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CHINA AIRLINES

2017 ANNUAL REPORT

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Contents

(Summary Translation)

This document is prepared in accordance with the Chinese version and is for reference only. In the event of any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

Letter to Shareholders

I. Letter to Shareholders

Looking back over 2017, there were many new challenges, both internal and external. There were changes to the global political situation, frequent terrorist attacks, a steady rise in oil prices, weather calamities brought on by climate change, and internal labor disputes. Although the year was not a quiet one, the China Airlines team still listened to the voices of all its stakeholders and held fast to its value of "Believe In Yourself and You'll Do It Better". Keeping passenger safety and shareholder benefit as its primary considerations, the team came together to face and overcome every obstacle to achieve its mission of "Creating More Beauty for You and Me Through Flight".

Updates to flight crews and passenger cabins continued, as China Airlines brought 6 next generation A350-900 long haul aircraft into service in 2017combining the next generation design concepts of Eastern aesthetics with youthful innovation; at the same time, the company won accolades in Taiwan and abroad for its insistence on the best hardware, software and service. These included Global Traveler's "Best Business Class Seat Design" and "Beat Airline in Northeast Asia", a five-star service award from Global Views Monthly, Air Cargo World's "Global Air Cargo Certificate of Excellence", and a designation as a "Gold Trusted Brand" by Reader's Digest Asia. China Airlines was further rated a "New Century Top 20 Employer" by Cheers Magazine, and its operations team not only increased the group's competitiveness, but also made the airline a company employees can trust and the first choice of passengers.

As the leading enterprise on the Taiwan airline market, China Airlines has been praised both in Taiwan and abroad for its active promotion of economic, environmental and social sustainability. Not only was the company listed for the second consecutive year in the Dow Jones Sustainability Indices, it was also honored with multiple "TCSA Taiwan Sustainable Enterprise Awards". Sustainable operations have gradually become the key to future development in the airline industry.

In 2017, China Airlines turned in a dazzling overall performance. Turning in such an outstanding result depended on the hard work of all its employees, cooperation from its partners, the trust of its passengers and support from its shareholders. In the future, China Airlines will take a prudent yet optimistic attitude in continuing to optimize the fleet and its allocation, integrate the resources of the company and the group, and provide outstanding products and services to bring everyone onto a new page of China Airlines history.

1.1 Operating Performance in 2017

Operating revenue in NT dollars (same hereafter) was NT$139.815 billion, a 9.64% increase over the last year, After-tax net profit was NT$2.208 billion, for a basic after-tax net profit of NT$0.40 per share.

1.1.1 Results of the business strategy

- Fleet:

As of the end of December, the company held 79 passenger aircraft (including leased aircraft) and 21 cargo aircraft, for a total of 100. In 2017, the company leased 2 Boeing 737-800 passenger airliners, for a period of 8 years; 6 Airbus A350-900 passenger aircraft were also brought in. Two 747-400 and four 737-800 passenger planes were sold.

- Passenger flights:

Revenue from passenger business was NT$90.56 billion, a 4.94% increase over the last year, accounting for 64.77% of total operating revenue. As of the end of 2017, the China Airlines Group flew to 22 countries and 79 passenger destinations, spanning Asia, Europe, the Americas and Oceania. On average, there are 680 round-trip flights per week.

- Cargo flights:

Cargo business income was NT$42.97 billion, a 21.54% increase over the last year, accounting for 30.73% of total operating revenue. As of the end of December, the China Airlines group flew 18 cargo plans in cargo operations, flying to 15 countries and 33 destinations spanning Asia, Europe and the Americas. Each week, there were an average of 93 cargo flights.

- Other operating income:

Other operating revenue included in-flight duty-free sales revenue, a total of NT$6.285 billion, a 7.02% increase over the last year, accounting for 4.5% of total operating revenue.

• Investments and earnings:

As of the end of December, the company had investment in a total of 34 companies, areas of business such as air business, ground services, logistics, aircraft maintenance, air cargo station business, etc. contributed NT$1.628 billion revenue over the year.

1.1.2 Business cash flow budget and profitability analysis

• Cash flow:

Operating revenue was NT$139.815 billion, up 12.29 billion over last year. Operating costs and expenses were NT$132.457 billion, up NT$9.408 billion over last year.

Pre-tax net profit was NT$3.088 billion, up NT$1.551 billion over last year.
After-tax net profit was NT$2.208 billion, up NT$1.636 billion over last year.

• Budget execution:

Projected operating revenue was NT$138.889 billion, and actual operating revenue was NT$139.815 billion, for a 100.67% attainment; projected operating costs and fees were NT$133.31 billion, and actual operating costs were NT$132.457 billion, a spend rate of 99.36%. Projected losses from non-operating activities were NT$5.225 billion, with actual losses from non-operating activities at NT$4.27 billion. Actual annual pre-tax net profit was NT$3.088 billion, a budget-achieving rate of 872.32%.

• Profitability:
Return on assets 1.54%
Return on equity 3.91%
After-tax profit margin 1.58%
After-tax earnings per share NT$0.40

1.1.3 Research and development

With the rise of the internet service era, China Airlines is committed to developing website functionality and optimizing ticket purchase systems, to create an ever higher-quality online experience and more convenient service. In 2017, China Airlines added England and Latin America web sites, and currently has established web sites for 15 countries and official web sites in 13 different languages. The company has also added services such as overweight luggage allowance purchases and online ticketing changes, and added 3D safety verification for credit cards to ensure the security of consumer online transactions and provide superior online service. In response to the "Swipe Generation" who are gradually becoming the main consumer force, China Airlines is using Facebook, IG and other social media platforms to provide interactive connection with passengers, make information transmission more timely and reach a broader audience. At the same time, the company plans to implement various improvements such as promoting Customs pre-clearance and e-AWB plans, to ensure that the company remains on course in moving toward low-carbon, energy-saving sustainable development.

The development of the company's information strategy focuses on 7 main areas: mobile, big data, artificial intelligence, cloud services, setting up an information base, information security, augmented reality and the Internet of Things. China Airlines will keep its finger on the pulse of the industry and use technology to better understand customer values, grasp profit-making trends, seek out opportunities for innovation, and enhance resource and risk management, to improve the company's operating competitiveness.

1.2 Business Plan for 2018

The operating environment in the airline industry is strongly impacted by global economic growth, oil prices, and political and other factors. Based on the newest predictions by the IMF, overall global growth in 2018 will be 3.9%, somewhat higher than the 3.7% posted in 2017. It is predicted that future economic growth will continue stable. A December, 2017 IATA report on the global market outlook stated that global airline passenger volume would continue positive growth, with passenger demand up 6% in 2018. Asia-Pacific region passenger demand was predicted to show slowing growth, down to 7% (compared to 10% in 2017). In terms of transport capacity, global and Asian regional growth rates were pegged at 5.7% and 6.8% respectively, with overall growth in demand holding even. However, the price of oil is a major factor in airline operations and from the latter half of last year to date, fuel prices continued to rise, and it is predicted that this will squeeze profits for this year. In terms of the cargo market, IATA predicts that while the 2018 global cargo growth will reach the 9.3% growth rate of 2017, it should still hold at the 4.5% level. However, because of new widebody airliners being delivered one after another from 2016 to 2020, increasing belly compartment shipping capacity, overall the market will still be in an oversupply situation for cargo space, so that global shipping market still holds opportunities and challenges.
(Note: IATA will update the above growth rate prediction data each quarter)

1.2.1 Overall Fleet Capacity Plan

To better grasp overall market and growth for passenger and cargo demand, China Airlines has allocated a total of 90 planes in its fleet operations plan for 2018. This is 5 more than in 2017. Of these, 72 are passenger aircraft and 18 are cargo planes. The various models and differences in capacity are shown below:

Aircraft Model	End 2018	End 2017	Difference
A333-300	23	24	-1
A350-900	14	10	4
737-800	19	19	0
747-400	4	4	0
777-300ER	10	10	0
E190	2	0	2
Total Passenger Airliners	72	67	5
747-400F	18	18	0
Total Passenger and Freight Airliners	90	85	5

1.2.2 Passenger Service

In coordination with the government's new Southern Policy, China Airlines continues to evaluate potential markets and increased flights to Southeast Asia, consolidating its New Zealand/Australia/Europe/American routes, and adjusting its route network to enhance the position of Taoyuan International Airport as a hub. Moreover, close attention will be paid to market situation and adjustments at appropriate times with regard to routes to Mainland China.

• Cross-Strait Routes:

In response to the cessation of operations by TransAsia Airways and reallocation of flight rights across the Strait, the China Airlines group (including Mandarin Airlines and Tigerair Taiwan) began flights from Songshan Airport to Wuhan (Mandarin) Taoyuan to Changsha (China Airlines) and Taoyuan to Wuxi (Tigerair). The group also added flights from Songshan to Fuzhou. Routes such as Taoyuan-Yantai and Taoyuan-Hefei were impacted by the allocation policy on Chinese tour groups, and were temporarily suspended due to lack of demand. In the future, the company will continue to adapt to developments in cross-Strait policy and market conditions, flexibly allocating its capacity. It will also coordinate with the changes over time to Shanghai's Hongqiao and Pudong airports by opening up Songshan-Hongqiao (Mandarin Airlines) and Taichung-Pudong (China Airlines) routes, in hopes of abundant profits.

• Northeast Asian Routes:

The wave of tourists visiting Japan did not flag in 2017, and there was also a great influx of Korean tourists to Taiwan. Usage on routes between Taiwan and Japan and Taiwan and Korea rose on average 5% and 15% respectively. As a result, the China Airlines group has converted all its Taoyuan-Seoul Incheon flights to widebody operations, while increasing the frequency of its Kaohsiung-Seoul Incheon flights to daily departures starting last March. Flights have been added to the Taoyuan-Fukuoka and Taoyuan-Narita routes, and further increases are in store for Northeast Asian routes, to maintain China Airlines' market share and competitiveness.

• European Routes:

In addition to its Frankfurt route, China Airlines began serving all its European routes with A350-900s starting in January, 2017. This includes flights from Taoyuan to Amsterdam, Vienna and Rome. At the same time, four weekly roundtrips began on the Taoyuan-London (Gatwick) route in December. This brought China Airline's list of European destinations to five. With new aircraft coming on line, China Airlines will further integrate flights on the Vienna, London (Gatwick) and Rome routes in 2018, while operating flights from Taoyuan to Paris as a codeshare with Skyteam Alliance partner Air France. This will provide tight, rapid service on European routes.

• Australia and New Zealand Routes

To further enhance its strength on routes to Oceania, China Airlines began using new A350-900s on its Taoyuan-Sydney route in December, 2017. Flights were also increased to two per day, while a daily flight was inaugurated on the Taoyuan-Brisbane-Auckland route. Additionally, starting with summer flights at the end of March, 2018, all routes to Oceania will be served with A350-900 aircraft, improving the passenger product on these routes and actively expanding the route network transfer market from Oceania to Europe and Northeast Asia, enhancing the company's service.

• Southeast Asian Routes:

In line with the new Southern Policy, China Airlines increased its Taoyuan-Bangkok flights to 23 per week in 2017, and its Taoyuan-Penang flights to 6 per week. Between November, 2017 and March, 2018, the company will offer two flights per week between Kaohsiung and Hanoi. When the summer flight schedule begins in March, 2018, China Airlines will increase weekly flights between Taoyuan and Bangkok to 28 and continue observing that regional market to judge at an appropriate moment the feasibility of adding more capacity.

• North American routes:

In line with China Airlines' timetable for bringing new long-haul aircraft into service, starting in August and October 2017 respectively, service with A350-900 aircraft commenced on Taoyuan-Vancouver and Honolulu routes. When the summer schedule begins at the end of March, 2018, China Airlines will offer two daily flights between Taoyuan and Ontario, California, providing customers with more diversified choices.

