Taiwan High Speed Rail Corporation

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

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
11073 台北市信義區松仁路100號20樓

Deloitte & Touche
20F, Taipei Nan Shan Plaza
No. 100, Songren Rd.,
Xinyi Dist., Taipei 11073, Taiwan

Tel :+886 (2) 2725-9988
Fax:+886 (2) 4051-6888
www.deloitte.com.tw

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan High Speed Rail Corporation

Opinion

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

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

Basis of Opinion

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

Key Audit Matters

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

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

Provision for Stabilization Reserve

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

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

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

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

Railroad Transportation Revenue

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Meiyen Chiang Kwan-Chung Lai

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 20, 2019

<u>*Notice to Readers*</u>

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

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

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	December 31			
	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 6,947,850	2	$ 7,187,917	2
Financial assets at fair value through profit or loss (Note 7)	327,446	-	-	-
Available-for-sale financial assets (Note 7)	-	-	319,985	-
Hedging derivative financial assets (Note 8)	-	-	5	-
Notes and accounts receivable (Note 20)	505,565	-	347,275	-
Current tax assets	166,783	-	24,547	-
Inventories (Note 9)	2,028,925	1	1,927,723	1
Other financial assets (Notes 10 and 27)	11,881,545	2	9,365,363	2
Other current assets (Notes 13 and 26)	938,435	-	918,001	-
Total current assets	22,796,549	5	20,090,816	5
NON-CURRENT ASSETS				
Property, plant and equipment (Note 11)	98,085	-	107,354	-
Operating concession asset (Note 12)	401,168,964	93	413,166,373	94
Computer software, net (Note 12)	54,245	-	54,167	-
Deferred tax assets (Note 22)	6,808,133	2	4,504,698	1
Other financial assets (Notes 10 and 27)	2,083,255	-	2,122,265	-
Other non-current assets (Note 13)	47,838	-	14,784	-
Total non-current assets	410,260,520	95	419,969,641	95
TOTAL	$ 433,057,069	100	$ 440,060,457	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	$ 147,865	-	$ 39,888	-
Accounts payable	274,404	-	248,017	-
Operating concession liabilities (Note 15)	731,182	-	647,850	-
Other payables (Notes 14 and 17)	3,031,763	1	2,950,253	1
Payable for construction	535,830	-	605,926	-
Current tax liabilities	123,204	-	1,102,942	1
Provisions (Note 16)	283,279	-	292,515	-
Current portion of long-term bills payable (Note 14)	7,986,870	2	-	-
Other current liabilities (Notes 17 and 20)	699,649	-	662,017	-
Total current liabilities	13,814,046	3	6,549,408	2
NON-CURRENT LIABILITIES				
Long-term debt (Notes 14 and 26)	276,093,677	64	286,082,766	65
Long-term bills payable (Note 14)	-	-	15,963,546	4
Provisions (Note 16)	9,560,897	2	4,145,851	1
Long-term interest payable (Note 14)	8,921,744	2	9,531,465	2
Operating concession liabilities (Note 15)	54,914,835	13	54,542,215	12
Other non-current liabilities (Notes 17, 18 and 22)	338,857	-	226,857	-
Total non-current liabilities	349,830,010	81	370,492,700	84
Total liabilities	363,644,056	84	377,042,108	86
EQUITY (Note 19)				
Capital stock				
Common stock	56,282,930	13	56,282,930	13
Capital surplus	172,981	-	172,981	-
Retained earnings				
Legal reserve	1,400,081	-	866,090	-
Unappropriated earnings	11,557,021	3	5,695,863	1
Total retained earnings	12,957,102	3	6,561,953	1
Unrealized gain on available-for-sale financial assets	-	-	485	-
Total equity	69,413,013	16	63,018,349	14
TOTAL	$ 433,057,069	100	$ 440,060,457	100

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

(Continued)

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock	Capital Surplus	Retained Earnings			Unrealized Gain/Loss on Available-for-sale Financial Assets	Total Equity
	Common Stock		Legal Reserve	Unappropriated Earnings	Total		
BALANCE AT 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	56,282,930	172,981	866,090	5,696,348	6,562,438	-	63,018,349
Appropriation 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 year ended December 31, 2018	-	-	-	10,696,381	10,696,381	-	10,696,381
Other comprehensive loss for the year ended December 31, 2018	-	-	-	(80,497)	(80,497)	-	(80,497)
Total comprehensive income for the year ended December 31, 2018	-	-	-	10,615,884	10,615,884	-	10,615,884
BALANCE AT DECEMBER 31, 2018	$ 56,282,930	$ 172,981	$ 1,400,081	$ 11,557,021	$ 12,957,102	$ -	$ 69,413,013
BALANCE AT JANUARY 1, 2017	$ 56,282,930	$ 172,981	$ 451,180	$ 4,155,897	$ 4,607,077	$ 693	$ 61,063,681
Appropriation 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 year ended December 31, 2017	-	-	-	5,339,905	5,339,905	-	5,339,905
Other comprehensive loss for the year ended December 31, 2017	-	-	-	(8,053)	(8,053)	(208)	(8,261)
Total comprehensive income for the year ended December 31, 2017	-	-	-	5,331,852	5,331,852	(208)	5,331,644
BALANCE AT DECEMBER 31, 2017	$ 56,282,930	$ 172,981	$ 866,090	$ 5,695,863	$ 6,561,953	$ 485	$ 63,018,349

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)

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

(Continued)

TAIWAN HIGH SPEED RAIL CORPORATION

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

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

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

1. GENERAL

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

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

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

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

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

   1) IFRS 9 “Financial Instruments” and related amendment

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

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

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.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
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	Reclassifi-cations	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ -	$ -	$ -	$ -	$ -	
Add: Reclassification from available-for-sale (IAS 39)	-	319,985	319,985	485	(485)	Note 2
	-	319,985	319,985	485	(485)	
Amortized cost	-	-	-	-	-	
Add: Reclassification from loans and receivables (IAS 39)	-	19,040,064	19,040,064	-	-	Note 1
	-	19,040,064	19,040,064	-	-	
	$ -	$ 19,360,049	$ 19,360,049	$ 485	$ (485)	

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.

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

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

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

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

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

1) IFRS 16 “Leases”

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

Definition of a lease

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

The Corporation as lessee

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

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

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

The Corporation will apply the following practical expedients:

a) The Corporation will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Corporation will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Corporation will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Corporation as lessor

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

Anticipated impact on assets and liabilities on January 1, 2019

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

2) IFRIC 23 "Uncertainty over Income Tax Treatments"

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

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

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

d. Foreign currencies

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

e. Cash equivalents

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

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

2018

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

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

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

2017

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

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

g. Impairment of accounts receivable

2018

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

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

2017

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

h. Inventories

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

i. Property, plant and equipment

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

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

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

j. Intangible assets

1) Operating concession asset

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

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

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

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

2) Computer software

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

k. Operating concession liability

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

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

l. Impairment of assets

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

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

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

m. Hedging derivatives

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

n. Provisions

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

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

o. Revenue recognition

<u>2018</u>

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.

