Taiwan High Speed Rail Corporation

Financial Statements for the
Nine Months Ended September 30, 2020 and 2019 and
Independent Auditors’ Review Report

Deloitte.

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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 September 30, 2020 and 2019 and the related statements of comprehensive income for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, as well as the statements of changes in equity and cash flows for the nine months then ended, and the related notes to the financial statements, including a summary of significant accounting policies (collectively referred to as "the financial statements"). Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of Taiwan, the Republic of China ("ROC"). Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not present fairly, in all material respects, the financial position of Taiwan High Speed Rail Corporation as at September 30, 2020 and 2019, its financial performance for the three months ended September 30, 2020 and 2019, and its financial performance and its cash flows for the nine months ended September 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the ROC.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 4, 2020

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

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

For the convenience of readers, the 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)

	September 30, 2020 (Reviewed)		December 31, 2019 (Audited)		September 30, 2019 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 1,283,279	-	$ 16,271,676	4	$ 769,619	-
Financial assets at fair value through profit or loss (Note 7)	13,178,348	3	330,443	-	330,005	-
Notes and accounts receivable (Note 22)	279,079	-	333,092	-	569,047	-
Current tax assets (Note 4)	-	-	166,783	-	166,783	-
Inventories (Note 9)	2,217,239	1	2,056,045	1	2,305,846	1
Other financial assets (Notes 10 and 29)	14,314,130	4	22,207,764	5	21,938,840	5
Other current assets (Notes 14 and 28)	801,869	-	1,344,333	-	709,662	-
Total current assets	32,073,944	8	42,710,136	10	26,789,802	6
NON-CURRENT ASSETS						
Property, plant and equipment (Note 11)	102,424	-	125,047	-	84,771	-
Right-of-use assets (Note 12)	506,723	-	628,988	-	665,436	-
Operating concession assets (Notes 13 and 28)	380,808,033	90	390,113,063	88	392,808,580	91
Computer software, net (Note 13)	82,066	-	54,413	-	44,781	-
Deferred tax assets (Note 4)	7,512,003	2	7,316,212	2	7,218,013	2
Other financial assets (Notes 10 and 29)	2,056,334	-	2,102,503	-	2,128,646	1
Other non-current assets (Note 14)	6,243	-	9,240	-	11,205	-
Total non-current assets	391,073,826	92	400,349,466	90	402,961,432	94
TOTAL	$ 423,147,770	100	$ 443,059,602	100	$ 429,751,234	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 15)	$ 55,115	-	$ 64,980	-	$ 56,291	-
Financial liabilities for hedging (Note 8)	-	-	-	-	17	-
Accounts payable	240,963	-	256,338	-	242,775	-
Operating concession liabilities (Notes 17 and 28)	298,211	-	777,511	-	599,443	-
Other payables (Notes 15 and 19)	2,741,258	1	3,197,362	1	2,545,926	1
Payable for construction (Note 28)	261,296	-	942,141	-	577,615	-
Current tax liabilities (Note 4)	80,403	-	194,722	-	184,724	-
Provisions (Notes 18 and 28)	534,003	-	6,367,937	2	4,611,973	1
Other current liabilities (Notes 12, 19, 22 and 28)	1,132,642	-	1,477,915	-	981,033	-
Total current liabilities	5,343,891	1	13,278,906	3	9,799,797	2
NON-CURRENT LIABILITIES						
Bonds payable (Note 16)	18,478,538	5	7,990,329	2	-	-
Long-term debt (Notes 15 and 28)	257,605,911	61	276,100,317	62	276,098,641	64
Provisions (Notes 18 and 28)	10,000,000	2	10,000,000	2	10,000,000	3
Lease liabilities (Notes 12 and 28)	386,446	-	447,175	-	474,933	-
Long-term interest payable (Note 15)	7,486,701	2	8,450,080	2	8,569,290	2
Operating concession liabilities (Notes 17 and 28)	55,824,717	13	55,263,201	13	55,157,487	13
Other non-current liabilities (Notes 19 and 20)	479,322	-	452,325	-	389,622	-
Total non-current liabilities	350,261,635	83	358,703,427	81	350,689,973	82
Total liabilities	355,605,526	84	371,982,333	84	360,489,770	84
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	3,270,422	1	2,469,719	-	2,469,719	1
Unappropriated earnings	7,815,911	2	12,151,639	3	10,335,834	2
Total retained earnings	11,086,333	3	14,621,358	3	12,805,553	3
Total equity	67,542,244	16	71,077,269	16	69,261,464	16
TOTAL	$ 423,147,770	100	$ 443,059,602	100	$ 429,751,234	100

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

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Notes 22 and 28)	$ 10,423,442	100	$ 11,678,882	100	$ 27,629,023	100	$ 35,307,599	100
OPERATING COSTS (Notes 23 and 28)	(6,723,527)	(65)	(6,450,205)	(55)	(19,370,784)	(70)	(19,032,845)	(54)
GROSS PROFIT	3,699,915	35	5,228,677	45	8,258,239	30	16,274,754	46
OPERATING EXPENSES (Note 23)	(304,613)	(3)	(284,951)	(3)	(859,183)	(3)	(870,141)	(2)
INCOME FROM OPERATIONS	3,395,302	32	4,943,726	42	7,399,056	27	15,404,613	44
NON-OPERATING INCOME AND EXPENSES								
Interest income (Note 23)	20,207	-	41,113	-	118,248	-	112,654	-
Interest expense (Notes 15, 23 and 28)	(1,439,365)	(14)	(1,620,058)	(14)	(4,481,067)	(16)	(4,819,501)	(14)
Stabilization reserve expense (Note 18)	(521,558)	(5)	(1,565,015)	(13)	(250,724)	(1)	(4,767,797)	(13)
Other gains and losses (Notes 23 and 28)	154,084	2	19,594	-	196,601	1	64,456	-
Total non-operating income and expenses	(1,786,632)	(17)	(3,124,366)	(27)	(4,416,942)	(16)	(9,410,188)	(27)
INCOME BEFORE INCOME TAX	1,608,670	15	1,819,360	15	2,982,114	11	5,994,425	17
INCOME TAX BENEFIT (Note 24)	100,052	1	96,984	1	293,658	1	157,714	-
NET INCOME	1,708,722	16	1,916,344	16	3,275,772	12	6,152,139	17
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 1,708,722	16	$ 1,916,344	16	$ 3,275,772	12	$ 6,152,139	17
EARNINGS PER SHARE (Note 25)								
Basic earnings per share	$ 0.30		$ 0.34		$ 0.58		$ 1.09	

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

TAIWAN HIGH SPEED RAIL CORPORATION

STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Per Share Information)
(Reviewed, Not Audited)

	Capital Stock		Retained Earnings			
	Common Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Total	Total Equity
BALANCE AT JANUARY 1, 2020	$ 56,282,930	$ 172,981	$ 2,469,719	$ 12,151,639	$ 14,621,358	$ 71,077,269
Appropriations of 2019 earnings						
Legal reserve	-	-	800,703	(800,703)	-	-
Cash dividends to stockholders - NT$1.2101 per share	-	-	-	(6,810,797)	(6,810,797)	(6,810,797)
	-	-	800,703	(7,611,500)	(6,810,797)	(6,810,797)
Net income for the nine months ended September 30, 2020	-	-	-	3,275,772	3,275,772	3,275,772
Total comprehensive income for the nine months ended September 30, 2020	-	-	-	3,275,772	3,275,772	3,275,772
BALANCE AT SEPTEMBER 30, 2020	$ 56,282,930	$ 172,981	$ 3,270,422	$ 7,815,911	$ 11,086,333	$ 67,542,244
BALANCE AT JANUARY 1, 2019	$ 56,282,930	$ 172,981	$ 1,400,081	$ 11,557,021	$ 12,957,102	$ 69,413,013
Appropriations of 2018 earnings						
Legal reserve	-	-	1,069,638	(1,069,638)	-	-
Cash dividends to stockholders - NT$1.12 per share	-	-	-	(6,303,688)	(6,303,688)	(6,303,688)
	-	-	1,069,638	(7,373,326)	(6,303,688)	(6,303,688)
Net income for the nine months ended September 30, 2019	-	-	-	6,152,139	6,152,139	6,152,139
Total comprehensive income for the nine months ended September 30, 2019	-	-	-	6,152,139	6,152,139	6,152,139
BALANCE AT SEPTEMBER 30, 2019	$ 56,282,930	$ 172,981	$ 2,469,719	$ 10,335,834	$ 12,805,553	$ 69,261,464

