

Taiwan High Speed Rail Corporation

**Financial Statements for the
Nine Months Ended September 30, 2019 and 2018 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Taiwan High Speed Rail Corporation

Introduction

We have reviewed the accompanying balance sheets of Taiwan High Speed Rail Corporation (the "Corporation") as of September 30, 2019 and 2018 and the related statements of comprehensive income for the three months ended September 30, 2019 and 2018 and for the nine months ended September 30, 2019 and 2018, as well as the statements of changes in equity and cash flows for the nine months then ended, and the related notes to the financial statements, including a summary of significant accounting policies (collectively referred to as "the financial statements"). Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China ("ROC"). Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as at September 30, 2019 and 2018, its financial performance for the three months ended September 30, 2019 and 2018, and its financial performance and its cash flows for the nine months ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the ROC.

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



Deloitte & Touche
Taipei, Taiwan
Republic of China

November 6, 2019

Notice to Readers

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

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

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 769,619	-	\$ 6,947,850	2	\$ 2,967,180	1
Financial assets at fair value through profit or loss (Note 7)	330,005	-	327,446	-	323,319	-
Notes and accounts receivable (Note 21)	569,047	-	505,565	-	427,916	-
Current tax assets (Note 4)	166,783	-	166,783	-	191,330	-
Inventories (Note 9)	2,305,846	1	2,028,925	1	2,179,473	1
Other financial assets (Notes 10 and 28)	21,938,840	5	11,881,545	2	9,215,632	2
Other current assets (Notes 14 and 27)	709,662	-	938,435	-	349,478	-
Total current assets	<u>26,789,802</u>	<u>6</u>	<u>22,796,549</u>	<u>5</u>	<u>15,654,328</u>	<u>4</u>
NON-CURRENT ASSETS						
Property, plant and equipment (Note 11)	84,771	-	98,085	-	93,653	-
Right-of-use assets (Note 12)	665,436	-	-	-	-	-
Operating concession asset (Note 13)	392,808,580	91	401,168,964	93	403,865,284	94
Computer software, net (Note 13)	44,781	-	54,245	-	54,577	-
Deferred tax assets (Note 4)	7,218,013	2	6,808,133	2	6,394,279	2
Other financial assets (Notes 10 and 28)	2,128,646	1	2,083,255	-	2,070,447	-
Other non-current assets (Note 14)	11,205	-	47,838	-	51,056	-
Total non-current assets	<u>402,961,432</u>	<u>94</u>	<u>410,260,520</u>	<u>95</u>	<u>412,529,296</u>	<u>96</u>
TOTAL	<u>\$ 429,751,234</u>	<u>100</u>	<u>\$ 433,057,069</u>	<u>100</u>	<u>\$ 428,183,624</u>	<u>100</u>
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 15)	\$ 56,291	-	\$ 147,865	-	\$ 99,929	-
Hedging financial liabilities (Note 8)	17	-	-	-	242	-
Accounts payable	242,775	-	274,404	-	293,145	-
Operating concession liability (Note 16)	599,443	-	731,182	-	565,331	-
Other payables (Notes 15 and 18)	2,545,926	1	3,031,763	1	2,411,648	1
Payable for construction	577,615	-	535,830	-	268,894	-
Current tax liabilities	184,724	-	123,204	-	100,779	-
Provisions (Note 17)	4,611,973	1	283,279	-	289,307	-
Current portion of long-term bills payable (Note 15)	-	-	7,986,870	2	7,988,733	2
Other current liabilities (Notes 12, 18, 21 and 27)	981,033	-	699,649	-	559,939	-
Total current liabilities	<u>9,799,797</u>	<u>2</u>	<u>13,814,046</u>	<u>3</u>	<u>12,577,947</u>	<u>3</u>
NON-CURRENT LIABILITIES						
Long-term debt (Notes 15 and 27)	276,098,641	64	276,093,677	64	276,092,000	64
Provisions (Note 17)	10,000,000	3	9,560,897	2	7,976,614	2
Lease liabilities (Notes 12 and 27)	474,933	-	-	-	-	-
Long-term interest payable (Note 15)	8,569,290	2	8,921,744	2	9,040,477	2
Operating concession liability (Note 16)	55,157,487	13	54,914,835	13	54,802,468	13
Other non-current liabilities (Notes 18 and 19)	389,622	-	338,857	-	229,727	-
Total non-current liabilities	<u>350,689,973</u>	<u>82</u>	<u>349,830,010</u>	<u>81</u>	<u>348,141,286</u>	<u>81</u>
Total liabilities	<u>360,489,770</u>	<u>84</u>	<u>363,644,056</u>	<u>84</u>	<u>360,719,233</u>	<u>84</u>
EQUITY (Note 20)						
Capital stock						
Common stock	56,282,930	13	56,282,930	13	56,282,930	13
Capital surplus	172,981	-	172,981	-	172,981	-
Retained earnings						
Legal reserve	2,469,719	1	1,400,081	-	1,400,081	1
Unappropriated earnings	10,335,834	2	11,557,021	3	9,608,399	2
Total retained earnings	<u>12,805,553</u>	<u>3</u>	<u>12,957,102</u>	<u>3</u>	<u>11,008,480</u>	<u>3</u>
Total equity	<u>69,261,464</u>	<u>16</u>	<u>69,413,013</u>	<u>16</u>	<u>67,464,391</u>	<u>16</u>
TOTAL	<u>\$ 429,751,234</u>	<u>100</u>	<u>\$ 433,057,069</u>	<u>100</u>	<u>\$ 428,183,624</u>	<u>100</u>

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 21 and 27)	\$ 11,678,882	100	\$ 11,304,722	100	\$ 35,307,599	100	\$ 33,671,319	100
OPERATING COSTS (Notes 22 and 27)	<u>(6,450,205)</u>	<u>(55)</u>	<u>(6,322,004)</u>	<u>(56)</u>	<u>(19,032,845)</u>	<u>(54)</u>	<u>(18,507,151)</u>	<u>(55)</u>
GROSS PROFIT	5,228,677	45	4,982,718	44	16,274,754	46	15,164,168	45
OPERATING EXPENSES (Note 22)	<u>(284,951)</u>	<u>(3)</u>	<u>(283,373)</u>	<u>(2)</u>	<u>(870,141)</u>	<u>(2)</u>	<u>(857,534)</u>	<u>(2)</u>
INCOME FROM OPERATIONS	<u>4,943,726</u>	<u>42</u>	<u>4,699,345</u>	<u>42</u>	<u>15,404,613</u>	<u>44</u>	<u>14,306,634</u>	<u>43</u>
NON-OPERATING INCOME AND EXPENSES								
Interest income (Note 22)	41,113	-	22,782	-	112,654	-	78,557	-
Interest expense (Notes 15, 22 and 27)	(1,620,058)	(14)	(1,640,209)	(14)	(4,819,501)	(14)	(4,985,220)	(15)
Stabilization reserve expense (Note 17)	(1,565,015)	(13)	(1,339,080)	(12)	(4,767,797)	(13)	(3,830,763)	(11)
Other gains and losses (Note 22)	<u>19,594</u>	<u>-</u>	<u>5,833</u>	<u>-</u>	<u>64,456</u>	<u>-</u>	<u>84,097</u>	<u>-</u>
Total non-operating income and expenses	<u>(3,124,366)</u>	<u>(27)</u>	<u>(2,950,674)</u>	<u>(26)</u>	<u>(9,410,188)</u>	<u>(27)</u>	<u>(8,653,329)</u>	<u>(26)</u>
INCOME BEFORE INCOME TAX	1,819,360	15	1,748,671	16	5,994,425	17	5,653,305	17
INCOME TAX BENEFIT (Note 23)	<u>96,984</u>	<u>1</u>	<u>359,166</u>	<u>3</u>	<u>157,714</u>	<u>-</u>	<u>3,011,398</u>	<u>9</u>
NET INCOME	<u>1,916,344</u>	<u>16</u>	<u>2,107,837</u>	<u>19</u>	<u>6,152,139</u>	<u>17</u>	<u>8,664,703</u>	<u>26</u>
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss:								
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,559</u>	<u>-</u>
Other comprehensive income for the period, net of income tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,559</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,916,344</u>	<u>16</u>	<u>\$ 2,107,837</u>	<u>19</u>	<u>\$ 6,152,139</u>	<u>17</u>	<u>\$ 8,667,262</u>	<u>26</u>
EARNINGS PER SHARE (Note 24)								
Basic earnings per share	<u>\$ 0.34</u>		<u>\$ 0.37</u>		<u>\$ 1.09</u>		<u>\$ 1.54</u>	

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CHANGES IN EQUITY

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

(Reviewed, Not Audited)

