

Taiwan High Speed Rail Corporation

**Financial Statements for the
Three Months Ended March 31, 2020 and 2019 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Stockholders
Taiwan High Speed Rail Corporation

Introduction

We have reviewed the accompanying balance sheets of Taiwan High Speed Rail Corporation (the "Corporation") as of March 31, 2020 and 2019 and the related statements of comprehensive income, changes in equity and cash flows for the three months then ended, and related notes, including a summary of significant accounting policies (collectively referred to as "the financial statements"). Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China ("ROC"). Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as at March 31, 2020 and 2019, and its financial performance and its cash flows for the three months then ended 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

May 6, 2020

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 the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such financial statements are those generally accepted and applied in the Republic of China.

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

TAIWAN HIGH SPEED RAIL CORPORATION

BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	March 31, 2020		December 31, 2019		March 31, 2019	
	Amount	%	Amount	%	Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 1,020,046	-	\$ 16,271,676	4	\$ 3,997,024	1
Financial assets at fair value through profit or loss (Note 7)	672,896	-	330,443	-	327,894	-
Financial assets for hedging (Note 8)	1,054	-	-	-	-	-
Notes and accounts receivable (Note 22)	185,713	-	333,092	-	464,389	-
Current tax assets (Note 4)	-	-	166,783	-	166,783	-
Inventories (Note 9)	2,443,077	1	2,056,045	1	2,386,092	1
Other financial assets (Notes 10 and 29)	32,461,912	8	22,207,764	5	12,857,554	3
Other current assets (Notes 14 and 28)	1,189,989	-	1,344,333	-	803,025	-
Total current assets	37,974,687	9	42,710,136	10	21,002,761	5
NON-CURRENT ASSETS						
Property, plant and equipment (Note 11)	116,872	-	125,047	-	91,281	-
Right-of-use assets (Note 12)	588,088	-	628,988	-	742,544	-
Operating concession assets (Notes 13 and 28)	387,004,600	89	390,113,063	88	398,301,545	93
Computer software, net (Note 13)	62,844	-	54,413	-	51,451	-
Deferred tax assets (Note 4)	7,385,651	2	7,316,212	2	6,957,056	2
Other financial assets (Notes 10 and 29)	2,057,210	-	2,102,503	-	2,129,086	-
Other non-current assets (Note 14)	8,496	-	9,240	-	14,990	-
Total non-current assets	397,223,761	91	400,349,466	90	408,287,953	95
TOTAL	\$ 435,198,448	100	\$ 443,059,602	100	\$ 429,290,714	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 15)	\$ 81,651	-	\$ 64,980	-	\$ 134,147	-
Accounts payable	520,473	-	256,338	-	344,268	-
Operating concession liabilities (Note 17)	777,511	-	777,511	-	731,182	-
Other payables (Notes 15 and 19)	2,579,945	1	3,197,362	1	2,551,233	1
Payable for construction	579,432	-	942,141	-	259,208	-
Current tax liabilities (Note 4)	213,104	-	194,722	-	153,002	-
Provisions (Note 18)	6,367,937	2	6,367,937	2	283,279	-
Other current liabilities (Notes 12, 19, 22 and 28)	905,177	-	1,477,915	-	1,040,460	-
Total current liabilities	12,025,230	3	13,278,906	3	5,496,779	1
NON-CURRENT LIABILITIES						
Bonds payable (Note 16)	7,990,410	2	7,990,329	2	-	-
Long-term debt (Notes 15 and 28)	268,102,235	61	276,100,317	62	276,095,328	64
Provisions (Note 18)	10,382,952	2	10,000,000	2	11,108,520	3
Lease liabilities (Notes 12 and 28)	426,827	-	447,175	-	549,670	-
Long-term interest payable (Note 15)	8,057,456	2	8,450,080	2	8,804,747	2
Operating concession liabilities (Note 17)	55,548,731	13	55,263,201	13	55,192,448	13
Other non-current liabilities (Notes 19 and 20)	457,816	-	452,325	-	342,465	-
Total non-current liabilities	350,966,427	80	358,703,427	81	352,093,178	82
Total liabilities	362,991,657	83	371,982,333	84	357,589,957	83
EQUITY (Note 21)						
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	2,469,719	-	1,400,081	1
Unappropriated earnings	13,281,161	3	12,151,639	3	13,844,765	3
Total retained earnings	15,750,880	4	14,621,358	3	15,244,846	4
Total equity	72,206,791	17	71,077,269	16	71,700,757	17
TOTAL	\$ 435,198,448	100	\$ 443,059,602	100	\$ 429,290,714	100

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

	For the Three Months Ended March 31			
	2020		2019	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 22 and 28)	\$ 9,600,283	100	\$ 11,762,190	100
OPERATING COSTS (Notes 23 and 28)	<u>(6,313,013)</u>	<u>(66)</u>	<u>(6,227,537)</u>	<u>(53)</u>
GROSS PROFIT	3,287,270	34	5,534,653	47
OPERATING EXPENSES (Note 23)	<u>(270,449)</u>	<u>(3)</u>	<u>(277,653)</u>	<u>(3)</u>
INCOME FROM OPERATIONS	<u>3,016,821</u>	<u>31</u>	<u>5,257,000</u>	<u>44</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 23)	56,370	1	35,235	-
Interest expense (Notes 15, 23 and 28)	(1,613,994)	(17)	(1,597,228)	(13)
Stabilization reserve expense (Note 18)	(382,952)	(4)	(1,547,623)	(13)
Other gains and losses (Notes 23 and 28)	<u>10,222</u>	<u>-</u>	<u>24,559</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,930,354)</u>	<u>(20)</u>	<u>(3,085,057)</u>	<u>(26)</u>
INCOME BEFORE INCOME TAX	1,086,467	11	2,171,943	18
INCOME TAX BENEFIT (Note 24)	<u>43,055</u>	<u>1</u>	<u>115,801</u>	<u>1</u>
NET INCOME	<u>1,129,522</u>	<u>12</u>	<u>2,287,744</u>	<u>19</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,129,522</u>	<u>12</u>	<u>\$ 2,287,744</u>	<u>19</u>
EARNINGS PER SHARE (Note 25)				
Basic earnings per share	<u>\$ 0.20</u>		<u>\$ 0.41</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) (Reviewed, Not Audited)

	Capital Stock Common Stock	Capital Surplus	Retained Earnings		Total	Total Equity
			Legal Reserve	Unappropriated Earnings		
BALANCE AT JANUARY 1, 2020	\$ 56,282,930	\$ 172,981	\$ 2,469,719	\$ 12,151,639	\$ 14,621,358	\$ 71,077,269
Net income for the three months ended March 31, 2020	-	-	-	1,129,522	1,129,522	1,129,522
Total comprehensive income for the three months ended March 31, 2020	-	-	-	1,129,522	1,129,522	1,129,522
BALANCE AT MARCH 31, 2020	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 2,469,719</u>	<u>\$ 13,281,161</u>	<u>\$ 15,750,880</u>	<u>\$ 72,206,791</u>
BALANCE AT JANUARY 1, 2019	\$ 56,282,930	\$ 172,981	\$ 1,400,081	\$ 11,557,021	\$ 12,957,102	\$ 69,413,013
Net income for the three months ended March 31, 2019	-	-	-	2,287,744	2,287,744	2,287,744
Total comprehensive income for the three months ended March 31, 2019	-	-	-	2,287,744	2,287,744	2,287,744
BALANCE AT MARCH 31, 2019	<u>\$ 56,282,930</u>	<u>\$ 172,981</u>	<u>\$ 1,400,081</u>	<u>\$ 13,844,765</u>	<u>\$ 15,244,846</u>	<u>\$ 71,700,757</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 Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 1,086,467	\$ 2,171,943
Adjustments for:		
Depreciation	52,821	49,738
Amortization	3,481,393	3,431,922
Reversal of write-downs of inventories	(3,045)	(1,161)
Interest expense	1,613,994	1,597,228
Interest income	(56,370)	(35,235)
Gain on foreign currency exchange, net	(10,312)	(7,414)
Stabilization reserve expense	382,952	1,547,623
Others	7,417	(571)
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(342,453)	(448)
Financial assets for hedging	(1,054)	-
Notes and accounts receivable	147,379	41,176
Inventories	(383,987)	(356,006)
Other current assets	154,110	129,832
Other non-current assets	(377)	186
Accounts payable	262,498	72,158
Other payables	(621,986)	(480,114)
Other current liabilities	(553,779)	182,535
Other non-current liabilities	(2,638)	(2,461)
Cash generated from operations	5,213,030	8,340,931
Interest received	56,724	30,506
Interest paid	(1,713,883)	(1,421,209)
Income tax refunded (paid)	158,992	(3,039)
Net cash generated from operating activities	<u>3,714,863</u>	<u>6,947,189</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in other financial assets	(10,194,064)	(1,022,649)
Acquisition of property, plant and equipment	(3,636)	(2,654)
Acquisition of intangible assets	(752,782)	(835,776)
Proceeds from disposal of intangible assets	-	314
Net cash used in investing activities	<u>(10,950,482)</u>	<u>(1,860,765)</u>