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

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Nine Months Ended September 30	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,982,114	$ 5,994,425
Adjustments for:		
Depreciation	158,315	150,326
Amortization	10,466,531	10,331,796
Reversal of write-downs of inventories	(31,094)	(13,042)
Interest expense	4,481,067	4,819,501
Interest income	(118,248)	(112,654)
Gain on foreign currency exchange, net	(2,320)	(5,605)
Stabilization reserve expense	250,724	4,767,797
Others	9,559	(1,732)
Changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	(12,847,905)	(2,559)
Financial liabilities for hedging	-	17
Notes and accounts receivable	54,013	(63,482)
Inventories	(130,100)	(263,879)
Other current assets	517,003	222,370
Other non-current assets	(377)	1,714
Accounts payable	(14,840)	(30,275)
Other payables	(483,115)	(469,130)
Provisions	(6,084,658)	-
Other current liabilities	(288,203)	121,332
Other non-current liabilities	2,971	(5,381)
Cash (used in) generated from operations	(1,078,563)	25,441,539
Interest received	143,775	108,719
Interest paid	(4,563,626)	(4,326,548)
Interest paid with respect to operating concession liabilities	(777,511)	(731,182)
Income tax refunded (paid)	150,331	(190,626)
Net cash (used in) generated from operating activities	(6,125,594)	20,301,902
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other financial assets	7,942,069	(10,101,187)
Acquisition of property, plant and equipment	(13,155)	(15,775)
Proceeds from disposal of property, plant and equipment	-	1
Acquisition of intangible assets	(1,885,907)	(1,917,867)
Proceeds from disposal of intangible assets	8,018	314
Net cash generated from (used in) investing activities	6,051,025	(12,034,514)

(Continued)

TAIWAN HIGH SPEED RAIL CORPORATION

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

	For the Nine Months Ended September 30	
	2020	**2019**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in short-term borrowings	$ (10,248)	$ (88,351)
Proceeds from issuance of bonds	10,500,000	-
Repayment of long-term debt	(18,500,000)	-
Repayment of long-term bills payable	-	(8,000,000)
Repayment of the principal portion of lease liabilities	(116,824)	(109,903)
Increase in other non-current liabilities	24,054	56,100
Cash dividends	(6,810,797)	(6,303,688)
Net cash used in financing activities	(14,913,815)	(14,445,842)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(13)	223
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,988,397)	(6,178,231)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	16,271,676	6,947,850
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 1,283,279	$ 769,619

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

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

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 November 4, 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"
June 1, 2020	Amendment to IFRS 16 "Covid-19 - Related Rent Concessions"

Except for the following, the initial application of the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Corporation's accounting policies:

Amendment to IFRS 16 "Covid-19 - Related Rent Concessions"

The Corporation elected to apply the practical expedient provided in the amendment to IFRS 16 with respect to rent concessions negotiated with the lessors as a direct consequence of the Covid-19. In Note 4, it states the related accounting policies. Before the application of the amendment, the Corporation was required to determine whether the abovementioned rent concessions are lease modifications and, if yes, accounting for lease modifications will apply.

The Corporation applied the amendment since January 1, 2020. Retrospective application of the amendment has no impact on the retained earnings as of January 1, 2020.

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

Effective Date Announced by IASB (Note 1)	**New IFRSs**
Effective immediately upon promulgation by the IASB	Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"
January 1, 2021	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform - Phase 2"
January 1, 2022 (Note 2)	"Annual Improvements to IFRS Standards 2018-2020"
January 1, 2022 (Note 3)	Amendments to IFRS 3 "Reference to the Conceptual Framework"
January 1, 2022 (Note 4)	Amendments to IAS 16 "Property, Plant and Equipment - Proceeds before Intended Use"
January 1, 2022 (Note 5)	Amendments to IAS 37 "Onerous Contracts-Cost of Fulfilling a Contract"
January 1, 2023	Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"
January 1, 2023	IFRS 17 "Insurance Contracts"
January 1, 2023	Amendments to IFRS 17
To be determined by IASB	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"

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

Note 2: The amendments to IFRS 9 are applied prospectively to modifications and exchanges of financial liabilities that occur on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IAS 41 "Agriculture" are applied prospectively to the fair value measurements on or after the annual reporting periods beginning on or after January 1, 2022. The amendments to IFRS 1 "First-time Adoptions of IFRSs" are applied retrospectively for annual reporting periods beginning on or after January 1, 2022.

Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2022.

Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.

Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.

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 re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss contains any dividend or interest earned on the financial asset.

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

g. Impairment of accounts receivable

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

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

h. Inventories

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

i. Property, plant and equipment

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

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives. Depreciation 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 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 re-measurement of the lease liabilities.

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

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

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

The Corporation negotiates with the lessor for rent concessions as a direct consequence of the Covid-19 to change the lease payments originally due by June 30, 2021, that results in the revised consideration for the lease less than the consideration for the lease immediately preceding the change. There is no substantive change to other terms and conditions. The Corporation elects to apply the practical expedient to all of these rent concessions, and therefore, does not assess whether the rent concessions are lease modifications. Instead, the Corporation recognizes the reduction in lease payment in profit or loss in the period in which the events or conditions that trigger the concession occurs, and makes a corresponding adjustment to the lease liabilities.

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 September 30, 2020, December 31, 2019 and September 30, 2019, provisions 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 September 30, 2020, December 31, 2019 and September 30, 2019, the Corporation recognized a provision for stabilization reserve for $10,250,724 thousand, $16,084,658 thousand and $14,328,694 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 September 30, 2020, December 31, 2019 and September 30, 2019, the carrying amounts of deferred tax assets in relation to deductible temporary differences were $7,512,003 thousand, $7,316,212 thousand and $7,218,013 thousand, respectively. As of September 30, 2020, December 31, 2019 and September 30, 2019, deductible temporary tax differences of $48,524 thousand, $1,181,032 thousand and $840,191 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

	September 30, 2020	December 31, 2019	September 30, 2019
Cash on hand	$ 114,680	$ 88,890	$ 150,456
Checking accounts	-	10	4
Demand deposits	144,599	481,618	145,014
Time deposits	360,000	8,158	8,145
Repurchase agreement collateralized by government bonds	664,000	15,693,000	466,000
	$ 1,283,279	$ 16,271,676	$ 769,619

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

	September 30, 2020	December 31, 2019	September 30, 2019
Demand deposits	0.001%-0.05%	0.001%-0.33%	0.001%-0.38%
Time deposits	0.25%-0.30%	0.62%	0.62%
Repurchase agreement collateralized by government bonds	0.26%-0.27%	0.50%-0.56%	0.57%-0.58%

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2020	December 31, 2019	September 30, 2019
Open-end money market funds	$ 13,178,348	$ 330,443	$ 330,005

The financial assets at FVTPL are mandatorily classified as FVTPL.