	Capital Stock Common Stock	Capital Surplus	Retained Earnings		Total	Total Equity
			Legal Reserve	Unappropriated Earnings		
BALANCE, JANUARY 1, 2019	\$ 56,282,930	\$ 172,981	\$ 1,400,081	\$ 11,557,021	\$ 12,957,102	\$ 69,413,013
Appropriations of 2018 earnings						
Legal reserve	-	-	1,069,638	(1,069,638)	-	-
Cash dividends to shareholders - NT\$1.12 per share	-	-	-	(6,303,688)	(6,303,688)	(6,303,688)
	-	-	1,069,638	(7,373,326)	(6,303,688)	(6,303,688)
Net income for the nine months ended September 30, 2019	-	-	-	6,152,139	6,152,139	6,152,139
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	6,152,139	6,152,139	6,152,139
BALANCE, SEPTEMBER 30, 2019	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 2,469,719</u>	<u>\$ 10,335,834</u>	<u>\$ 12,805,553</u>	<u>\$ 69,261,464</u>
BALANCE, JANUARY 1, 2018	\$ 56,282,930	\$ 172,981	\$ 866,090	\$ 5,696,348	\$ 6,562,438	\$ 63,018,349
Appropriations of 2017 earnings						
Legal reserve	-	-	533,991	(533,991)	-	-
Cash dividends to shareholders - NT\$0.75 per share	-	-	-	(4,221,220)	(4,221,220)	(4,221,220)
	-	-	533,991	(4,755,211)	(4,221,220)	(4,221,220)
Net income for the nine months ended September 30, 2018	-	-	-	8,664,703	8,664,703	8,664,703
Other comprehensive income for the nine months ended September 30, 2018	-	-	-	2,559	2,559	2,559
Total comprehensive income for the nine months ended September 30, 2018	-	-	-	8,667,262	8,667,262	8,667,262
BALANCE, SEPTEMBER 30, 2018	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 1,400,081</u>	<u>\$ 9,608,399</u>	<u>\$ 11,008,480</u>	<u>\$ 67,464,391</u>

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

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 5,994,425	\$ 5,653,305
Adjustments for:		
Depreciation	150,326	26,792
Amortization	10,331,796	10,297,641
Reversal of write-downs of inventories	(13,042)	(5,288)
Interest expense	4,819,501	4,985,220
Interest income	(112,654)	(78,557)
Gain on foreign currency exchange, net	(5,605)	(25,604)
Stabilization reserve expense	4,767,797	3,830,763
Others	(1,732)	15,307
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(2,559)	(3,334)
Hedging financial instruments	17	247
Notes and accounts receivable	(63,482)	(80,641)
Inventories	(263,879)	(246,462)
Other current assets	222,370	575,559
Other non-current assets	1,714	(7,108)
Accounts payable	(30,275)	46,807
Other payables	(469,130)	(564,645)
Other current liabilities	121,332	(102,078)
Other non-current liabilities	(5,381)	(6,534)
Cash generated from operations	<u>25,441,539</u>	<u>24,311,390</u>
Interest received	108,719	78,993
Interest paid	(4,326,548)	(4,603,200)
Interest paid with respect to operating concession liabilities	(731,182)	(647,850)
Income tax paid	<u>(190,626)</u>	<u>(39,810)</u>
Net cash generated from operating activities	<u>20,301,902</u>	<u>19,099,523</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in other financial assets	(10,101,187)	227,827
Acquisition of property, plant and equipment	(15,775)	(13,446)
Proceeds from disposal of property, plant and equipment	1	-
Acquisition of intangible assets	(1,917,867)	(1,380,857)
Proceeds from disposal of intangible assets	<u>314</u>	<u>179</u>
Net cash used in investing activities	<u>(12,034,514)</u>	<u>(1,166,297)</u>

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TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	\$ (88,351)	\$ 62,613
Repayment of long-term debt	-	(10,000,000)
Repayment of long-term bills payable	(8,000,000)	(8,000,000)
Repayment of the principal portion of lease liabilities	(109,903)	-
Increase in other non-current liabilities	56,100	4,678
Cash dividends	<u>(6,303,688)</u>	<u>(4,221,220)</u>
Net cash used in financing activities	<u>(14,445,842)</u>	<u>(22,153,929)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>223</u>	<u>(34)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,178,231)	(4,220,737)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>6,947,850</u>	<u>7,187,917</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 769,619</u>	<u>\$ 2,967,180</u>

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

(Concluded)

TAIWAN HIGH SPEED RAIL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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

(Reviewed, Not Audited)

1. GENERAL

Taiwan High Speed Rail Corporation (the “Corporation”) was incorporated in Taipei City on May 11, 1998. Under the Taiwan North-South High Speed Rail Construction and Operation Agreement (“C&O Agreement”) and the Taiwan North-South High Speed Rail Station Zone Development Agreement (“SZD Agreement”) entered into between the Corporation and the Ministry of Transportation and Communications (“MOTC”) on July 23, 1998, the Corporation was granted the authority to construct and operate the high speed rail (“HSR”) and relevant ancillary facilities. Under the Fourth Amendment to the C&O Agreement and the Taiwan North-South High Speed Rail Station Zone Development Termination Agreement (“SZD Termination Agreement”) entered into between the Corporation and the MOTC on July 27, 2015, effective on October 30, 2015, the construction and operation concession period of the HSR was extended from 35 years to 70 years until the year of 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 stations in Miaoli, Changhua and Yunlin. 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 reported to the board of directors on November 6, 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:

IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that supersedes IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease” as well as a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Corporation elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Corporation as lessee

The Corporation recognizes 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. Prior to the application of IFRS 16, 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 elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not be restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities are 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, adjusted by the amount of any prepaid lease payments. The Corporation applies IAS 36 for assessing impairment of all right-of-use assets.

The Corporation also applies the following practical expedients:

- 1) The Corporation applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Corporation accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Corporation uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 0.86%. The difference between the lease liabilities recognized and the future minimum lease payments of non-cancellable operating lease on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease on December 31, 2018	\$ 765,427
Less: Recognition exemption for short-term leases	(3,811)
Less: Recognition exemption for leases of low-value assets	<u>(99)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 761,517</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	<u>\$ 739,619</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 739,619</u>

The Corporation as lessor

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

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

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

- b. The IFRSs endorsed by the FSC for application starting from 2020

Effective Date Announced by IASB	New IFRSs
January 1, 2020 (Note 1)	Amendments to IFRS 3 “Definition of a Business”
January 1, 2020 (Note 2)	Amendments to IAS 1 and IAS 8 “Definition of Material”

Note 1: 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 2: 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.

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

Effective Date Announced by IASB (Note)	New IFRS
January 1, 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”
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: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

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

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

d. Foreign currencies

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

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

Financial asset is classified as at fair value through profit or loss (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 re-measurement 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.

g. Impairment of accounts receivable

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.

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 measured at cost less accumulated depreciation. Major additions, replacement and improvements are capitalized, while maintenance and repairs are expensed currently.

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

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

j. Intangible assets

1) Operating concession asset

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

The Fourth Amendment of the C&O Agreement was effective on October 30, 2015. The construction and operation concession period of the HSR was extended from 35 years to 70 years until the year 2068. Receivable due from shortfall charges with respect to 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 - 10 to 61.5 years; machinery and equipment - 2.5 to 35 years; transportation equipment - 3 to 35 years; other equipment - 5 years; profit sharing payments - 61.5 years; period extension cost (shortfall charge with respect to 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 de-recognition 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.

n. Provisions

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

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

o. Revenue recognition

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

p. Leases

2019

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease. For a contract that contains a lease component and non-lease components, the Corporation allocates the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

1) The Corporation as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2) The Corporation as lessee

The Corporation recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms. Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any re-measurement of the lease liabilities.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Corporation uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms.

2018

1) The Corporation as lessor

Rental income from operating leases is recognized over the term of the relevant lease.

2) The Corporation as lessee

Operating lease payments are recognized as expenses over the lease term.

q. 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.

r. 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.

s. 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.

t. Taxation

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

1) Current tax

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

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

Pursuant to the Income Tax Law, an additional tax at 5% 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 September 30, 2019, December 31, 2018 and September 30, 2018, the Corporation recognized a provision for controversial overtime payments in the amount of \$283,279 thousand, \$283,279 thousand and \$283,454 thousand, respectively. The estimated provision could differ from the actual payable amount which is subject to the result of the administrative court judgment or the settlements to be agreed with the relevant employees. Please refer to Note 17 for further information.

b. Stabilization reserve

As of September 30, 2019, December 31, 2018 and September 30, 2018, the Corporation recognized a stabilization reserve, accumulated in the amounts of \$14,328,694 thousand, \$9,560,897 thousand and \$7,976,614 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 17 and Note 29.a.3) for further information.

c. Income taxes

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

As of September 30, 2019, December 31, 2018 and September 30, 2018, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$7,218,013 thousand, \$6,808,133 thousand and \$6,394,279 thousand, respectively. As of September 30, 2019 and 2018, deductible temporary tax differences of \$840,191 thousand and \$1,171 thousand, respectively, were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

d. Amortization of intangible assets - operating concession asset

In the commercial operation of the transportation system, the Corporation has accumulated extensive experience, including the skills of self-maintenance. From this extensive experience, the Corporation is able to assess the anticipated beneficial usage, external economic changes, scheduling of railcar maintenance and impair and other factors. The Corporation has assessed that the amortization lives of certain operating concession asset 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 asset. After the resolution of the Corporation's Board of Directors on January 23, 2019, the revised estimated amortization lives became effective on January 1, 2019. The adjustment of the estimated amortization lives of certain operating concession asset 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

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 150,456	\$ 148,780	\$ 203,177
Checking accounts	4	10	10
Demand deposits	145,014	113,952	134,898
Time deposits	8,145	8,108	8,095
Repurchase agreement collateralized by government bonds	<u>466,000</u>	<u>6,677,000</u>	<u>2,621,000</u>
	<u>\$ 769,619</u>	<u>\$ 6,947,850</u>	<u>\$ 2,967,180</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
Demand deposits	0.001%-0.38%	0.001%-0.50%	0.001%-0.38%
Time deposits	0.62%	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.57%-0.58%	0.51%-0.62%	0.47%-0.50%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2019	December 31, 2018	September 30, 2018
Open-end money market funds	<u>\$ 330,005</u>	<u>\$ 327,446</u>	<u>\$ 323,319</u>

The financial assets previously classified as available-for-sale are mandatorily classified as FVTPL.