1.2.3 Cargo Service

Global trade demand will steady once more in 2018, and IATA projections have global cargo growth rates a bit slower than 2017 levels. However, 4.5% growth is still expected. However, since there is still an excess of space on the market as a whole, in the future the company will match up belly compartment capacity in widebody aircraft and continue to optimize its route network to adapt to changes in global cargo market demand.

• Long-Haul Routes

Some 41 cargo flights are planned weekly (35 overseas flights and 6 European routes). Overseas flights are increased based on seasonal rise and fall in market demand, locking in large manufacturers and agencies enhances and promotes customized charter business. In 2017, cargo volume from Europe to Asia trended toward recovery, and with the company's all-new Airbus A350-900s flying European routes with direct service, it will continue to develop e-commerce express delivery, postal delivery, fresh and frozen cargo and enhance its cooperation with United Airlines, making full use of the belly compartment capacity of its A350-900sto expand business revenue.

• Asian Routes:

With the new Southern policy and continued economic development in Southeast Asian nations, sources of cargo like consumer electronics, textiles, and cross-border e-commerce promise market growth. China Airlines will continue its thorough development in Japan, Singapore, Malaysia, Indonesia, Vietnam, the Philippines and Thailand to win cargo moving north-south in Asia, and will also optimize combination of Southeast Asian cargo flight destinations, considering the conversion of multi-leg destinations into direct flights based on the development of demand. The company will strive to coordinate with development in Southeast Asia, increasing the overall economic efficiency of operations.

• Scheduled charter business and high-growth goods supply expansion:

2017 saw splendid results from scheduled charter business, with expanded charter business to accommodate individual customer demand. Some 120 charter flights were completed between Taipei, Hong Kong, Nanjing, Vietnam, Los Angeles, and Chicago, and further development of Southeast Asian and other emerging markets will continue in 2018, as well as adjustments to route networks in response to market changes and promotion of custom charter business. China Airlines will strive to bring the full effectiveness of its cargo fleet into play. Moreover, the potential market for special cargo such as semiconductor precision machines, motors, temperature controlled cold chain and biotech pharmaceuticals will continue as a focus for development. Additionally, to keep in step with the development of cross-border ecommerce, the company is enhancing its cooperation with express shippers and air resource development and sharing among the SKTC (SkyTeam Cargo) alliance , and continues to roll out postal/express and other related business, grasping the trends in logistics and enlarging its operational territory.

1.3 Development Strategies

Looking to the future, the airline market will become more competitive, the progress of cross-Strait relations is unclear, and oil prices continue to climb. All this means the operating environment is made more and more difficult. China Airlines sincerely believes that holding firmly to its deep roots is the only road toward sustainable operations for an airline.

Creating "profit" for the company and maintaining "safety" for passengers are the primary missions of China Airlines. On the safety front, China Airlines has been awarded the highest standard for flight safety, IOSA certification. It will continue to live up to these accolades and carefully oversee flight safety. At the same time, China Airlines has signed a joint air medicine memorandum of cooperation with Changgeng Memorial Hospital in Linkou, becoming Taiwan's first company able to provide in-flight medical treatment support. China Airlines holds itself to the highest standards, to bring passengers the safest travel and set their minds at ease.

In the profit sphere, China Airlines continues to optimize its flight network, solidifying its existing passenger destinations and, at the end of 2017, resuming flights to London, England. This year, the airline will begin to fly to California's Ontario Airport and inaugurate a direct flight to Paris as a codeshare with Air France. These actions will enhance the company's long haul deployment and expand its bidirectional connections market. The assessment process for selection of narrow body regional aircraft has gotten underway, to implement the company's strategy of a youthful fleet. Overall prospects for the air cargo market are improving, and cargo operations coordinated with passenger aircraft belly compartments will be brought into full play and as demand changes, adjustments will be made to cargo capacity to better grasp business opportunities. China Airlines is located in Asia-Pacific region, where the development of the air industry is rapid. It keenly appreciates the importance of aircraft maintenance, and actively partners with Airbus and has a joint venture in Taiwan with NORDAM aerospace group (USA) to establish a compound materials and maintenance plant, "NORDAM Asia Ltd.” to expand its maintenance and repairs territory. The company is also leveraging the advantages of its own onboard duty-free products experience and warehouses to prepare to move into the e-commerce market. China Airlines will continue to promote both vertical and horizontal strategies in the new year, deepening the group's operational strength.

In 2018, China Airlines will continue to keep its promises to its stakeholders, constantly surpassing itself, and using the cohesive spirit of the airline to achieve a sustainable vision of "becoming Taiwan's premiere airline", and bringing its passengers the joy of both "familiarity" and "surprise". It will keep developing into the most trusted friend of every air passenger and a family member that truly understands them, so that the plum blossoms of China Airlines will continue to thrive in every corner of the world.

Chairman: Ho, Nuan-Hsuan

President: Hsieh, Su-Chien

Vice President, Finance Div.:
Chen, I-Chieh

Company Profile

2.1 Date of Incorporation

2.2 Company History

II. Company Profile

2.1Date of Incorporation

September 7, 1959

2.2 Company History

1959: China Airlines (CAL) was founded by 26 retired members of the Air Force with TWD 400,000 in capital. The Company flew charter flights using two rented PBY seaplanes.

1961: Provided military supply transport to Laos.

1962: Flew special cargo missions for the Vietnamese government and USARV. Inaugurated the first domestic route from Taipei to Hualien.

1966: Inaugurated the first international route from Taipei to Saigon (now Ho Chi Minh City), marking our official start in international aviation.

1967: Inaugurated Northeast Asia routes.

1970: Developed trans - Pacific routes to explore the US market.

1976: Inaugurated Middle East and Saudi Arabia Routes.

1978: Invested in Taoyuan International Airport Services Co., Ltd.

1980: Invested in Dynasty Holidays, Inc.

1983: Expanded European routes.

1986: Divided the Operations Division into Passenger Division and Cargo Division to expand operations.

1988: Twenty - seven shareholders donated shares to establish the China Aviation Development Foundation, transferring the rights of supervision and management to society.

1989: Invested in Hwa Hsia Co., Ltd. and Tai Kong Ju Investment Co., Ltd.

1990: Added Phuket and Bali destinations. Invested in Abacus Distribution Systems (Taiwan) Ltd.

1991: Established Hua Mei Investment Company and Mandarin Airlines. The Ministry of Finance approved the public offering of China Airlines shares.

1992: Resumed flights to Ho Chi Minh City. The Taiwan Stock Exchange approved the listing of China Airlines shares. The Company gained 100% equity interest in Mandarin Airlines.

1993: First flight to Frankfurt. Established German Branch Office. Officially listed on the Taiwan Stock Exchange.

1994: New engine repair plant became operational and Songshan Training Minquan Building opened. Set up China Pacific Catering Services as a joint venture with the Swire Group.

1995: First flights to Switzerland and Italy. Entered into a joint venture with Pratt & Whitney and SIA Engineering Company Limited to establish Asian Compressor Technology Services Co. in Taiwan. Invested in CAL - Asia Investments Inc. Launched our "plum blossom" logo.

1996: Inaugurated the Taipei - Penang cargo route.

1997: Inaugurated the Kaohsiung - Hong Kong - Jakarta route. Established the first cargo - only flights between Asia and Miami. Established code share flights with Continental Airlines and American Airlines. Invested in Huasheng Investment Company and China Pacific Laundry Services Ltd.

1998: Set up our Penang Branch Office and Hanoi Branch. Began using the Third Maintenance Hangar.

1999: Inaugurated cargo flight routes to Sydney, Delhi, and Colombo. Set up Kaohsiung Airport Catering Services as a joint venture with TransAsia Airlines and Far Eastern Air Transport. Established Chung Hwa Express Corp. as a joint venture with Chunghwa Post. Established TACT Logistics through investment transfer.

2000: Launched Canada, Australia and New Zealand routes and Taipei - Guam, Taipei - Manila, Kaohsiung - Manila, Hakodate charter, and Taipei - Penang passenger flights and Frankfurt cargo flights. Established Shanghai office in Mainland China and new branch offices in Canada, Australia, New Zealand and Guam. Established YesTrip Travel Internet Technology Co.

2001: Inaugurated cargo flight routes to Seattle and Nashville. Made indirect investment in Xiamen International Airport Co., Ltd. Set up code - share flights with Delta Airlines. Introduced A340-300 passenger jets.

2002: Inaugurated passenger flight routes to Delhi and cargo routes to Manchester. Received approval to invest in China Cargo Airlines. Ordered 18 Airbus A330 passenger aircraft and 10 Boeing 747-400 cargo and passenger aircraft. Rejoined the International Air Transport Association (IATA).

2003: Inaugurated the first cross - strait Spring Festival charter flight. Inaugurated charter flights to Seoul and passenger routes to Brisbane and Hanoi and non - stop flights to Hawaii. Inaugurated cargo flight routes to Ho Chi Minh City and Delhi. Created the Paragon Card, the highest Dynasty Flyer membership tier. Received the Outstanding Service Award from the R.O.C. President.

2004: Launched sea - air transport charter flights. Inaugurated Hiroshima passenger flights and cargo routes to Milan and Prague. Introduced three A330-300 passenger jets, two Boeing 747-400 passenger jets and two Boeing 747-400 freighters.

2005: Flew the first direct charter flights to Beijing, and Spring Festival charters to Guangzhou and Shanghai. Inaugurated Vienna passenger flight route and Nagoya and Vienna cargo flight routes. Invested in China Aircraft Services Limited.

2006: Inaugurated cargo flight routes to Osaka, Hanoi, Houston and Stockholm. Flew the first cargo charter flight to Shanghai. Invested in Yangtze River Express Airlines Company. Began construction on the Taoyuan International Airport Airline Business Operation Center.

2007: Signed a letter of intent to purchase with Airbus. Announced contract with AccorHotels for a new airport hotel. Inaugurated regularly - scheduled passenger flights between Kaohsiung and Chiang Mai.

2008: Launched cross - strait humanitarian charter flights direct to Chengdu to deliver disaster relief supplies at no charge. Inaugurated cross - strait holiday charter flights, weekend charter flights to Shanghai, Beijing, Xiamen, and Guangzhou, and cross - strait direct cargo charter flights.

2009: Inaugurated the Taipei - Osaka - Los Angeles cargo flight route. Inaugurated scheduled cross - strait flights to Zhengzhou, Xiamen, Xi'an, Ningbo, Shenyang, and Changsha. Became an official member of IATA's e - Freight program. Inaugurated Taiwan's largest 120,000-pound power plant testing platform.

2010: New routes: Passenger routes between Taipei and the cities of Miyazaki, London, and Qingdao, Songshan Airport to Hongqiao and Haneda, and Kaohsiung to Xiamen and Narita, direct cargo flights to Xiamen, Nanjing and Fuzhou as well as the special cargo charter flight direct to Xi'an. Established Company headquarters in China Airlines Park and won the National Building Golden Award and National First Award.

2011: New routes: Taipei - Brisbane - Auckland; Taipei - Osaka - New York; flights to and from Taipei and Wuhan, Sanya, Yancheng, Haikou, Nanchang and Dalian; Taicheng to Chongqing and Nanchang; Kaohsiung to Changsha, Chongqing, Beijing, and Kuala Lumpur. Officially joined SkyTeam, becoming the first Taiwanese airline member of an international airline alliance.