(Continued)

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in short-term borrowings	\$ 15,378	\$ (10,109)
Repayment of long-term debt	(8,000,000)	-
Repayment of long-term bills payable	-	(8,000,000)
Repayment of the principal portion of lease liabilities	(39,308)	(33,100)
Increase in other non-current liabilities	<u>7,909</u>	<u>5,784</u>
Net cash used in financing activities	<u>(8,016,021)</u>	<u>(8,037,425)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>10</u>	<u>175</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,251,630)	(2,950,826)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>16,271,676</u>	<u>6,947,850</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>\$ 1,020,046</u>	<u>\$ 3,997,024</u>

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

(Concluded)

TAIWAN HIGH SPEED RAIL CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(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 Miaoli, Changhua and Yunlin stations. On July 1, 2016, the Corporation started operating its railway service at the Nangang station.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were reported to the board of directors on May 6, 2020.

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

- a. Initial application of the amendments to 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)

Effective Date Announced by IASB	New IFRSs
January 1, 2020	Amendments to IFRS 3 “Definition of a Business”
January 1, 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”
January 1, 2020	Amendments to IAS 1 and IAS 8 “Definition of Material”

The Corporation has evaluated that the initial application of the abovementioned IFRSs endorsed and issued into effect by the FSC did not have material impact on the Corporation’s accounting policies.

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

Effective Date Announced by IASB (Note)	New IFRSs
January 1, 2021	IFRS 17 “Insurance Contracts”
January 1, 2022	Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
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 reporting periods beginning on or after their respective effective dates.

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

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 assets at fair value through profit or loss

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

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

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

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 assets

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 assets with corresponding operating concession liabilities.

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 assets - period extension cost.

The cost less residual value of the operating concession assets 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 assets are 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 assets, 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 liabilities

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 assets (an intangible asset described in item j.1) above) with corresponding operating concession liabilities. 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 liabilities (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. Hedge accounting

Hedging financial instruments are measured at fair value. Changes in fair value of hedging financial instruments 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

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 remeasurement 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.

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 stockholders 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 March 31, 2020, December 31, 2019 and March 31, 2019, provision for controversial overtime payments recognized by the Corporation were all \$283,279 thousand. The estimated provision could differ from the actual amount payable, which is subject to the result of the administrative court judgment or the agreement to be settled with the employees. Please refer to Note 18 for further information.

b. Stabilization reserve

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Corporation recognized a provision for stabilization reserve in the amount of \$16,467,610 thousand, \$16,084,658 thousand, and \$11,108,520 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 18 and Note 30, 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 March 31, 2020, December 31, 2019 and March 31, 2019, the carrying amounts of deferred tax assets in relation to deductible temporary differences were \$7,385,651 thousand, \$7,316,212 thousand and \$6,957,056 thousand, respectively. As of March 31, 2020, December 31, 2019 and March 31, 2019 deductible temporary differences of \$1,244,653 thousand, \$1,181,032 thousand and \$215,073 thousand, respectively, were not recognized as deferred tax assets according to the assessment of the realizability of deferred tax assets.

6. CASH AND CASH EQUIVALENTS

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand	\$ 143,049	\$ 88,890	\$ 120,789
Checking accounts	-	10	10
Demand deposits	81,826	481,618	191,105
Time deposits	8,171	8,158	8,120
Repurchase agreement collateralized by government bonds	<u>787,000</u>	<u>15,693,000</u>	<u>3,677,000</u>
	<u>\$ 1,020,046</u>	<u>\$ 16,271,676</u>	<u>\$ 3,997,024</u>

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

	March 31, 2020	December 31, 2019	March 31, 2019
Demand deposits	0.001%-0.15%	0.001%-0.33%	0.001%-0.50%
Time deposits	0.62%	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.49%-0.50%	0.50%-0.56%	0.61%-0.62%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31, 2020	December 31, 2019	March 31, 2019
Open-end money market funds	<u>\$ 672,896</u>	<u>\$ 330,443</u>	<u>\$ 327,894</u>

The financial assets at FVTPL are mandatorily classified as FVTPL.

8. FINANCIAL ASSETS FOR HEDGING

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets for hedging- current</u>			
Fair value hedges - forward exchange contracts	\$ <u>1,054</u>	\$ <u>-</u>	\$ <u>-</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>March 31, 2020</u>			
Buy	US\$/JPY	April 2020	JPY 231,834
Buy	NT\$/US\$	April 2020	US\$ 2,102

9. INVENTORIES

	March 31, 2020	December 31, 2019	March 31, 2019
Spare parts and supplies	\$ 2,428,878	\$ 2,044,649	\$ 2,379,729
Merchandise	<u>14,199</u>	<u>11,396</u>	<u>6,363</u>
	<u>\$ 2,443,077</u>	<u>\$ 2,056,045</u>	<u>\$ 2,386,092</u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, allowance for inventory valuation losses amounted to \$639,803 thousand, \$642,848 thousand and \$619,037 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	March 31, 2020	December 31, 2019	March 31, 2019
Repurchase agreement collateralized by government bonds	\$ 28,616,300	\$ 20,433,000	\$ 11,139,600
Time deposits	5,879,753	3,848,118	3,822,188
Demand deposits	18,182	24,901	20,304
Other performance guarantee	<u>4,887</u>	<u>4,248</u>	<u>4,548</u>
	<u>\$ 34,519,122</u>	<u>\$ 24,310,267</u>	<u>\$ 14,986,640</u>
Current	\$ 32,461,912	\$ 22,207,764	\$ 12,857,554
Non-current	<u>2,057,210</u>	<u>2,102,503</u>	<u>2,129,086</u>
	<u>\$ 34,519,122</u>	<u>\$ 24,310,267</u>	<u>\$ 14,986,640</u>

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

	March 31, 2020	December 31, 2019	March 31, 2019
Repurchase agreement collateralized by government bonds	0.40%-0.57%	0.53%-0.58%	0.53%-0.63%
Time deposits	0.09%-2.36%	0.15%-2.65%	0.15%-3.25%
Demand deposits	0.01%-0.04%	0.03%-0.08%	0.03%-0.08%

b. Please refer to Note 29 for the information of other financial assets pledged as collateral.

11. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2020	December 31, 2019	March 31, 2019
Land	\$ 28	\$ 28	\$ 28
Machinery and equipment	63,876	69,091	39,707
Transportation equipment	-	-	-
Office equipment	10,954	11,846	11,143
Leasehold improvements	602	710	944
Other equipment	<u>41,412</u>	<u>43,372</u>	<u>39,459</u>
	<u>\$ 116,872</u>	<u>\$ 125,047</u>	<u>\$ 91,281</u>

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
<u>Cost</u>							
Balance at January 1, 2020	\$ 28	\$ 317,209	\$ 87	\$ 119,610	\$ 80,528	\$ 266,001	\$ 783,463
Additions	-	1,698	-	208	-	1,730	3,636
Disposals	-	-	-	(1,047)	-	-	(1,047)
Transfer	-	110	-	-	-	-	110
Balance at March 31, 2020	<u>28</u>	<u>319,017</u>	<u>87</u>	<u>118,771</u>	<u>80,528</u>	<u>267,731</u>	<u>786,162</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2020	-	248,118	87	107,764	79,818	222,629	658,416
Depreciation	-	7,023	-	1,100	108	3,690	11,921
Disposals	-	-	-	(1,047)	-	-	(1,047)
Balance at March 31, 2020	<u>-</u>	<u>255,141</u>	<u>87</u>	<u>107,817</u>	<u>79,926</u>	<u>226,319</u>	<u>669,290</u>
	<u>\$ 28</u>	<u>\$ 63,876</u>	<u>\$ -</u>	<u>\$ 10,954</u>	<u>\$ 602</u>	<u>\$ 41,412</u>	<u>\$ 116,872</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	-	664	-	665	-	1,325	2,654
Disposals	-	(31)	(34)	(2,251)	-	-	(2,316)
Balance at March 31, 2019	<u>28</u>	<u>276,070</u>	<u>121</u>	<u>119,462</u>	<u>80,448</u>	<u>254,138</u>	<u>730,267</u>
<u>Accumulated depreciation</u>							
Balance at January 1, 2019	-	231,151	155	109,613	79,395	211,530	631,844
Depreciation	-	5,218	-	957	109	3,149	9,433
Disposals	-	(6)	(34)	(2,251)	-	-	(2,291)
Balance at March 31, 2019	<u>-</u>	<u>236,363</u>	<u>121</u>	<u>108,319</u>	<u>79,504</u>	<u>214,679</u>	<u>638,986</u>
	<u>\$ 28</u>	<u>\$ 39,707</u>	<u>\$ -</u>	<u>\$ 11,143</u>	<u>\$ 944</u>	<u>\$ 39,459</u>	<u>\$ 91,281</u>