8. HEDGING FINANCIAL INSTRUMENTS

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current financial liabilities</u>			
Fair value hedges - forward exchange contracts	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 242</u>

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

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>September 30, 2019</u>			
Buy	US\$/JPY	October 2019	JPY 139,180
Buy	NT\$/US\$	October 2019	US\$ 1,294
<u>September 30, 2018</u>			
Buy	US\$/JPY	October 2018	JPY 129,067
Buy	NT\$/US\$	October 2018	US\$ 1,144

9. INVENTORIES

	September 30, 2019	December 31, 2018	September 30, 2018
Spare parts and supplies	\$ 2,298,760	\$ 2,021,109	\$ 2,169,845
Merchandise	<u>7,086</u>	<u>7,816</u>	<u>9,628</u>
	<u>\$ 2,305,846</u>	<u>\$ 2,028,925</u>	<u>\$ 2,179,473</u>

As of September 30, 2019, December 31, 2018 and September 30, 2018, allowance for inventory valuation losses amounted to \$607,156 thousand, \$620,198 thousand and \$614,997 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Repurchase agreement collateralized by government bonds	\$ 20,201,600	\$ 10,130,000	\$ 7,455,000
Time deposits	3,839,348	3,812,847	3,821,284
Demand deposits	21,990	17,107	5,437
Other performance guarantee	<u>4,548</u>	<u>4,846</u>	<u>4,358</u>
	<u>\$ 24,067,486</u>	<u>\$ 13,964,800</u>	<u>\$ 11,286,079</u>
Current	\$ 21,938,840	\$ 11,881,545	\$ 9,215,632
Non-current	<u>2,128,646</u>	<u>2,083,255</u>	<u>2,070,447</u>
	<u>\$ 24,067,486</u>	<u>\$ 13,964,800</u>	<u>\$ 11,286,079</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
Repurchase agreement collateralized by government bonds	0.57%-0.62%	0.51%-0.62%	0.48%-0.50%
Time deposits	0.15%-2.91%	0.15%-3.10%	0.15%-3.00%
Demand deposits	0.03%-0.08%	0.05%-0.08%	0.05%-0.08%

b. Please refer to Note 28 for the information of other financial assets pledged as collateral.

11. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2019	December 31, 2018	September 30, 2018
Land	\$ 28	\$ 28	\$ 28
Machinery and equipment	38,147	44,286	41,291
Transportation equipment	-	-	-
Office equipment	10,997	11,435	10,443
Leasehold improvements	736	1,053	1,017
Other equipment	<u>34,863</u>	<u>41,283</u>	<u>40,874</u>
	<u>\$ 84,771</u>	<u>\$ 98,085</u>	<u>\$ 93,653</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2019	\$ 28	\$ 275,437	\$ 155	\$ 121,048	\$ 80,448	\$ 252,813	\$ 729,929
Additions	-	10,081	-	2,523	-	3,171	15,775
Disposals	-	(5,801)	(68)	(4,220)	-	(1,008)	(11,097)
Balance at September 30, 2019	<u>28</u>	<u>279,717</u>	<u>87</u>	<u>119,351</u>	<u>80,448</u>	<u>254,976</u>	<u>734,607</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	-	231,151	155	109,613	79,395	211,530	631,844
Depreciation	-	16,195	-	2,961	317	9,591	29,064
Disposals	-	(5,776)	(68)	(4,220)	-	(1,008)	(11,072)
Balance at September 30, 2019	<u>-</u>	<u>241,570</u>	<u>87</u>	<u>108,354</u>	<u>79,712</u>	<u>220,113</u>	<u>649,836</u>
	<u>\$ 28</u>	<u>\$ 38,147</u>	<u>\$ -</u>	<u>\$ 10,997</u>	<u>\$ 736</u>	<u>\$ 34,863</u>	<u>\$ 84,771</u>
<u>Cost</u>							
Balance at January 1, 2018	\$ 28	\$ 263,048	\$ 242	\$ 122,805	\$ 79,370	\$ 251,241	\$ 716,734
Additions	-	10,120	-	2,031	1,024	271	13,446
Disposals	-	(1,423)	(87)	(3,996)	-	(1,522)	(7,028)
Transfer	-	(468)	-	-	-	104	(364)
Balance at September 30, 2018	<u>28</u>	<u>271,277</u>	<u>155</u>	<u>120,840</u>	<u>80,394</u>	<u>250,094</u>	<u>722,788</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2018	-	216,979	242	111,770	79,326	201,063	609,380
Depreciation	-	14,439	-	2,623	51	9,679	26,792
Disposals	-	(1,423)	(87)	(3,996)	-	(1,522)	(7,028)
Transfer	-	(9)	-	-	-	-	(9)
Balance at September 30, 2018	<u>-</u>	<u>229,986</u>	<u>155</u>	<u>110,397</u>	<u>79,377</u>	<u>209,220</u>	<u>629,135</u>
	<u>\$ 28</u>	<u>\$ 41,291</u>	<u>\$ -</u>	<u>\$ 10,443</u>	<u>\$ 1,017</u>	<u>\$ 40,874</u>	<u>\$ 93,653</u>

12. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
<u>Cost</u>					
Balance at January 1, 2019	\$ 251,857	\$ 497,473	\$ 30,659	\$ 1,433	\$ 781,422
Additions	<u>3,008</u>	<u>-</u>	<u>2,215</u>	<u>53</u>	<u>5,276</u>
Balance at September 30, 2019	<u>254,865</u>	<u>497,473</u>	<u>32,874</u>	<u>1,486</u>	<u>786,698</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2019	-	-	-	-	-
Depreciation	<u>61,260</u>	<u>46,411</u>	<u>12,848</u>	<u>743</u>	<u>121,262</u>
Balance at September 30, 2019	<u>61,260</u>	<u>46,411</u>	<u>12,848</u>	<u>743</u>	<u>121,262</u>
	<u>\$ 193,605</u>	<u>\$ 451,062</u>	<u>\$ 20,026</u>	<u>\$ 743</u>	<u>\$ 665,436</u>

b. Lease liabilities - 2019

	Lease Term	Discount Rate	September 30, 2019
Buildings	2-10 years	0.66%-0.87%	\$ 189,322
Machinery and equipment	2-9 years	0.59%-0.87%	424,846
Transportation equipment	3-5 years	0.59%-0.73%	20,072
Other equipment	1.5-3 years	0.59%	<u>745</u>
			634,985
Less: Recognized as current lease liabilities			<u>(160,052)</u>
Lease liabilities - non-current			<u>\$ 474,933</u>

c. Other lease information

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Expenses relating to short-term leases	<u>\$ 917</u>	<u>\$ 3,252</u>
Expenses relating to low-value asset leases	<u>\$ 28</u>	<u>\$ 89</u>
Total cash outflows for leases	<u>\$ (40,788)</u>	<u>\$ (117,770)</u>

The Corporation leases certain buildings and transportation equipment which qualify as short-term leases and certain office equipment and other equipment which qualify as low-value asset leases. The Corporation has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