2012: New routes: Songshan to Wenzhou and Gimpo Airport, Taipei to Kagoshima, Shizuoka and Toyama, added Auckland leg to the Taipei - Sydney route, and Taipei to Seoul and Yangon. Joined SkyTeam Cargo becoming the first Taiwanese airline to join an international air cargo alliance. Renovated the cabins of nine Boeing 747-400 passenger jets to install new cabin seats and video systems. Signed a Memorandum of Strategic Cooperation with Chunghwa Telecom. Signed an OnPoint Fuel & Carbon Solutions Agreement with GE Aviation. Awarded Business Next Magazine’s Super Green Jury Award and First Place in the Green Brand Awards 2012 Transportation Category, Gold Award in Reader's Digest Trusted Brands 2012, the Sports Activists Award from Sports Affairs Council, First Place in Management Magazine’s Consumer Brand Survey, and the 2012 Energy Conservation and Carbon Reduction Action Label Excellence Award. The China Airlines Maintenance Facility received ISO 14001 Environment Management System Certification. Launched the world's first trans - Pacific climate observation aircraft. Became the world's first airline to display our carbon footprint and calories for in-flight meals.

2013: Formed Greater China Connection Partnership with China Southern, China Eastern and Xiamen Airlines. Launched code-sharing services with Russia's Transaero Airlines and Hawaiian Airlines and expanded code-sharing services with China Southern Airlines. Launched Taipei - Takamatsu route, Chiayi - Shizuoka charter flights, Taipei - Hawaii direct flights, Taipei - Urumqi and Lijiang routes. Launched Taipei - Ishigaki, Tainan - Hong Kong, and Taipei - Busan routes as well as Songshan - Matsuyama charter flights. Launched the Taipei - Nanjing - Zhengzhou cargo route and Taipei - Weihai flights. Launched temperature-controlled product cargo services. Again awarded Business Next Magazine’s Super Green Jury Award and First Place in the Green Brand Awards 2013 Transportation Category. Awarded Top Aviation Brand in Manager Today‘s Power Brands Survey 2013 and Reader's Digest Trusted Brands Gold Award. Won the National Standardization Awards’ Corporate Standardization Award, 3rd Taiwan Green Classics Award, Global Views Service Excellence Award 2013, and EPA’s 22nd Business Environmental Award.

2014: Awarded the EPA’s 23rd Business Environmental Award and the International Green Classics Award 2014 and earned ISO 14001 Environment Management System Expansion Certification and ISO 50001 Energy Management System Setup Certification. Again awarded Business Next Magazine’s Super Green Jury Award and earned First Place in the Green Brand Awards Transportation Category for the third time. Inaugurated the Songshan - Fuzhou and Taipei to

Changchun, Hefei, Yantai, and Xuzhou routes. Won the Annual Best of Design Awards in the 2014 Golden Pin Design Award for our NextGen 777 aircraft cabin design and named the Best Airline in North Asia by Global Traveler.

2015: Launched Taipei - Wuxi; Kaohsiung to Changzhou, Kumamoto, and Fukuoka; Taipei - Melbourne with an extension to Christchurch; and Tainan - Osaka flights. Launched social media customer services, a first for Taiwan. Established an airplane maintenance training center. Received the following awards:

- Brand Service:
  CAA 2014 Golden Wing Awards, Second place in TheDesignAir Global Passenger Choice Top 10 Airlines Awards 2015, Reader's Digest Trusted Brands Gold Award, three top awards in the Global Traveler reader survey.

- Corporate Social Responsibility:
  2015 TCSA Taiwan Corporate Sustainability Award, EPA’s Business Environmental Awards.

- Product Design:
  The NextGen 777-300ER passenger cabin design was awarded the Red Dot Design Award 2015, Family Couch design received the Global Traveler Leisure Travel Innovation Excellence Award, Won National Industry Innovation Award for NexGen Aesthetics.

- Other:
  Centers for Disease Control Epidemic Prevention Award 2015.

2016: Launched Taipei - Yangzhou route and Taipei - Shenzhen cargo route. Inaugurated Chinese passenger transit through Taiwan for onward China Airlines flights. Increased free baggage allowance by 10 kg and reduced regional excess baggage charges. Took delivery of the first A350 airliner for any Taiwanese carrier. Completed the Air Passenger Transport Service-Product Carbon Footprint Category Regulations together with the Civil Aeronautics Administration. Received the following awards:

- Brand Service:
  PAX International magazine reader survey's 2016 Outstanding Food Service by a Carrier, Best Premium Economy and Best Airline by Global Traveler, China Airlines Dynasty In-flight Magazine won APEX Award of Excellence, the CAL website was named 2016 Best Airline Website by WebAward.

- Corporate Social Responsibility:
  Passed third-party audits for ISO 14001 and ISO 50001 Environmental Management Systems. Received IOSA flight safety certification and the TCSA Taiwan Corporate Sustainability Award 2016.

- Product Design:
  Received 5 iF Design Awards for the Boeing 777-300ER passenger cabin, software user interface, tableware design, Sky Lounge design packaging, and Taiwan Taoyuan Airport Terminal 1 Lounge. A double win in TheDesignAir Awards 2016.

- Other:
  Selected as a Dow Jones Sustainability Indices constituent stock, the first such honor for a Taiwanese company and emerging market airline.

2017: Inaugurated the Taipei - London route, as the only airline in Taiwan to offer nonstop service to London. Partnered with Air France on a codeshare nonstop flight from Taipei to Paris. Added codeshares on Taiwan - Japan routes with Air Japan. Signed a memorandum of cooperation with KLM. Signed an agreement to enhance cooperation with American Airlines. Signed a Letter of Intent with Airbus comprehensively strengthening cooperation on maintenance. Established a joint venture in Taoyuan with NORDAM Aerospace (USA) as "NORDAM Asia Ltd.” with both parties cooperating to drive business investment and training of aerospace maintenance personnel. Signed a memorandum of cooperation with Changgeng Hospital of Linkou for air medical treatment. Obtained AS 9110 Airbus certification for maintenance facility. Flew Taiwanese satellites to the US on four occasions. Hosted the 2017 AAPA annual conference to empower development in the Asia-Pacific airline industry. Provided the second A330-300 to work on plans for greenhouse gas observation and testing in the Pacific. Signed the Buckingham Palace Declaration against illegal wildlife shipments. Used sustainable alternative fuels and setting a milestone in carbon reduction among Taiwanese airlines. Received many awards:

- Brand Service:
  Excellence in Global Airline Cargo Service award. Cheers magazine's 2017 "TOP 20 Most Influential Enterprises of the New Era". Awarded a Gold Medal for reputation by "Readers' Digest" for the 19th consecutive year. Awarded a 2017 Global Vision magazine five-star service rating. Remained on top as Global Traveler's Best Airline in Northeast Asia.

- Corporate Social Responsibility:
  Won the "Taiwan Top 50 Enterprises Sustainability Report Gold Medal for Cargo Division", "Climate Leader Award" and "Harmony with Society" award.

- Other:
  Selected for the Dow Jones Sustainability Index for the second consecutive year.

2018: China Airlines campus wins Ministry of the Interior Diamond Class mark for green construction, with savings of 23,000 units of electricity annually. The China Airlines group also donated NT$10 million to assist in the aftermath of the Hualien earthquake. The new Taipei - Ontario County California route formally goes into operation. Expanded codeshare operations with Air France on Direct Flights between Taipei and Paris. The Cheers magazine announced that China Airlines is a top 20 employer among the younger generation and the Premium Economy class product targeted at the young adult generation was also named "Best 10 Company Profile Onboard Amenities Kit - Premium Economy" at the Onboard Hospitality Awards by OBH Magazine.

Corporate Governance Report

3.1 Organization

3.2 Directors and Management Team

3.3 Implementation of Corporate Governance

3.4 Information Regarding the Company's Audit Fee and Independence

3.5 Replacement of CPA

3.6 Audit Independence

3.7 Changes in Shareholding of Directors, Managers and Major Shareholders

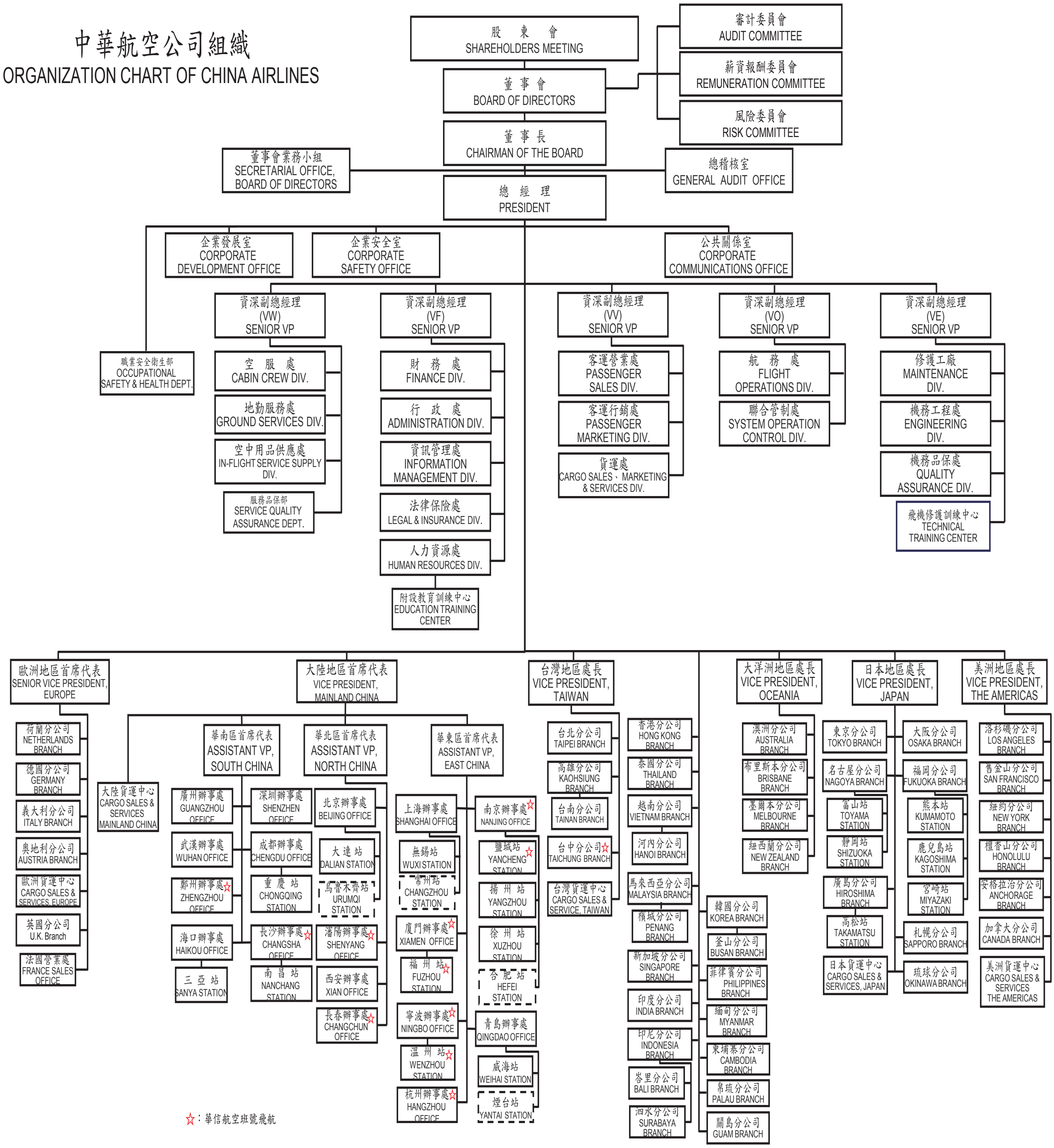
3.8 Relationships among the Top Ten Shareholders

3.9 Ownership of Shares in Affiliated Enterprises

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart (APR 29, 2018)