<u>2017</u>

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

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

p. Borrowing costs

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

q. Government grants

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

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

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

r. Retirement benefit costs

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

s. Taxation

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

1) Current tax

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

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

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

2) Deferred tax

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Controversial overtime

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

b. Stabilization reserve

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

c. Income taxes

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

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

d. Amortization of intangible assets - operating concession asset

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

6. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

8. HEDGING DERIVATIVE FINANCIAL ASSETS

	December 31	
	2018	**2017**
Financial assets - current		
Fair value hedges - forward exchange contracts	$ -	$ 5

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

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

9. INVENTORIES

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

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

10. OTHER FINANCIAL ASSETS

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

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost							
Balance at January 1, 2018	$ 28	$ 263,048	$ 242	$ 122,805	$ 79,370	$ 251,241	$ 716,734
Additions	-	18,069	-	3,924	1,168	3,200	26,361
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(403)	-	28	-	657	282
Balance at December 31, 2018	28	275,437	155	121,048	80,448	252,813	729,929

(Continued)

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Accumulated depreciation							
Balance at January 1, 2018	$ -	$ 216,979	$ 242	$ 111,770	$ 79,326	$ 201,063	$ 609,380
Depreciation	-	19,458	-	3,552	159	12,752	35,921
Disposals	-	(5,277)	(87)	(5,709)	(90)	(2,285)	(13,448)
Transfer	-	(9)	-	-	-	-	(9)
Balance at December 31, 2018	-	231,151	155	109,613	79,395	211,530	631,844
	$ 28	$ 44,286	$ -	$ 11,435	$ 1,053	$ 41,283	$ 98,085
Cost							
Balance at January 1, 2017	$ 28	$ 241,472	$ 310	$ 119,082	$ 79,370	$ 204,090	$ 644,352
Additions	-	23,881	-	7,056	-	5,342	36,279
Disposals	-	(2,305)	(68)	(3,369)	-	(1,063)	(6,805)
Transfer	-	-	-	36	-	42,872	42,908
Balance at December 31, 2017	28	263,048	242	122,805	79,370	251,241	716,734
Accumulated depreciation							
Balance at January 1, 2017	$ -	$ 198,781	$ 310	$ 112,387	$ 78,256	$ 189,313	$ 579,047
Depreciation	-	20,503	-	2,752	1,070	12,812	37,137
Disposals	-	(2,305)	(68)	(3,369)	-	(1,063)	(6,805)
Transfer	-	-	-	-	-	1	1
Balance at December 31, 2017	-	216,979	242	111,770	79,326	201,063	609,380
	$ 28	$ 46,069	$ -	$ 11,035	$ 44	$ 50,178	$ 107,354

(Concluded)

12. INTANGIBLE ASSETS

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

a. Movements of the intangible assets

	Operating Concession Asset						
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress	Total	Computer Software, Net	Total
Cost							
Balance at January 1, 2018	$ 472,404,197	$ 69,972,043	$ 12,701,819	$ 551,084	$ 555,629,143	$ 412,868	$ 556,042,011
Additions	294,933	-	-	1,477,114	1,772,047	11,584	1,783,631
Disposals	(162,040)	-	-	-	(162,040)	(3,584)	(165,624)
Transfer	625,181	-	-	(672,341)	(47,160)	7,543	(39,617)
Balance at December 31, 2018	473,162,271	69,972,043	12,701,819	1,355,857	557,191,990	428,411	557,620,401
Accumulated amortization							
Balance at January 1, 2018	127,378,129	14,542,855	541,786	-	142,462,770	358,701	142,821,471
Amortization	12,378,258	1,097,609	240,792	-	13,716,659	19,040	13,735,699
Disposals	(156,403)	-	-	-	(156,403)	(3,584)	(159,987)
Transfer	-	-	-	-	-	9	9
Balance at December 31, 2018	139,599,984	15,640,464	782,578	-	156,023,026	374,166	156,397,192
	$ 333,562,287	$ 54,331,579	$ 11,919,241	$ 1,355,857	$ 401,168,964	$ 54,245	$ 401,223,209

(Continued)

	Operating Concession Asset						
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress	Total	Computer Software, Net	Total
Cost							
Balance at January 1, 2017	$ 471,971,397	$ 69,972,043	$ 12,701,819	$ 163,220	$ 554,808,479	$ 377,605	$ 555,186,084
Additions	345,887	-	-	701,599	1,047,486	25,548	1,073,034
Disposals	(174,809)	-	-	-	(174,809)	(1,915)	(176,724)
Transfer	261,722	-	-	(313,735)	(52,013)	11,630	(40,383)
Balance at December 31, 2017	472,404,197	69,972,043	12,701,819	551,084	555,629,143	412,868	556,042,011
Accumulated amortization							
Balance at January 1, 2017	115,041,859	13,445,248	300,993	-	128,788,100	342,611	129,130,711
Amortization	12,505,163	1,097,607	240,793	-	13,843,563	18,077	13,861,640
Disposals	(168,964)	-	-	-	(168,964)	(1,915)	(170,879)
Transfer	71	-	-	-	71	(72)	(1)
Balance at December 31, 2017	127,378,129	14,542,855	541,786	-	142,462,770	358,701	142,821,471
	$ 345,026,068	$ 55,429,188	$ 12,160,033	$ 551,084	$ 413,166,373	$ 54,167	$ 413,220,540

(Concluded)

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

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

c. Operating concession- rental

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

13. OTHER ASSETS

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

14. BORROWINGS

a. Short-term borrowings

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

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

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

b. Long-term debt

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

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

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

1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. The main purposes of the agreement are to repay the first syndicated loan, the second syndicated loan excluding Tranche D, and the overseas convertible bonds, and to meet fund requirements of operations. Tranches A1, A2, C and D are credit facilities, Tranche C is convertible bond guarantee facility, and Tranche B is performance guarantee facility. Tranche A3, C and D were fully redeemed and cannot be issued afterwards.

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

3) According to the Syndicated Loan Agreement, the Corporation opened capital account and reserve account at Bank of Taiwan for deposits and financial instruments. The Corporation is free to use the capital account; however, the reserve account is restricted and pledged as collateral to Bank of Taiwan, and is recorded as other financial assets. Please refer to Notes 10 and 27 for further information.