12. LEASE ARRANGEMENTS

a. Right-of-use assets

	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
<u>Cost</u>					
Balance at January 1, 2020	\$ 254,865	\$ 497,473	\$ 37,254	\$ 1,485	\$ 791,077
Additions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at March 31, 2020	<u>254,865</u>	<u>497,473</u>	<u>37,254</u>	<u>1,485</u>	<u>791,077</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2020	81,897	61,881	17,321	990	162,089
Depreciation	<u>20,637</u>	<u>15,470</u>	<u>4,545</u>	<u>248</u>	<u>40,900</u>
Balance at March 31, 2020	<u>102,534</u>	<u>77,351</u>	<u>21,866</u>	<u>1,238</u>	<u>202,989</u>
	<u>\$ 152,331</u>	<u>\$ 420,122</u>	<u>\$ 15,388</u>	<u>\$ 247</u>	<u>\$ 588,088</u>
<u>Cost</u>					
Balance at January 1, 2019	\$ 251,857	\$ 497,473	\$ 30,659	\$ 1,433	\$ 781,422
Additions	<u>-</u>	<u>-</u>	<u>1,374</u>	<u>53</u>	<u>1,427</u>
Balance at March 31, 2019	<u>251,857</u>	<u>497,473</u>	<u>32,033</u>	<u>1,486</u>	<u>782,849</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2019	-	-	-	-	-
Depreciation	<u>20,393</u>	<u>15,470</u>	<u>4,194</u>	<u>248</u>	<u>40,305</u>
Balance at March 31, 2019	<u>20,393</u>	<u>15,470</u>	<u>4,194</u>	<u>248</u>	<u>40,305</u>
	<u>\$ 231,464</u>	<u>\$ 482,003</u>	<u>\$ 27,839</u>	<u>\$ 1,238</u>	<u>\$ 742,544</u>

b. Lease liabilities

	Lease Term	Discount Rate	March 31, 2020	December 31, 2019	March 31, 2019
Buildings	2-10 years	0.66%-0.87%	\$ 148,535	\$ 169,049	\$ 226,152
Machinery and equipment	2-9 years	0.59%-0.87%	396,877	410,876	452,693
Transportation equipment	3-5 years	0.59%-0.73%	15,437	19,983	27,861
Other equipment	1.5-3 years	0.59%	<u>249</u>	<u>497</u>	<u>1,240</u>
			561,098	600,405	707,946
Less: Recognized as current lease liabilities			<u>(134,271)</u>	<u>(153,230)</u>	<u>(158,276)</u>
Lease liabilities - non-current			<u>\$ 426,827</u>	<u>\$ 447,175</u>	<u>\$ 549,670</u>

c. Material lease terms

The Corporation leased an office building from Century Development Corporation with the lease term from January 2018 to December 2020.

The Corporation leased a parking lot for rental business in Zuoying Station from Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC with the lease term from January 2017 to January 2027.

The Corporation leased a host of automatic ticketing system for operating from IBM Taiwan Corporation with the lease term from February 2018 to January 2027.

d. Other lease information

	For the Three Months Ended March 31	
	2020	2019
Expenses relating to short-term leases	\$ 857	\$ 1,138
Expenses relating to low-value asset leases	\$ 147	\$ 30
Total cash outflow for leases	<u>\$ (41,773)</u>	<u>\$ (36,000)</u>

The Corporation leases certain space, which qualifies 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

	March 31, 2020	December 31, 2019	March 31, 2019
Operating concession assets	\$ 387,004,600	\$ 390,113,063	\$ 398,301,545
Computer software, net	<u>62,844</u>	<u>54,413</u>	<u>51,451</u>
	<u>\$ 387,067,444</u>	<u>\$ 390,167,476</u>	<u>\$ 398,352,996</u>

a. Movements of the intangible assets

	Operating Concession Assets				Total	Computer Software, Net		Total
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress		Cost	Accumulated Amortization	
Cost								
Balance at January 1, 2020	\$ 476,122,275	\$ 69,972,043	\$ 12,701,819	\$ 739,116	\$ 559,535,253	\$ 446,577	\$ 559,981,830	
Additions	79,887	-	-	308,532	388,419	408	388,827	
Disposals	(2,153,976)	-	-	-	(2,153,976)	-	(2,153,976)	
Transfer	234,295	-	-	(248,119)	(13,824)	13,714	(110)	
Balance at March 31, 2020	<u>474,282,481</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>799,529</u>	<u>557,755,872</u>	<u>460,699</u>	<u>558,216,571</u>	
Accumulated amortization								
Balance at January 1, 2020	151,660,749	16,738,071	1,023,370	-	169,422,190	392,164	169,814,354	
Amortization	3,139,982	274,401	60,198	-	3,474,581	5,691	3,480,272	
Disposals	(2,145,499)	-	-	-	(2,145,499)	-	(2,145,499)	
Balance at March 31, 2020	<u>152,655,232</u>	<u>17,012,472</u>	<u>1,083,568</u>	<u>-</u>	<u>170,751,272</u>	<u>397,855</u>	<u>171,149,127</u>	
	<u>\$ 321,627,249</u>	<u>\$ 52,959,571</u>	<u>\$ 11,618,251</u>	<u>\$ 799,529</u>	<u>\$ 387,004,600</u>	<u>\$ 62,844</u>	<u>\$ 387,067,444</u>	
Cost								
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	26,585	-	-	534,169	560,754	105	560,859	
Disposals	(6,745)	-	-	-	(6,745)	-	(6,745)	
Transfer	52,802	-	-	(54,262)	(1,460)	1,460	-	
Balance at March 31, 2019	<u>473,234,913</u>	<u>69,972,043</u>	<u>12,701,819</u>	<u>1,835,764</u>	<u>557,744,539</u>	<u>429,976</u>	<u>558,174,515</u>	
Accumulated amortization								
Balance at January 1, 2019	139,599,984	15,640,464	782,578	-	156,023,026	374,166	156,397,192	
Amortization	3,091,783	274,401	60,198	-	3,426,382	4,359	3,430,741	
Disposals	(6,414)	-	-	-	(6,414)	-	(6,414)	
Balance at March 31, 2019	<u>142,685,353</u>	<u>15,914,865</u>	<u>842,776</u>	<u>-</u>	<u>159,442,994</u>	<u>378,525</u>	<u>159,821,519</u>	
	<u>\$ 330,549,560</u>	<u>\$ 54,057,178</u>	<u>\$ 11,859,043</u>	<u>\$ 1,835,764</u>	<u>\$ 398,301,545</u>	<u>\$ 51,451</u>	<u>\$ 398,352,996</u>	

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

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Operating assets, net</u>			
Land improvements	\$ 164,195,369	\$ 165,016,977	\$ 167,584,147
Buildings	27,414,663	27,558,084	27,981,592
Machinery and equipment	26,611,701	27,012,524	28,833,922
Transportation equipment	103,382,152	104,848,364	106,136,444
Other equipment	<u>23,364</u>	<u>25,577</u>	<u>13,455</u>
	<u>\$ 321,627,249</u>	<u>\$ 324,461,526</u>	<u>\$ 330,549,560</u>
<u>Construction in progress</u>			
Prepayments for equipment	<u>\$ 799,529</u>	<u>\$ 739,116</u>	<u>\$ 1,835,764</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 March 31, 2020, 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

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Other current assets</u>			
Prepayments	\$ 1,139,502	\$ 1,290,402	\$ 758,742
Others	<u>50,487</u>	<u>53,931</u>	<u>44,283</u>
	<u>\$ 1,189,989</u>	<u>\$ 1,344,333</u>	<u>\$ 803,025</u>
<u>Other non-current assets</u>			
Others	<u>\$ 8,496</u>	<u>\$ 9,240</u>	<u>\$ 14,990</u>

15. BORROWINGS

a. Short-term borrowings

	March 31, 2020	December 31, 2019	March 31, 2019
Japanese yen (“JPY”) letters of credit	<u>\$ 81,651</u>	<u>\$ 64,980</u>	<u>\$ 134,147</u>