3.1.2 Major Corporate Functions

Department	Functions
General Audit Office	Responsible for auditing the internal control system, results of implementation of the annual business plan.
Secretarial Office, Board Of Directors	Responsible for holding Board of Directors meetings, collating and sending meeting proceedings and overseeing matters relating to resolutions, coordination channels with general public stockholders, matters relating to juridical person shareholder representatives, director communications and services, and budgeting and controls for the Board and all functional committees.
Corporate Development Office	Responsible for drafting the Company's medium and long-term strategic operating plan, fleet plan, and annual business plan; seeking flying rights and building relationships between the Company and civil aviation authorities in various countries; establishing brand position and development strategies; planning medium and long-term design and development of passenger cabins and entertainment systems; purchasing, selling, and leasing of aircraft; and supervising the operational performance and management of invested enterprises.
Corporate Safety Office	Drafts Company safety, security, quality assurance, environmental, and emergency response policies and systems; establishes related management systems and carries out educational training; implements related investigations, analysis, and examinations; coordinates with government agencies and civil aviation authorities, manufacturers, and groups to deal with Company safety, security, quality assurance, environmental, and emergency response-related issues.
Corporate Communications Office	Responsible for external Company communications, communication links with the legislature and the media, planning social welfare activities, sponsoring charitable activities, organizing inaugural flights and other holiday or celebratory activities, publishing CAL Park Magazine, supervising and coordinating publication of Dynasty Magazine, organizing employee recreational activities, and setting the Company's brand image and advertising strategy.
Legal & Insurance Div.	Responsible for reviewing all outside agreements and contracts, handling litigation, and management of insurance matters for Company assets, such as the fleet and aeronautical parts, personnel, and passenger and cargo transportation.
Finance Div.	Responsible for planning financing sources, managing use of funds, controlling the budget, auditing accounts receivable and payable items, preparing financial statements, managing tax-related issues, fuel purchasing, and providing accounting and cost analysis information.
Administration Div.	Responsible for procurement of general goods, managing renovation projects and land/real estate, land transport management and vehicle maintenance, supervising CAL Park security and access control management, handling company licenses, monitoring and safekeeping of Company seals, sending and receipt of prospectuses and official documents, and document management.
Cabin Crew Div.	Responsible for establishing cabin crew operating standards, managing training of cabin crew, planning cabin crew manpower needs, and implementing assignment of cabin crew personnel.

Department	Functions
Ground Services Div.	Responsible for establishing ground services operating standards, development of the ground services operating system, planning and implementation of a full range of ground services training, supervising ground services operations at each station, providing ground services at Taiwan Taoyuan and Songshan Airports, and overall management of ground service provider contracts.
In-Flight Service Supply Div.	Responsible for the R&D and planning for air and ground service supplies and in-flight duty free products, planning and supply management for meal and drink service on all routes, implementing and managing procurement, storage, preparation, and loading of all air and ground service supplies. Investigates improvements to various in-flight products based on customer opinions and market trends.
Service Quality Assurance Dept.	Established and implements the Company's ISO 9001 quality management system and implements service quality education, internal quality auditor training, and measures to encourage better understanding of quality-related issues. Monitors passenger satisfaction surveys and on-time targets, investigates and analyses passenger satisfaction in relation to Company goals, and plans and implements passenger service quality checks.
Passenger Sales Div.	Responsible for supervision of passenger flight route management, sales promotion and supervision of passenger transport advertising and budget control at all stations, passenger seating controls, determining passenger ticket pricing and setting sales quotas, and business performance evaluation. Established, develops, and maintains the revenue management system and holds passenger sales training. Arranges the entire passenger flight table to optimize aircraft use and revenue.
Passenger Marketing Div.	Responsible for passenger service internet marketing, e-commerce, promoting Dynasty Flyer membership, planning and promotion of Dynasty Package products, and development and management of related systems. Established and supervises the customer relationship maintenance service mechanism, and handles and analyses passenger opinions.
Information Management Div.	Combines information technology with business knowledge to promote computerization within the Company to upgrade operational competitiveness.
Human Resources Div.	Responsible for planning the Company organization and human resources, establishment of a personnel management system, and setting pay standards. Provides recruitment services, supervises personnel management, established the employee training system and oversees future updates, provides employee health management, and manages personnel assignments to affiliated enterprises.
Occupational Safety & Health Dept.	Writes the Company's Occupational Health and Safety Manual and regulations; drafts, plans, supervises, and promotes health and safety matters and guides implementation in relevant departments in order to prevent occupational hazards and ensure employee health and safety. Received OHSAS 18001 and CNS 15506 occupational health and safety certification following SGS audit to effectively control occupational incident risk and improve occupational health and safety performance.

Department	Functions
Cargo Sales, Marketing & Services Div.	Establishes the cargo development strategy, supervises cargo operations on all routes, plans the cargo flight timetable and controls allocation of hold space, sets cargo shipping rates and sales quotas, evaluates operating performance, drafts and oversees cargo services and operating standards, and is responsible for passenger and cargo plane loading control operations, cargo equipment controls and replenishment, Taipei cargo terminal operations, and accounting for the Cargo Sales, Marketing & Services Division and Taiwan Cargo Center.
Flight Operations Div.	Responsible for cabin crew manpower requirement planning, training and management of cabin crew, developing flight operating standards, controlling fuel consumption, planning and implementation of crew and flight assignments, and maintaining airplane flight manuals and flight simulators.
System Operation Control Div.	Manages coordination of all airports in the system, oversees flight status, coordinates and manages adjustment of flights in response to anomalies, guarantees on-time performance rates, provides real-time information to aircraft in flight, ensures flight safety, investigates reasons for major delays to flights, establishes comprehensive aircraft and statistical analysis data; operates and guides crew allocation, plans and manages flight permits; responsible for safety management and liability related to business.
Maintenance Div.	Responsible for implementation of airplane maintenance, client aircraft maintenance services, support and supervision of station maintenance, and development of maintenance capabilities.
Engineering Div.	Responsible for the planning and control of airplane maintenance, materials supply management, controlling maintenance costs, and planning the information system development strategy.
Quality Assurance Div.	Responsible for coordination and communication with other countries' civil aviation authorities; maintaining the validity of operating standards, repair facility licenses, and aircraft airworthiness certificates; authorization and management of maintenance personnel training and task assignments; formulation and implementation of the quality audit system. Established and implements the aircraft quality management and on-site inspection systems, implements introduction of new aircraft and sale or return of aircraft as stipulated in the fleet plan, and assists in aircraft incident investigations.
Technical Training Center	Develops type training and license conversion training that comply with CAA 05-02A requirements. Compose training plan and execute training in accordance with EMO (Engineering & Maintenance Organization) demands and customer requests.
Branch offices	Responsible for each branch's development and promotion of passenger and freight related operations.

3.2 Directors and Management Team

3.2.1 Directors

APR 29, 2018

Title	Name	Nationality / Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/26/2015	3	1,867,341,935	34.14%	1,867,341,935	34.13%	-	-	-	-	-	-	-	-	-
	Representative: Ho, Nuan-Hsuan	R.O.C.	Male	06/24/2016	06/26/2015	(Note 1)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, Taoyuan Metro Corporation Member, The Coordination Council for North American Affairs, Executive Yuan Administrative Deputy Minister, Ministry of Transportation and Communications Chairman, Chunghwa Post Co., Ltd. Director-General, Taiwan Railway Administration, MOTC Director-General, Bureau of High Speed Rail, MOTC Director-General, Taiwan Area National Freeway Bureau, MOTC PhD in Industrial Engineering and Management, Chung Hua University	Chairman, China Airlines Ltd. Chairman, CAL Park Co., Ltd. Chairman, CAL-Asia Investment Inc. Chairman, CAL-Dynasty International, Inc. Chairman, CAL Hotel Co., Ltd. Chairman, NORDAM Asia Ltd. Vice Chairman, China Pacific Catering Services Ltd. Director, China Aviation Development Foundation	None	None	None
Director	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/26/2015	3	1,867,341,935	34.14%	1,867,341,935	34.13%	-	-	-	-	-	-	-	-	-
	Representative: Hsieh, Su-Chien	R.O.C.	Male	07/06/2016	06/26/2015	(Note 2)	48,517	0.00%	48,517	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Air Cargo Terminal Ltd. Senior Vice President of Marketing, China Airlines Ltd. Director, Taiwan Region and General Manager of Taipei Branch Office, China Airlines Ltd. General Manager, Australia Branch Office, China Airlines Ltd. General Manager, Indonesia Branch Office, China Airlines Ltd. General Manager, Kaohsiung Branch Office, China Airlines Ltd. Vice President, Passenger Sales Div. Chairman, Abacus Distribution Systems Taiwan Ltd. Bachelor's Degree, Department of Economics, Soochow University	President, China Airlines Ltd. Chairman, Mandarin Airlines, Ltd. Director & President, CAL Park Co., Ltd. Director, CAL Hotel Co., Ltd. Director, CAL-Asia Investment Inc. Director, CAL-Dynasty International, Inc. Director, Dynasty Properties Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
	Representative: Charles C.Y., Chen	R.O.C.	Male	07/01/2000	06/26/2015	3	190,166	0.00%	190,166	0.00%	155,849	0.00%	0	0.00%	Director, Wan Hai Lines Ltd. Chairman, UTAC Group, Singapore Chairman, Epistar Corp. Director, Formosa International Hotels Ltd. Director, Ascendas Pte. Ltd. Director, Ichia Technologies, Inc. Adjunct Associate Professor, National Tsing Hua University MBA, New York University, U.S.A.	Chairman, Eyon Holding Group Vice Chairman, Taiwan Air Cargo Terminal Ltd. Vice Chairman, Taian Insurance Co., Ltd. Director, Epistar Corp. Director, Shihlin Papaer Co., Ltd. Chairman, Wan Hai International Pte. Ltd. President, Chen-Yung Foundation Vice Chairman, Wan Hai Lines (Singapore) Pte Ltd.	None	None	None
	Representative: Ting, Kwang-Hung	R.O.C.	Male	01/28/2008	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	BA in Finance, Boston University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Chairman, Central Trading & Development Corp. Chairman, Hiep Phuoc Power Co., Ltd. Chairman, Macro Technologies Inc. (Vietnam) Ltd. Chairman, Phu My Hung Asia Holdings Corp. Vice Chairman, TVBS Media Inc. Director, Phu My Hung Development Corp. Visiting Professor, College of Management of National Taiwan Normal University	None	None	None
	Representative: Jong, Jia-shi	R.O.C.	Male	08/09/2016	06/26/2015	(Note 3)	543	0.00%	543	0.00%	0	0.00%	0	0.00%	Chairman, China Airlines Employee Union Standing Director, China Airlines Employee Union Mission Association Representative, China Airlines Employee Union Mechanic, Engine Repair Technician, R.O.C. Air Force R.O.C. Air Force, Technical School, non-commissioned officers classes 85 Mechanical Associate Degree, Mechanical Engineering Section, Southeast Private Junior College	Technician, Surface Treatment EMO Engine Maintenance Department China Airlines Ltd.	None	None	None
	Representative: Lee, Kuo-Fu	R.O.C.	Male	07/13/2015	06/26/2015	(Note 4)	10,859	0.00%	10,859	0.00%	10,473	0.00%	0	0.00%	First Officer By AB6Fleet First Officer And Cruise Captain By 744Fleet Standing Director, China Airlines Employee Union Director, Federation of Aviation Employees, R.O.C. Director, Jiantan Community Development Association Test Pilot, R.O.C. Air Force Lieutenant Colonel, R.O.C. Air Force Research Officer Of Flight Safety, National Taiwan University Bachelor's Degree of Science, R.O.C. Air Force Academy, Taiwan	744 Captain, China Airlines Ltd.	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
	Representative: Cheng, Chuan-Yi	R.O.C.	Male	07/26/2016	06/26/2015	(Note 5)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	President, EVA Air Executive Vice President, EVA Air Bachelor's Degree, Department of International Business, Tunghai University	None	None	None	None
	Representative: Chen, Han-Ming	R.O.C.	Male	07/26/2016	06/26/2015	(Note 5)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Director, Yuan-Chin Development Co., Ltd. Member, Rotary Club Of Taipei Tunhua BA(Hons) Architecture, University of Plymouth, UK MSc, Birmingham City University, UK	Chairman, Prime Development Co., Ltd. Supervisor, Chang-Jia M&E Engineering Corp. Director, Chyn-Tay Bearing Co., Ltd.	None	None	None
Director	National Development Fund, Executive Yuan	R.O.C.	-	06/15/2012	06/26/2015	3	519,750,519	9.50%	519,750,519	9.50%	-	-	-	-	-	-	-	-	-
	Representative: Lin, Su-Ming	R.O.C.	Male				0	0.00%	0	0.00%	0	0.00%	0	0.00%	Member, Tax Reform Commission, Executive Yuan Member, Administration Appeals Commission, Taipei City Government Deputy Dean, College of Management, National Taiwan University Chairman, Department and Graduate Institute of Accounting, National Taiwan University Ph.D. in Accounting, Arizona State University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Public Director, Taipei Exchange, R.O.C. Independent Director, Nan Shan Life Insurance Co., Ltd. Director, iPASS Corp. Professor, Department & Graduate Institute of Accounting, National Taiwan University	None	None	None
Independent Director	Chung, Lo-Min	R.O.C.	Male	06/15/2012	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, China Steel Chemical Corp. Chairman, Universal eXchange Inc. Executive Vice President, China Steel Corp. Vice President of Finance, China Steel Corp. MBA, Arizona State University, U.S.A.	Chairman, Audit Committee, China Airlines Ltd.	None	None	None
Independent Director	Luo, Hsiao-Hsien	R.O.C.	Male	06/15/2012	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Commissioner, Department of Transportation, Taipei City Government Mayor Advisor, Taipei City Government President, Chinese Institute of Transportation President, Taipei Society for Traffic Safety Acting Chairman, Managing Director, Taipei Rapid Transit Corp. Director, EasyCard Investment Holdings Corp. and Easy Card Corp. Chairman and Member, Transportation Committee, Consumers' Foundation, Chinese Taipei Chairman, Department of Transportation Management, Tamkang University Ph.D. in Civil Engineering (Transportation), National Taiwan University	Chairman, Remuneration Committee, China Airlines Ltd. Chairman, Risk Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd. Associate Professor and Dean of General Affairs, Department of Transportation Management, Tamkang University Standing Director, Chinese Institute of Transportation Director, Eastern Asia Society for Transportation Studies, EASTS Supervisor, Taipei Rapid Transit Corp. Director, Vehicle Safety Certification Center Director, Taipei Traffic Foundation Director, Jing Chuan Child Safety Foundation Standing Director, Taipei Society for Traffic Safety Standing Director, China Road Federation Director, The General Association of the Scouts of China	None	None	None