13. INTANGIBLE ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Operating concession asset	\$ 392,808,580	\$ 401,168,964	\$ 403,865,284
Computer software, net	<u>44,781</u>	<u>54,245</u>	<u>54,577</u>
	<u>\$ 392,853,361</u>	<u>\$ 401,223,209</u>	<u>\$ 403,919,861</u>

a. Movements of the intangible assets

	Operating Concession Asset				Total	Computer Software, Net		Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress				
<u>Cost</u>								
Balance at January 1, 2019	\$ 473,162,271	\$ 69,972,043	\$ 12,701,819	\$ 1,355,857	\$ 557,191,990	\$ 428,411		\$ 557,620,401
Additions	218,194	-	-	1,737,693	1,955,887	2,239		1,958,126
Disposals	(229,980)	-	-	-	(229,980)	-		(229,980)
Transfer	2,515,910	-	-	(2,515,084)	826	1,460		2,286
Balance at September 30, 2019	<u>475,666,395</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>578,466</u>	<u>558,918,723</u>	<u>432,110</u>		<u>559,350,833</u>
<u>Accumulated amortization</u>								
Balance at January 1, 2019	139,599,984	15,640,464	782,578	-	156,023,026	374,166		156,397,192
Amortization	9,311,396	823,205	180,594	-	10,315,195	13,163		10,328,358
Disposals	(228,078)	-	-	-	(228,078)	-		(228,078)
Balance at September 30, 2019	<u>148,683,302</u>	<u>16,463,669</u>	<u>963,172</u>	<u>-</u>	<u>166,110,143</u>	<u>387,329</u>		<u>166,497,472</u>
	<u>\$ 326,983,093</u>	<u>\$ 53,508,374</u>	<u>\$ 11,738,647</u>	<u>\$ 578,466</u>	<u>\$ 392,808,580</u>	<u>\$ 44,781</u>		<u>\$ 392,853,361</u>
<u>Cost</u>								
Balance at January 1, 2018	\$ 472,404,197	\$ 69,972,043	\$ 12,701,819	\$ 551,084	\$ 555,629,143	\$ 412,868		\$ 556,042,011
Additions	135,460	-	-	895,188	1,030,648	8,168		1,038,816
Disposals	(150,770)	-	-	-	(150,770)	(3,584)		(154,354)
Transfer	316,467	-	-	(362,589)	(46,122)	6,487		(39,635)
Balance at September 30, 2018	<u>472,705,354</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>1,083,683</u>	<u>556,462,899</u>	<u>423,939</u>		<u>556,886,838</u>
<u>Accumulated amortization</u>								
Balance at January 1, 2018	127,378,129	14,542,855	541,786	-	142,462,770	358,701		142,821,471
Amortization	9,276,178	823,206	180,594	-	10,279,978	14,236		10,294,214
Disposals	(145,133)	-	-	-	(145,133)	(3,584)		(148,717)
Transfer	-	-	-	-	-	9		9
Balance at September 30, 2018	<u>136,509,174</u>	<u>15,366,061</u>	<u>722,380</u>	<u>-</u>	<u>152,597,615</u>	<u>369,362</u>		<u>152,966,977</u>
	<u>\$ 336,196,180</u>	<u>\$ 54,605,982</u>	<u>\$ 11,979,439</u>	<u>\$ 1,083,683</u>	<u>\$ 403,865,284</u>	<u>\$ 54,577</u>		<u>\$ 403,919,861</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Operating assets, net</u>			
Land improvements	\$ 165,883,986	\$ 168,450,930	\$ 169,309,796
Buildings	27,699,323	28,121,114	28,260,026
Machinery and equipment	27,036,171	29,283,877	29,553,041
Transportation equipment	106,352,507	107,691,997	109,060,270
Other equipment	<u>11,106</u>	<u>14,369</u>	<u>13,047</u>
	<u>\$ 326,983,093</u>	<u>\$ 333,562,287</u>	<u>\$ 336,196,180</u>
<u>Construction in progress</u>			
Prepayments for equipment	<u>\$ 578,466</u>	<u>\$ 1,355,857</u>	<u>\$ 1,083,683</u>

c. Operating concession - rental

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure and pays the rental every year, including routes, maintenance bases, and stations. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in the future reported price of public-owned land and usage of such public-owned land and other relevant factors. The Corporation prepays the rental for the following year by the end of each year, and if the reported price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of September 30, 2019, 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 acquired superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

14. OTHER ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Other current assets</u>			
Prepayments	\$ 662,637	\$ 901,172	\$ 312,397
Others	<u>47,025</u>	<u>37,263</u>	<u>37,081</u>
	<u>\$ 709,662</u>	<u>\$ 938,435</u>	<u>\$ 349,478</u>
<u>Other non-current assets</u>			
Prepayments	\$ -	\$ 31,481	\$ 32,593
Others	<u>11,025</u>	<u>16,357</u>	<u>18,463</u>
	<u>\$ 11,025</u>	<u>\$ 47,838</u>	<u>\$ 51,056</u>

15. BORROWINGS

a. Short-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
Japanese yen (“JPY”) letters of credit	<u>\$ 56,291</u>	<u>\$ 147,865</u>	<u>\$ 99,929</u>

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

	September 30, 2019	December 31, 2018	September 30, 2018
JPY letters of credit	0.61%-0.74%	0.61%-0.66%	0.63%-0.77%

b. Long-term debt

	September 30, 2019	December 31, 2018	September 30, 2018
Syndicated loan			
Tranche A1 Facility	\$ 120,000,000	\$ 120,000,000	\$ 120,000,000
Tranche A2 Facility	<u>156,205,117</u>	<u>156,205,117</u>	<u>156,205,117</u>
	276,205,117	276,205,117	276,205,117
Less: Unamortized cost of long-term debt	<u>(106,476)</u>	<u>(111,440)</u>	<u>(113,117)</u>
	<u>\$ 276,098,641</u>	<u>\$ 276,093,677</u>	<u>\$ 276,092,000</u>

The Corporation 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 entered into the First Amendment of the Tripartite Agreement, and the Second Amendment of the Syndicated Loan Agreement on August 3, 2015. The Corporation 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 entered into the Fourth Amendment of Syndicated Loan Agreement on October 13, 2017. The syndicated banks of the Syndicated Loan Agreement consist 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 with respect to the aforementioned credit facilities 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 A3 is corporate 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 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 28 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

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 arising from the interests calculated according to the below agreed interest rates to the bank syndicate if early redemption occurs. As of September 30, 2019, December 31, 2018 and September 30, 2018, the reference rate remained unchanged at 1.06%.

Syndicated Period	Markup Interest Rates
May 4, 2010-May 3, 2012	0.10%
May 4, 2012-May 3, 2013	0.20%
May 4, 2013-May 3, 2014	0.30%
May 4, 2014-May 3, 2015	0.40%
May 4, 2015-May 3, 2016	0.50%
May 4, 2016-May 3, 2017	0.60%
May 4, 2017-May 3, 2018	0.70%
May 4, 2018-May 3, 2040	0.92%
May 4, 2040-May 4, 2049	1.08%

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

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

a) Effective interest rates

	September 30, 2019	December 31, 2018	September 30, 2018
Tranche A1 Facility	1.91%	1.91%	1.91%
Tranche A2 Facility	1.92%	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Syndicated loan</u>			
Tranche A1 Facility	\$ 205,564	\$ 212,417	\$ 205,564
Tranche A2 Facility	<u>267,586</u>	<u>276,505</u>	<u>267,586</u>
	<u>\$ 473,150</u>	<u>\$ 488,922</u>	<u>\$ 473,150</u>

c) Long-term interest payable

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Syndicated loan</u>			
Tranche A1 Facility	\$ 3,924,141	\$ 4,081,969	\$ 4,135,153
Tranche A2 Facility	<u>4,645,149</u>	<u>4,839,775</u>	<u>4,905,324</u>
	<u>\$ 8,569,290</u>	<u>\$ 8,921,744</u>	<u>\$ 9,040,477</u>

d) Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
<u>Syndicated loan</u>				
Interest expense	<u>\$ 1,332,894</u>	<u>\$ 1,334,891</u>	<u>\$ 3,953,218</u>	<u>\$ 4,062,423</u>

c. Long-term bills payable

	September 30, 2019	December 31, 2018	September 30, 2018
Long-term bills payable	\$ -	\$ 8,000,000	\$ 8,000,000
Less: Unamortized discount on long-term bills payable	-	(11,795)	(7,931)
Less: Unamortized cost of long-term bills payable	<u>-</u>	<u>(1,335)</u>	<u>(3,336)</u>
	-	7,986,870	7,988,733
Less: Current portion of long-term bills payable	<u>-</u>	<u>(7,986,870)</u>	<u>(7,988,733)</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

The Corporation issued unsecured commercial papers totaling \$16 billion under the facility on March 1, 2017, and the remaining facility was expired on April 24, 2017. On February 13, 2018 and August 10, 2018, the facility was reduced by \$4 billion each time, and the unsecured commercial paper was also reduced by the same amount. The \$8 billion unsecured commercial paper was fully redeemed on February 27, 2019, and the joint underwriting agreement was expired at the same time. As of December 31, 2018 and September 30, 2018, the effective interest rates of the long-term bills payable were both 0.93%.