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

   a) Term of loan and repayment method

	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

(Continued)

	Term of Loan	Number of Semi-annual Installment Repayment	Ratio of Repayment
Tranche C Facility	May 4, 2016-May 4, 2020 (repaid on March 2, 2017 before its maturity)	Installments 01-09	Fixed payment per installment
Tranche D Facility	May 4, 2013-May 4, 2017 (repaid on April 13, 2016 before its maturity)	Installments 01-09	Fixed payment per installment

(Concluded)

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. Due to the step-up spread mechanism, the Corporation shall make up for the deficit of the interests below the agreed interest rate to the bank syndicate if early redemption occurs. As of December 31, 2018 and 2017, the reference rate remained unchanged at 1.06%.

	Markup Interest Rates	
	Fourth Amendment of Syndicated Loan	
Syndicated Period	After Effectiveness (Effective on October 13, 2017)	Before Effectiveness
May 4, 2010 - May 3, 2012	0.10%	0.10%
May 4, 2012 - May 3, 2013	0.20%	0.20%
May 4, 2013 - May 3, 2014	0.30%	0.30%
May 4, 2014 - May 3, 2015	0.40%	0.40%
May 4, 2015 - May 3, 2016	0.50%	0.50%
May 4, 2016 - May 3, 2017	0.60%	0.60%
May 4, 2017 - May 3, 2018	0.70%	0.70%
May 4, 2018 - May 3, 2040	0.92%	1.08%
May 4, 2040 - May 4, 2049	1.08%	1.08%

The Corporation made early loan repayments to the syndicate of banks. The repayments were \$10 billion for Tranche A1 Facility on July 3, 2018, \$20 billion for Tranche A2 Facility on July 4, 2017, and \$21,160,563 thousand for C Facility on March 2, 2017. The Corporation also paid interest differentials on the early repayments of the loans; the amounts were \$366,615 thousand for the A1 Facility and \$719,842 thousand for the A2 Facility.

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

a) Effective interest rates

	December 31	
	2018	2017
Tranche A1 Facility	1.91%	1.93%
Tranche A2 Facility	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	December 31	
	2018	2017
Syndicated loan		
Tranche A1 Facility	$ 212,417	$ 204,547
Tranche A2 Facility	276,505	245,780
	$ 488,922	$ 450,327

c) Long-term interest payable

	December 31	
	2018	2017
Syndicated loan		
Tranche A1 Facility	$ 4,081,969	$ 4,555,466
Tranche A2 Facility	4,839,775	4,975,999
	$ 8,921,744	$ 9,531,465

d) Interest expense

	For the Year Ended December 31	
	2018	2017
Syndicated loan		
Interest expense	$ 5,394,685	$ 6,117,711

c. Long-term bills payable

	December 31	
	2018	2017
Long-term bills payable	$ 8,000,000	$ 16,000,000
Less: Unamortized discount on long-term bills payable	(11,795)	(17,780)
Less: Unamortized cost of long-term bills payable	(1,335)	(18,674)
	7,986,870	15,963,546
Less: Current portion of long-term bills payable	(7,986,870)	-
	$ -	$ 15,963,546

On January 24, 2017, the Corporation (as the issuer), International Bills Finance Corporation (as the lead arranger), and the other 9 financial institutions (as the underwriters) entered into a joint underwriting agreement on the $20 billion 2-year revolving underwriting facility for the issuance of unsecured commercial paper, with terms ranging from 90 days to 1 year. The utilization of the facility has a validity period of 3 months from the date of agreement, and any remaining unutilized facility will become invalid.

The Corporation issued unsecured commercial papers totaling $16 billion under the facility on March 1, 2017, and the remaining facility was expired on April 24, 2017. On February 13, 2018 and August 10, 2018, the facility was reduced by $4 billion each time, and the unsecured commercial paper was also reduced by the same amount. The effective interest rate of the long-term bills payable was 0.93% and 0.92%, respectively, on December 31, 2018 and 2017.

15. OPERATING CONCESSION LIABILITIES

	December 31	
	2018	2017
Operating concession liabilities	$ 77,681,295	$ 76,793,279
Value of returned superficies for offset of profit sharing payable	(22,035,278)	(21,603,214)
	$ 55,646,017	$ 55,190,065
Current	$ 731,182	$ 647,850
Non-current	54,914,835	54,542,215
	$ 55,646,017	$ 55,190,065

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

Year	Amortization Expense	Interest Expense	Total
Up to December 31, 2018	$ 15,640,464	$ 18,357,102	$ 33,997,566
2019 (estimate)	1,097,608	1,566,583	2,664,191
2020 (estimate)	1,097,608	1,597,915	2,695,523
2021 (estimate)	1,097,608	1,629,873	2,727,481
2022 (estimate)	1,097,608	1,662,470	2,760,078
2023-2033 (estimate)	12,073,688	13,214,014	25,287,702
2034-2068 (estimate)	37,867,459	-	37,867,459
	$ 69,972,043	$ 38,027,957	$ 108,000,000

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

Year	Other Gain	Deduction of Interest Expense	Total
Up to December 31, 2018	$ 22,613,234	$ 1,425,565	$ 24,038,799
2019 (estimate)	-	440,706	440,706
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023-2033 (estimate)	-	3,929,640	3,929,640
	$ 22,613,234	$ 7,171,621	$ 29,784,855

As of December 31, 2018, the Corporation’s accumulated profit sharing payments paid to the MOTC amounted to $8,644,329 thousand (or accumulated profit sharing payments in the amount of $10,647,850 thousand less the deductible amount of returned superficies in the amount of $2,003,521 thousand).

16. PROVISIONS

a. Provisions

	December 31 2018	December 31 2017
Current		
Provision for controversial overtime pay	$ 283,279	$ 286,662
Provision for preferred stock compensation	-	5,853
	$ 283,279	$ 292,515
Non-current		
Provision for stabilization reserve	$ 9,560,897	$ 4,145,851

b. Movements in provisions were as follows:

	Balance at January 1, 2018	Addition	Usage	Reversal	Balance at December 31, 2018
Current					
Provision for controversial overtime pay	$ 286,662	$ -	$ (3,383)	$ -	$ 283,279
Provision for preferred stock compensation	5,853	-	(4,293)	(1,560)	-
	$ 292,515	$ -	$ (7,676)	$ (1,560)	$ 283,279
Non-current					
Stabilization reserve	$ 4,145,851	$ 5,415,046	$ -	$ -	$ 9,560,897

	Balance at January 1, 2017	Addition	Usage	Balance at December 31, 2017
Current				
Provision for controversial overtime pay	$ 293,566	$ -	$ (6,904)	$ 286,662
Provision for preferred stock compensation	5,853	-	-	5,853
Other provisions	2,282	198	(2,480)	-
	$ 301,701	$ 198	$ (9,384)	$ 292,515
Non-current				
Provision for stabilization reserve	$ 280,289	$ 3,865,562	$ -	$ 4,145,851

1) Controversial overtime pay

Part of the Corporation's employees are required to work in shifts due to the nature of the Corporation's business. The national holidays are adjusted to regular holidays for employees who work in shifts and the combination of adjusted national holidays and regular holidays has been excluded in the calculation of regular working hours for the entire year. However, the Taiwan High Speed Rail Corporation Labor Union (the "THSRC Labor Union") claimed that overtime should be paid if employees working in shifts worked on national holidays. In regard to the controversy over the calculation of overtime hours in every two consecutive weeks, and the improvement of policy on recess during regular days and holidays, in January 2016, the THSRC Labor Union proclaimed that employees working in shifts shall cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the abovementioned adjusted national holidays and working hours of two consecutive weeks, and after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018, but the Corporation lodged an appeal against the verdict on July 6, 2018.