Title	Name	Nationality / Country of Origin	Gender	Date First Elected	Date Elected	Term (Years)	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Independent Director	Ting, Tin-Yu	R.O.C.	Male	06/26/2015	06/26/2015	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Vice Mayor, Taipei City Government Chairman, Globalview Ltd. Chairman, Public Opinion Research Foundation Chief Consultant, Gallup Market Research Corp., Taiwan Consultant, USC Market Research Corp. Independent Director, Fubon Life Insurance Co., Ltd. Independent Director, Fubon Insurance Co., Ltd. Independent Director, Fubon Financial Holding Co., Ltd. Director, Taipei Smart Card Corp. Associate Professor, Department of Sociology, National Taiwan University Assistant Professor, Kansas State University, U.S.A. Associate Professor, Department of Sociology, National Chengchi University BA, Department of Sociology, National Taiwan University Ph.D., Department of Sociology, University of Michigan, U.S.A.	Member, Remuneration Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd. Associate Professor, Department of Urban Industrial Management and Marketing, University of Taipei	None	None	None

Note 1: On June 24, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 2: On July 6, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 3: On August 9, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 4: On July 13, 2015, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 5: On July 26, 2016, elected as a representative of juridical person shareholder China Aviation Development Foundation to the 20th Board Session.
Note 6: Average length of service at the company for the 20th Board of Directors was 5.2 years.

Major shareholders among institutional shareholders

Name of Institutional Shareholders	Major Shareholders
China Aviation Development Foundation	Non-corporate organization, not applicable
National Development Fund, Executive Yuan	Non-corporate organization, not applicable

Professional qualifications and independence analysis of directors

Criteria / Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note 1)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Ho, Nuan-Hsuan	✓	-	✓	✓	-	✓	✓	-	-	✓	✓	✓	-	-
Hsieh, Su-Chien	-	-	✓	-	-	✓	✓	✓	✓	✓	✓	✓	-	-
Charles C.Y. ,Chen	✓	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-
Jong, Jia-shi	-	-	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Cheng, Chuan-Yi	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Ting, Kwang-Hung	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Chen, Han-Ming	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Lee, Kuo- Fu	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	-	-
Lin, Su-Ming	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	1(Note 2)
Chung, Lo-Min	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Luo, Hsiao-Hsien	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Ting, Tin-Yu	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note 1: Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during their term in office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the “Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx“.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note 2: Served as independent director of Nan Shan Life Insurance Co., Ltd. since June 26, 2013.