8. FINANCIAL LIABILITIES FOR HEDGING

	September 30, 2020	December 31, 2019	September 30, 2019
Financial liabilities for hedging - current			
Fair value hedges - forward exchange contracts	$ -	$ -	$ 17

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

	Currency	Maturity Date	Contract Amount (In Thousands)
September 30, 2019			
Buy	US$/JPY	October 2019	JPY 139,180
Buy	NT$/US$	October 2019	US$ 1,294

9. INVENTORIES

	September 30, 2020	December 31, 2019	September 30, 2019
Spare parts and supplies	$ 2,201,960	$ 2,044,649	$ 2,298,760
Merchandise	15,279	11,396	7,086
	$ 2,217,239	$ 2,056,045	$ 2,305,846

As of September 30, 2020, December 31, 2019 and September 30, 2019, allowance for inventory valuation losses amounted to $611,754 thousand, $642,848 thousand and $607,156 thousand, respectively.

10. OTHER FINANCIAL ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
Time deposits	$ 8,894,815	$ 3,848,118	$ 3,839,348
Repurchase agreement collateralized by government bonds	7,451,000	20,433,000	20,201,600
Demand deposits	19,318	24,901	21,990
Other performance guarantee	5,331	4,248	4,548
	$ 16,370,464	$ 24,310,267	$ 24,067,486
Current	$ 14,314,130	$ 22,207,764	$ 21,938,840
Non-current	2,056,334	2,102,503	2,128,646
	$ 16,370,464	$ 24,310,267	$ 24,067,486

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

	September 30, 2020	December 31, 2019	September 30, 2019
Repurchase agreement collateralized by government bonds	0.25%-0.30%	0.53%-0.58%	0.57%-0.62%
Time deposits	0.07%-1.55%	0.15%-2.65%	0.15%-2.91%
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

	September 30, 2020	December 31, 2019	September 30, 2019
Land	$ 28	$ 28	$ 28
Machinery and equipment	53,752	69,091	38,147
Transportation equipment	-	-	-
Office equipment	11,978	11,846	10,997
Leasehold improvements	386	710	736
Other equipment	36,280	43,372	34,863
	$ 102,424	$ 125,047	$ 84,771

	Land	Machinery and Equipment	Transportation Equipment	Office Equipment	Leasehold Improvements	Other Equipment	Total
Cost							
Balance at January 1, 2020	$ 28	$ 317,209	$ 87	$ 119,610	$ 80,528	$ 266,001	$ 783,463
Additions	-	5,529	-	3,400	-	4,226	13,155
Disposals	-	(10,009)	-	(2,205)	-	(110)	(12,324)
Transfer	-	177	-	106	-	25	308
Balance at September 30, 2020	28	312,906	87	120,911	80,528	270,142	784,602
Accumulated depreciation							
Balance at January 1, 2020	-	248,118	87	107,764	79,818	222,629	658,416
Depreciation	-	21,045	-	3,374	324	11,343	36,086
Disposals	-	(10,009)	-	(2,205)	-	(110)	(12,324)
Balance at September 30, 2020	-	259,154	87	108,933	80,142	233,862	682,178
	$ 28	$ 53,752	$ -	$ 11,978	$ 386	$ 36,280	$ 102,424
Cost							
Balance at January 1, 2019	$ 28	$ 275,437	$ 155	$ 121,048	$ 80,448	$ 252,813	$ 729,929
Additions	-	10,081	-	2,523	-	3,171	15,775
Disposals	-	(5,801)	(68)	(4,220)	-	(1,008)	(11,097)
Balance at September 30, 2019	28	279,717	87	119,351	80,448	254,976	734,607
Accumulated depreciation							
Balance at January 1, 2019	-	231,151	155	109,613	79,395	211,530	631,844
Depreciation	-	16,195	-	2,961	317	9,591	29,064
Disposals	-	(5,776)	(68)	(4,220)	-	(1,008)	(11,072)
Balance at September 30, 2019	-	241,570	87	108,354	79,712	220,113	649,836
	$ 28	$ 38,147	$ -	$ 10,997	$ 736	$ 34,863	$ 84,771

12. LEASE ARRANGEMENTS

a. Right-of-use assets

	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
Cost					
Balance at January 1, 2020	$ 254,865	$ 497,473	$ 37,254	$ 1,485	$ 791,077
Deduction	(84)	(500)	-	(1,485)	(2,069)
Balance at September 30, 2020	254,781	496,973	37,254	-	789,008
Accumulated depreciation					
Balance at January 1, 2020	81,897	61,881	17,321	990	162,089
Depreciation	61,907	46,211	13,638	473	122,229
Deduction	(70)	(500)	-	(1,463)	(2,033)
Balance at September 30, 2020	143,734	107,592	30,959	-	282,285
	$ 111,047	$ 389,381	$ 6,295	$ -	$ 506,723
Cost					
Balance at January 1, 2019	$ 251,857	$ 497,473	$ 30,659	$ 1,433	$ 781,422
Additions	3,008	-	2,215	53	5,276
Balance at September 30, 2019	254,865	497,473	32,874	1,486	786,698
Accumulated depreciation					
Balance at January 1, 2019	-	-	-	-	-
Depreciation	61,260	46,411	12,848	743	121,262
Balance at September 30, 2019	61,260	46,411	12,848	743	121,262
	$ 193,605	$ 451,062	$ 20,026	$ 743	$ 665,436

b. Lease liabilities

	Lease Term	Discount Rate	September 30, 2020	December 31, 2019	September 30, 2019
Buildings	2-10 years	0.66%-0.87%	$ 107,396	$ 169,049	$ 189,322
Machinery and equipment	2-9 years	0.59%-0.87%	368,887	410,876	424,846
Transportation equipment	3-5 years	0.59%-0.73%	6,323	19,983	20,072
Other equipment	1.5-3 years	0.59%	-	497	745
			482,606	600,405	634,985
Less: Recognized as current lease liabilities			(96,160)	(153,230)	(160,052)
Lease liabilities - non-current			$ 386,446	$ 447,175	$ 474,933

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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Expenses relating to short-term leases	$ 785	$ 917	$ 2,698	$ 3,252
Expenses relating to low-value asset leases	$ 157	$ 28	$ 397	$ 89
Total cash outflow for leases	$ (41,123)	$ (40,788)	$ (123,619)	$ (117,770)

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

	September 30, 2020	December 31, 2019	September 30, 2019
Operating concession assets	$ 380,808,033	$ 390,113,063	$ 392,808,580
Computer software, net	82,066	54,413	44,781
	$ 380,890,099	$ 390,167,476	$ 392,853,361

a. Movements of the intangible assets

	Operating Concession Assets						
	Operating Assets	Profit Sharing Payments	Period Extension Cost	Construction in Progress	Total	Computer Software, Net	Total
Cost							
Balance at January 1, 2020	$ 476,122,275	$ 69,972,043	$ 12,701,819	$ 739,116	$ 559,535,253	$ 446,577	$ 559,981,830
Additions	181,017	-	-	996,145	1,177,162	28,077	1,205,239
Disposals	(2,957,947)	-	-	-	(2,957,947)	-	(2,957,947)
Transfer	548,969	-	-	(568,807)	(19,838)	19,319	(519)
Balance at September 30, 2020	473,894,314	69,972,043	12,701,819	1,166,454	557,734,630	493,973	558,228,603
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	9,439,613	823,205	180,596	-	10,443,414	19,743	10,463,157
Disposals	(2,939,007)	-	-	-	(2,939,007)	-	(2,939,007)
Balance at September 30, 2020	158,161,355	17,561,276	1,203,966	-	176,926,597	411,907	177,338,504
	$ 315,732,959	$ 52,410,767	$ 11,497,853	$ 1,166,454	$ 380,808,033	$ 82,066	$ 380,890,099
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	218,194	-	-	1,737,693	1,955,887	2,239	1,958,126
Disposals	(229,980)	-	-	-	(229,980)	-	(229,980)
Transfer	2,515,910	-	-	(2,515,084)	826	1,460	2,286
Balance at September 30, 2019	475,666,395	69,972,043	12,701,819	578,466	558,918,723	432,110	559,350,833
Accumulated amortization							
Balance at January 1, 2019	139,599,984	15,640,464	782,578	-	156,023,026	374,166	156,397,192
Amortization	9,311,396	823,205	180,594	-	10,315,195	13,163	10,328,358
Disposals	(228,078)	-	-	-	(228,078)	-	(228,078)
Balance at September 30, 2019	148,683,302	16,463,669	963,172	-	166,110,143	387,329	166,497,472
	$ 326,983,093	$ 53,508,374	$ 11,738,647	$ 578,466	$ 392,808,580	$ 44,781	$ 392,853,361