16. OPERATING CONCESSION LIABILITY

	September 30, 2019	December 31, 2018	September 30, 2018
Operating concession liability	\$ 78,121,832	\$ 77,681,295	\$ 77,294,173
Value of returned superficies for offset of profit sharing payable	<u>(22,364,902)</u>	<u>(22,035,278)</u>	<u>(21,926,374)</u>
	<u>\$ 55,756,930</u>	<u>\$ 55,646,017</u>	<u>\$ 55,367,799</u>
Current	\$ 599,443	\$ 731,182	\$ 565,331
Non-current	<u>55,157,487</u>	<u>54,914,835</u>	<u>54,802,468</u>
	<u>\$ 55,756,930</u>	<u>\$ 55,646,017</u>	<u>\$ 55,367,799</u>

According to the C&O Agreement, the Corporation is required to share profit with the MOTC for the development and construction of HSR infrastructure and facilities. Please refer to Note 29.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
Nine months ended September 30, 2019	<u>823,205</u>	<u>1,171,719</u>	<u>1,994,924</u>
	<u>16,463,669</u>	<u>19,528,821</u>	<u>35,992,490</u>
Three months ending December 31, 2019 (estimate)	274,403	394,864	669,267
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 (estimate)	1,097,608	1,395,720	2,493,328
2024-2033 (estimate)	10,976,080	11,818,294	22,794,374
2034-2068 (estimate)	<u>37,867,459</u>	<u>-</u>	<u>37,867,459</u>
	<u>53,508,374</u>	<u>18,499,136</u>	<u>72,007,510</u>
	<u>\$ 69,972,043</u>	<u>\$ 38,027,957</u>	<u>\$ 108,000,000</u>

According to the Financial Resolution Plan, the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement that became effective on October 30, 2015, the Corporation used the appraised fair value of returned 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 29.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
Nine months ended September 30, 2019	<u>-</u>	<u>329,624</u>	<u>329,624</u>
	<u>22,613,234</u>	<u>1,755,189</u>	<u>24,368,423</u>
Three months ending December 31, 2019 (estimate)	-	111,082	111,082
2020 (estimate)	-	449,520	449,520
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023 (estimate)	-	391,989	391,989
2024-2033 (estimate)	<u>-</u>	<u>3,537,651</u>	<u>3,537,651</u>
	<u>-</u>	<u>5,416,432</u>	<u>5,416,432</u>
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of September 30, 2019, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$9,375,511 thousand (or accumulated profit sharing payments in the amount of \$11,379,032 thousand less the deductible amount of returned superficies in the amount of \$2,003,521 thousand).

17. PROVISIONS

a. Provisions

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Current</u>			
Provision for controversial overtime pay	\$ 283,279	\$ 283,279	\$ 283,454
Provision for preferred stock compensation	-	-	5,853
Provision for stabilization reserve	<u>4,328,694</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,611,973</u>	<u>\$ 283,279</u>	<u>\$ 289,307</u>
<u>Non-current</u>			
Provision for stabilization reserve	<u>\$ 10,000,000</u>	<u>\$ 9,560,897</u>	<u>\$ 7,976,614</u>

b. Movements in provisions were as follows:

	Balance at January 1, 2019	Addition	Usage	Balance at September 30, 2019
<u>Current</u>				
Provision for controversial overtime pay	\$ 283,279	\$ -	\$ -	\$ 283,279
Provision for stabilization reserve	<u>-</u>	<u>4,328,694</u>	<u>-</u>	<u>4,328,694</u>
	<u>\$ 283,279</u>	<u>\$ 4,328,694</u>	<u>\$ -</u>	<u>\$ 4,611,973</u>
<u>Non-current</u>				
Provision for stabilization reserve	<u>\$ 9,560,897</u>	<u>\$ 439,103</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>
	Balance at January 1, 2018	Addition	Usage	Balance at September 30, 2018
<u>Current</u>				
Provision for controversial overtime pay	\$ 286,662	\$ -	\$ (3,208)	\$ 283,454
Provision for preferred stock compensation	<u>5,853</u>	<u>-</u>	<u>-</u>	<u>5,853</u>
	<u>\$ 292,515</u>	<u>\$ -</u>	<u>\$ (3,208)</u>	<u>\$ 289,307</u>
<u>Non-current</u>				
Provision for stabilization reserve	<u>\$ 4,145,851</u>	<u>\$ 3,830,763</u>	<u>\$ -</u>	<u>\$ 7,976,614</u>

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. In October 2019, the Supreme Administrative Court has decided that the original judgment be reversed and remanded to the Taipei High Administrative Court. As of September 30, 2019, the Corporation evaluated the most likely result and recognized the provision for controversial overtime pay in the amount of \$283,279 thousand.

2) Stabilization reserve

Please refer to Note 29.a.3) for recognition of provision for stabilization reserve.

18. OTHER LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Other payables</u>			
Accrued expenses	\$ 1,870,306	\$ 2,234,095	\$ 1,779,357
Accrued interest expense	473,160	488,975	473,200
Business tax payable	162,713	264,260	136,541
Others	<u>39,747</u>	<u>44,433</u>	<u>22,550</u>
	<u>\$ 2,545,926</u>	<u>\$ 3,031,763</u>	<u>\$ 2,411,648</u>

(Continued)

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Other current liabilities</u>			
Contract liabilities (Note 21)	\$ 774,504	\$ 665,541	\$ 526,250
Lease liabilities (Note 12)	160,052	-	-
Receipts under custody	27,553	25,090	25,369
Others	<u>18,924</u>	<u>9,018</u>	<u>8,320</u>
	<u>\$ 981,033</u>	<u>\$ 699,649</u>	<u>\$ 559,939</u>
<u>Other non-current liabilities</u>			
Net defined benefit liability	\$ 207,282	\$ 210,698	\$ 106,984
Guarantee deposits received	175,789	119,643	108,812
Deferred revenue	6,551	8,516	9,171
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>4,760</u>
	<u>\$ 389,622</u>	<u>\$ 338,857</u>	<u>\$ 229,727</u> (Concluded)

19. 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 following 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 following year.

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

c. Please refer to Note 22.a. for the expenses of defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income.

20. EQUITY

a. Capital stock

	September 30, 2019	December 31, 2018	September 30, 2018
Number of shares authorized (in thousands)	<u>12,000,000</u>	<u>12,000,000</u>	<u>12,000,000</u>
Shares authorized	<u>\$ 120,000,000</u>	<u>\$ 120,000,000</u>	<u>\$ 120,000,000</u>
Number of shares issued and fully paid (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>	<u>5,628,293</u>
Share capital issued and outstanding	<u>\$ 56,282,930</u>	<u>\$ 56,282,930</u>	<u>\$ 56,282,930</u>

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

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

b. Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
Issuance of common shares	\$ 171,885	\$ 171,885	\$ 171,885
Forfeited employee share options	<u>1,096</u>	<u>1,096</u>	<u>1,096</u>
	<u>\$ 172,981</u>	<u>\$ 172,981</u>	<u>\$ 172,981</u>

The capital surplus generated from shares issued in excess of par may be used to offset an accumulated deficit, if any; in addition, when the Corporation has no accumulated 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 an accumulated 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 after-tax 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 22.a.

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on May 30, 2019 and May 24, 2018, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2017</u>	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2017</u>
Legal reserve	\$ 1,069,638	\$ 533,991		
Cash dividends	<u>6,303,688</u>	<u>4,221,220</u>	\$1.12	\$0.75
	<u>\$ 7,373,326</u>	<u>\$ 4,755,211</u>		

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

21. REVENUE

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue from contracts with customers				
Railroad transportation revenue	\$ 11,323,827	\$ 10,953,627	\$ 34,265,578	\$ 32,686,173
Other operating revenue	<u>355,055</u>	<u>351,095</u>	<u>1,042,021</u>	<u>985,146</u>
	<u>\$ 11,678,882</u>	<u>\$ 11,304,722</u>	<u>\$ 35,307,599</u>	<u>\$ 33,671,319</u>

a. Contract balances

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Notes and accounts receivable	<u>\$ 569,047</u>	<u>\$ 505,565</u>	<u>\$ 427,916</u>
Contract liabilities			
Railroad transportation revenue	\$ 640,246	\$ 534,736	\$ 407,291
Customer loyalty programmer	121,208	120,467	111,587
Others	<u>13,050</u>	<u>10,338</u>	<u>7,372</u>
	<u>\$ 774,504</u>	<u>\$ 665,541</u>	<u>\$ 526,250</u>

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

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
From the beginning balance of contract liability				
Railroad transportation revenue	\$ 1,584	\$ 1,605	\$ 527,948	\$ 462,988
Customer loyalty programmer	13,387	10,374	43,413	29,579
Others	<u>-</u>	<u>-</u>	<u>10,336</u>	<u>3,983</u>
	<u>\$ 14,971</u>	<u>\$ 11,979</u>	<u>\$ 581,697</u>	<u>\$ 496,550</u>

b. Disaggregation of revenue

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

22. INCOME BEFORE INCOME TAX

a. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Post-employment benefits				
Defined contribution plan	\$ 47,939	\$ 44,679	\$ 139,967	\$ 130,719
Defined benefit plan	<u>4,136</u>	<u>3,579</u>	<u>12,407</u>	<u>10,736</u>
	<u>52,075</u>	<u>48,258</u>	<u>152,374</u>	<u>141,455</u>
Short-term employee benefits				
Payroll	1,033,113	954,604	3,123,302	2,889,488
Insurance	87,013	80,788	271,803	252,658
Others	<u>49,051</u>	<u>47,281</u>	<u>145,909</u>	<u>140,762</u>
	<u>1,169,177</u>	<u>1,082,673</u>	<u>3,541,014</u>	<u>3,282,908</u>
	<u>\$ 1,221,252</u>	<u>\$ 1,130,931</u>	<u>\$ 3,693,388</u>	<u>\$ 3,424,363</u>
An analysis of employee benefits expense by function				
Operating costs	\$ 1,019,583	\$ 934,108	\$ 3,058,269	\$ 2,816,360
Operating expenses	<u>201,669</u>	<u>196,823</u>	<u>635,119</u>	<u>608,003</u>
	<u>\$ 1,221,252</u>	<u>\$ 1,130,931</u>	<u>\$ 3,693,388</u>	<u>\$ 3,424,363</u>

As of September 30, 2019 and 2018, the number of employees of the Corporation was 4,608 and 4,419, respectively.