3.2.2 Management Team

APR 29, 2018

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
President	Hsieh, Su-Chien	R.O.C.	Male	06/24/2016	48,517	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Air Cargo Terminal Ltd. General Manager, Australia Branch Senior Vice President Of Marketing Bachelor's Degree From Soochow University	Chairman, Mandarin Airlines, Ltd. Director, CAL Hotel Co., Ltd. Director, CAL-Asia Investment Inc. Director & President, CAL Park Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, CAL-Dynasty International, Inc. Director, Dynasty Properties Co., Ltd.	None	None	None	None
Auditor General, General Audit Office	Chung, Chuar-Duan	R.O.C.	Male	12/26/2015	25,610	0.00%	0	0.00%	0	0.00%	Vice President, Investment Development & Management Office General Manager, Singapore Branch Bachelor's Degree From Soochow University	Supervisor, Taiwan Airport Service Co., Ltd. Supervisor, China Pacific Catering Services Ltd. Supervisor, CAL Park Co., Ltd. Supervisor, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Supervisor, CAL Hotel Co., Ltd.	None	None	None	None
Deputy Auditor General, General Audit Office	Ho, Hui-Fen	R.O.C.	Female	02/01/2018	0	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Finance Div. General Manager, General Accounting Department, Finance Div. Master's Degree From Soochow University	Supervisor, Dynasty Holidays, Inc. Supervisor, Kaohsiung Airport Catering Services Ltd. Supervisor, Taiwan Aircraft Maintenance And Engineering Co., Ltd.	None	None	None	None
Senior Vice President (VF)	Chang, Young	R.O.C.	Male	06/24/2016	0	0.00%	0	0.00%	0	0.00%	Chairman, Taiwan Airport Services Co., Ltd. Concurrently, President, Taiwan Airport Services Co., Ltd. President, Taoyuan International Airport Services Co., Ltd. Bachelor's Degree From Fu Jen University	Chairman, Kaohsiung Airport Catering Services Ltd. Chairman, Taiwan Airport Service Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, Tigerair Taiwan Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Arport Air Terminal (Xiamen) Co., Ltd. Director, Arport Air Cargo Service (Xiamen) Co., Ltd. Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director, CAL Park Co., Ltd.	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Senior Vice President (VV)	Chang, Chih-Chieh	R.O.C.	Male	08/11/2016	96,553	0.00%	0	0.00%	0	0.00%	Vice President, Passenger Sales Div. General Manager, New York Branch Bachelor's Degree From Tunghai University	Director, CAL Hotel Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Taiwan Air Cargo Terminal Ltd. Director, Tigerair Taiwan Co., Ltd.	None	None	None	None
Senior Vice President (VO)	Kao, Shing-Hwang	R.O.C.	Male	06/01/2011	62,809	0.00%	0	0.00%	0	0.00%	Vice President, Flight Operations Div. Assistant Vice President, Flight Operations Div. Bachelor's Degree From National Cheng Kung University	Director, Mandarin Airlines, Ltd. Director, CAL Hotel Co., Ltd.	None	None	None	None
Senior Vice President (VE)	Wang, Houng	R.O.C.	Male	08/16/2017	12,069	0.00%	0	0.00%	0	0.00%	Vice President, Maintenance Div. Vice President, Engineering Div. Bachelor's Degree From Feng Chia University	Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Director, Mandarin Airlines, Ltd. Director, China Aircraft Services Ltd. Director, Taikoo (Xiamen) Landing Gear Services Co., Ltd. Director, Taikoo Spirit Aerosystems (Jinjiang) Composite Co., Ltd. Director, Taoyuan International Airport Services Co., Ltd. Director, NORDAM Asia Ltd.	None	None	None	None
Senior Vice President (VW)	Lo, Ya-Mei	R.O.C.	Female	06/24/2016	0	0.00%	0	0.00%	0	0.00%	General Manager, China Pacific Catering Services Ltd. Confidential Consultant, Executive Yuan Master's Degree From National Taiwan University	Director, CAL-Asia Investment Inc. Concurrently, President, CAL-Asia Investment Inc. Director, CAL Hotel Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Taoyuan International Airport Services Co., Ltd.	None	None	None	None
Data Protection Officer, DPO Team	Chung, Ming-Jyh	R.O.C.	Male	12/30/2017	638	0.00%	0	0.00%	0	0.00%	President, Taiwan Airport Services Co., Ltd. Vice President, Human Resources Div. Master's Degree From National Taiwan University	None	None	None	None	None
Vice President, Human Resources Div.	Chen, Kang-Reuy	R.O.C.	Male	05/13/2017	0	0.00%	0	0.00%	0	0.00%	General Manager, Vietnam Branch Vice President, Investment Development & Management Div. Associate's Degree From Tamsui Institute Of Business Administration	None	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President, Human Resources Div.	Yeah, Shao-Ting	R.O.C.	Male	01/01/2016	868	0.00%	0	0.00%	0	0.00%	General Manager, Human Resources & Administration Department, Maintenance Div. Bachelor's Degree From Chinese Culture University	None	None	None	None	None
Vice President, Flight Operations Div.	Lai, Ming-Hui	R.O.C.	Male	03/01/2016	19,127	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Safety Office Assistant Vice President, Flight Operations Div. Bachelor's Degree From National Cheng Kung University	None	None	None	None	None
Assistant Vice President, Flight Operations Div.	Tung, Hsing-Hua	R.O.C.	Male	03/16/2018	587	0.00%	0	0.00%	0	0.00%	General Manager, Legal Affairs Department, Legal & Insurance Div. General Manager, Business Management Department, Business Development Office Master's Degree From Tunghai University	None	None	None	None	None
Vice President, System Operation Control Div.	Chou, Jyh-Shyan	R.O.C.	Male	02/01/2017	9,171	0.00%	7,382	0.00%	0	0.00%	Assistant Vice President, Corporate Safety Office Vice President, Taiwan Airport Services Co., Ltd. Master's Degree From RMIT University, AU	None	None	None	None	None
Assistant Vice President, System Operation Control Div.	Jeng, Jong-Shinn	R.O.C.	Male	08/01/2013	1,494	0.00%	0	0.00%	0	0.00%	General Manager, Base Maintenance Department, Maintenance Div. General Manager, Line Operation Department, Maintenance Div. Associate's Degree From Lung Hwa College	None	None	None	None	None
Assistant Vice President, System Operation Control Div.	Huang, Hsiang-Piao	R.O.C.	Male	08/01/2017	1,000	0.00%	0	0.00%	0	0.00%	General Manager, Safety Assurance Department, Corporate Safety Office General Manager, Administration Department, Ground Services Div. Bachelor's Degree From National Sun Yat-Sen University	None	None	None	None	None
Vice President, Passenger Sales Div. & Passenger Marketing Div.	Wang, Chen-Min	R.O.C.	Male	12/10/2016	35,621	0.00%	0	0.00%	0	0.00%	General Manager, Korea Branch Assistant General Manager, Los Angeles Branch Bachelor's Degree From Feng Chia University	Director, Dynasty Holidays, Inc. Director, Sabre Travel Network (Taiwan) Ltd. Director, Everest Investment Holdings Ltd. Director, Yestrip Co., Ltd. Director, Tigerair Taiwan Co., Ltd.	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President, Passenger Sales Div.	Lai, Hsiang-Kuang	R.O.C.	Male	10/01/2017	24,250	0.00%	0	0.00%	0	0.00%	General Manager, Taichung Branch General Manager, Taichung Branch Of Mandarin Airlines, Ltd. Associate's Degree From Shu Shih Hsin University	None	None	None	None	None
Assistant Vice President, Passenger Marketing Div.	Ouyang, John	R.O.C.	Male	06/17/2017	13,903	0.00%	0	0.00%	0	0.00%	Vice President, Europe Assistant Vice President, Passenger Sales Div. General Associate Degree From St.John'S And Mary's Institute Technology	None	None	None	None	None
Vice President, Finance Div.	Chen, I-Chieh	R.O.C.	Male	02/16/2017	6,161	0.00%	0	0.00%	0	0.00%	Vice President, Investment Development & Management Div. General Manager, Vietnam Branch Concurrently, General Manager, Hanoi Branch Master's Degree From National Taipei University	Supervisor, Dynasty Aerotech International Corp. Supervisor, CAL Hotel Co., Ltd. Supervisor, Mandarin Airlines, Ltd. Supervisor, Arport Air Terminal (Xiamen) Co., Ltd. Supervisor, Arport Air Cargo Service (Xiamen) Co., Ltd. Supervisor, China Pacific Laundry Services Ltd. Supervisor, Tigerair Taiwan Co., Ltd.	None	None	None	None
Assistant Vice President, Finance Div.	Huang, Hui Na	R.O.C.	Female	09/01/2017	16,661	0.00%	0	0.00%	0	0.00%	General Manager, Passenger Sales Revenue Audit & Control Department, Finance Div. General Manager, Accounting And Administration Department, Taipei Branch Master's Degree From Soochow University	Supervisor, Global Sky Express Ltd. Supervisor, Yestrip Co., Ltd.	None	None	None	None
Vice President, Corporate Safety Office	Chen, I-Ko	R.O.C.	Male	03/01/2016	23,541	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Corporate Safety Office Vice President, Safety Office, Mandarin Airlines, Ltd. Associate's Degree From United College Of Engineering	None	None	None	None	None
Assistant Vice President, Corporate Safety Office	Tsai, Chih Hung	R.O.C.	Male	01/01/2015	0	0.00%	0	0.00%	0	0.00%	General Manager, System Engineering Department, Engineering Div. General Manager, Hanger Eri Maintenance Department, Maintenance Div. Master's Degree From Manchester University, UK	None	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice President, Legal & Insurance Div.	Chien, Feng-Nien	R.O.C.	Male	01/03/2017	0	0.00%	0	0.00%	0	0.00%	Director Of Legal Office, Taiwan Financial Asset Service Corporation Head Prosecutor, Taichung Prosecutors Office Master's Degree From National Taiwan Ocean University	None	None	None	None	None
Vice President, Corporate Communications Office	Peng, Long-Min	R.O.C.	Male	08/16/2016	32,843	0.00%	0	0.00%	0	0.00%	Chief Representative, China And North China Concurrently, General Manager, Beijing Office Assistant Vice President, Ground Services Div. Bachelor's Degree From Chung Yuan Christian University	None	None	None	None	None
Assistant Vice President Corporate Communications Office	Yu, Yau	R.O.C.	Female	10/16/2016	34,154	0.00%	0	0.00%	0	0.00%	General Manager, Corporate Affairs Department, Corporate Communications Office Assistant General Manager, Cabin Crew Management Department, Cabin Crew Div. Master's Degree From National Sun Yat-Sen University	None	None	None	None	None
Vice President, Administration Div.	Fang, Juo-Ling	R.O.C.	Female	01/01/2018	8,000	0.00%	0	0.00%	0	0.00%	Deputy Auditor General, General Audit Office Auditor General, Taoyuan International Airport Services Co., Ltd. Master's Degree From Georgia State University, U.S.A.	Supervisor, Sabre Travel Network (Taiwan) Ltd. Supervisor, Taiwan Air Cargo Terminal Ltd. Director, Dynasty Aerotech International Corp. Vice President, CAL Park Co., Ltd.	None	None	None	None
Assistant Vice President, Administration Div.	Chen, Jo-Ching	R.O.C.	Female	10/01/2015	0	0.00%	0	0.00%	0	0.00%	General Manager, Services Items Planning Department, In-Flight Service Supply Div. Mast Auditor, General Audit Office Master's Degree From University Of Michigan	None	None	None	None	None
Vice President, Information Management Div.	Lu, Shih-Ming	R.O.C.	Male	05/01/2015	24,917	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Next Generation Travel Experience Program, Corporate Development Office Assistant Vice President, Ground Services Div. Master's Degree From National Chengchi University	Director, Sabre Travel Network (Taiwan) Ltd.	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President, Information Management Div.	Liu, Duan-Shiuh	R.O.C.	Male	04/20/2017	92,608	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Ground Services Div. General Manager, Information Planning Department, Information Management Div. Master's Degree From National Taipei University Of Technology	None	None	None	None	None
Vice President, Cabin Crew Div.	Hong, Tsu-Kuang	R.O.C.	Male	05/04/2017	11,816	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Flight Operations Div. General Manager, Food & Beverage Services Department, In-Flight Service Supply Div. Bachelor's Degree From Soochow University	Director, China Pacific Laundry Services Ltd.	None	None	None	None
Assistant Vice President, Cabin Crew Div.	Pan, Wen-Tsung	R.O.C.	Female	03/01/2014	298	0.00%	0	0.00%	0	0.00%	General Manager, Cabin Crew Management, Cabin Crew Div. General Manger, Media Affairs Department, Corporate Communications Office Master's Degree From National Chengchi University	None	None	None	None	None
Vice President, Corporate Development Office	Peng, Pao Chu	R.O.C.	Female	10/16/2017	8,434	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Passenger Sales Div. General Manager, San Francisco Branch Bachelor's Degree From National Taiwan University	Director, Tigerair Taiwan Co., Ltd. Director, Taiwan Airport Service Co., Ltd. Director, Global Sky Express Ltd. Director, Dynasty Hotel Of Hawaii, Inc. Director, Dynasty Properties Co., Ltd. Director, China Aircraft Services Ltd.	None	None	None	None
Assistant Vice President, Corporate Development Office	Lu, Shwu-Huoy	R.O.C.	Female	09/25/2017	22,605	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Corporate Communications Office General Manager, Next Generation Travel Experience Program, Corporate Development Office Master's Degree From National Central University	None	None	None	None	None
Assistant Vice President, Corporate Development Office	Wang, Wei	R.O.C.	Female	02/02/2017	54,297	0.00%	0	0.00%	0	0.00%	General Manager, Austria Branch Assistant Vice President, Finance Div. Master's Degree From George Washington University, U.S.A.	Supervisor, NORDAM Asia Ltd.	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice President, In-Flight Service Supply Div.	Chiu, Chang-Hsin	R.O.C.	Male	12/18/2017	3,049	0.00%	0	0.00%	0	0.00%	Marketing Director, Taiwan Region General Manager, Germany Branch Master's Degree From The University Of Queensland	Chairman, China Pacific Laundry Services Ltd. Director, China Pacific Catering Services Ltd. Director, Kaohsiung Airport Catering Services Ltd. Director, Delica International Co., Ltd.	None	None	None	None
Assistant Vice President, In-Flight Service Supply Div.	Kao, Shu-Chuan	R.O.C.	Female	08/16/2016	7,879	0.00%	0	0.00%	0	0.00%	General Manager, Purchasing Department Administration Div. General Manager, Personnel Administration Department, Human Resources Div. Associate's Degree From Ming Chuan College	None	None	None	None	None
Vice President, Ground Services Div.	Liu, Tsao-Yang	R.O.C.	Male	09/16/2016	60,488	0.00%	0	0.00%	0	0.00%	Chief Representative, South China Concurrently, General Manager, Guangzhou Office Assistant Vice President, Cabin Crew Div. Bachelor's Degree From Chinese Culture University	Director, China Pacific Laundry Services Ltd.	None	None	None	None
Assistant Vice President, Ground Services Div.	Hsiao, Kuo Chih	R.O.C.	Male	04/20/2017	0	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Information Management Div. General Manager, Sapporo Branch Bachelor's Degree From National Cheng Kung University	None	None	None	None	None
Assistant Vice President, Ground Services Div.	Hung, I-Lan	R.O.C.	Female	06/16/2017	18,316	0.00%	0	0.00%	0	0.00%	General Manager, Sapporo Branch General Manager, Ground Services Training Department, Ground Services Div. Bachelor's Degree From National Chengchi University	None	None	None	None	None
Vice President, Cargo Sales, Marketing & Services Div.	Liu, Der-Chuan	R.O.C.	Male	10/01/2016	172	0.00%	0	0.00%	0	0.00%	Vice President, Cargo Sales & Marketing Div. Vice President, Cargo Services & Logistics Div. Bachelor's Degree From Fu Jen University	Director, Taiwan Air Cargo Terminal Ltd. Director, Dynasty Aerotech International Corp. Director, Global Sky Express Ltd. Director, Eastern United International Logistics (Holdings) Ltd.	None	None	None	None
Assistant Vice President, Cargo Sales, Marketing & Services Div.	Hsueh, Po-Wen	R.O.C.	Male	10/01/2016	328	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Cargo Sales & Marketing Div. General Manager, Cargo Marketing & Planning Department, Cargo Sales & Marketing Div. Bachelor's Degree From Chinese Culture University	None	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Assistant Vice President, Cargo Sales, Marketing & Services Div.	Shann, Da-Sin	R.O.C.	Male	01/01/2018	29,818	0.00%	17,982	0.00%	0	0.00%	General Manager, Cargo Sales Management Department, Cargo Sales, Marketing & Services Div. General Manager, Cargo Revenue & Route Management Department, Cargo Sales, Marketing & Services Div. Master's Degree From National Taipei University Of Technology	None	None	None	None	None
Assistant Vice President, Cargo Sales, Marketing & Services Div.	Wei, Shi Jong	R.O.C.	Male	03/31/2018	63,020	0.00%	0	0.00%	0	0.00%	General Manager, Cargo Sales & Services, The Americas General Manager, Cargo Sales Management Department, Cargo Sales & Marketing Div. Associate's Degree From Electronic Data Processing Tamsui Oxford University College	None	None	None	None	None
Vice President, Maintenance Div.	Sun, Jia-Min	R.O.C.	Male	09/16/2017	62,602	0.00%	0	0.00%	0	0.00%	Vice President, Engineering Div. Vice President, Corporate Safety Office Master's Degree From National Taiwan University Of Science And Technology	Director, Dynasty Aerotech International Corp. Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd.	None	None	None	None
Assistant Vice President, Maintenance Div.	Hsiao, Jui-Fu	R.O.C.	Male	09/16/2017	0	0.00%	0	0.00%	0	0.00%	General Manager, Line Maintenance Department, Maintenance Div. General Manager, Line Operation Department, Maintenance Div. Master's Degree From Kainan University	None	None	None	None	None
Vice President Quality, Assurance Div.	Li, Chih-Wei	R.O.C.	Male	09/16/2017	10,295	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Maintenance Div. General Manager, Line Operation Department, Maintenance Div. Master's Degree From Kainan University	None	None	None	None	None
Vice President, Engineering Div.	Lee, Jung-Hui	R.O.C.	Male	09/16/2017	10,298	0.00%	0	0.00%	0	0.00%	Vice President Quality, Assurance Div. Assistant Vice President, Maintenance Div. Master's Degree From Tatung University	Director, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Concurrently, President, Taiwan Aircraft Maintenance And Engineering Co., Ltd.	None	None	None	None