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

	September 30, 2020	December 31, 2019	September 30, 2019
Operating assets, net			
Land improvements	$ 162,467,200	$ 165,016,977	$ 165,883,986
Buildings	27,136,792	27,558,084	27,699,323
Machinery and equipment	25,903,736	27,012,524	27,036,171
Transportation equipment	100,197,323	104,848,364	106,352,507
Other equipment	27,908	25,577	11,106
	$ 315,732,959	$ 324,461,526	$ 326,983,093
Construction in progress			
Prepayments for equipment	$ 1,166,454	$ 739,116	$ 578,466

c. Operating concession - rental

According to the HSR Right-of-Way Map and the HSR Overpass/Underpass Superficies Space Map appended to the C&O Agreement, the Corporation acquired superficies from the MOTC on the land of transportation infrastructure and pays the rental every year, including routes, maintenance bases, and stations. The rental is governed by the Public-owned Land Rent Preferential Treatment Scheme under the Statute for Encouragement of Private Participation in Transportation Infrastructure Projects, and is subject to the changes in the future reported price of public-owned land and usage of such public-owned land and other relevant factors. The Corporation prepays the rental for the following year by the end of each year, and if the reported price of public-owned land is adjusted, the discrepancies due to that should be paid off in the same year. As of September 30, 2020, the superficies encompasses northern area to southern area of Taiwan, from Land Lot No. 1042-0001 of Tongxing Section, Xizhi District, New Taipei City located on the north to Land Lot No. 0419-0002 of Subsection 6, Hsinchuang Section, Zuoying District, Kaohsiung City located on the south. The term of such acquired superficies is from the date of their registration to the date of expiration or termination of the C&O Agreement.

14. OTHER ASSETS

	September 30, 2020	December 31, 2019	September 30, 2019
Other current assets			
Prepayments	$ 777,581	$ 1,290,402	$ 662,637
Others	24,288	53,931	47,025
	$ 801,869	$ 1,344,333	$ 709,662
Other non-current assets			
Others	$ 6,243	$ 9,240	$ 11,205

15. BORROWINGS

a. Short-term borrowings

	September 30, 2020	December 31, 2019	September 30, 2019
Japanese yen (“JPY”) letters of credit	$ 55,115	$ 64,980	$ 56,291

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

	September 30, 2020	December 31, 2019	September 30, 2019
JPY letters of credit	0.63%-0.74%	0.62%-0.74%	0.61%-0.74%

b. Long-term debt

	September 30, 2020	December 31, 2019	September 30, 2019
Syndicated loan			
Tranche A1 Facility (from May 4, 2010 to May 4, 2049)	$ 112,200,000	$ 120,000,000	$ 120,000,000
Tranche A2 Facility (from May 4, 2010 to May 4, 2048)	145,505,117	156,205,117	156,205,117
	257,705,117	276,205,117	276,205,117
Less: Unamortized cost of long-term debt	(99,206)	(104,800)	(106,476)
	$ 257,605,911	$ 276,100,317	$ 276,098,641

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 schedule and interest rates of the Syndicated Loan Agreement are as follows:

a) Repayment schedule

	Repayment Schedule	Ratio of Repayment	Repayment schedule after Early Repayment	Number of Semi-annual Installment Repayment after Early Repayment
Tranche A1 Facility	May 4, 2021-November 4, 2040	1.5% per installment	May 4, 2023-November 4, 2040	Installments 05-40
	May 4, 2041-November 4, 2049	2.0% per installment	May 4, 2021-May 4, 2049	Installments 41-57
	May 4, 2050	4.0% per installment		
Tranche A2 Facility	May 4, 2021-November 4, 2040	1.5% per installment	May 4, 2023.5.4-November 4, 2040	Installments 05-40
	May 4, 2041-November 4, 2049	2.0% per installment	May 4, 2041-May 4, 2048	Installments 41-55
	May 4, 2050	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.

On July 2, 2020, the Corporation made early repayment for $10.5 billion and repaid interest differences for $358,420 thousand due to early repayment of the loan.

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 September 30, 2020, December 31, 2019 and September 30, 2019, the reference rates 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

	September 30, 2020	December 31, 2019	September 30, 2019
Tranche A1 Facility	1.66%	1.91%	1.91%
Tranche A2 Facility	1.67%	1.92%	1.92%

b) Accrued interest expense (included in other payables)

	September 30, 2020	December 31, 2019	September 30, 2019
Syndicated loan			
Tranche A1 Facility	$ 167,941	$ 212,417	$ 205,564
Tranche A2 Facility	217,791	276,505	267,586
	$ 385,732	$ 488,922	$ 473,150

c) Long-term interest payable

	September 30, 2020	December 31, 2019	September 30, 2019
Syndicated loan			
Tranche A1 Facility	$ 3,455,340	$ 3,870,760	$ 3,924,141
Tranche A2 Facility	4,031,361	4,579,320	4,645,149
	$ 7,486,701	$ 8,450,080	$ 8,569,290

d) Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Syndicated loan				
Interest expense	$ 1,081,551	$ 1,332,894	$ 3,481,078	$ 3,953,218

16. BONDS PAYABLE

	September 30, 2020	December 31, 2019	September 30, 2019
Domestic unsecured bond			
Issued 30-year bond on November 14, 2019, interest payable at 1.6% per annum	$ 8,000,000	$ 8,000,000	$ -
Issued 30-year bond on July 1, 2020, interest payable at 1.3% per annum	10,500,000	-	-
	18,500,000	8,000,000	-
Less: Unamortized issuance cost	(21,462)	(9,671)	-
	$ 18,478,538	$ 7,990,329	$ -

The trustee of the abovementioned corporate bonds' creditors is Taishin International Bank.

17. OPERATING CONCESSION LIABILITIES

	September 30, 2020	December 31, 2019	September 30, 2019
Operating concession liabilities	$ 78,935,438	$ 78,516,696	$ 78,121,832
Value of returned superficies for offset of profit sharing payable	(22,812,510)	(22,475,984)	(22,364,902)
	$ 56,122,928	$ 56,040,712	$ 55,756,930
Current	$ 298,211	$ 777,511	$ 599,443
Non-current	55,824,717	55,263,201	55,157,487
	$ 56,122,928	$ 56,040,712	$ 55,756,930

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
Nine months ended September 30, 2020	823,205	1,196,253	2,019,458
	17,561,276	21,119,938	38,681,214
Three months ending December 31, 2020 (estimate)	274,403	401,662	676,065
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

(Continued)

Year	Amortization Expense	Interest Expense	Total
2025-2033 (estimate)	$ 9,878,472	$ 10,394,660	$ 20,273,132
2034-2068 (estimate)	37,867,460	-	37,867,460
	52,410,767	16,908,019	69,318,786
	$ 69,972,043	$ 38,027,957	$ 108,000,000

(Concluded)

According to the Financial Resolution Plan, the Fourth Amendment of the C&O Agreement and the SZD Termination Agreement that became effective on October 30, 2015, the Corporation used the appraised fair value of returned superficies of $22,613,234 thousand to proportionally offset the operating concession 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
Nine months ended September 30, 2020	-	336,526	336,526
	22,613,234	2,202,797	24,816,031
Three months ending December 31, 2020 (estimate)	-	112,994	112,994
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)	-	3,137,822	3,137,822
	-	4,968,824	4,968,824
	$ 22,613,234	$ 7,171,621	$ 29,784,855

As of September 30, 2020, the Corporation's accumulated profit sharing payments paid to the MOTC amounted to $10,153,022 thousand (or accumulated profit sharing payments for $12,156,543 thousand less the deductible amount of returned superficies for $2,003,521 thousand).