The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of December 31, 2018, the provision for controversial overtime pay in the amount of $283,279 thousand had been recognized.

2) Preferred stock compensation

In order to implement the Financial Resolution Plan, the Corporation has redeemed all of the preferred stock on August 7, 2015. The provisions for redemption of preferred stock previously recognized were adjusted to zero. The proposal to pay the accumulated unpaid preferred stock dividends was resolved by the shareholders in the special shareholders' meeting on September 10, 2015. According to the Financial Resolution Plan, the Corporation recognized a provision for preferred stock compensation and a related expenditure each in the amount of $15,161,065 thousand on October 30, 2015 as the Fourth Amendment of C&O Agreement became effective. The provisions for interest expense on delayed payments and court costs with respect to preferred stock litigations previously recognized were adjusted to zero accordingly. Before the payment of preferred stock compensation, the preferred stock shareholders should waive the claims to the interest expense on delayed payments, court costs and other expenses arising from the litigations, and should reach agreements with the Corporation to settle all of the rights and obligations between them and the Corporation. As of December 31, 2018, the preferred stock compensation had been completely settled.

3) Stabilization reserve

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

17. OTHER LIABILITIES

	December 31	
	2018	2017
Other payables		
Accrued expenses	$ 2,234,095	$ 2,208,749
Accrued interest expense	488,975	450,348
Business tax payable	264,260	258,125
Others	44,433	33,031
	$ 3,031,763	$ 2,950,253
Other current liabilities		
Contract liabilities (Note 20)	$ 665,541	$ -
Unearned receipts	-	472,176
Deferred revenue	-	49,762
Receipts under custody	25,090	24,369
Others	9,018	115,710
	$ 699,649	$ 662,017
Other non-current liabilities		
Net defined benefit liability	$ 210,698	$ 111,553
Guaranteed deposits received	119,643	104,167
Deferred revenue	8,516	11,136
Deferred tax liabilities	-	1
	$ 338,857	$ 226,857

18. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

The Corporation also adopted a defined benefit plan under the Labor Standards Law (the "LSL"). Under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committees' name. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in a one-time appropriation that shall be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation has no right to influence the investment policy and strategy.

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk

   The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be lower than the interest rate for a 2-year time deposit with local banks.

2) Interest risk

   A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the value on the plan's debt investments.

3) Salary risk

   The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The amounts included in the balance sheets in respect of the Corporation's obligations under its defined benefit plan are as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	$ (782,888)	$ (662,674)
Fair value of plan assets	572,190	551,121
Net defined benefit liability	$ (210,698)	$ (111,553)

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2017	$ (650,217)	$ 545,477	$ (104,740)
Current service cost	(14,659)	-	(14,659)
Net interest income (expense)	(9,587)	8,163	(1,424)
Recognized in profit or loss	(24,246)	8,163	(16,083)
Remeasurement			
Return on plan assets	-	(2,816)	(2,816)
Actuarial gain - experience adjustments	12,225	-	12,225
Actuarial loss - changes in financial assumptions	(19,111)	-	(19,111)
Recognized in other comprehensive income	(6,886)	(2,816)	(9,702)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Asset (Liability)
Contributions from the employer	$ -	$ 18,972	$ 18,972
Benefits paid	18,675	(18,675)	-
Balance at December 31, 2017	(662,674)	551,121	(111,553)
Current service cost	(12,791)	-	(12,791)
Net interest income (expense)	(9,734)	8,210	(1,524)
Recognized in profit or loss	(22,525)	8,210	(14,315)
Remeasurement			
Return on plan assets	-	14,016	14,016
Actuarial loss - experience adjustments	(107,949)	-	(107,949)
Actuarial loss - changes in financial assumptions	(9,887)	-	(9,887)
Recognized in other comprehensive income	(117,836)	14,016	(103,820)
Contributions from the employer	-	18,990	18,990
Benefits paid	20,147	(20,147)	-
Balance at December 31, 2018	$ (782,888)	$ 572,190	$ (210,698)

(Concluded)

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	Measurement Date December 31	
	2018	2017
Discount rate	1.40%	1.50%
Expected salary growth rate	2.25%	2.25%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as shown on the table below. The sensitivity analysis may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
Discount rate		
Increase 0.5%	$ (47,819)	$ (37,628)
Decrease 0.5%	$ 52,021	$ 40,873
Expected salary growth rate		
Increase 0.5%	$ 51,655	$ 40,362
Decrease 0.5%	$ (47,969)	$ (37,544)

An analysis of the average duration of the defined benefit obligation was as follows:

	December 31	
	2018	2017
The expected contributions to the plan for the next year	$ 19,125	$ 27,510
The average duration of the defined benefit obligation	11.4 years	11.9 years

c. Please refer to Note 21, a. for the expenses of the defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income for the years ended December 31, 2018 and 2017.

19. EQUITY

a. Capital stock

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

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

On November 26, 2015, the Corporation conducted capital injection and issued 3,000,000 thousand shares of common stock through a private placement at par value of $10, or a total of $30,000,000 thousand. The rights and obligations of the privately placed common stock are the same as other common stock issued, except hasn't been applied to be listed and traded on the Taiwan Stock Exchange yet.

b. Capital surplus

	December 31	
	2018	2017
Issuance of common shares	$ 171,885	$ 171,885
Forfeited employee share options	1,096	1,096
	$ 172,981	$ 172,981

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

c. Legal reserve and appropriation of earnings

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

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

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

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

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

Information on the appropriations of earnings, which is resolved by the board of directors and shareholders, is available at the Market Observation Post System website of the Taiwan Stock Exchange.