Title	Name	Nationality / Country Of Origin	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding By Nominee Arrangement		Experience (Education)	Other Positions	Managers Who Are Spouses Or Within Two Degrees Of Kinship			Employee Stock Option Certificates
					Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Vice President, Taiwan	Tong, Huai-Ming	R.O.C.	Female	08/16/2016	50,878	0.00%	15,946	0.00%	0	0.00%	Vice President, Cabin Crew Div. General Manager, Kaohsiung Branch Graduated From Taipei First Girls High School	Director, Sabre Travel Network (Taiwan) Ltd. Director, Yestrip Co., Ltd.	None	None	None	None
Vice President, The Americas	Lee, Hsien-Kuang	R.O.C.	Male	12/16/2014	25,000	0.00%	0	0.00%	0	0.00%	Vice President, Europe Concurrently, General Manager, Netherland Branch Assistant Vice President, Passenger Sales Div. Bachelor's Degree From National Taiwan Ocean College	Chairman, Dynasty Hotel Of Hawaii, Inc. Chairman, Dynasty Properties Co., Ltd. Concurrently, President, Dynasty Properties Co., Ltd. Director, CAL-Dynasty International, Inc. Concurrently, President, CAL-Dynasty International, Inc.	None	None	None	None
Vice President, Japan	Chang, Ming-Way	R.O.C.	Male	10/02/2017	30,512	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Development Office Vice President, Ground Services Div. Bachelor's Degree From Fu Jen University	Chairman/President, Dynasty Holidays, Inc.	None	None	None	None
Vice President, Europe	Han, Liang Chung	R.O.C.	Male	06/12/2017	11,498	0.00%	0	0.00%	0	0.00%	President, Mandarin Airlines Co., Ltd. Senior Vice President Master's Degree, Business Of Administration, University Of Pittsburgh	None	None	None	None	None
Vice President, Mainland China	Lo, How-Min	R.O.C.	Male	09/08/2016	80,552	0.00%	0	0.00%	0	0.00%	Chief Representative, East China Concurrently, General Manager, Shanghai Branch Vice President, Taiwan Concurrently, General Manager, Taipei Branch Associate's Degree From Chihlee College	None	None	None	None	None
Vice President, Oceania	Chen, Chung-Ming	R.O.C.	Male	05/10/2017	32,779	0.00%	0	0.00%	0	0.00%	General Manager, Fukuoka Branch Assistant Vice President, Passenger Sales Div. Bechelor Degree, Department Of Transportation & Logistics Management Of National Chiao Tung University	None	None	None	None	None

Note: Company presidents, senior vice presidents, vice presidents, data protection officer, assistant vice presidents, and department and branch general managers have not worked for the Company's currently designated accounting firm or affiliated enterprises within the specified period and do not hold Company stock under the name of a different person.

3.2.3 Remuneration of Directors, President, and Vice President

Remuneration of Directors

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name
(Note 1)</th><th colspan="8">Remuneration</th><th colspan="2" rowspan="2">Ratio of Total Remuneration (A+B+C+D) to Net Income (%) (Note 10)</th></tr>
<tr><th colspan="2">Base Compensation (A)
(Note 2)</th><th colspan="2">Severance Pay (B)</th><th colspan="2">Bonus to Directors (C)
(Note 3)</th><th colspan="2">Allowances (D)
(Note 4)</th></tr>
<tr><th>CAL</th><th>Consolidated Subsidiaries of CAL
(Note 7)</th><th>CAL</th><th>Consolidated Subsidiaries of CAL
(Note 7)</th><th>CAL</th><th>Consolidated Subsidiaries of CAL
(Note 7)</th><th>CAL</th><th>Consolidated Subsidiaries of CAL
(Note 7)</th><th>CAL</th><th>Consolidated Subsidiaries of CAL
(Note 7)</th></tr>
<tr><td>Chairman</td><td>Ho, Nuan-Hsuan</td><td rowspan="13">6,155</td><td rowspan="13">6,155</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">5,770</td><td rowspan="13">7,145</td><td rowspan="13">0.54%</td><td rowspan="13">0.60%</td></tr>
<tr><td>Director</td><td>Hsieh, Su-Chien</td></tr>
<tr><td>Director</td><td>Charles C.Y. ,Chen</td></tr>
<tr><td>Director</td><td>Ting, Kwang-Hung</td></tr>
<tr><td>Director</td><td>Jong, Jia-shi</td></tr>
<tr><td>Director</td><td>Lee, Kuo- Fu</td></tr>
<tr><td>Director</td><td>Cheng, Chuan-Yi</td></tr>
<tr><td>Director</td><td>Chen, Han-Ming</td></tr>
<tr><td>Director</td><td>Lin, Su-Ming</td></tr>
<tr><td>Director</td><td>Huang, Hsiu-Gu</td></tr>
<tr><td>Independent Director</td><td>Chung, Lo-Min</td></tr>
<tr><td>Independent Director</td><td>Luo, Hsiao-Hsien</td></tr>
<tr><td>Independent Director</td><td>Ting, Tin-Yu</td></tr>
</table>

Note 1: Aside from independent directors, all other directors are representatives of the Company's juridical person shareholders China Aviation Development Foundation, National Development Fund (Executive Yuan), Chunghwa Telecom Co., Ltd.

Note 2: Refers to director remuneration over the past year (includes director salary, additional compensation, severance pay, various bonuses, incentive pay).

Note 3: As stipulated in the Company's Articles of Association, directors are not awarded bonuses.

Note 4: Refers to relevant business expenses incurred by directors (including travel expenses, special disbursements, various allowances, living quarters, company car). If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT$911,000.

Note 5: Refers to salary, bonuses, and allowances received by directors who are also employed by the Company (including as president, vice president, other management, or regular employee) over the past year and includes salary, additional compensation, severance pay, various bonuses, incentive pay, travel expenses, special disbursements, various allowances, living quarters, and company car. If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT$725,000. As stipulated in IFRS 2, Share Based Payments including obtaining employee stock options and employee restricted stock awards, and participation in a cash capital increase shall be calculated as remuneration.

* The content is provided for information disclosure, not tax purposes.

Unit: NT$ thousands Dec 31, 2017

Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%) (Note 10)		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary (Note 11)
Salary, Bonuses, and Allowances (E)(Note 5)		Severance Pay (F)		Employees' Compensation (G) (Note 6)						
CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL	Consolidated Subsidiaries of CAL (Note 7)	CAL		Consolidated Subsidiaries of CAL (Note 7)		CAL	Consolidated Subsidiaries of CAL (Note 7)	
				Cash	Stock	Cash	Stock			
12,042	12,934	0	0	510	0	510	0	1.11%	1.21%	0

Note 6: Refers to employee compensation (including stock or cash) received by directors who are also employed by the Company (including as president, vice president, other management, or regular employee) over the past year, and the amount of employee compensation approved for distribution by the Board for the most recent year must be disclosed. On January 24, 2018, the Company's Board of Directors approved the 2017 Employee Compensation Proposal.

Note 7: The total remuneration provided by the Company and subsidiaries to directors is disclosed per the consolidated financial statement.

Note 8: The remuneration distributed to each member of the Company's Board is disclosed as a range and the names of directors are disclosed by range of compensation received.

Note 9: The total remuneration provided by the Company and subsidiaries to directors is disclosed per the consolidated financial statement and names of directors are disclosed by range of compensation received.

Note 10: Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company's 2017 individual financial statement net income (after tax) totaled NT$2,208,066,000.

Note 11: (1) Compensation paid to directors from an invested company other than a Company subsidiary.

(2) Compensation refers to pay, bonuses (including bonuses to employees, directors, or supervisors), or expenses paid in the execution of business to Company directors who serve as director, supervisor, or manager of an invested company other than a Company subsidiary.

(3) Compensation paid to directors from an invested company other than a Company subsidiary is included in Column I (Consolidated Subsidiaries of CAL) of the Director Remuneration by Compensation Level Table.

Note 12: (1) Aside from Chairman Ho, Nuan-Hsuan, and Director Hsieh, Su-Chien, all other directors received a travel allowance.

(2) Transportation subsidies for Director Ting, Kwang-Hu, Director Lee, Kuo- Fu, and Director Jong, Jia-shi, respectively, were partially donated (20-70%) to the China Airlines Employee Union.

(3) The directors who also serve as employees of the Company are Director Hsieh, Su-Chien; Director Jong, Jia-shi; and Director Lee, Kuo- Fu.

Director Remuneration by Compensation Level

Range of Remuneration	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	CAL **(Note 8)**	Consolidated Subsidiaries of CAL **(Note 9)** H	CAL **(Note 8)**	Consolidated Subsidiaries of CAL **(Note 9)** I
Under NT$2,000,000	Hsieh, Su-Chien; Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Lee, Kuo- Fu; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu	Hsieh, Su-Chien; Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Lee, Kuo- Fu; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Jong, Jia-shi; Cheng, Chuan-Yi; Chen, Han-Ming; Lin, Su-Ming; Huang, Hsiu-Gu; Chung, Lo-Min; Luo, Hsiao-Hsi; Ting, Tin-Yu
NT$2,000,001 ~ NT$5,000,000	-	-	-	-
NT$5,000,001 ~ NT$10,000,000	Ho, Nuan-Hsuan	Ho, Nuan-Hsuan	Ho, Nuan-Hsuan; Hsieh, Su-Chien; Lee, Kuo- Fu	Ho, Nuan-Hsuan; Hsieh, Su-Chien; Lee, Kuo- Fu
Total	13	13	13	13

President and Senior Vice President Remuneration

<table>
<tr><th rowspan="2">Title</th><th rowspan="2">Name
(Note 1)</th><th colspan="2">Salary (A)
(Note 2)</th><th colspan="2">Severance Pay (B)</th><th colspan="2">Bonuses and Allowances (C)
(Note 3)</th></tr>
<tr><th>CAL</th><th>Consolidated Subsidiaries of CAL (Note 5)</th><th>CAL</th><th>Consolidated Subsidiaries of CAL (Note 5)</th><th>CAL</th><th>Consolidated Subsidiaries of CAL (Note 5)</th></tr>
<tr><td>President</td><td>Hsieh, Su-Chien</td><td rowspan="7">19,812</td><td rowspan="7">19,812</td><td rowspan="7">0</td><td rowspan="7">0</td><td rowspan="7">9,108</td><td rowspan="7">12,735</td></tr>
<tr><td>Senior Vice President</td><td>Lo, Ya-Mei</td></tr>
<tr><td>Senior Vice President</td><td>Kao, Shing-Hwang</td></tr>
<tr><td>Senior Vice President</td><td>Chang, Chih-Chieh</td></tr>
<tr><td>Senior Vice President</td><td>Wang, Houng
(Note 10)</td></tr>
<tr><td>Senior Vice President</td><td>Chang, Young</td></tr>
<tr><td>Senior Vice President</td><td>Huang, Chwen-Jiun
(Note 10)</td></tr>
</table>

President and Senior Vice President Remuneration by Compensation Level

Range of Remuneration	Name of President and Senior Vice President	
	CAL (Note 6)	Consolidated Subsidiaries of CAL (Note 7)E
Under NT$2,000,000	Wang, Houng	-
NT$2,000,001 ~ NT$5,000,000	Lo, Ya-Mei; Chang, Chih-Chieh; Chang, Young; Huang, Chwen-Jiun	Lo, Ya-Mei; Chang, Chih-Chieh; Wang, Houng; Chang, Young; Huang, Chwen-Jiun
NT$5,000,001 ~ NT$10,000,000	Hsieh, Su-Chien; Kao, Shing-Hwang	Hsieh, Su-Chien; Kao, Shing-Hwang
Total	7	7

Note 1: President Hsieh, Su-Chien concurrently serve as directors. Their remuneration is listed above and also in the Remuneration of Directors table.

