"	-	-	-	-	634,500	705,000	634,500	705,459	705,000	459	-	-
	Central Government Bonds 2002-3	"	-	-	-	-	696,600	774,000	696,600	774,808	774,000	808	-	-
	Central Government Bonds 2001-8	"	-	-	377,100	419,000	1,281,600	1,424,000	1,658,700	1,844,341	1,843,000	1,341	-	-
	Central Government Bonds 2001-4	"	-	-	-	-	666,900	741,000	666,900	741,362	741,000	362	-	-
	Central Government Bonds 2001-2	"	-	-	-	-	321,300	357,000	321,300	357,046	357,000	46	-	-
	Central Government Bonds 2001 B 1st	"	-	-	91,800	102,000	472,500	525,000	564,300	627,632	627,000	632	-	-
	Central Government Bonds 2000 B 1st	"	-	-	510,300	567,000	-	-	510,300	567,547	567,000	547	-	-
	Central Government Bonds 1999-3	"	-	-	-	-	504,000	560,000	504,000	560,552	560,000	552	-	-
	Central Government Bonds 1999 B 1st	"	-	-	108,000	120,000	492,300	547,000	375,300	417,407	417,000	407	225,000	250,000

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

(Concluded)