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

	March 31, 2020	December 31, 2019	March 31, 2019
JPY letters of credit	0.60%-0.74%	0.62%-0.74%	0.61%-0.74%

b. Long-term debt

	March 31, 2020	December 31, 2019	March 31, 2019
Syndicated loan			
Tranche A1 Facility (from May 4, 2010 to May 4, 2049)	\$ 116,640,000	\$ 120,000,000	\$ 120,000,000
Tranche A2 Facility (from May 4, 2010 to May 4, 2048)	<u>151,565,117</u>	<u>156,205,117</u>	<u>156,205,117</u>
	268,205,117	276,205,117	276,205,117
Less: Unamortized cost of long-term debt	<u>(102,882)</u>	<u>(104,800)</u>	<u>(109,789)</u>
	<u>\$ 268,102,235</u>	<u>\$ 276,100,317</u>	<u>\$ 276,095,328</u>

The Corporation has entered into the Taiwan North-South High Speed Rail Construction and Operation Tripartite Agreement (the “Tripartite Agreement”) with the MOTC and Bank of Taiwan on January 8, 2010, and the NT\$382 billion Syndicated Loan Agreement with respect to Taiwan North-South High Speed Rail Construction and Operation Project (the “Syndicated Loan Agreement”) with a group of eight syndicated banks. The 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 are as follows:

- 1) The syndicated loan includes Tranches A1, A2, A3, B, C and D with different credit facilities. 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 29 for further information.
- 4) The repayment method and interest rates of the Syndicated Loan Agreement are as follows:
- a) Term of loan and repayment method

	Term of Loan	Number of Semi-annual Installment Repayment	Ratio of Repayment
Tranche A1 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment
Tranche A2 Facility	May 4, 2021-November 4, 2040	Installments 01-40	1.5% per installment
	May 4, 2041-November 4, 2049	Installments 41-58	2.0% per installment
	May 4, 2050	Installments 59	4.0% per installment

On March 3, 2020, the Corporation made early repayment for \$8 billion and repaid interest differences for \$276,433 thousand due to early repayment of the loan. The most recent repayment date for Tranche A1 and A2 Facilities are both November 4, 2021.

After the Corporation's early repayment in 2017 and 2018, the final repayment date for Tranche A1 and A2 Facilities are May 4, 2049 and May 4, 2048, respectively.

b) Interest rates

The interest rates (including 5% VAT) of the Tranche A1 Facility and Tranche A2 Facility are determined as the reference rate (1-year time deposit floating rate of Chunghwa Post Co., Ltd.) plus spread as listed on the table below. Due to the step-up spread mechanism, the Corporation shall make up for the deficit of the interests below the agreed interest rate to the syndicated banks if early redemption occurs. As of March 31, 2020, December 31, 2019 and March 31, 2019, the reference rate were 0.81%, 1.06% and 1.06%, respectively.

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%

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

a) Effective interest rates

	March 31, 2020	December 31, 2019	March 31, 2019
Tranche A1 Facility	1.65%	1.91%	1.91%
Tranche A2 Facility	1.66%	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Syndicated loan</u>			
Tranche A1 Facility	\$ 200,584	\$ 212,417	\$ 212,417
Tranche A2 Facility	<u>260,644</u>	<u>276,505</u>	<u>276,505</u>
	<u>\$ 461,228</u>	<u>\$ 488,922</u>	<u>\$ 488,922</u>

c) Long-term interest payable

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Syndicated loan</u>			
Tranche A1 Facility	\$ 3,702,569	\$ 3,870,760	\$ 4,029,577
Tranche A2 Facility	<u>4,354,887</u>	<u>4,579,320</u>	<u>4,775,170</u>
	<u>\$ 8,057,456</u>	<u>\$ 8,450,080</u>	<u>\$ 8,804,747</u>

d) Interest expense

	For the Three Months Ended March 31	
	2020	2019
<u>Syndicated loan</u>		
Interest expense	<u>\$ 1,292,253</u>	<u>\$ 1,302,455</u>

16. BONDS PAYABLE

	March 31, 2020	December 31, 2019	March 31, 2019
Domestic unsecured bond	\$ 8,000,000	\$ 8,000,000	\$ -
Less: Unamortized issuance cost	<u>(9,590)</u>	<u>(9,671)</u>	<u>-</u>
	<u>\$ 7,990,410</u>	<u>\$ 7,990,329</u>	<u>\$ -</u>

On November 14, 2019, the Corporation issued \$8 billion of 30-year, 1.6% unsecured bonds at par value with interest payable annually and a bullet repayment term. The trustee of the Corporation's creditors is Taishin International Bank.

17. OPERATING CONCESSION LIABILITIES

	March 31, 2020	December 31, 2019	March 31, 2019
Operating concession liabilities	\$ 78,913,992	\$ 78,516,696	\$ 78,067,576
Value of returned superficies for offset of profit sharing payable	<u>(22,587,750)</u>	<u>(22,475,984)</u>	<u>(22,143,946)</u>
	<u>\$ 56,326,242</u>	<u>\$ 56,040,712</u>	<u>\$ 55,923,630</u>
Current	\$ 777,511	\$ 777,511	\$ 731,182
Non-current	<u>55,548,731</u>	<u>55,263,201</u>	<u>55,192,448</u>
	<u>\$ 56,326,242</u>	<u>\$ 56,040,712</u>	<u>\$ 55,923,630</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 30, a., 2) for further information. The minimum commitment to profit sharing payments of \$108 billion was discounted and recognized as operating concession assets and operating concession liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. The information about the amortization expense of operating concession assets and the interest expense of operating concession liabilities during the concession period is summarized as follows:

Year	Amortization Expense	Interest Expense	Total
Up to December 31, 2019	\$ 16,738,071	\$ 19,923,685	\$ 36,661,756
Three months ended March 31, 2020	<u>274,401</u>	<u>397,296</u>	<u>671,697</u>
	<u>17,012,472</u>	<u>20,320,981</u>	<u>37,333,453</u>
Three months ending March 31, 2020 (estimate)	823,207	1,200,619	2,023,826
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 (estimate)	1,097,608	1,423,634	2,521,242
2025-2033 (estimate)	9,878,472	10,394,660	20,273,132
2034-2068 (estimate)	<u>37,867,460</u>	<u>-</u>	<u>37,867,460</u>
	<u>52,959,571</u>	<u>17,706,976</u>	<u>70,666,547</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 liabilities (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 30, 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, 2019	\$ 22,613,234	\$ 1,866,271	\$ 24,479,505
Three months ended March 31, 2020	<u>-</u>	<u>111,766</u>	<u>111,766</u>
	<u>22,613,234</u>	<u>1,978,037</u>	<u>24,591,271</u>
Three months ending March 31, 2020 (estimate)	-	337,754	337,754
2021 (estimate)	-	458,510	458,510
2022 (estimate)	-	467,680	467,680
2023 (estimate)	-	391,989	391,989
2024 (estimate)	-	399,829	399,829
2025-2033 (estimate)	<u>-</u>	<u>3,137,822</u>	<u>3,137,822</u>
	<u>-</u>	<u>5,193,584</u>	<u>5,193,584</u>
	<u>\$ 22,613,234</u>	<u>\$ 7,171,621</u>	<u>\$ 29,784,855</u>

As of March 31, 2020, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to \$9,375,511 thousand (or accumulated profit sharing payments for \$11,379,032 thousand less the deductible amount of returned superficies for \$2,003,521 thousand).

18. PROVISIONS

a. Provisions

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Current</u>			
Provision for controversial overtime pay	\$ 283,279	\$ 283,279	\$ 283,279
Provision for stabilization reserve	<u>6,084,658</u>	<u>6,084,658</u>	<u>-</u>
	<u>\$ 6,367,937</u>	<u>\$ 6,367,937</u>	<u>\$ 283,279</u>
<u>Non-current</u>			
Provision for stabilization reserve	<u>\$ 10,382,952</u>	<u>\$ 10,000,000</u>	<u>\$ 11,108,520</u>

b. Movements in provisions were as follows:

	Balance at January 1, 2020	Addition	Balance at March 31, 2020
<u>Current</u>			
Provision for controversial overtime pay	\$ 283,279	\$ -	\$ 283,279
Provision for stabilization reserve	<u>6,084,658</u>	<u>-</u>	<u>6,084,658</u>
	<u>\$ 6,367,937</u>	<u>\$ -</u>	<u>\$ 6,367,937</u>
<u>Non-current</u>			
Provision for stabilization reserve	<u>\$ 10,000,000</u>	<u>\$ 382,952</u>	<u>\$ 10,382,952</u>
	Balance at January 1, 2019	Addition	Balance at March 31, 2019
<u>Current</u>			
Provision for controversial overtime pay	<u>\$ 283,279</u>	<u>\$ -</u>	<u>\$ 283,279</u>
<u>Non-current</u>			
Provision for stabilization reserve	<u>\$ 9,560,897</u>	<u>\$ 1,547,623</u>	<u>\$ 11,108,520</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. Concerning 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 should cease to work overtime on Chinese New Year Holidays. In order to uphold the rights of both the passengers and employees, the Corporation has reached an agreement regarding the aforementioned controversy with the THSRC Labor Union on January 21, 2016. The Corporation shall finish the calculation of overtime hours and overtime pay on the abovementioned adjusted national holidays and working hours of two consecutive weeks, and after confirmation of the calculated amount of overtime, the Corporation shall sign agreements with employees individually, and half of the overtime pay shall be paid as an incentive bonus. The Corporation and the THSRC Labor Union agreed to settle the litigation on the Taipei City Government Labor Sanction in the Taipei High Administrative Court. In the final judgment, if the Corporation loses the lawsuit, the abovementioned incentive bonus shall be considered as part of the overtime pay to the employees; if the Corporation wins the lawsuit, the abovementioned incentive bonus shall remain in its nature as incentive bonus and does not need to be returned to the Corporation. This administrative litigation was rejected by Taipei High Administrative Court in June 2018. After the Corporation lodged an appeal against the verdict, the Supreme Administrative Court has decided that the original judgment be remanded to the Taipei High Administrative Court in October 2019. The lawsuit is still under the review of the court now.

The Corporation evaluated that it is probable that the Corporation will lose the lawsuit. As of March 31, 2020, the provision for controversial overtime pay for \$283,279 thousand had been recognized.

2) Stabilization reserve

Please refer to Note 30, a., 3) for recognition of provision for stabilization reserve.

19. OTHER LIABILITIES

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Other payables</u>			
Accrued expenses	\$ 1,968,750	\$ 2,362,196	\$ 1,868,742
Accrued interest expense	509,527	505,382	488,983
Business tax payable	73,194	304,910	165,010
Others	<u>28,474</u>	<u>24,874</u>	<u>28,498</u>
	<u>\$ 2,579,945</u>	<u>\$ 3,197,362</u>	<u>\$ 2,551,233</u>
<u>Other current liabilities</u>			
Contract liabilities (Note 22)	\$ 633,294	\$ 1,233,056	\$ 842,964
Lease liabilities (Note 12)	134,271	153,230	158,276
Rent received in advance	53,031	49,813	-
Receipts under custody	28,141	28,929	25,784
Others	<u>56,440</u>	<u>12,887</u>	<u>13,436</u>
	<u>\$ 905,177</u>	<u>\$ 1,477,915</u>	<u>\$ 1,040,460</u>
<u>Other non-current liabilities</u>			
Net defined benefit liabilities	\$ 254,578	\$ 256,562	\$ 208,892
Guarantee deposits received	197,786	189,868	125,427
Deferred revenue	5,241	5,895	7,861
Deferred tax liabilities	<u>211</u>	<u>-</u>	<u>285</u>
	<u>\$ 457,816</u>	<u>\$ 452,325</u>	<u>\$ 342,465</u>

20. 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 based on 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 23, a. for the expenses of defined contribution plan and defined benefit plan recorded as pension costs in comprehensive income.

21. EQUITY

a. Capital stock

	March 31, 2020	December 31, 2019	March 31, 2019
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 stock have not yet been applied to be listed and traded on the Taiwan Stock Exchange.

b. Capital surplus

	March 31, 2020	December 31, 2019	March 31, 2019
Issuance of common stock	\$ 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 stockholders as proposed by the board of directors and ultimately resolved by the stockholders.

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 stockholders' 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 stockholders 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 23, a.

The appropriations of earnings for 2019 and 2018 proposed by the board of directors on April 8, 2020, and approved in the stockholders' meetings on May 30, 2019, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Fiscal Year 2019</u>	<u>For Fiscal Year 2018</u>	<u>For Fiscal Year 2019</u>	<u>For Fiscal Year 2018</u>
Legal reserve	\$ 800,703	\$ 1,069,638		
Cash dividends	<u>6,810,797</u>	<u>6,303,688</u>	\$1.2101	\$1.1200
	<u>\$ 7,611,500</u>	<u>\$ 7,373,326</u>		

The appropriations of earnings for 2019 are subject to the resolution in the stockholders' meeting to be held in May of 2020. Information on the employees' compensation and remuneration to directors, and the appropriations of earnings is available at the Market Observation Post System website of the Taiwan Stock Exchange.

22. REVENUE

	<u>For the Three Months Ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Revenue from contracts with customers		
Railroad transportation revenue	\$ 9,234,624	\$ 11,410,346
Other operating revenue	<u>365,659</u>	<u>351,844</u>
	<u>\$ 9,600,283</u>	<u>\$ 11,762,190</u>

a. Contract balances

	March 31, 2020	December 31, 2019	March 31, 2019	January 1, 2019
Notes and accounts receivable	\$ <u>185,713</u>	\$ <u>333,092</u>	\$ <u>464,389</u>	\$ <u>505,565</u>
Contract liabilities				
Railroad transportation revenue	\$ 488,562	\$ 1,163,968	\$ 703,618	\$ 534,736
Customer loyalty programmer	140,984	62,629	121,243	120,467
Others	<u>3,748</u>	<u>6,459</u>	<u>18,103</u>	<u>10,338</u>
	<u>\$ 633,294</u>	<u>\$ 1,233,056</u>	<u>\$ 842,964</u>	<u>\$ 665,541</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 March 31	
	2020	2019
From the beginning balance of contract liability		
Railroad transportation revenue	\$ 1,141,063	\$ 524,493
Customer loyalty programmer	7,433	14,121
Others	<u>5,750</u>	<u>7,942</u>
	<u>\$ 1,154,246</u>	<u>\$ 546,556</u>

b. Revenue from contracts with customers

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

23. INCOME BEFORE INCOME TAX

a. Employee benefits expense

	For the Three Months Ended March 31	
	2020	2019
Post-employment benefits		
Defined contribution plan	\$ 46,970	\$ 44,827
Defined benefit plan	<u>3,968</u>	<u>4,136</u>
	<u>50,938</u>	<u>48,963</u>
Short-term employee benefits		
Payroll	1,090,599	1,059,680
Insurance	95,058	92,047
Others	<u>47,282</u>	<u>48,450</u>
	<u>1,232,939</u>	<u>1,200,177</u>
	<u>\$ 1,283,877</u>	<u>\$ 1,249,140</u>

(Continued)

	For the Three Months Ended March 31	
	2020	2019
An analysis of employee benefits expense by function		
Operating costs	\$ 1,078,747	\$ 1,044,004
Operating expenses	<u>205,130</u>	<u>205,136</u>
	<u>\$ 1,283,877</u>	<u>\$ 1,249,140</u>
		(Concluded)

For the three months ended March 31, 2020 and 2019, the professional service fee was \$837 thousand and \$1,621 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 ended March 31, 2020 and 2019, the estimated employees' compensation in cash was \$22,287 thousand and \$44,553 thousand, and the estimated remuneration to directors in cash was \$5,572 thousand and \$11,138 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 \$159,489 thousand and the remuneration to directors of \$39,872 thousand for the year ended December 31, 2019 payable in cash had been resolved by the board of directors on January 15, 2020. There was no difference between such amounts and the respective amounts recognized in the financial statements for the year ended December 31, 2019.

The board of directors had resolved the employees' compensation of \$149,986 thousand and the remuneration to directors of \$37,497 thousand for the year ended December 31, 2018 payable in cash 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.