As of September 30, 2019 and 2018, the number of professional service employees was 8 and 9, respectively. For the three months and nine months ended September 30, 2019, the professional service fee was \$1,447 thousand and \$4,653 thousand, respectively. For the three months and nine months ended September 30, 2018, the professional service fee was \$1,243 thousand and \$8,232 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any after-tax profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated based on income before income tax (net of the employees' compensation and remuneration to directors) according to the above policy. For the three months and nine months ended September 30, 2019, the estimated employees' compensation in cash was \$37,321 thousand and \$122,963 thousand, and the estimated remuneration to directors in cash was \$9,330 thousand and \$30,741 thousand, respectively. For the three months and nine months ended September 30, 2018, the estimated employees' compensation in cash was \$28,725 thousand and \$92,867 thousand, and the estimated remuneration to directors in cash was \$17,953 thousand and \$58,042 thousand, respectively.

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, which are payable in cash, had been resolved by the Corporation's 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, which are payable in cash, had been resolved by the Corporation's 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 Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Property, plant and equipment	\$ 9,973	\$ 8,911	\$ 29,064	\$ 26,792
Right-of-use assets	40,519	-	121,262	-
Intangible assets	3,456,626	3,432,055	10,328,358	10,294,214
Other non-current assets	<u>1,108</u>	<u>1,172</u>	<u>3,438</u>	<u>3,427</u>
	<u>\$ 3,508,226</u>	<u>\$ 3,442,138</u>	<u>\$ 10,482,122</u>	<u>\$ 10,324,433</u>

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
An analysis of depreciation by function				
Operating costs	\$ 44,970	\$ 5,927	\$ 133,991	\$ 17,931
Operating expenses	<u>5,522</u>	<u>2,984</u>	<u>16,335</u>	<u>8,861</u>
	<u>\$ 50,492</u>	<u>\$ 8,911</u>	<u>\$ 150,326</u>	<u>\$ 26,792</u>

An analysis of amortization by function				
Operating costs	\$ 3,456,570	\$ 3,432,038	\$ 10,328,300	\$ 10,294,155
Operating expenses	<u>1,164</u>	<u>1,189</u>	<u>3,496</u>	<u>3,486</u>
	<u>\$ 3,457,734</u>	<u>\$ 3,433,227</u>	<u>\$ 10,331,796</u>	<u>\$ 10,297,641</u>

(Concluded)

c. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest income of repurchase agreement collateralized by government bonds	\$ 30,984	\$ 13,217	\$ 81,728	\$ 51,787
Interest income of bank deposits	10,121	9,558	30,902	26,750
Others	<u>8</u>	<u>7</u>	<u>24</u>	<u>20</u>
	<u>\$ 41,113</u>	<u>\$ 22,782</u>	<u>\$ 112,654</u>	<u>\$ 78,557</u>

d. Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest on bank loans	\$ 1,334,823	\$ 1,336,716	\$ 3,958,953	\$ 4,067,834
Interest on operating concession liability	283,783	278,218	842,095	825,583
Interest on long-term bills payable	-	25,236	13,130	91,018
Others	<u>1,452</u>	<u>39</u>	<u>5,323</u>	<u>785</u>
	<u>\$ 1,620,058</u>	<u>\$ 1,640,209</u>	<u>\$ 4,819,501</u>	<u>\$ 4,985,220</u>

e. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Compensation gain	\$ 604	\$ 42	\$ 44,618	\$ 54,102
Foreign exchange gain, net	16,259	11,916	10,021	13,310
Government grants	655	655	2,899	26,014
Amortization of cost for early repayment of long-term debt and bills payable	-	(6,453)	-	(10,634)
Loss on disposal of intangible assets, net	(282)	(3,463)	(1,588)	(5,458)
Others	2,358	3,136	8,506	6,763
	\$ 19,594	\$ 5,833	\$ 64,456	\$ 84,097

23. INCOME TAX

a. Income tax recognized in profit or loss

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
In respect of the current period	\$ (30,950)	\$ (29,281)	\$ (90,256)	\$ (82,851)
Income tax on unappropriated earnings	(24)	-	(162,152)	(57,745)
Adjustments for prior periods	-	-	244	1,269,732
Deferred tax				
In respect of the current period	127,958	388,447	409,878	1,089,875
Adjustment to deferred tax attributable to change in tax rates and law	-	-	-	792,387
Income tax benefit	\$ 96,984	\$ 359,166	\$ 157,714	\$ 3,011,398

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

In July 2019, the President of the ROC approved the announcement of the amendments to the Statute of Industrial Innovation, which stipulates that the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in certain assets or technologies above a specific amount are allowed as deduction when computing the income tax on unappropriated earnings. However, the related implementation rules are yet to be issued by the Ministry of Finance; thus, the Corporation could not estimate the effect on the current income tax.

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

b. Income tax recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Deferred tax				
Change in tax rates	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,559</u>

c. Income tax assessments

The tax returns through 2016 have been assessed by the tax authorities.

24. EARNINGS PER SHARE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Basic earnings per share (NT\$)	\$ <u>0.34</u>	\$ <u>0.37</u>	\$ <u>1.09</u>	\$ <u>1.54</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Earnings attributable to common shareholders	\$ <u>1,916,344</u>	\$ <u>2,107,837</u>	\$ <u>6,152,139</u>	\$ <u>8,664,703</u>
Weighted average number of common shares in the computation of basic earnings per share (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>	<u>5,628,293</u>	<u>5,628,293</u>

25. 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.

26. FINANCIAL INSTRUMENTS

a. Financial instruments

	September 30, 2019	December 31, 2018	September 30, 2018
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 330,005	\$ 327,446	\$ 323,319
Financial assets at amortized cost			
Other financial assets	24,067,486	13,964,800	11,286,079
Others (Note 1)	1,365,061	7,475,772	3,411,981
<u>Financial liabilities</u>			
Hedging financial liabilities	17	-	242
Financial liabilities at amortized cost (Note 2)	342,892,548	351,192,835	350,587,379

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), long-term interest payable and guarantee deposits received (included in other non-current liabilities). However, short-term employee benefits payable and business tax payable were not included.

b. Fair value of financial instruments

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

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

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

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

- a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c) Level 3 inputs are unobservable inputs for the asset or liability.

September 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 330,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,005</u>
Hedging financial liabilities				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 17</u>

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 327,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,446</u>

September 30, 2018

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

There were no transfers between Levels 1 and Level 2 for the nine months ended September 30, 2019 and 2018.

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. Hedging financial instruments can partially, but not entirely, reduce the impact arising from changes in foreign exchange rates.

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

	September 30, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,193	31.042	\$ 688,917
JPY	4,931	0.2879	1,420
<u>Financial liabilities</u>			
Monetary items			
JPY	1,492,608	0.2879	429,722
	December 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,748	30.733	\$ 668,387
JPY	4,931	0.2782	1,372
<u>Financial liabilities</u>			
Monetary items			
USD	33	30.733	1,029
JPY	1,436,946	0.2782	399,758

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

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 and foreign exchange rate-related hedging financial instruments 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 \$6,889 thousand and \$6,600 thousand for the nine months ended September 30, 2019 and 2018, respectively. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$3,882 thousand and \$2,992 thousand for the nine months ended September 30, 2019 and 2018, respectively.

The significant unrealized exchange gain and loss were as follows:

	For the Three Months Ended September 30			
	2019		2018	
Foreign Currency	Exchange Rate	Exchange (Loss)Gain, Net	Exchange Rate	Exchange (Loss)Gain, Net
USD	31.042	\$ (3,262)	30.551	\$ (12,541)
JPY	0.2879	8,514	0.2695	10,901
	For the Nine Months Ended September 30			
	2019		2018	
Foreign Currency	Exchange Rate	Exchange Gain, Net	Exchange Rate	Exchange (Loss)Gain, Net
USD	31.042	\$ 1,508	30.551	\$ 26,340
JPY	0.2879	4,087	0.2695	(723)

b) Interest rate risk

As of September 30, 2019 and 2018, the Corporation's syndicated loan with floating interest rates amounted to both \$276,205,117 thousand. 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 both \$2,071,538 thousand for the nine months ended September 30, 2019 and 2018, respectively.

c) Other price risk

The investments in open-end money market funds (recorded as FVTPL) exposed the Corporation to equity price risk. If the price of the funds decreased by 1%, income before income tax would have decreased by \$3,300 thousand and \$3,233 thousand for the nine months ended September 30, 2019 and 2018, respectively.