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

Balance at January 1, 2017	$ 693
Unrealized gain arising on revaluation of available-for-sale financial assets	1,222
Cumulative gain (loss) transferred to profit or loss on sale of available-for-sale financial assets	(1,430)
Balance at December 31, 2017	485
Effect of retrospective application of IFRS 9	(485)
Balance at January 1, 2018 per IFRS 9	$ -

20. REVENUE

	For the Year Ended December 31	
	2018	2017
Railroad transportation revenue	$ 44,098,796	$ 42,221,888
Other operating revenue	1,316,211	1,213,154
	$ 45,415,007	$ 43,435,042

a. Contract balances

	December 31, 2018
Notes and accounts receivable	$ 505,565
Contract liabilities	
Railroad transportation revenue	$ 534,736
Customer loyalty programmer	120,467
Others	10,338
	$ 665,541

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

Revenue of the current year recognized from the beginning contract liability is as follows:

	For the Year Ended December 31, 2018
From the beginning contract liability	
Railroad transportation revenue	$ 463,965
Customer loyalty programmer	40,494
Others	3,983
	$ 508,442

b. Disaggregation of revenue

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

c. Partially completed contracts

For the performance obligations that are not fully satisfied, the expected timing for recognition of revenue are as follows.

	December 31, 2018
Railroad transportation revenue	
In 2019	$ 529,520
In 2020	5,216
	534,736
Customer loyalty programmer	
In 2019	101,405
In 2020	19,062
	120,467
Others	
In 2019	10,338
	$ 665,541

21. INCOME BEFORE INCOME TAX

Income before income tax was as follows:

a. Employee benefit expense

	For the Year Ended December 31	
	2018	2017
Post-employment benefits		
Defined contribution plan	$ 175,141	$ 167,919
Defined benefit plan	14,315	16,083
	189,456	184,002
Short-term benefits		
Payroll	3,990,757	3,719,412
Insurance	333,439	320,873
Others	190,462	186,568
	4,514,658	4,226,853
	$ 4,704,114	$ 4,410,855
An analysis of employee benefit expense by function		
Operating costs	$ 3,907,755	$ 3,689,056
Operating expenses	796,359	721,799
	$ 4,704,114	$ 4,410,855

As of December 31, 2018 and 2017, the number of employees of the Corporation was 4,475 and 4,412, respectively. As of December 31, 2018 and 2017, the number of professional service employees was 10 and 11, respectively. For the years ended December 31, 2018 and 2017, the professional service fee was $9,725 thousand and $24,622 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated by income before income tax (net of the employees' compensation and remuneration to directors) according to the aforementioned policy. For the years ended December 31, 2018 and 2017, the estimated employees' compensation in cash was $149,986 thousand and $105,879 thousand, and the estimated remuneration to directors in cash was $37,497 thousand and $33,087 thousand, respectively.

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

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

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

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

b. Depreciation and amortization

	For the Year Ended December 31	
	2018	**2017**
An analysis of depreciation and amortization expenses by assets		
Property, plant and equipment	$ 35,921	$ 37,137
Intangible assets	13,735,699	13,861,640
Other non-current assets	4,595	3,930
	$ 13,776,215	$ 13,902,707
An analysis of depreciation by function		
Operating costs	$ 24,015	$ 27,232
Operating expenses	11,906	9,905
	$ 35,921	$ 37,137
An analysis of amortization by function		
Operating costs	$ 13,735,620	$ 13,862,560
Operating expenses	4,674	3,010
	$ 13,740,294	$ 13,865,570

c. Interest income

	For the Year Ended December 31	
	2018	2017
Interest income of repurchase agreement collateralized by government bonds	$ 69,934	$ 69,111
Interest income of bank deposits	36,895	26,965
Others	30	-
	$ 106,859	$ 96,076

d. Interest expense

	For the Year Ended December 31	
	2018	2017
Interest on bank loans	$ 5,401,938	$ 6,125,535
Interest on operating concession liabilities	1,103,802	1,199,736
Interest on long-term bills payable	111,729	137,044
Others	803	1,014
	$ 6,618,272	$ 7,463,329

e. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Compensation gain	$ 58,228	$ 4,112
Government grants	26,669	1,965
Foreign exchange gain (loss), net	7,332	(38,719)
Gain on disposal of financial assets	1,424	1,430
Amortization of cost for early repayment of long-term debt and bills payable	(10,634)	(11,433)
Loss on disposal of intangible assets, net	(5,455)	(5,315)
Others	15,754	4,291
	$ 93,318	$ (43,669)

22. INCOME TAXES

a. Income tax recognized in profit or loss

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	$ (107,542)	$ (1,327,777)
Income tax on unappropriated earnings	(57,745)	(30,939)
Adjustments for prior years	1,269,732	1,730
Deferred tax		
In respect of the current year	1,487,726	218,391
Adjustments to deferred tax attributable to changes in tax rates and laws	792,387	-
Income tax benefit (expense)	$ 3,384,558	$ (1,138,595)

A reconciliation of income before income tax and income tax expense was as follows:

	For the Year Ended December 31	
	2018	2017
Income tax expense calculated at the statutory rate	$ (1,462,365)	$ (1,101,345)
Nondeductible expenses in determining taxable income	(6,601)	(8,041)
Change in unrecognized deductible temporary differences	1,171	-
Income tax on unappropriated earnings	(57,745)	(30,939)
Change in tax rate	792,387	-
Income tax exemption effect	2,841,765	-
Adjustments for prior years	1,269,732	1,730
Others	6,214	-
Income tax benefit (expense) recognized in profit or loss	$ 3,384,558	$ (1,138,595)

In 2017, the applicable corporate income tax rate used by the Corporation in the ROC is 17%. The Income Tax Act in the ROC was amended in February, 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings was reduced from 10% to 5%.

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

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Change in tax rates	$ 2,559	$ -
In respect of the current year		
Remeasurement of defined benefit plan	20,764	1,649
	$ 23,323	$ 1,649

c. Deferred tax assets and liabilities

For the year ended December 31, 2018

Deferred tax assets	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Temporary differences				
Profit sharing payments	$ 3,727,289	$ 1,047,641	$ -	$ 4,774,930
Provisions	753,528	1,215,307	-	1,968,835
Deferred revenue	8,459	15,635	-	24,094
Defined benefit obligation	14,502	-	23,323	37,825
Others	920	1,529	-	2,449
	$ 4,504,698	$ 2,280,112	$ 23,323	$ 6,808,133

Deferred tax liabilities				
Temporary differences				
Others	$ 1	$ (1)	$ -	$ -

For the year ended December 31, 2017

Deferred tax assets	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Temporary differences				
Profit sharing payments	$ 4,145,509	$ (418,220)	$ -	$ 3,727,289
Provisions	97,943	655,585	-	753,528
Compensated absences	22,877	(22,877)	-	-
Deferred revenue	6,079	2,380	-	8,459
Defined benefit obligation	12,853	-	1,649	14,502
Others	504	416	-	920
	$ 4,285,765	$ 217,284	$ 1,649	$ 4,504,698

Deferred tax liabilities				
Temporary differences				
Others	$ 1,108	$ (1,107)	$ -	$ 1

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

	December 31	
	2018	2017
Deductible temporary differences	$ -	$ 995

e. Income tax assessments

The tax returns through 2015 have been assessed by the tax authorities.

23. EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Basic earnings per share (NT$)	$ 1.90	$ 0.95

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

	For the Year Ended December 31	
	2018	2017
Earnings attributable to common shareholders	$ 10,696,381	$ 5,339,905
Weighted average number of common shares in the computation of basic earnings per share (in thousands)	5,628,293	5,628,293

24. CAPITAL MANAGEMENT

The Corporation manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its needs, including working capital needs within 12 months, capital expenditure during the concession period, profit sharing payments, repayments of long-term and short-term debt, and other operating needs.

25. FINANCIAL INSTRUMENTS

a. Financial instruments

	December 31	
	2018	2017
Financial assets		
Financial assets at fair value through profit or loss	$ 327,446	$ -
Available-for-sale financial assets	-	319,985
Hedging derivative financial assets	-	5
Financial assets at amortized cost		
Other financial assets	13,964,800	-
Others (Note 1)	7,475,772	-
Loans and receivables		
Other financial assets	-	11,487,628
Others (Note 1)	-	7,552,436
Financial liabilities		
Financial liabilities carried at amortized cost (Note 2)	351,192,835	369,294,384

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

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

b. Fair value of financial instruments

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

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

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

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

a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

c) Level 3 inputs are unobservable inputs for the asset or liability.

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Open-end money market funds	$ 327,446	$ -	$ -	$ 327,446

December 31, 2017

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

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

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

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

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

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

c. Financial risk management objectives and policies

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

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

1) Market risk

a) Foreign currency risk

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

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

	December 31, 2018		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 21,748	30.733	$ 668,387
JPY	4,931	0.2782	1,372
Financial liabilities			
Monetary items			
USD	33	30.733	1,029
JPY	1,436,946	0.2782	399,758

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 21,249	29.848	$ 634,227
JPY	3	0.2650	1
Financial liabilities			
Monetary items			
USD	20	29.848	610
JPY	847,777	0.2650	224,661

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by $6,674 thousand and $6,336 thousand, respectively, for the years ended December 31, 2018 and 2017. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by $3,984 thousand and $2,024 thousand, respectively, for the years ended December 31, 2018 and 2017.

The significant unrealized exchange gain and loss were as follows:

	For the Year Ended December 31			
	2018		2017	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	30.733	$ 11,728	29.848	$ (12,436)
JPY	0.2782	(15,748)	0.2650	4,211

b) Interest rate risk

As of December 31, 2018 and 2017, the Corporation's syndicated loan with floating interest rates amounted to $276,205,117 thousand and $286,205,117 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by $2,762,051 thousand and $2,862,051 thousand, respectively, for the years ended December 31, 2018 and 2017.

c) Other price risk

The investments in open-end money market funds (recorded as FVTPL and available-for-sale financial assets, respectively as of December 31, 2018 and 2017) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax and other comprehensive income before income tax would have decreased by $3,274 thousand and $3,200 thousand, respectively, for the years ended December 31, 2018 and 2017.

2) Credit risk

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

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

3) Liquidity risk

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

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

December 31, 2018

Repayment Period	Long-term Debt	Long-term Bills Payable (Including Current Portion)	Interest on Long-term Debt	Operating Concession Liability	Total
2019.1.1-2019.3.31	$ -	$ 8,000,000	$ 1,749,124	$ -	$ 9,749,124
2019.4.1-2019.12.31	-	-	5,247,372	731,182	5,978,554
2020	-	-	8,688,551	700,606	9,389,157
2021	9,186,153	-	9,039,422	161,106	18,386,681
2022	9,186,153	-	8,952,193	8,507,011	26,645,357
2023	9,186,153	-	8,620,899	116,525	17,923,577
2024-2033	91,861,535	-	73,858,350	59,354,386	225,074,271
2034-2049	156,785,123	-	47,259,388	-	204,044,511
	$ 276,205,117	$ 8,000,000	$ 163,415,299	$ 69,570,816	$ 517,191,232

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	166,785,123	-	54,305,674	-	221,090,797
	$ 286,205,117	$ 16,000,000	$ 183,284,109	$ 70,218,666	$ 555,707,892

26. TRANSACTIONS WITH RELATED PARTIES

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

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

a. Name of related party and relationship

Related Party	Relationship with the Corporation
MOTC	An investor with significant influence over the Corporation
Bank of Taiwan and seven other syndicated banks	A government-related entity controlled by the central government
China Steel Corporation	A director of the Corporation
Others	Directors of the Corporation, and individuals and entities controlled by the directors, key management personnel and their relatives, and related parties in substance

b. Operating revenue

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

c. Operating costs

1) Profit sharing payments

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

2) Operating concession - rental

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

a) Rental expense

	For the Year Ended December 31	
	2018	2017
Railway Bureau, MOTC (Note)	$ 787,298	$ 756,175
Taiwan Railways Administration, MOTC	48,303	75,547
	$ 835,601	$ 831,722

b) Prepaid rentals (included in other current assets)

	December 31	
	2018	2017
Railway Bureau, MOTC (Note)	$ 786,036	$ 791,379
Taiwan Railways Administration, MOTC	48,303	50,365
	$ 834,339	$ 841,744

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 and seven other syndicated banks. If an early termination of the C&O Agreement occurs, the MOTC shall assume the remaining obligations under Tranche A Facility of the Syndicated Loan Agreement. Please refer to Note 14, b. for further information on the major terms, the term of loan, repayment method, interest rates, and early repayment of loan with respect to the Syndicated Loan Agreement.

f. Executory contract

In August 2018, the Corporation entered into the “OCS Maintenance Vehicle Manufacturing and Supply Procurement Contract” with China Steel Corporation, and the total amount of the contract (business tax included) was $1,232,000 thousands.

g. Compensation of key management personnel

Compensation of key management personnel was as follows:

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 99,124	$ 94,365
Post-employment benefits	854	843
	$ 99,978	$ 95,208

27. RESTRICTED ASSETS

Pledged Assets	Pledged to Secure	December 31 2018	December 31 2017
Other financial assets - current:			
Repurchase agreement collateralized by government bonds	Syndicated loan	$ 1,572,000	$ 1,450,000
Time deposits	Trust deposit of unearned revenue	68,000	-
Time deposits	Guarantee for office lease	954	17,232
Time deposits	Guarantee for project subsidy	-	27,000
Time deposits	Guarantee for oil purchase	-	3,120
Demand deposits	Trust deposit of unearned revenue	15,654	9,375
Demand deposits	Syndicated loan	1,453	1,401
Demand deposits	Project subsidy	-	27,000
		1,658,061	1,535,128
Other financial assets - non-current:			
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000
Time deposits	Guarantee for customs duties	42,378	42,315
Time deposits	Guarantee for office lease	15,324	-
Time deposits	Guarantee for project subsidy	10,520	-
Time deposits	Guarantee for parking lease	7,067	7,000
Time deposits	Guarantee for oil purchase	3,120	-
Time deposits	Trust deposit of unearned revenue	-	68,000
		2,078,409	2,117,315
		$ 3,736,470	$ 3,652,443

28. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Construction and operation agreement

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

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

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

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

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

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

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

3) The Corporation should establish a financial stabilization mechanism starting from 2016.

   a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments that resulted from the change in accounting policies exceed $3.5 billion, the stabilization reserve should be provided as described below:

      i. If the Corporation's EBT in the current year is higher than A1 but less than A2, the EBT is regarded as operation incentive and no stabilization reserve should be provided (please refer to the note below for the definitions of EBT, A1, A2 and A3).

      ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:

      (EBT - A2) × 50%

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

      (A3 - A2) × 50% + (EBT - A3) × 70%

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

      A1 = Net income of $3.5 billion ÷ (1 - the statutory tax rate)
      A2 = Net income of $4.0 billion ÷ (1 - the statutory tax rate)
      A3 = Net income of $4.5 billion ÷ (1 - the statutory tax rate)

b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent of the accumulated stabilization reserve equals zero.

c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") at Bank of Taiwan.

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

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

      i) Fare discount or fare reduction;

      ii) Construction of HSR infrastructure and facilities; and

      iii) In compliance with the government's policies.

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

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

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

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

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

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

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

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

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

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

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

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

b. As of December 31, 2018, unused letters of credit amounted to JPY 2,408,369 thousand.

c. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of noise and vibration control. The residents stated they suffered from the noise and vibration intrusion for a long time, and the situation brought the damage to the buildings and their health. Therefore, the residents claimed for the damage compensation. In June 2015, the Environmental Protection Administration Public Nuisance Arbitration Committee decided that the Corporation shall compensate the residents of $8,338 thousand. The Corporation disagreed with the ruling and filed an appeal to Miaoli District Court. On November 23, 2018, Miaoli District Court declared that the Corporation won the first instance, and the defendant has filed an appeal on December 11, 2018. On December 17, 2018, the residents filed a claim under the same reason, and requested for a payment of $5,700 thousand. As of December 31, 2018, the lawsuit is still under the review of the court.

d. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY 5,123,358 thousand and NT$495,547 thousand. As of December 31, 2018, payments for the contract amounted to JPY 2,637,305 thousand and NT$230,382 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

29. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On January 23, 2019, the board of directors approved to adjust the estimated amortization lives of certain operating concession assets. The revised estimated amortization lives will be effective on January 1, 2019. Please refer to Note 5, d. for further information.

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

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

31. SEPARATELY DISCLOSED ITEMS

Except for Notes 8 and 25 regarding the information on derivative financial instrument transactions and Tables 1 and 2 as attached, there were no other significant transactions, information on investees and investments in mainland China required for disclosure.

32. SEGMENT INFORMATION

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

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	December 31, 2018 Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	Note
The Corporation	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss	7,236	$ 110,536	-	$ 110,536	
	Jih Sun Money Market Fund	-	〃	7,081	104,747	-	104,747	
	Franklin Templeton Sinoam Money Market Fund	-	〃	4,846	50,016	-	50,016	
	Prudential Financial Money Market Fund	-	〃	3,935	62,147	-	62,147	
	Central Government Bonds 2016-11	-	Cash and cash equivalents	$ 2,361,000	2,554,000	-	2,554,000	
	Central Government Bonds 2015-12	-	〃	594,000	660,000	-	660,000	
	Central Government Bonds 2014-6	-	〃	401,400	446,000	-	446,000	
	Central Government Bonds 2013-8	-	〃	67,500	75,000	-	75,000	
	Central Government Bonds 2013-B 1st	-	〃	90,000	100,000	-	100,000	
	Central Government Bonds 2012-8	-	〃	90,000	100,000	-	100,000	
	Central Government Bonds 2012-5	-	〃	477,000	530,000	-	530,000	
	Central Government Bonds 2008-5	-	〃	170,100	189,000	-	189,000	
	Central Government Bonds 2007-7	-	〃	137,700	153,000	-	153,000	
	Central Government Bonds 2004-9	-	〃	90,000	100,000	-	100,000	
	Central Government Bonds 2004-6	-	〃	265,500	295,000	-	295,000	
	Central Government Bonds 2000-13	-	〃	1,475,000	1,475,000	-	1,475,000	
	Central Government Bonds 2016-11	-	Other financial assets - current	4,474,000	4,875,000	-	4,875,000	
	Central Government Bonds 2015-12	-	〃	642,600	714,000	-	714,000	
	Central Government Bonds 2013-6	-	〃	435,600	484,000	-	484,000	
	Central Government Bonds 2011-7	-	〃	334,800	372,000	-	372,000	
	Central Government Bonds 2010-4	-	〃	133,200	148,000	-	148,000	
	Central Government Bonds 2008-5	-	〃	183,600	204,000	-	204,000	
	Central Government Bonds 2004-6	-	〃	117,000	130,000	-	130,000	
	Central Government Bonds 2000-13	-	〃	2,051,000	2,051,000	-	2,051,000	
	Central Government Bonds 2000-B 1st	-	〃	1,152,000	1,152,000	-	1,152,000	