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

b. Depreciation and amortization

	For the Three Months Ended March 31	
	2020	2019
Property, plant and equipment	\$ 11,921	\$ 9,433
Right-of-use assets	40,900	40,305
Intangible assets	3,480,272	3,430,741
Other non-current assets	<u>1,121</u>	<u>1,181</u>
	<u>\$ 3,534,214</u>	<u>\$ 3,481,660</u>
		(Continued)

	For the Three Months Ended March 31	
	2020	2019
An analysis of depreciation by function		
Operating costs	\$ 46,560	\$ 44,329
Operating expenses	<u>6,261</u>	<u>5,409</u>
	<u>\$ 52,821</u>	<u>\$ 49,738</u>
An analysis of amortization by function		
Operating costs	\$ 3,480,046	\$ 3,430,770
Operating expenses	<u>1,347</u>	<u>1,152</u>
	<u>\$ 3,481,393</u>	<u>\$ 3,431,922</u>

(Concluded)

c. Interest income

	For the Three Months Ended March 31	
	2020	2019
Interest income of repurchase agreement collateralized by government bonds	\$ 46,661	\$ 24,897
Interest income of bank deposits	9,701	10,330
Others	<u>8</u>	<u>8</u>
	<u>\$ 56,370</u>	<u>\$ 35,235</u>

d. Interest expense

	For the Three Months Ended March 31	
	2020	2019
Interest on bank loans	\$ 1,294,002	\$ 1,304,373
Interest on operating concession liabilities	285,530	277,613
Interest on bonds payable	31,906	-
Interest on long-term bills payable	-	13,130
Others	<u>2,556</u>	<u>2,112</u>
	<u>\$ 1,613,994</u>	<u>\$ 1,597,228</u>

e. Other gains and losses

	For the Three Months Ended March 31	
	2020	2019
Liquidated damages	\$ 7,404	\$ 976
Government grants	5,404	655
Compensation gain	3,148	17,147
Foreign exchange gain, net	1,292	4,347
Loss on disposal of intangible assets, net	(8,477)	(17)
Others	<u>1,451</u>	<u>1,451</u>
	<u>\$ 10,222</u>	<u>\$ 24,559</u>

24. INCOME TAXES

a. Income tax recognized in profit or loss

	For the Three Months Ended March 31	
	2020	2019
Current tax	\$ (26,173)	\$ (32,836)
Deferred tax	<u>69,228</u>	<u>148,637</u>
Income tax benefit	<u>\$ 43,055</u>	<u>\$ 115,801</u>

Under the amendment to the ROC Statute of Industrial Innovation in 2019, the amounts of unappropriated earnings in 2018 and thereafter that are reinvested in the construction or purchase of certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings.

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 Ministry of Finance approved the application for income tax exemption, 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 assessments

The tax authorities have assessed the tax returns through 2017.

25. EARNINGS PER SHARE

	For the Three Months Ended March 31	
	2020	2019
Basic earnings per share (NT\$)	<u>\$ 0.20</u>	<u>\$ 0.41</u>

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

	For the Three Months Ended March 31	
	2020	2019
Earnings attributable to common stockholders	<u>\$ 1,129,522</u>	<u>\$ 2,287,744</u>
Weighted average number of common stock in the computation of basic earnings per share (in thousands)	<u>5,628,293</u>	<u>5,628,293</u>

26. 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.

27. FINANCIAL INSTRUMENTS

a. Financial instruments

	March 31, 2020	December 31, 2019	March 31, 2019
<u>Financial assets</u>			
Financial assets at FVTPL	\$ 672,896	\$ 330,443	\$ 327,894
Financial assets for hedging	1,054	-	-
Financial assets at amortized cost			
Other financial assets	34,519,122	24,310,267	14,986,640
Others (Note 1)	1,240,796	16,641,362	4,489,566
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 2)	343,301,829	351,625,069	343,107,299

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 liabilities, other payables, payable for construction, bonds payable, long-term debt, 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.

March 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 672,896</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 672,896</u>
Financial assets for hedging				
Forward exchange contracts	<u>\$ -</u>	<u>\$ 1,054</u>	<u>\$ -</u>	<u>\$ 1,054</u>

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 330,443</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,443</u>

March 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	<u>\$ 327,894</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,894</u>

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2020 and 2019.

3) Valuation techniques and assumptions applied for 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 board of directors in accordance with related regulations and internal controls reviews the Corporation's important financial activities. 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. Financial instruments for hedging 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):

	March 31, 2020		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,434	30.254	\$ 678,718
JPY	4,931	0.2790	1,376
<u>Financial liabilities</u>			
Monetary items			
USD	48	30.254	1,452
JPY	1,839,027	0.2790	513,089
	December 31, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,319	30.106	\$ 671,940
JPY	4,931	0.2770	1,366
<u>Financial liabilities</u>			
Monetary items			
JPY	889,301	0.2770	246,337

	March 31, 2019		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 21,901	30.825	\$ 675,112
JPY	4,931	0.2783	1,372
<u>Financial liabilities</u>			
Monetary items			
USD	48	30.825	1,486
JPY	1,487,280	0.2783	413,910

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 hedging financial instruments relating to exchange rate 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 \$6,773 thousand and \$6,736 thousand for the three months ended March 31, 2020 and 2019, respectively. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by \$4,470 thousand and \$4,125 thousand for the three months ended March 31, 2020 and 2019, respectively.

The significant unrealized exchange gain and loss were as follows:

	For the Three Months Ended March 31			
	2020		2019	
Foreign Currency	Exchange Rate	Exchange Gain (Loss), Net	Exchange Rate	Exchange Gain (Loss), Net
USD	30.254	\$ 14,864	30.825	\$ (794)
JPY	0.2790	(4,584)	0.2783	8,190

b) Interest rate risk

As of March 31, 2020 and 2019, the Corporation's syndicated loan with floating interest rates amounted to \$268,205,117 thousand and \$276,205,117 thousand, respectively. If the market interest rate increased by 1% and all other variables were held constant, the income before income tax of the Corporation would have decreased by \$670,513 thousand and \$690,513 thousand for the three months ended March 31, 2020 and 2019, 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 \$6,729 thousand and \$3,279 thousand for the three months ended March 31, 2020 and 2019, 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 financing 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.), operating concession liabilities, lease liabilities, and bonds payable 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):

March 31, 2020

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Principal and Interest on Bonds Payable	Total
2020.4.1-2020.6.30	\$ -	\$ 1,402,551	\$ 777,511	\$ 40,536	\$ -	\$ 2,220,598
2020.7.1-2021.3.31	-	4,894,830	-	94,239	128,000	5,117,069
2021.4.1-2022.3.31	1,186,153	8,341,408	731,700	81,957	128,000	10,469,218
2022.4.1-2023.3.31	9,186,153	8,210,757	7,859,512	74,493	128,000	25,458,915
2023.4.1-2024.3.31	9,186,153	7,985,086	116,525	74,379	128,000	17,490,143
2024.4.1-2025.3.31	9,186,153	7,938,997	182,113	73,798	128,000	17,509,061
2025.4.1-2034.3.31	82,675,382	59,991,148	59,172,273	136,912	1,152,000	203,127,715
2034.4.1-2049	<u>156,785,123</u>	<u>42,743,477</u>	-	-	<u>10,048,000</u>	<u>209,576,600</u>
	<u>\$ 268,205,117</u>	<u>\$ 141,508,254</u>	<u>\$ 68,839,634</u>	<u>\$ 576,314</u>	<u>\$ 11,840,000</u>	<u>\$ 490,969,319</u>

December 31, 2019

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Principal and Interest on Bonds Payable	Total
2020.1.1-2020.3.31	\$ -	\$ 1,638,182	\$ -	\$ 40,536	\$ -	\$ 1,678,718
2020.4.1-2020.12.31	-	4,914,546	777,511	113,297	128,000	5,933,354
2021	9,186,153	9,039,422	731,700	84,745	128,000	19,170,020
2022	9,186,153	8,952,193	7,859,512	74,570	128,000	26,200,428
2023	9,186,153	8,620,899	116,525	74,449	128,000	18,126,026
2024	9,186,153	8,633,009	182,113	74,021	128,000	18,203,296
2025-2033	82,675,382	65,225,341	59,172,273	155,232	1,152,000	208,380,228
2034-2049	<u>156,785,123</u>	<u>47,259,388</u>	-	-	<u>10,048,000</u>	<u>214,092,511</u>
	<u>\$ 276,205,117</u>	<u>\$ 154,282,980</u>	<u>\$ 68,839,634</u>	<u>\$ 616,850</u>	<u>\$ 11,840,000</u>	<u>\$ 511,784,581</u>

March 31, 2019

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Total
2019.4.1-2019.6.30	\$ -	\$ 1,749,124	\$ 731,182	\$ 39,627	\$ 2,519,933
2019.7.1-2020.3.31	-	5,670,386	-	119,291	5,789,677
2020.4.1-2021.3.31	-	8,776,269	700,606	132,586	9,609,461
2021.4.1-2022.3.31	9,186,153	9,017,615	715,300	80,080	18,999,148
2022.4.1-2023.3.31	9,186,153	8,869,369	7,952,817	73,108	26,081,447
2023.4.1-2024.3.31	9,186,153	8,623,926	116,525	73,488	18,000,092
2024.4.1-2034.3.31	91,861,535	73,055,455	59,354,386	210,190	224,481,566
2034.4.1-2049	<u>156,785,123</u>	<u>45,904,031</u>	<u>-</u>	<u>-</u>	<u>202,689,154</u>
	<u>\$ 276,205,117</u>	<u>\$ 161,666,175</u>	<u>\$ 69,570,816</u>	<u>\$ 728,370</u>	<u>\$ 508,170,478</u>

28. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interest in the Corporation's outstanding common stock. 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 30, the names of related parties, relationships, and the nature and amounts of the significant transactions were summarized as follows:

a. Name of related party and relationship

<u>Related Party</u>	<u>Relationship with the Corporation</u>
MOTC	An investor with significant influence over the Corporation
Bank of Taiwan and seven other syndicated banks	A government-related entity controlled by the central government
China Steel Corporation	A legal entity as director of the Corporation
Century Development Corporation	An entity controlled by the legal entity as directors of the Corporation
InfoChamp Systems Corporation	An entity controlled by the legal entity as directors of the Corporation
Others	Individual and legal entity as 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 assets and operating concession liabilities, and related amortization expense and interest expense, respectively, are recognized during the concession period. Please refer to Note 17 and Note 30, 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 March 31	
	2020	2019
Railway Bureau, MOTC	\$ 196,477	\$ 196,509
Taiwan Railways Administration, MOTC	<u>12,081</u>	<u>12,076</u>
	<u>\$ 208,558</u>	<u>\$ 208,585</u>

b) Prepaid rentals (included in other current assets)

	March 31, 2020	December 31, 2019	March 31, 2019
Railway Bureau, MOTC	\$ 589,429	\$ 785,906	\$ 589,527
Taiwan Railways Administration, MOTC	<u>36,244</u>	<u>48,325</u>	<u>36,227</u>
	<u>\$ 625,673</u>	<u>\$ 834,231</u>	<u>\$ 625,754</u>

d. Non-operating income and expenses - interest expense

Please refer to Note 17 for the interest expense recognized on the operating concession liabilities, 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 March 31, 2020, payments for the contract amounted to \$117,333 thousand and were recognized as construction in progress of the operating concession assets under intangible assets.

In December 2017, the Corporation entered into the “Ticket Vending Machine Renovation and Maintenance Project” with InfoChamp Systems Corporation, and the contract value, including business tax, was \$271,721 thousand. As of March 31, 2020, payments for the contract amounted to \$32,073 thousand and unpaid payments (included in payable for construction) were \$160,932 thousand. In addition, the Corporation received a fine of \$6,521 thousand from the aforementioned vendor due to its performance delay, and recorded such receipt as other gains and losses. The Corporation has obtained the operating concession assets under intangible assets for \$193,005 thousand in December 2019.

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 2020 are as follows:

Line Item	Related Party	March 31, 2020	December 31, 2019	March 31, 2019
Lease liabilities (Note 12)	Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC	\$ 89,832	\$ 93,000	\$ 101,652
	Century Development Corporation	<u>38,754</u>	<u>53,243</u>	<u>96,567</u>
		<u>\$ 128,586</u>	<u>\$ 146,243</u>	<u>\$ 198,219</u>

h. Compensation of key management personnel was as follows:

	For the Three Months Ended March 31	
	2020	2019
Short-term employee benefits	\$ 23,209	\$ 28,576
Post-employment benefits	<u>219</u>	<u>192</u>
	<u>\$ 23,428</u>	<u>\$ 28,768</u>

29. PLEDGED ASSETS

Pledged Assets	Pledged to Secure	March 31, 2020	December 31, 2019	March 31, 2019
Other financial assets - current:				
Repurchase agreement collateralized by government bonds	Syndicated loan	\$ 1,579,300	\$ 1,577,000	\$ 1,574,600
Time deposits	Trust deposit of unearned revenue	68,000	-	-

(Continued)

Pledged Assets	Pledged to Secure	March 31, 2020	December 31, 2019	March 31, 2019
Time deposits	Guarantee for office lease	\$ 16,278	\$ 16,278	\$ 954
Time deposits	Guarantee for project subsidy	10,520	10,520	-
Time deposits	Guarantee for customs duties	-	22,442	22,442
Demand deposits	Trust deposit of unearned revenue	17,247	21,676	19,355
Demand deposits	Syndicated loan	909	1,224	949
Demand deposits	Project subsidy	<u>26</u>	<u>2,001</u>	<u>-</u>
		<u>1,692,280</u>	<u>1,651,141</u>	<u>1,618,300</u>
Other financial assets - non-current:				
Time deposits	Performance guarantee for the C&O Agreement	2,000,000	2,000,000	2,000,000
Time deposits	Guarantee for customs duties	42,000	20,000	20,000
Time deposits	Guarantee for parking lease	7,203	7,134	7,134
Time deposits	Guarantee for oil purchase	3,120	3,120	3,120
Time deposits	Trust deposit of unearned revenue	-	68,000	68,000
Time deposits	Guarantee for office lease	-	-	15,324
Time deposits	Guarantee for project subsidy	<u>-</u>	<u>-</u>	<u>10,520</u>
		<u>2,052,323</u>	<u>2,098,254</u>	<u>2,124,098</u>
		<u>\$ 3,744,603</u>	<u>\$ 3,749,395</u>	<u>\$ 3,742,398</u> (Concluded)

30. 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 for \$22,613,234 thousand. The value of the returned superficies is allowed by the MOTC to offset the profit sharing payments for \$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. Refer to Note 17 for the recognition of profit sharing payments as operating concession liabilities.

- 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 ÷ (1 - the statutory tax rate)

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

A3 = Net income of \$4.5 billion ÷ (1 - the statutory tax rate)
- b) If the Corporation's EBT in the current year is less than A1, the reversal of the accumulated stabilization reserve should be (A1 - EBT), but only to the extent of the accumulated stabilization reserve equals zero.

- c) The Corporation should open a “Taiwan High Speed Rail Stabilization Mechanism Account” (the “Stabilization Mechanism Account”) at Bank of Taiwan.
 - i. If the accumulated stabilization reserve, net of the balance in the Stabilization Mechanism Account, exceeds \$10 billion at the end of any year, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account within one month from the date the MOTC confirms the execution report submitted by the Corporation. The stabilization reserve should also be provided in the same amount for the interest income generated from the Stabilization Mechanism Account.
 - ii. The MOTC may request the Corporation to use the funds of the Stabilization Mechanism Account under the following circumstances:
 - i) Fare discount or fare reduction,
 - ii) Construction of HSR infrastructure and facilities, and
 - iii) In compliance with the government’s policies.
 - iii. The accumulated stabilization reserve shall be deducted by the same amount of funds used from the Stabilization Mechanism Account.
 - iv. Except for payment of tax levied on the Stabilization Mechanism Account, the Corporation cannot use the funds of the Stabilization Mechanism Account, unless the Corporation obtains the approval from the MOTC.
- d) Treatments of the stabilization reserve and the Stabilization Mechanism Account upon expiration or early termination of the concession period
 - i. If the accumulated stabilization reserve exceeds the balance of the Stabilization Mechanism Account at the end of the concession period, the Corporation shall contribute the excess amount (net of tax, if any) to the Stabilization Mechanism Account, and the remaining balance of the Stabilization Mechanism Account (net of tax, if any) shall be transferred to a specific account designated by the MOTC.
 - ii. If the C&O Agreement is terminated due to mutual agreement, force majeure or excluded events, the remaining balance of the Stabilization Mechanism Account (net of tax, if any) as of the termination date shall be transferred to a specific account designated by the MOTC, and the excess of the accumulated stabilization reserve over the balance of the Stabilization Mechanism Account shall be allocated to the Corporation.
 - iii. According to the C&O Agreement, if the termination is due to the reasons attributable to the Corporation, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the MOTC.
 - iv. According to the C&O Agreement, if the termination is due to government’s policies, all of the accumulated stabilization reserve, including the balance of the Stabilization Mechanism Account, shall be allocated to the Corporation.
- e) Starting from 2017, the following year after the mechanism became effective, the Corporation shall submit to the MOTC an execution report audited by independent auditors, including provision, contribution, accumulated balance of the stabilization reserve, and the utilization and balance of the Stabilization Mechanism Account within one month from the date the stockholders 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 could not exceed \$3 billion.

As of March 31, 2020, December 31, 2019 and March 31, 2019, the amount of the aforementioned performance bond remained unchanged at \$2 billion, and was recognized as other financial assets.

- b. As of March 31, 2020, unused letters of credit amounted to JPY3,643,983 thousand and EUR1,683 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 should 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. The Taiwan High Court (the Taichung Branch Court) has dismissed the appeal on December 4, 2019, and the Corporation has appealed the case before the statutory deadline. On December 17, 2018, the residents filed a claim under the same reason, and requested for a payment of \$5,700 thousand. The Miaoli District Court has dismissed the appeal of accuser on December 12, 2019 and the accuser has appealed the case before the statutory deadline. As of March 31, 2020, the lawsuit is still under the review of the court.
- d. 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 March 31, 2020, payments for the contract amounted to JPY134,708 thousand and NT\$16,654 thousand were recognized as construction in progress of the operating concession assets 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 March 31, 2020, payments for the contract made were JPY1.16 billion.

31. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On May 6, 2020, the board of directors approved to issue unsecured corporate bonds with a total amount of no more than \$15 billion. The Corporation may issue once or in a batch within one year from the resolution date of the board of directors, and the issuance period shall not exceed 30 years.

32. 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 27, c.

33. SEPARATELY DISCLOSED ITEMS

Except for Notes 8 and 27 regarding the information on derivative financial instrument transactions and Tables 1, 2 and 3 as attached, there were no other significant transactions, information on investees and investments in mainland China required for disclosure.

34. SEGMENT INFORMATION

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

TABLE 1

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD

MARCH 31, 2020

(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	March 31, 2020				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	3,907	\$ 60,101	-	\$ 60,101	
	Franklin Templeton Sinoam Money Market Fund	-	"	29,203	303,515	-	303,515	
	Yuanta De-Li Money Market Fund	-	"	6,538	107,173	-	107,173	
	Prudential Financial Money Market Fund	-	"	12,708	202,107	-	202,107	
	Central Government Bonds 2015-12	-	Cash and cash equivalents	\$ 77,000	77,000	-	77,000	
	Central Government Bonds 2003-3	-	"	389,000	410,000	-	410,000	
	Central Government Bonds 2001-4	-	"	270,000	300,000	-	300,000	
	Central Government Bonds 2018-7	-	Other financial assets - current	66,000	72,000	-	72,000	
	Central Government Bonds 2017-9	-	"	693,000	735,000	-	735,000	
	Central Government Bonds 2017-4	-	"	335,000	353,000	-	353,000	
	Central Government Bonds 2016-11	-	"	5,090,200	5,451,300	-	5,451,300	
	Central Government Bonds 2015-12	-	"	4,397,700	4,666,778	-	4,666,778	
	Central Government Bonds 2014-13	-	"	7,700	8,556	-	8,556	
	Central Government Bonds 2013-10	-	"	1,050,000	1,166,556	-	1,166,556	
	Central Government Bonds 2013-8	-	"	315,000	350,000	-	350,000	
	Central Government Bonds 2013-1	-	"	88,200	98,000	-	98,000	
	Central Government Bonds 2012-9	-	"	2,200,000	2,396,333	-	2,396,333	
	Central Government Bonds 2012-8	-	"	216,000	240,000	-	240,000	
	Central Government Bonds 2012-B 2nd	-	"	578,300	642,444	-	642,444	
	Central Government Bonds 2011-7	-	"	1,750,000	1,944,333	-	1,944,333	
	Central Government Bonds 2010-8	-	"	1,269,700	1,410,778	-	1,410,778	
	Central Government Bonds 2008-5	-	"	420,800	467,556	-	467,556	
	Central Government Bonds 2007-7	-	"	227,700	253,000	-	253,000	
	Central Government Bonds 2005-8	-	"	1,329,000	1,476,444	-	1,476,444	
	Central Government Bonds 2005-5	-	"	171,000	190,000	-	190,000	
	Central Government Bonds 2004-9	-	"	99,000	110,000	-	110,000	
	Central Government Bonds 2004-6	-	"	72,000	80,000	-	80,000	
	Central Government Bonds 2003-3	-	"	394,000	414,000	-	414,000	
	Central Government Bonds 2002-7	-	"	855,900	951,000	-	951,000	
	Central Government Bonds 2001-8	-	"	1,600,000	1,777,778	-	1,777,778	
	Central Government Bonds 2001-4	-	"	108,000	120,000	-	120,000	
	Central Government Bonds 2001-B 1st	-	"	2,287,500	2,346,444	-	2,346,444	
	Central Government Bonds 2000-13	-	"	286,200	318,000	-	318,000	
	Central Government Bonds 2000-B 1st	-	"	577,000	577,000	-	577,000	

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2020

(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 2017-9	Note	-	-	\$ 1,230,000	\$ 1,308,000	\$ 693,000	\$ 735,000	\$ 1,230,000	\$ 1,309,764	\$ 1,308,000	\$ 1,764	\$ 693,000	\$ 735,000
	Central Government Bonds 2017-4	"	-	-	-	-	335,000	353,000	-	-	-	-	335,000	353,000
	Central Government Bonds 2016-11	"	-	-	5,297,000	5,649,000	5,090,200	5,451,300	5,297,000	5,656,003	5,649,000	7,003	5,090,200	5,451,300
	Central Government Bonds 2015-12	"	-	-	2,688,700	2,987,333	4,598,700	4,867,778	2,812,700	3,114,770	3,111,333	3,437	4,474,700	4,743,778
	Central Government Bonds 2013-10	"	-	-	-	-	1,050,000	1,166,556	-	-	-	-	1,050,000	1,166,556
	Central Government Bonds 2013-8	"	-	-	-	-	315,000	350,000	-	-	-	-	315,000	350,000
	Central Government Bonds 2013-6	"	-	-	-	-	400,100	444,444	400,100	444,509	444,444	65	-	-
	Central Government Bonds 2012-9	"	-	-	1,224,000	1,303,000	2,200,000	2,396,333	1,224,000	1,304,654	1,303,000	1,654	2,200,000	2,396,333
	Central Government Bonds 2012-5	"	-	-	-	-	500,000	555,556	500,000	555,636	555,556	80	-	-
	Central Government Bonds 2012-B 2nd	"	-	-	-	-	578,300	642,444	-	-	-	-	578,300	642,444
	Central Government Bonds 2011-7	"	-	-	705,600	784,000	1,750,000	1,944,333	705,600	785,031	784,000	1,031	1,750,000	1,944,333
	Central Government Bonds 2011-5	"	-	-	819,900	911,000	-	-	819,900	912,223	911,000	1,223	-	-
	Central Government Bonds 2010-8	"	-	-	252,900	281,000	1,269,700	1,410,778	252,900	281,373	281,000	373	1,269,700	1,410,778
	Central Government Bonds 2010-7	"	-	-	877,500	975,000	-	-	877,500	976,160	975,000	1,160	-	-
	Central Government Bonds 2008-5	"	-	-	-	-	420,800	467,556	-	-	-	-	420,800	467,556
	Central Government Bonds 2005-8	"	-	-	954,900	1,061,000	1,329,000	1,476,444	954,900	1,062,220	1,061,000	1,220	1,329,000	1,476,444
	Central Government Bonds 2004-6	"	-	-	2,145,500	2,383,889	72,000	80,000	2,145,500	2,386,651	2,383,889	2,762	72,000	80,000
	Central Government Bonds 2003-3	"	-	-	133,000	140,000	783,000	824,000	133,000	140,180	140,000	180	783,000	824,000
	Central Government Bonds 2002-7	"	-	-	1,609,200	1,788,000	855,900	951,000	1,609,200	1,790,440	1,788,000	2,440	855,900	951,000
	Central Government Bonds 2001-8	"	-	-	4,455,000	4,637,778	1,600,000	1,777,778	4,455,000	4,643,183	4,637,778	5,405	1,600,000	1,777,778
	Central Government Bonds 2001-4	"	-	-	699,800	758,000	378,000	420,000	699,800	758,858	758,000	858	378,000	420,000
	Central Government Bonds 2001-2	"	-	-	1,127,000	1,137,000	-	-	1,127,000	1,138,488	1,137,000	1,488	-	-
	Central Government Bonds 2001-B 1st	"	-	-	3,158,200	3,199,000	4,457,500	4,516,444	5,328,200	5,374,710	5,369,000	5,710	2,287,500	2,346,444
	Central Government Bonds 2000-13	"	-	-	1,285,500	1,325,000	286,200	318,000	1,285,500	1,326,313	1,325,000	1,313	286,200	318,000
	Central Government Bonds 2000-B 1st	"	-	-	4,326,400	4,622,000	301,000	301,000	4,050,400	4,351,170	4,346,000	5,170	577,000	577,000

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

TABLE 3**TAIWAN HIGH SPEED RAIL CORPORATION****INFORMATION OF MAJOR STOCKHOLDERS****MARCH 31, 2020****(In Thousands of Shares)**

Name of Major Stockholder	Shares	
	Number of Shares	Percentage of Ownership (%)
MOTC	2,420,000	43

Note: The table discloses stockholding information of stockholders whose ownership percentages are more than 5%. The Taiwan Depository & Clearing Corporation calculates the total number of common stocks and special stocks (including treasury stocks) that have completed the dematerialized registration and delivery on the last business day of the quarter. The stocks reported in the financial statements and the actual number of stocks that have completed the dematerialized registration and delivery may be different due to the basis of calculation.