18. PROVISIONS

a. Provisions

	September 30, 2020	December 31, 2019	September 30, 2019
Current			
Provision for controversial overtime pay	$ 283,279	$ 283,279	$ 283,279
Provision for stabilization reserve	250,724	6,084,658	4,328,694
	$ 534,003	$ 6,367,937	$ 4,611,973
Non-current			
Provision for stabilization reserve	$ 10,000,000	$ 10,000,000	$ 10,000,000

b. Movements in provisions were as follows:

	Balance at January 1, 2020	Addition	Usage	Balance at September 30, 2020
Current				
Provision for controversial overtime pay	$ 283,279	$ -	$ -	$ 283,279
Provision for stabilization reserve	6,084,658	250,724	(6,084,658)	250,724
	$ 6,367,937	$ 250,724	$ (6,084,658)	$ 534,003
Non-current				
Stabilization reserve	$ 10,000,000	$ -	$ -	$ 10,000,000

	Balance at January 1, 2019	Addition	Balance at September 30, 2019
Current			
Provision for controversial overtime pay	$ 283,279	$ -	$ 283,279
Provision for stabilization reserve	-	4,328,694	4,328,694
	$ 283,279	$ 4,328,694	$ 4,611,973
Non-current			
Provision for stabilization reserve	$ 9,560,897	$ 439,103	$ 10,000,000

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.

As of September 30, 2020, the Corporation evaluated the most likely result and recognized the provision for controversial overtime pay for $283,279 thousand.

2) Stabilization reserve

Please refer to Note 30.a.3) regarding the recognition and use of provision for stabilization reserve. For the nine months ended September 30, 2020 and 2019, additional provision for the stabilization reserve expenses amounted to $250,724 thousand and $4,767,797 thousand, respectively. In August 2020, the Corporation contributed $6,084,658 thousand to the Stabilization Mechanism Account in accordance with the C&O agreement, and was in compliance with MOTC's policies to utilize the funds. As of September 30, 2020, balance of the stabilization reserve account was $10,250,724 thousand recognized and the Stabilization Mechanism Account has a zero balance.

19. OTHER LIABILITIES

	September 30, 2020	December 31, 2019	September 30, 2019
Other payables			
Accrued expenses	$ 2,033,917	$ 2,362,196	$ 1,870,306
Accrued interest expense	532,037	505,382	473,160
Business tax payable	146,220	304,910	162,713
Others	29,084	24,874	39,747
	$ 2,741,258	$ 3,197,362	$ 2,545,926

(Continued)

	September 30, 2020	December 31, 2019	September 30, 2019
Other current liabilities			
Contract liabilities (Note 22)	$ 963,391	$ 1,233,056	$ 774,504
Lease liabilities (Note 12)	96,160	153,230	160,052
Receipts under custody	28,799	28,929	27,553
Rent received in advance	14,973	49,813	-
Others	29,319	12,887	18,924
	$ 1,132,642	$ 1,477,915	$ 981,033
Other non-current liabilities			
Net defined benefit liabilities	$ 252,649	$ 256,562	$ 207,282
Guarantee deposits received	213,894	189,868	175,789
Deferred revenue	12,779	5,895	6,551
	$ 479,322	$ 452,325	$ 389,622

(Concluded)

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

	September 30, 2020	December 31, 2019	September 30, 2019
Number of shares authorized (in thousands)	12,000,000	12,000,000	12,000,000
Shares authorized	$ 120,000,000	$ 120,000,000	$ 120,000,000
Number of shares issued and fully paid (in thousands)	5,628,293	5,628,293	5,628,293
Share capital issued and outstanding	$ 56,282,930	$ 56,282,930	$ 56,282,930

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

On November 26, 2015, the Corporation conducted capital injection and issued 3,000,000 thousand shares of common stock through a private placement at par value of $10, or a total of $30,000,000 thousand. The rights and obligations of the 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

	September 30, 2020	December 31, 2019	September 30, 2019
Issuance of common stock	$ 171,885	$ 171,885	$ 171,885
Forfeited employee share options	1,096	1,096	1,096
	$ 172,981	$ 172,981	$ 172,981

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 approved in the stockholders' meetings on May 21, 2020 and May 30, 2019, respectively, were as follows:

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

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

22. REVENUE

	For the Three Months Ended September 30		**For the Nine Months Ended September 30**	
	2020	**2019**	**2020**	**2019**
Revenue from contracts with customers				
Railroad transportation revenue	$ 10,121,699	$ 11,323,827	$ 26,732,790	$ 34,265,578
Other operating revenue	301,743	355,055	896,233	1,042,021
	$ 10,423,442	$ 11,678,882	$ 27,629,023	$ 35,307,599

a. Contract balances

	September 30, 2020	**December 31, 2019**	**September 30, 2019**	**January 1, 2019**
Notes and accounts receivable	$ 279,079	$ 333,092	$ 569,047	$ 505,565
Contract liabilities				
Railroad transportation revenue	$ 791,943	$ 1,163,968	$ 640,246	$ 534,736
Customer loyalty programmer	156,086	62,629	121,208	120,467
Others	15,362	6,459	13,050	10,338
	$ 963,391	$ 1,233,056	$ 774,504	$ 665,541

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

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
From the beginning balance of contract liability				
Railroad transportation revenue	$ 1,183	$ 1,584	$ 1,154,757	$ 527,948
Customer loyalty programmer	14,742	13,387	34,416	43,413
Others	70	-	5,889	10,336
	$ 15,995	$ 14,971	$ 1,195,062	$ 581,697

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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Post-employment benefits				
Defined contribution plan	$ 47,972	$ 47,939	$ 142,371	$ 139,967
Defined benefit plan	3,969	4,136	11,906	12,407
	51,941	52,075	154,277	152,374
Short-term employee benefits				
Payroll	1,112,505	1,033,113	3,241,214	3,123,302
Insurance	87,262	87,013	278,008	271,803
Others	49,299	49,051	143,546	145,909
	1,249,066	1,169,177	3,662,768	3,541,014
	$ 1,301,007	$ 1,221,252	$ 3,817,045	$ 3,693,388
An analysis of employee benefits expense by function				
Operating costs	$ 1,084,726	$ 1,019,583	$ 3,170,626	$ 3,058,269
Operating expenses	216,281	201,669	646,419	635,119
	$ 1,301,007	$ 1,221,252	$ 3,817,045	$ 3,693,388

For the three months and nine months ended September 30, 2020, the professional service fee was $390 thousand and $1,646 thousand, respectively. For the three months and nine months ended September 30, 2019, the professional service fee was $1,447 thousand and $4,653 thousand, respectively.

Under the Corporation's Articles of Incorporation, if there is any after-tax profit at the end of the year, the Corporation shall first make up for accumulated losses and then distribute employees' compensation and remuneration to directors at the rates not less than 1% and not higher than 1%, respectively, of remaining distributable profit. The employees' compensation and remuneration to directors of the Corporation were calculated based on income before income tax (net of the employees' compensation and remuneration to directors) according to the above policy. For the three months and nine months ended September 30, 2020, the estimated employees' compensation in cash was $32,999 thousand and $61,172 thousand, and the estimated remuneration to directors in cash was $8,250 thousand and $15,293 thousand, respectively. For the three months and nine months ended September 30, 2019, the estimated employees' compensation in cash was $37,321 thousand and $122,963 thousand, and the estimated remuneration to directors in cash was $9,330 thousand and $30,741 thousand, respectively.