TABLE 2

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		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	13,096,000	14,237,000	9,680,000	10,554,314	10,544,000	10,314	6,835,000	7,429,000
	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	〃	-	-	-	-	2,224,800	2,472,000	988,200	1,099,086	1,098,000	1,086	1,236,600	1,374,000
	Central Government Bonds 2015-6	〃	-	-	-	-	1,769,300	1,912,000	1,769,300	1,913,990	1,912,000	1,990	-	-
	Central Government Bonds 2014-10	〃	-	-	830,000	900,000	3,381,300	3,656,000	4,211,300	4,560,681	4,556,000	4,681	-	-
	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	822,600	914,000	1,095,300	1,218,120	1,217,000	1,120	401,400	446,000
	Central Government Bonds 2013-11	〃	-	-	70,200	78,000	297,000	330,000	367,200	408,315	408,000	315	-	-
	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	857,700	953,000	1,073,700	1,194,177	1,193,000	1,177	67,500	75,000
	Central Government Bonds 2013-6	〃	-	-	210,600	234,000	909,000	1,010,000	684,000	760,560	760,000	560	435,600	484,000
	Central Government Bonds 2013-B 1st	〃	-	-	86,400	96,000	396,000	440,000	392,400	436,401	436,000	401	90,000	100,000
	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	460,800	512,000	469,800	522,611	522,000	611	90,000	100,000
	Central Government Bonds 2012-5	〃	-	-	499,500	555,000	1,378,800	1,532,000	1,401,300	1,557,996	1,557,000	996	477,000	530,000
	Central Government Bonds 2012-2	〃	-	-	-	-	1,054,800	1,172,000	1,054,800	1,172,992	1,172,000	992	-	-
	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	479,700	533,482	533,000	482	-	-
	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	1,044,900	1,161,000	1,053,000	1,171,147	1,170,000	1,147	334,800	372,000
	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	1,097,100	1,219,000	1,187,100	1,320,228	1,319,000	1,228	-	-
	Central Government Bonds 2010-4	〃	-	-	451,800	502,000	1,547,100	1,719,000	1,865,700	2,075,030	2,073,000	2,030	133,200	148,000
	Central Government Bonds 2008-5	〃	-	-	53,100	59,000	739,800	822,000	439,200	488,282	488,000	282	353,700	393,000
	Central Government Bonds 2007-7	〃	-	-	169,200	188,000	792,000	880,000	823,500	915,634	915,000	634	137,700	153,000
	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	1,393,200	1,549,042	1,548,000	1,042	-	-
	Central Government Bonds 2005-5	〃	-	-	-	-	592,200	658,000	592,200	658,489	658,000	489	-	-
	Central Government Bonds 2004-6	〃	-	-	362,700	403,000	1,579,500	1,755,000	1,559,700	1,734,272	1,733,000	1,272	382,500	425,000
	Central Government Bonds 2004-3	〃	-	-	-	-	2,205,900	2,451,000	2,205,900	2,453,754	2,451,000	2,754	-	-
	Central Government Bonds 2003-3	〃	-	-	88,200	98,000	5,301,700	5,847,000	5,389,900	5,950,713	5,945,000	5,713	-	-
	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 2000-13	〃	-	-	117,000	130,000	3,625,000	3,636,000	216,000	240,128	240,000	128	3,526,000	3,526,000
	Central Government Bonds 2000-B 1st	〃	-	-	510,300	567,000	1,152,000	1,152,000	510,300	567,547	567,000	547	1,152,000	1,152,000
	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	600,300	667,688	667,000	688	-	-

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

TAIWAN HIGH SPEED RAIL CORPORATION

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Cash		
Cash on hand		$ 148,780
Checking accounts		10
Demand deposits	Interest rate: 0.001%-0.5%	113,952
Time deposits		
New Taiwan dollars	Expired in January 2019; interest rate: 0.62%	8,108
Cash equivalents		
Repurchase agreement collateralized by government bonds	Can be redeemed between January and March 2019; interest rate: 0.51%-0.62%	6,677,000
		$ 6,947,850

SCHEDULE 2

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name of Funds	Units (In Thousands)	Acquisition Cost	Net Value (NT$)	Total Amount
Open-end money market funds				
FSITC Taiwan Money Market Fund	7,236	$ 110,430	15.2765	$ 110,536
Jih Sun Money Market Fund	7,081	104,500	14.7935	104,747
Franklin Templeton Sinoam Money Fund	4,846	50,000	10.3209	50,016
Prudential Financial Money Market Fund	3,935	62,000	15.7938	62,147
		$ 326,930		$ 327,446

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF INVENTORIES
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Spare parts and supplies	$ 2,641,285
Merchandise	7,838
	2,649,123
Less: Allowance for inventory valuation losses	(620,198)
	$ 2,028,925

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF SHORT-TERM BORROWINGS
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Type of Loans	Name of Creditors	Ending Balance	Credit Period	Interest Rate (%)	Loan Commitments	Collateral
JPY letters of credit						
	Bank of Taiwan	$ 76,749	2018.12.21-2019.3.21	0.63	$ 1,536,650	None
	Chang Hwa Commercial Bank	67,621	2018.11.14-2019.3.21	0.63	921,990	None
	Cathay United Bank	3,410	2018.12.21-2019.3.21	0.61	921,990	None
	E.SUN Commercial Bank	85	2018.12.27-2019.3.27	0.66	460,995	None
		$ 147,865				

Note: The credit line is recorded at the exchange rate of JPY1:0.2782 at December 31, 2018.

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF ACCOUNTS PAYABLE
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Supplier Name	Amount
National Chung-Shan Institute of Science & Technology	$ 40,952
Kawasaki Heavy Industries, Ltd.	17,692
Kaohsiung Airport Catering Services	16,853
Toshiba Electronic Components Taiwan Corporation	14,633
Others (Note)	184,274
	$ 274,404

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF PAYABLE FOR CONSTRUCTION
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Supplier Name	Amount
Taiwan Hitachi Asia Pacific Co., Ltd.	$ 124,958
Taiwan Shinkansen Corporation	70,256
Qin Xiang Co., Ltd.	35,696
Others (Note)	304,920
	$ 535,830

Note: The amount of individual suppliers in others does not exceed 5% of the total account balance.

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF OPERATING REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Quantity	Amount
Railroad transportation revenue	11,559 million passenger - kilometers; 63.96 million passengers	$ 44,098,796
Others		1,316,211
		$ 45,415,007

SCHEDULE 8

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF OPERATING COSTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Amortization expense	$ 13,735,620
Employee benefit expense	3,907,755
Electricity fee	1,786,161
Spare parts and supplies	1,262,678
Repair and maintenance expense	1,042,017
Others	3,347,163
	$ 25,081,394

SCHEDULE 9

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Item	Amount
Employee benefit expense	$ 796,359
Advertisement expense	89,615
Professional service expense	57,771
Repair and maintenance expense	45,924
Rental expense	41,205
Others	157,775
	$ 1,188,649

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENT OF SUMMARY OF EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION EXPENSE BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	For the Year 2018			For the Year 2017		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Employee benefit expense						
Payroll	$ 3,335,786	$ 603,711	$ 3,939,497	$ 3,124,111	$ 548,698	$ 3,672,809
Insurance	288,142	45,297	333,439	280,953	39,920	320,873
Pension	161,429	28,027	189,456	159,090	24,912	184,002
Remuneration to directors	-	53,701	53,701	-	49,609	49,609
Other personnel expense	122,398	65,623	188,021	124,902	58,660	183,562
	$ 3,907,755	$ 796,359	$ 4,704,114	$ 3,689,056	$ 721,799	$ 4,410,855
Depreciation expense	$ 24,015	$ 11,906	$ 35,921	$ 27,232	$ 9,905	$ 37,137
Amortization expense	$ 13,735,620	$ 4,674	$ 13,740,294	$ 13,862,560	$ 3,010	$ 13,865,570

Note: The number of employees for current year and prior year was 4,475 and 4,412, respectively, while the number of directors not being employees concurrently were both 13.