2) Credit risk

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

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

3) Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of 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 15.b.), long-term bills payable, operating concession liability, and lease liabilities based on the undiscounted cash flows (excluding the hedging financial instruments and non-hedging financial liabilities that are to be settled within one year from the balance sheet date):

September 30, 2019

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liability	Lease Liabilities	Total
2019.10.1-2019.12.31	\$ -	\$ 1,749,124	\$ -	\$ 40,110	\$ 1,789,234
2020.1.1-2020.9.30	-	5,673,330	700,606	120,590	6,494,526
2020.10.1-2021.9.30	4,593,077	8,670,677	715,300	95,671	14,074,725
2021.10.1-2022.9.30	9,186,153	8,974,000	7,952,817	75,937	26,188,907
2022.10.1-2023.9.30	9,186,153	8,703,722	116,525	73,445	18,079,845
2023.10.1-2024.9.30	9,186,153	8,629,982	182,113	73,348	18,071,596
2024.10.1-2033.9.30	82,675,381	65,948,853	59,172,273	173,551	207,970,058
2033.10.1-2049	<u>161,378,200</u>	<u>48,694,128</u>	<u>-</u>	<u>-</u>	<u>210,072,328</u>
	<u>\$ 276,205,117</u>	<u>\$ 157,043,816</u>	<u>\$ 68,839,634</u>	<u>\$ 652,652</u>	<u>\$ 502,741,219</u>

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	<u>156,785,123</u>	<u>-</u>	<u>47,259,388</u>	<u>-</u>	<u>204,044,511</u>	
	<u>\$ 276,205,117</u>	<u>\$ 8,000,000</u>	<u>\$ 163,415,299</u>	<u>\$ 69,570,816</u>	<u>\$ 517,191,232</u>	

September 30, 2018

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

27. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interests 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 29, 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
Century Development Corporation	An entity controlled by the directors
InfoChamp Systems Corporation	An entity controlled by the directors
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 16 and Note 29.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 13.c. for further details:

a) Rental expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Railway Bureau, MOTC	\$ 196,509	\$ 197,845	\$ 589,527	\$ 593,535
Taiwan Railways Administration, MOTC	<u>12,076</u>	<u>12,591</u>	<u>36,227</u>	<u>37,773</u>
	<u>\$ 208,585</u>	<u>\$ 210,436</u>	<u>\$ 625,754</u>	<u>\$ 631,308</u>

b) Prepaid rentals (included in other current assets)

	September 30, 2019	December 31, 2018	September 30, 2018
Railway Bureau, MOTC	\$ 196,509	\$ 786,036	\$ 197,845
Taiwan Railways Administration, MOTC	<u>12,076</u>	<u>48,303</u>	<u>12,591</u>
	<u>\$ 208,585</u>	<u>\$ 834,339</u>	<u>\$ 210,436</u>

d. Non-operating income and expenses - interest expense

Please refer to Note 16 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 with the MOTC and Bank of Taiwan. In addition, the Corporation has entered into the Syndicated Loan Agreement with 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 15.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. Procurement 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 thousand. As of September 30, 2019, payments for the contract amounted to \$29,333 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

In December 2017, the Corporation entered into the "Ticket Vending Machine Renovation and Maintenance Project" with InfoChamp Systems Corporation, and the total amount of the contract (business tax included) was \$271,721 thousand. As of September 30, 2019, payments for the contract amounted to \$32,073 thousand and were recognized as construction in progress of the operating concession asset under intangible assets.

g. Lease arrangements

The transactions between the Corporation with Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC and Century Development Corporation for the year 2019 are as follows:

Line Item	Related Party	September 30, 2019
Lease liabilities (Note 12)	Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC	\$ 95,958
	Century Development Corporation	<u>67,708</u>
		<u>\$ 163,666</u>

The Corporation entered into a parking lease contract of Zuoying Station with Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC, which is rented under operating lease in 2018. As of December 31 and September 30, 2018, the carrying amount of prepaid rentals (included in other current assets) were \$1,021 thousand and \$0 thousand, respectively. For the three months and nine months ended September 30, 2018, the rental expense was \$3,063 thousand and \$9,189 thousand, respectively.

The Corporation entered into Nangang Software Park Phase 3 office lease contract with Century Development Corporation, which is rented under operating lease in 2018. As of December 31 and September 30, 2018, the carrying amount of prepaid rentals (included in other current assets) were both \$4,856 thousand. For the three months and nine months ended September 30, 2018, the rental expense was \$14,569 thousand and \$43,707 thousand, respectively.

h. Compensation of key management personnel

Compensation of key management personnel was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	\$ 24,027	\$ 35,620	\$ 79,467	\$ 105,755
Post-employment benefits	<u>219</u>	<u>279</u>	<u>658</u>	<u>662</u>
	<u>\$ 24,246</u>	<u>\$ 35,899</u>	<u>\$ 80,125</u>	<u>\$ 106,417</u>

28. PLEDGED ASSETS

Pledged Assets	Pledged to Secure	September 30, 2019	December 31, 2018	September 30, 2018
Other financial assets - current:				
Repurchase agreement collateralized by government bonds	Syndicated loan	\$ 1,594,600	\$ 1,572,000	\$ 1,663,000
Time deposits	Guarantee for customs duties	22,442	-	-
Time deposits	Guarantee for office lease	954	954	954
Time deposits	Trust deposit of unearned revenue	-	68,000	68,000
Time deposits	Guarantee for oil purchase	-	-	1,800
Demand deposits	Trust deposit of unearned revenue	18,738	15,654	4,042
Demand deposits	Project subsidy	2,001	-	-
Demand deposits	Syndicated loan	<u>1,251</u>	<u>1,453</u>	<u>1,395</u>
		<u>1,639,986</u>	<u>1,658,061</u>	<u>1,739,191</u>
				(Continued)

Pledged Assets	Pledged to Secure	September 30, 2019	December 31, 2018	September 30, 2018
Other financial assets - non-current:				
Time deposits	Performance guarantee for the C&O Agreement	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Time deposits	Trust deposit of unearned revenue	68,000	-	-
Time deposits	Guarantee for customs duties	20,000	42,378	42,378
Time deposits	Guarantee for office lease	15,324	15,324	15,324
Time deposits	Guarantee for project subsidy	10,520	10,520	-
Time deposits	Guarantee for parking lease	7,134	7,067	7,067
Time deposits	Guarantee for oil purchase	<u>3,120</u>	<u>3,120</u>	<u>1,320</u>
		<u>2,124,098</u>	<u>2,078,409</u>	<u>2,066,089</u>
		<u>\$ 3,764,084</u>	<u>\$ 3,736,470</u>	<u>\$ 3,805,280</u> (Concluded)

29. 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 16 for the recognition of profit sharing payments as operating concession liability.

- 3) The Corporation should establish a financial stabilization mechanism starting from 2016.
- a) From 2016 to the year the stabilization reserve is calculated, if the annual average of net income (loss) and the effect of retrospective adjustments that resulted from the change in accounting policies exceed \$3.5 billion, the stabilization reserve should be provided as described below:
 - i. If the Corporation's EBT in the current year is higher than A1 but less than A2, the EBT is regarded as operation incentive and no stabilization reserve should be provided (please refer to the note below for the definitions of EBT, A1, A2 and A3).
 - ii. If the Corporation's EBT in the current year is higher than A2 but less than A3, the stabilization reserve should be provided in the current year as follows:

$$(EBT - A2) \times 50\%$$
 - iii. If the Corporation's EBT in the current year is higher than A3, the stabilization reserve should be provided in the current year as follows:

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

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

A1 = Net income of \$3.5 billion \div (1 - the statutory tax rate)
 A2 = Net income of \$4.0 billion \div (1 - the statutory tax rate)
 A3 = Net income of \$4.5 billion \div (1 - the statutory tax rate)
 - b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent of the accumulated stabilization reserve equals zero.
 - c) The Corporation should open a "Taiwan High Speed Rail Stabilization Mechanism Account" (the "Stabilization Mechanism Account") at Bank of Taiwan.
 - i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.

- ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:
 - i) Fare discount or fare reduction;
 - ii) Construction of HSR infrastructure and facilities; and
 - iii) In compliance with the government's policies.
 - iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.
 - iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.
- d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period
- i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.
 - ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.
 - iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.
 - iv. According to the C&O Agreement, if the termination is due to government's policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.
- e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the shareholders approved the annual financial statements.
- 4) When the concession period expires, the assets which are purchased under the consent of the MOTC within five years before the concession period expires, and are not fully depreciated and remain usable for normal operations upon the expiry of the concession period, are transferred to MOTC with consideration. The transfer price is the undepreciated value of the assets determined based on the fixed percentage of declining method over the minimum useful lives prescribed by the Executive Yuan. Except for the assets mentioned above, the ownership and rights of all other assets shall be transferred to the MOTC or the third party designated by the MOTC without consideration.