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 board of directors had resolved 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 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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Property, plant and equipment	$ 12,021	$ 9,973	$ 36,086	$ 29,064
Right-of-use assets	40,550	40,519	122,229	121,262
Intangible assets	3,494,434	3,456,626	10,463,157	10,328,358
Other non-current assets	1,126	1,108	3,374	3,438
	$ 3,548,131	$ 3,508,226	$ 10,624,846	$ 10,482,122

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
An analysis of depreciation by function				
Operating costs	$ 46,263	$ 44,970	$ 139,457	$ 133,991
Operating expenses	6,308	5,522	18,858	16,335
	$ 52,571	$ 50,492	$ 158,315	$ 150,326
An analysis of amortization by function				
Operating costs	$ 3,493,941	$ 3,456,570	$ 10,462,114	$ 10,328,300
Operating expenses	1,619	1,164	4,417	3,496
	$ 3,495,560	$ 3,457,734	$ 10,466,531	$ 10,331,796

(Concluded)

c. Interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest income of repurchase agreement collateralized by government bonds	$ 9,437	$ 30,984	$ 87,130	$ 81,728
Interest income of bank deposits	10,761	10,121	31,093	30,902
Others	9	8	25	24
	$ 20,207	$ 41,113	$ 118,248	$ 112,654

d. Interest expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Interest on bank loans	$ 1,083,188	$ 1,334,823	$ 3,486,260	$ 3,958,953
Interest on operating concession liabilities	288,667	283,783	859,727	842,095
Interest on bonds payable	66,389	-	130,201	-
Interest on long-term bills payable	-	-	-	13,130
Others	1,121	1,452	4,879	5,323
	$ 1,439,365	$ 1,620,058	$ 4,481,067	$ 4,819,501

e. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
COVID-19 relief of bill payment assistance (Note)	$ 118,696	$ -	$ 120,987	$ -
Liquidated damages and termination compensation	24,601	1,043	57,519	2,906
Gains on financial assets at FVTPL	13,237	459	17,833	1,361
Compensation gain	5,454	604	9,017	44,618
Government grants	655	655	8,682	2,899
Foreign exchange (loss) gain, net	(9,546)	16,259	(14,488)	10,021
Loss on disposal of intangible assets, net	(1,812)	(282)	(10,922)	(1,588)
Others	2,799	856	7,973	4,239
	$ 154,084	$ 19,594	$ 196,601	$ 64,456

Note: Mainly composed of the electricity payment reduction and other relief package that the Corporation applied to and obtained from the government.

24. INCOME TAX

a. Income tax recognized in profit or loss

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Current tax				
In respect of the current period	$ 17,069	$ (30,950)	$ (8,127)	$ (90,256)
Income tax on unappropriated earnings	-	(24)	(17,822)	(162,152)
Adjustments for prior periods	-	-	123,816	244
Deferred tax	82,983	127,958	195,791	409,878
Income tax benefit	$ 100,052	$ 96,984	$ 293,658	$ 157,714

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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Basic earnings per share (NT$)	$ 0.30	$ 0.34	$ 0.58	$ 1.09

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 September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Earnings attributable to common stockholders	$ 1,708,722	$ 1,916,344	$ 3,275,772	$ 6,152,139
Weighted average number of common stock in the computation of basic earnings per share (in thousands)	5,628,293	5,628,293	5,628,293	5,628,293

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, repayments of unsecured domestic bonds and other operating needs.

27. FINANCIAL INSTRUMENTS

a. Financial instruments

	September 30, 2020	December 31, 2019	September 30, 2019
Financial assets			
Financial assets at FVTPL	$ 13,178,348	$ 330,443	$ 330,005
Financial assets at amortized cost			
Other financial assets	16,370,464	24,310,267	24,067,486
Others (Note 1)	1,572,823	16,641,362	1,365,061
Financial liabilities			
Financial liabilities for hedging	-	-	17
Financial liabilities at amortized cost (Note 2)	342,034,480	351,625,069	342,892,548

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.

September 30, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	$ 13,178,348	$ -	$ -	$ 13,178,348

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	$ 330,443	$ -	$ -	$ 330,443

September 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Open-end money market funds	$ 330,005	$ -	$ -	$ 330,005
Financial liabilities for hedging				
Forward exchange contracts	$ -	$ 17	$ -	$ 17

There were no transfers between Level 1 and Level 2 for the nine months ended September 30, 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. Hedging financial instruments can partially, but not entirely, reduce the impact arising from changes in foreign exchange rates.

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

	September 30, 2020		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,593	29.126	$ 658,044
JPY	16	0.2758	4
Financial liabilities			
Monetary items			
JPY	1,075,968	0.2758	296,752

	December 31, 2019		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,319	30.106	$ 671,940
JPY	4,931	0.2770	1,366
Financial liabilities			
Monetary items			
JPY	889,301	0.2770	246,337

	September 30, 2019		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 22,193	31.042	$ 688,917
JPY	4,931	0.2879	1,420
Financial liabilities			
Monetary items			
JPY	1,492,608	0.2879	429,722

The Corporation was mainly exposed to USD and JPY foreign currency exchange risks. The sensitivity analysis related to foreign currency exchange rate risk was mainly calculated for foreign currency monetary items at the balance sheet date. If the U.S. dollar weakened against the New Taiwan dollar by 1%, income before income tax would have decreased by $6,580 thousand and $6,889 thousand for the nine months ended September 30, 2020 and 2019, respectively. If the JPY strengthened against the New Taiwan dollar by 1%, the income before income tax would have decreased by $2,967 thousand and $3,882 thousand for the nine months ended September 30, 2020 and 2019, respectively.

The significant unrealized exchange gain and loss were as follows:

	For the Three Months Ended September 30			
	2020		2019	
Foreign Currency	**Exchange Rate**	**Exchange Gain (Loss), Net**	**Exchange Rate**	**Exchange Gain (Loss), Net**
USD	29.126	$ (6,850)	31.042	$ (3,262)
JPY	0.2758	1,112	0.2879	8,514

	For the Nine Months Ended September 30			
	2020		2019	
Foreign Currency	**Exchange Rate**	**Exchange Gain, Net**	**Exchange Rate**	**Exchange Gain, Net**
USD	29.126	$ 2,332	31.042	$ 1,508
JPY	0.2758	-	0.2879	4,087

b) Interest rate risk

As of September 30, 2020 and 2019, the Corporation’s syndicated loan with floating interest rates amounted to $257,705,117 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 $1,932,788 thousand and $2,071,538 thousand for the nine months ended September 30, 2020 and 2019, respectively.

c) Other price risk

The investments in open-end money market funds (recorded as financial assets at 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 $131,783 thousand and $3,300 thousand for the nine months ended September 30, 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):

September 30, 2020

Repayment Period	Long-term Debt	Interest on Long-term Debt	Operating Concession Liabilities	Lease Liabilities	Principal and Interest on Bonds Payable	Total
2020.10.1-2020.12.31	$ -	$ 1,069,476	$ -	$ 32,567	$ 66,125	$ 1,168,168
2021.1.1-2021.9.30	-	4,014,788	731,700	63,988	198,375	5,008,851
2021.10.1-2022.9.30	-	6,806,809	7,859,512	76,828	264,500	15,007,649
2022.10.1-2023.9.30	4,465,384	7,809,512	116,525	74,337	264,500	12,730,258
2023.10.1-2024.9.30	9,186,153	8,004,099	182,113	74,239	264,500	17,711,104
2024.10.1-2025.9.30	9,186,153	7,794,205	142,002	73,352	264,500	17,460,212
2025.10.1-2033.9.30	73,489,227	53,541,869	59,030,271	100,273	2,116,000	188,277,640
2033.10.1-2050	161,378,200	45,331,852	-	-	22,996,500	229,706,552
	$ 257,705,117	$ 134,372,610	$ 68,062,123	$ 495,584	$ 26,435,000	$ 487,070,434

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	156,785,123	47,259,388	-	-	10,048,000	214,092,511
	$ 276,205,117	$ 154,282,980	$ 68,839,634	$ 616,850	$ 11,840,000	$ 511,784,581

September 30, 2019

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

28. TRANSACTIONS WITH RELATED PARTIES

The MOTC under the Executive Yuan owns 43% equity interests 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

Related Party	**Relationship with the Corporation**
MOTC	An investor with significant influence over the Corporation.
Bank of Taiwan and seven other syndicated banks	A government-related entity controlled by the central government.
China Steel Corporation	A 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 September 30		For the Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Railway Bureau, MOTC	$ 196,476	$ 196,509	$ 589,429	$ 589,527
Taiwan Railways Administration, MOTC	12,081	12,076	36,244	36,227
	$ 208,557	$ 208,585	$ 625,673	$ 625,754

b) Prepaid rentals (included in other current assets)

	September 30, 2020	December 31, 2019	September 30, 2019
Railway Bureau, MOTC	$ 196,477	$ 785,906	$ 196,509
Taiwan Railways Administration, MOTC	12,081	48,325	12,076
	$ 208,558	$ 834,231	$ 208,585

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 contract value, including business tax, was $1,232,000 thousand. As of September 30, 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 September 30, 2020, payments made and unpaid amounts (recorded under payable for construction account) under the contract were $192,440 thousand and $565 thousand, respectively, with the aggregate amount of $193,005 been recognized as the operating concession assets under intangible assets. In addition, a charge of $6,521 thousand was made to the aforementioned vendor for its performance delay, and was recorded under other gain or loss account.

In November 2019, the Corporation entered into the "Passenger Information System Upgrade Projects - IV Lightbox Display System Construction Contract" with InfoChamp Systems Corporation, and the contract value, including business tax, was $72,828 thousand. As of September 30, 2020, payments for the contract amounted to $6,936 thousand and were recognized as construction in progress of the operating concession assets under intangible assets.

In January 2020, the Corporation entered into the "AFCS Information Human Resources Service Contract" with InfoChamp Systems Corporation, and the contract value, including business tax, was $7,260 thousand. As of September 30, 2020, the Corporation has obtained the operating concession asset under intangible assets for $435 thousand.

g. Disposals of operating concession asset under intangible assets

	Proceeds		Gain on Disposal	
	For the Three Months Ended September 30		For the Three Months Ended September 30	
Related Party	**2020**	**2019**	**2020**	**2019**
InfoChamp Systems Corporation	$ 2,000	$ -	$ 528	$ -

	Proceeds		Gain on Disposal	
	For the Nine Months Ended September 30		For the Nine Months Ended September 30	
Related Party	**2020**	**2019**	**2020**	**2019**
InfoChamp Systems Corporation	$ 2,000	$ -	$ 528	$ -

h. Lease arrangements

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

Line Item	**Related Party**	**September 30, 2020**	**December 31, 2019**	**September 30, 2019**
Lease liabilities (Note 12)	Cargo Service Headquarters of the Taiwan Railroad Administration Bureau, MOTC	$ 83,474	$ 93,000	$ 95,958
	Century Development Corporation	9,705	53,243	67,708
		$ 93,179	$ 146,243	$ 163,666

i. The Corporation was in compliance with MOTC's policies to utilize the funds of the Stabilization Mechanism Account. Please refer to Note 18.b.2) for further information.

j. Compensation of key management personnel was as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2020	2019	2020	2019
Short-term employee benefits	$ 21,155	$ 24,027	$ 61,776	$ 79,467
Post-employment benefits	202	219	641	658
	$ 21,357	$ 24,246	$ 62,417	$ 80,125

29. PLEDGED ASSETS

Pledged Assets	Pledged to Secure	September 30, 2020	December 31, 2019	September 30, 2019
Other financial assets - current:				
Repurchase agreement collateralized by government bonds	Syndicated loan	$ 1,338,000	$ 1,577,000	$ 1,594,600
Time deposits	Trust deposit of unearned revenue	68,000	-	-
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 oil purchase	1,320	-	-
Time deposits	Guarantee for customs duties	-	22,442	22,442
Demand deposits	Trust deposit of unearned revenue	18,383	21,676	18,738
Demand deposits	Syndicated loan	927	1,224	1,251
Demand deposits	Project subsidy	8	2,001	2,001
		1,453,436	1,651,141	1,639,986
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	1,800	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	-	-	10,520
		2,051,003	2,098,254	2,124,098
		$ 3,504,439	$ 3,749,395	$ 3,764,084

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. Please 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) × 50%

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

(A3 - A2) × 50% + (EBT - A3) × 70%

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

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

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

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

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

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

i) Fare discount or fare reduction,

ii) Construction of HSR infrastructure and facilities, and

iii) In compliance with the government's policies.

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

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

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

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

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

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

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

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

The Corporation complied with MOTC's policies to utilize the funds of the Stabilization Mechanism Account. Please refer to Note 18.b) for further information.

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 September 30, 2020, December 31, 2019 and September 30, 2019, the amount of the aforementioned performance bond remained unchanged at $2 billion, and was recognized as other financial assets.

b. As of September 30, 2020, unused letters of credit amounted to JPY4,609,877 thousand and EUR9,083 thousand.

c. The residents of Chengbei, Tongxiao Township, Miaoli claimed that the Corporation did not install a complete set of facility for preventing noise and vibration. The residents asserted that they suffered from the noise and vibration intrusion for a long time, and damage were brought 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. In July 2015, the Corporation disagreed with the ruling and filed an appeal to Taiwan Miaoli District Court. On November 23, 2018, Taiwan Miaoli District Court declared that the Corporation won the first instance, and the defendant has filed an appeal to the Taiwan High Court. The Taiwan High Court (the Taichung Branch Court) has dismissed the appeal on December 4, 2019, to which the residents further appealed to the court of third instance at first and then voluntarily dropped the case on August 27, 2020. On December 17, 2018, the residents filed a claim under the same reason, and requested for reducing the train noise and a payment of $5,700 thousand, and later changed their claims by requesting the Corporation should build a noise barrier in accordance with their required standards. The Taiwan Miaoli District Court has decided in favor of the Corporation on December 12, 2019 to which the residents filed appeal to the court of second instance. In order close the dispute to end successfully, the parties signed an agreement on September 23, 2020 and thereafter the appeal was withdrawn by the residents on September 29, 2020. The Corporation will promote the installation of soundproof walls as soon as possible based on the consideration of its corporate social responsibility.

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 September 30, 2020, payments for the contract amounted to JPY549,848 thousand and NT$24,645 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 September 30, 2020, payments for the contract made were JPY1.16 billion.

31. OTHER ITEMS

Due to the impact of the Covid-19 pandemic, ridership from February to September 2020 declined resulting a decrease of approximately 7.679 billion (about 21.75%) for the first three quarters of 2020, in operating revenue as compared to the same period of prior year. In response to the impact of the epidemic, the Corporation continues to adjust its operating strategies, and has established a “Disease Control Response Group” to carry out various disease control initiatives, including implementing train schedule adjustments, manpower scheduling planning, business project execution inspection and other countermeasures relating to expense reduction plans without affecting safety and service quality.

In terms of financing strategy, the Corporation continues to optimize its long-term financial structure, strengthen its capital sources and issued 10.5 billion unsecured domestic bonds in July 2020 to make early repayments of long-term debt.

With the epidemic slowing in June 2020, ridership has gradually recovered. The Corporation has resumed 1016 train services weekly from August 1, 2020, and will continue to pay attention to the development of the epidemic and implement agile actions in time. Therefore, the Corporation assessed that the epidemic has no material impact on the impairment of its assets or its ability as a going concern after the aforementioned actions and subsequent operation recovery.

32. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On October 14, 2020, the board of directors approved to lease an office building and parking spaces from Century Development Corporation with the lease term from January 2021 to December 2023 and the total amounts of the contract (business tax included) were 208,403 thousand.

33. 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.

34. 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.