- 5) When the C&O Agreement is terminated before the expiration of the concession period, the value of the operating assets and construction in progress should be appraised by impartial professional appraisal organizations with their actual costs, usage, value in use, remaining concession period, and related articles of the C&O Agreements taken into consideration.
- 6) The Corporation provided a \$5 billion performance bond as a guarantee for fulfillment of responsibilities of the HSR operations. The guarantee ends on the date six months after the expiry of concession period or early termination of the C&O Agreement. Starting from the date the Corporation commenced its commercial operations, if there is no breach of agreements, \$0.5 billion of the performance bond can be returned each year. However, the total returned amount cannot exceed \$3 billion.

As of September 30, 2019, December 31, 2018 and September 30, 2018, the amount of the aforementioned performance bond remained unchanged at \$2 billion, and was recognized as other financial assets.

- b. As of September 30, 2019, unused letters of credit amounted to JPY2,746,178 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 September 30, 2019, the lawsuit is still under the review of the court.
- d. In May 2017, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY5,123,358 thousand and NT\$495,547 thousand. As of September 30, 2019, payments for the contract amounted to JPY3,912,292 thousand and NT\$331,738 thousand and were recognized as operating assets and construction in progress of the operating concession asset under intangible assets.

In July 2019, the Corporation entered into an equipment procurement contract, and the total amounts of the contract (business tax included) were JPY2,626,531 thousand and NT\$120,955 thousand. As of September 30, 2019, payments for the contract amounted to JPY133,575 thousand and NT\$11,109 thousand were recognized as construction in progress of the operating concession asset under intangible assets.

- e. In response to the aging equipment such as 700T train electronic control, the Corporation expects to update the equipment during the train maintenance period from 2021 to 2023 and purchase the relevant components. Therefore, the Corporation entered into a procurement contract “700T Spare Parts of 7GI” with Toshiba Electronic Components Taiwan Corporation, Ltd (subsidiary of Toshiba Corporation in Taiwan) in July 2019 and the total amounts of the contract (business tax and import tariffs excluded) were JPY11.6 billion. As of September 30, 2019, payments for the contract made were JPY1.16 billion.

30. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Except for those separately disclosed in other notes, the Corporation had the following significant events after the reporting period:

On September 18, 2019, the board of directors approved to issue 30-year unsecured corporate bonds in the amount of \$8 billion with an effective date on November 5, 2019.

31. 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 26.c.

32. SEPARATELY DISCLOSED ITEMS

Except for Notes 8 and 26 regarding the information on derivative financial instrument transactions and Tables 1 and 2 as attached, there were no other significant transactions, information on investees and investments in mainland China required for disclosure.

33. SEGMENT INFORMATION

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

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2019

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	September 30, 2019				Note
				Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
The Corporation	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss	3,924	\$ 60,193	-	\$ 60,193	
	Franklin Templeton Sinoam Money Market Fund	-	"	9,671	100,226	-	100,226	
	Yuanta De-Li Money Market Fund	-	"	6,557	107,184	-	107,184	
	Prudential Financial Money Market Fund	-	"	3,935	62,402	-	62,402	
	Central Government Bonds 2017-4	-	Cash and cash equivalents	\$ 120,000	130,000	-	130,000	
	Central Government Bonds 2000-7	-	"	106,000	106,000	-	106,000	
	Central Government Bonds 2000-B 1st	-	"	230,000	230,000	-	230,000	
	Central Government Bonds 2017-4	-	Other financial assets-current	3,371,000	3,668,600	-	3,668,600	
	Central Government Bonds 2016-11	-	"	1,233,000	1,299,000	-	1,299,000	
	Central Government Bonds 2015-12	-	"	90,000	100,000	-	100,000	
	Central Government Bonds 2015-6	-	"	870,000	939,000	-	939,000	
	Central Government Bonds 2003-3	-	"	937,000	1,012,000	-	1,012,000	
	Central Government Bonds 2001-4	-	"	600,300	667,000	-	667,000	
	Central Government Bonds 2001-2	-	"	2,808,000	3,120,000	-	3,120,000	
	Central Government Bonds 2001-B 1st	-	"	883,800	982,000	-	982,000	
	Central Government Bonds 2000-13	-	"	747,000	747,000	-	747,000	
	Central Government Bonds 2000-7	-	"	3,160,400	3,504,667	-	3,504,667	
	Central Government Bonds 2000-B 1st	-	"	3,929,100	4,162,333	-	4,162,333	

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars)

Company	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Face Value	Carrying Amount	Face Value	Carrying Amount	Face Value	Amount	Carrying Amount	Gain on Disposal	Face Value	Carrying Amount
The Corporation	Central Government Bonds 2017-4	Note	-	-	\$ -	\$ -	\$ 8,094,000	\$ 8,803,200	\$ 4,603,000	\$ 5,011,426	\$ 5,004,600	\$ 6,826	\$ 3,491,000	\$ 3,798,600
	Central Government Bonds 2016-11	"	-	-	6,835,000	7,429,000	7,824,500	8,451,600	13,426,500	14,600,997	14,581,600	19,397	1,233,000	1,299,000
	Central Government Bonds 2015-6	"	-	-	-	-	1,676,000	1,811,000	806,000	873,114	872,000	1,114	870,000	939,000
	Central Government Bonds 2015-12	"	-	-	1,236,600	1,374,000	2,997,900	3,331,000	4,144,500	4,611,169	4,605,000	6,169	90,000	100,000
	Central Government Bonds 2014-6	"	-	-	401,400	446,000	831,600	924,000	1,233,000	1,371,944	1,370,000	1,944	-	-
	Central Government Bonds 2013-10	"	-	-	-	-	1,749,500	1,943,889	1,749,500	1,946,482	1,943,889	2,593	-	-
	Central Government Bonds 2013-6	"	-	-	435,600	484,000	369,000	410,000	804,600	895,124	894,000	1,124	-	-
	Central Government Bonds 2012-5	"	-	-	477,000	530,000	-	-	477,000	530,637	530,000	637	-	-
	Central Government Bonds 2012-2	"	-	-	-	-	674,100	749,000	674,100	749,999	749,000	999	-	-
	Central Government Bonds 2012-B 2nd	"	-	-	-	-	595,800	662,000	595,800	662,914	662,000	914	-	-
	Central Government Bonds 2012-B 1st	"	-	-	-	-	351,900	391,000	351,900	391,485	391,000	485	-	-
	Central Government Bonds 2011-9	"	-	-	-	-	324,900	361,000	324,900	361,502	361,000	502	-	-
	Central Government Bonds 2011-7	"	-	-	334,800	372,000	270,000	300,000	604,800	672,879	672,000	879	-	-
	Central Government Bonds 2011-5	"	-	-	-	-	642,600	714,000	642,600	714,890	714,000	890	-	-
	Central Government Bonds 2010-7	"	-	-	-	-	1,038,600	1,154,000	1,038,600	1,155,451	1,154,000	1,451	-	-
	Central Government Bonds 2010-4	"	-	-	133,200	148,000	701,100	779,000	834,300	928,131	927,000	1,131	-	-
	Central Government Bonds 2008-5	"	-	-	353,700	393,000	403,200	448,000	756,900	842,053	841,000	1,053	-	-
	Central Government Bonds 2004-6	"	-	-	382,500	425,000	427,500	475,000	810,000	901,140	900,000	1,140	-	-
	Central Government Bonds 2004-3	"	-	-	-	-	1,780,200	1,978,000	1,780,200	1,981,062	1,978,000	3,062	-	-
	Central Government Bonds 2003-3	"	-	-	-	-	1,429,300	1,559,000	492,300	547,794	547,000	794	937,000	1,012,000
	Central Government Bonds 2001-8	"	-	-	-	-	1,637,000	1,805,000	1,637,000	1,807,552	1,805,000	2,552	-	-
	Central Government Bonds 2001-5	"	-	-	-	-	457,200	508,000	457,200	508,698	508,000	698	-	-
	Central Government Bonds 2001-4	"	-	-	-	-	600,300	667,000	-	-	-	-	600,300	667,000
	Central Government Bonds 2001-2	"	-	-	-	-	2,808,000	3,120,000	-	-	-	-	2,808,000	3,120,000
	Central Government Bonds 2001-B 1st	"	-	-	-	-	1,389,600	1,544,000	505,800	562,808	562,000	808	883,800	982,000
	Central Government Bonds 2000-13	"	-	-	3,526,000	3,526,000	4,349,000	4,349,000	7,128,000	7,136,808	7,128,000	8,808	747,000	747,000
	Central Government Bonds 2000-7	"	-	-	-	-	3,547,400	3,891,667	281,000	281,395	281,000	395	3,266,400	3,610,667
	Central Government Bonds 2000-B 1st	"	-	-	1,152,000	1,152,000	4,159,100	4,392,333	1,152,000	1,153,647	1,152,000	1,647	4,159,100	4,392,333

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