35. SEGMENT INFORMATION

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

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Holding Company	Type and Name of Marketable Securities	Relationship with the Holding Company	Line Item	September 30, 2020				Note
				Units/Face Value (In Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
The Corporation	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL	164,682	$ 1,827,893	-	$ 1,827,893	
	Yuanta De-Li Money Market Fund	-	〃	45,207	742,574	-	742,574	
	Jih Sun Money Market Fund	-	〃	67,413	1,006,808	-	1,006,808	
	Taishin 1699 Money Market Fund	-	〃	290,986	3,967,219	-	3,967,219	
	Taishin Ta-Chong Money Market Fund	-	〃	44,669	639,174	-	639,174	
	Prudential Financial Money Market Fund	-	〃	53,195	847,928	-	847,928	
	FSITC Taiwan Money Market Fund	-	〃	110,272	1,700,329	-	1,700,329	
	FSITC Money Market Fund	-	〃	8,576	1,541,059	-	1,541,059	
	Franklin Templeton Sinoam Money Market Fund	-	〃	86,901	905,364	-	905,364	
	Central Government Bonds 2018-12	-	Cash and cash equivalents	$ 150,000	152,000	-	152,000	
	Central Government Bonds 2017-10	-	〃	53,000	53,000	-	53,000	
	Central Government Bonds 2003-3	-	〃	370,000	394,000	-	394,000	
	Central Government Bonds 2002-3	-	〃	65,000	65,000	-	65,000	
	Central Government Bonds 2017-5	-	Other financial assets - current	30,000	30,000	-	30,000	
	Central Government Bonds 2017-4	-	〃	2,863,000	3,070,000	-	3,070,000	
	Central Government Bonds 2016-11	-	〃	3,320,000	3,489,000	-	3,489,000	
	Central Government Bonds 2012-5	-	〃	183,000	200,000	-	200,000	
	Central Government Bonds 2003-3	-	〃	624,000	662,000	-	662,000	

TAIWAN HIGH SPEED RAIL CORPORATION

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICE OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities	Line Item	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Gain on Valuation	Ending Balance	
					Units/Face Value (In Thousands)	Carrying Amount	Units/Face Value (In Thousands)	Carrying Amount	Units/Face Value (In Thousands)	Amount	Carrying Amount	Gain on Disposal		Units/Face Value (In Thousands)	Carrying Amount
The Corporation	CTBC Hwa-win Money Market Fund	Financial assets at FVTPL	-	-	-	$ -	209,748	$ 2,326,000	45,066	$ 500,000	$ 499,738	$ 262	$ 1,631	164,682	$ 1,827,893
	Yuanta De-Li Money Market Fund	"	-	-	6,538	107,000	38,669	634,000	-	-	-	-	1,574	45,207	742,574
	Jih Sun Money Market Fund	"	-	-	-	-	67,413	1,006,000	-	-	-	-	808	67,413	1,006,808
	Taishin 1699 Money Market Fund	"	-	-	-	-	298,325	4,062,000	7,339	100,000	99,931	69	5,150	290,986	3,967,219
	Taishin Ta-Chong Money Market Fund	"	-	-	-	-	83,282	1,191,000	38,613	552,177	552,000	177	174	44,669	639,174
	Prudential Financial Money Market Fund	"	-	-	3,968	63,000	49,227	783,000	-	-	-	-	1,928	53,195	847,928
	FSITC Taiwan Money Market Fund	"	-	-	3,907	60,000	106,365	1,638,000	-	-	-	-	2,329	110,272	1,700,329
	FSITC Money Market Fund	"	-	-	-	-	8,576	1,540,000	-	-	-	-	1,059	8,576	1,541,059
	Franklin Templeton Sinoam Money Market Fund	"	-	-	9,671	100,000	77,231	803,000	-	-	-	-	2,364	86,901	905,364
	Shin Kong Chi-Shin Money Market Fund	"	-	-	-	-	96,123	1,498,000	96,123	1,498,750	1,498,000	750	-	-	-
	Central Government Bonds 2019-9	Note	-	-	$ -	-	$ 309,000	309,000	$ 309,000	309,067	309,000	67	-	$ -	-
	Central Government Bonds 2018-12	"	-	-	-	-	300,000	302,000	150,000	150,050	150,000	50	-	150,000	152,000
	Central Government Bonds 2018-9	"	-	-	-	-	300,000	300,000	300,000	300,075	300,000	75	-	-	-
	Central Government Bonds 2018-3	"	-	-	-	-	700,000	700,000	700,000	700,268	700,000	268	-	-	-
	Central Government Bonds 2017-9	"	-	-	1,230,000	1,308,000	769,000	811,000	1,999,000	2,121,672	2,119,000	2,672	-	-	-
	Central Government Bonds 2017-4	"	-	-			12,959,400	13,842,000	10,096,400	10,777,843	10,772,000	5,843	-	2,863,000	3,070,000
	Central Government Bonds 2016-11	"	-	-	5,297,000	5,649,000	8,574,200	9,104,300	10,551,200	11,279,084	11,264,300	14,784	-	3,320,000	3,489,000
	Central Government Bonds 2015-12	"	-	-	2,688,700	2,987,333	10,343,200	10,953,778	13,031,900	13,953,011	13,941,111	11,900	-	-	-
	Central Government Bonds 2013-10	"	-	-	-	-	1,050,000	1,166,556	1,050,000	1,168,291	1,166,556	1,735	-	-	-
	Central Government Bonds 2013-8	"	-	-	-	-	315,000	350,000	315,000	350,397	350,000	397	-	-	-
	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	3,424,000	3,704,841	3,699,333	5,508	-	-	-
	Central Government Bonds 2012-5	"	-	-	-	-	1,733,000	1,805,556	1,550,000	1,606,201	1,605,556	645	-	183,000	200,000
	Central Government Bonds 2012-B 2nd	"	-	-	-	-	578,300	642,444	578,300	643,264	642,444	820	-	-	-
	Central Government Bonds 2011-7	"	-	-	705,600	784,000	1,750,000	1,944,333	2,455,600	2,731,630	2,728,333	3,297	-	-	-
	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	1,522,600	1,694,856	1,691,778	3,078	-	-	-
	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	468,136	467,556	580	-	-	-
	Central Government Bonds 2005-8	"	-	-	954,900	1,061,000	1,329,000	1,476,444	2,283,900	2,540,197	2,537,444	2,753	-	-	-
	Central Government Bonds 2004-9	"	-	-	92,000	100,000	1,088,000	1,099,000	1,180,000	1,200,034	1,199,000	1,034	-	-	-
	Central Government Bonds 2004-6	"	-	-	2,145,500	2,383,889	72,000	80,000	2,217,500	2,466,741	2,463,889	2,852	-	-	-
	Central Government Bonds 2003-3	"	-	-	133,000	140,000	2,560,500	2,710,000	1,699,500	1,795,524	1,794,000	1,524	-	994,000	1,056,000
	Central Government Bonds 2002-7	"	-	-	1,609,200	1,788,000	855,900	951,000	2,465,100	2,742,557	2,739,000	3,557	-	-	-
	Central Government Bonds 2001-8	"	-	-	4,455,000	4,637,778	4,748,000	4,925,778	9,203,000	9,573,289	9,563,556	9,733	-	-	-
	Central Government Bonds 2001-4	"	-	-	699,800	758,000	378,000	420,000	1,077,800	1,179,331	1,178,000	1,331	-	-	-
	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	7,093,500	7,152,444	10,251,700	10,361,514	10,351,444	10,070	-	-	-
	Central Government Bonds 2000-13	"	-	-	1,285,500	1,325,000	286,200	318,000	1,571,700	1,644,685	1,643,000	1,685	-	-	-
	Central Government Bonds 2000-B 1st	"	-	-	4,326,400	4,622,000	301,000	301,000	4,627,400	4,928,901	4,923,000	5,901	-	-	-

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

TABLE 3

TAIWAN HIGH SPEED RAIL CORPORATION

INFORMATION OF MAJOR STOCKHOLDERS
SEPTEMBER 30, 2020

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