Note 2: Refers to president and senior vice president salary, additional compensation, and severance pay over the past year.

Note 3: Refers to various bonuses, incentive pay, travel expenses, special disbursements, various allowances, living quarters, and company car distributed to presidents and senior vice presidents over the past year. If provided with housing, a car or other transportation, or exclusive personal expenses, the type and cost, rent (actual or fair market calculation), fuel cost, and other costs of the assets provided must be disclosed. The above figures do not include remuneration paid to drivers, which totaled NT$4,498,000. As stipulated in IFRS 2, Share Based Payments including obtaining employee stock options and employee restricted stock awards, and participation in a cash capital increase shall be calculated as remuneration.

Note 4: Refers to employee compensation (including stock or cash) approved for distribution by the Board to presidents and senior vice presidents over the past year. Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. On January 24, 2018, the Company's Board of Directors approved the 2017 Employee Compensation Proposal.

* The content is provided for information disclosure, not tax purposes.

Unit: NT$ thousands December 31, 2017

Employees' Compensation (D) (Note 4)				Ratio of total compensation (A+B+C+D) to net income (%) (Note 8)		Compensation paid to the Presidents and Senior Vice Presidents from an Invested Company Other Than the Company's Subsidiary (Note 9)
CAL		Consolidated Subsidiaries of CAL (Note 5)		CAL	Consolidated Subsidiaries of CAL (Note 5)	
Cash	Stock	Cash	Stock			
1,561	0	1,561	0	1.38%	1.54%	240

Note 5: The total remuneration provided by the Company and subsidiaries to Company presidents and senior vice presidents is disclosed per the consolidated financial statement.

Note 6: The remuneration distributed to each president and senior vice president is disclosed as a range and the names of the presidents and senior vice presidents are disclosed by range of compensation received.

Note 7: The total remuneration provided by the Company and subsidiaries to presidents and senior vice presidents is disclosed per the consolidated financial statement and names of the presidents and senior vice presidents are disclosed by range of compensation received.

Note 8: Net income refers to net income (after tax) for the most recent year. For those already using IFRS, net income refers to net income (after tax) reported on the individual financial statement for the most recent year. The Company's 2017 individual financial statement net income (after tax) totaled NT$2,208,066,000.

Note 9: This column represents compensation paid to presidents and senior vice presidents from an invested company other than a Company subsidiary.

(1) Compensation paid to presidents and senior vice presidents from an invested company other than a Company subsidiary is included in Column E (Consolidated Subsidiaries of CAL) of President and Senior Vice President Remuneration by Compensation Level Table.

(2) Compensation refers to pay, bonuses (including bonuses to employees, directors, or supervisors), or expenses paid in the execution of business to Company presidents and senior vice presidents who serve as director, supervisor, or manager of an invested company other than a Company subsidiary.

(3) Of the presidents and senior vice presidents, only Mr. Chang, Young received compensation from an invested company other than the Company's subsidiaries.

Note 10: Mr. Wong, Houng assumed the position of Senior Vice President on August 16, 2017; Mr. Huang, Chwen-Jiun was dismissed from the position of Senior Vice President on August 16, 2017.

Employees' Compensation of the Management Team

Unit: NT$ thousands Dec 31, 2017

Title	Name	Employees' Compensation in Stocks	Employees' Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
President	Hsieh, Su-Chien	0	9,560	9,560	0.43%
Senior Vice President	Lo, Ya-Mei				
Senior Vice President	Kao, Shing-Hwang				
Senior Vice President	Chang, Chih-Chieh				
Senior Vice President	Wang, Houng				
Senior Vice President	Chang, Young				
Auditor General	Chung, Chuar-Duan				
Data Protection Officer	Chung, Ming-Jyh (Assumed Post On 12/30/2017)				
Vice President	Chien, Feng-Nien (Assumed Post On 01/03/2017)				
Vice President	Chen, I-Ko				
Vice President	Lai, Ming-Hui				
Vice President	Wang, Chen-Min				
Vice President	Liu, Der-Chuan				
Vice President	Peng, Long-Min				
Vice President	Chen, Kang-Reuy (Assumed Post On 05/13/2017)				
Vice President	Chen, I-Chieh				
Vice President	Hong, Tsu-Kuang				
Vice President	Chiu, Chang-Hsin (Assumed Post On 12/18/2017)				
Vice President	Chou, Jyh-Shyan				
Vice President	Liu, Tsao-Yang				
Vice President	Peng, Pao Chu				
Vice President	Lu, Shih-Ming				
Vice President	Sun, Jia-Min				
Vice President	Lee, Jung-Hui				
Vice President	Li, Chih-Wei				
Deputy Auditor General	Fang, Juo-Ling				
Assistant Vice President	Tsai, Chih Hung				
Assistant Vice President	Huang, Hsiang-Piao (Assumed Post On 08/01/2017)				
Assistant Vice President	Jeng, Jong-Shinn				
Assistant Vice President	Lai, Hsiang-Kuang (Assumed Post On 10/01/2017)				
Assistant Vice President	Ouyang, John (Assumed Post On 06/17/2017)				
Assistant Vice President	Hsueh, Po-Wen				
Assistant Vice President	Yu, Yau				
Assistant Vice President	Yeah, Shao-Ting				

Title	Name	Employees' Compensation in Stocks	Employees' Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
Assistant Vice President	Chen, Jo-Ching				
Assistant Vice President	Ho, Hui-Fen				
Assistant Vice President	Huang, Hui Na (Assumed Post On 09/01/2017)				
Assistant Vice President	Pan, Wen-Tsung				
Assistant Vice President	Kao, Shu-Chuan				
Assistant Vice President	Hsiao, Kuo Chih				
Assistant Vice President	Hung, I-Lan (Assumed Post On 06/16/2017)				
Assistant Vice President	Wang, Wei (Assumed Post On 02/02/2017)				
Assistant Vice President	Lu, Shwu-Huoy				
Assistant Vice President	Liu, Duan-Shiuh				
Assistant Vice President	Hsiao, Jui-Fu (Assumed Post On 09/16/2017)				
Assistant Vice President	Kuey, Kuo-Ching (Dismissed On 01/26/2017)				
Assistant Vice President	Teng, Shu Hua (Dismissed On 02/21/2017)				
Vice President	Chung, Wan-Chun (Dismissed On 03/01/2017)				
Assistant Vice President	Yeh, Jin-Fu (Dismissed On 03/13/2017)				
Assistant Vice President	Wei, Shih-Kai (Dismissed On 03/21/2017)				
Assistant Vice President	Tung, Wei (Dismissed On 04/30/2017)				
Vice President	Wei, Yih-Jiun (Dismissed On 05/08/2017)				
Assistant Vice President	Kung, Yuan-Jau (Dismissed On 05/22/2017)				
Vice President	Tsao, Jyh-Fen (Dismissed On 06/09/2017)				
Senior Vice President	Huang, Chwen-Jiun (Dismissed On 08/16/2017)				
Assistant Vice President	Huang, Tze-Chi (Dismissed On 08/31/2017)				
Assistant Vice President	Huang, Yuan-Yue (Assumed Post On 05/01/2017) (Dismissed On 09/25/2017)				
Vice President	Chang, Ming-Way (Dismissed On 10/02/2017)				
Vice President	Chen, Shann-Juan (Dismissed On 11/30/2017)				
Vice President	Liu, Shyh-Hwa (Dismissed On 12/18/2017)				
Vice President	Ku, Yueh-Han (Dismissed On 01/01/2018)				
Assistant Vice President	Chu, Te-Hsiu (Dismissed On 01/08/2018)				
Assistant Vice President	Lin, Ming-Hsiu (Dismissed On 01/11/2018)				
Assistant Vice President	Liao, Wei-Chih (Dismissed On 03/01/2018)				
Assistant Vice President	Lin, Hsiao-Feng (Dismissed On 03/26/2018)				

Note 1: Individual names and titles are disclosed, but the distributed compensation is disclosed as a grand total.
Note 2: On January 24, 2018, the Company's Board of Directors approved the 2017 Employee Compensation Proposal.
Note 3: The management team includes:
(1) Presidents and their equivalent
(2) Vice presidents and their equivalent
(3) Assistant vice presidents their the equivalent
(4) Chief financial officers
(5) Chief accounting officers
(6) Other persons authorized to manage affairs and sign documents on behalf of the Company

3.2.4 Comparison of Remuneration for Directors, Presidents, and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Presidents, and Vice Presidents

A. The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, presidents, and vice presidents of the Company, to their net income.

Title	2016		2017	
	CAL	Consolidated Subsidiaries of CAL	CAL	Consolidated Subsidiaries of CAL
Directors	7.14%	7.26%	1.11%	1.21%
Presidents and Senior Vice Presidents	9.46%	9.66%	1.38%	1.54%

B. The policies, standards, and portfolios for the payment of remuneration, the procedures for determining remuneration, and the correlation with business performance.

As stipulated in the Articles of Association, the Board of Directors is authorized to set the chairman's remuneration in accordance with the Company's policies regarding manager compensation and based on the extent of his or her participation in Company operations. The travel allowances and remuneration of other directors are determined the Board in reference to the compensation levels provided by related-industries and public companies. In accordance with Article 29 of the Company Act, president and senior vice president remuneration is set by Board of Directors resolution based on Company employee salary related regulations. Bonuses and employee compensation are calculated based on the Company's overall operating performance and the employee's individual performance achievement rate.

C. Procedure for estabishing remuneration:

In the case of remuneration for board members and managers, as per regulation, the company's Salary and Remuneration Committee meets regularly to assess and set salaries and remuneration, which decisions are implemented after being submitted to the Board of Directors.

D. Linkage to business outcomes:

The remuneration of the president has already taken into account his professional capability and the company's operations and financial situation; the experienced senior vice presidents handle matters based on the company's employee achievement provisions, using a linkage of individual performance on goals management and work evaluations, and assessing performance after overall consideration.

D. Linkage to future risk:

Major decision making for operational levels of this company always balances various risk factors; major decision-making performance will be reflected in the company's profits, and thereby is related to salaries and remuneration to management levels; namely, the salaries and remuneration of the chairman of the board, the president, and senior vice presidents is related to the results of controlling and managing future risk.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors:

From January 1, 2017 through April 29, 2018, a total of eight meetings of the Board of Directors were held. Average attendance rate was 95%. Director attendance is detailed below:

Title	Name (Note 1)	Attendance in Person	By Proxy	Attendance Rate (%) (Note 2)	Juridical Person Shareholder Represented	Remarks
Chairman	Ho, Nuan-Hsuan	8	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 06/24/2016 and elected Chairman on the same day
Director	Hsieh, Su-Chien	8	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/06/2016
Director	Charles C.Y., Chen	7	1	88%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015
Director	Ting, Kwang-Hung	7	1	88%	China Aviation Development Foundation	Reappointed as juridical person director representative on 06/26/2015
Director	Lee, Kuo- Fu	8	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/13/2015
Director	Cheng, Chuan-Yi	7	1	88%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/26/2016
Director	Chen, Han-Ming	8	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 07/26/2016
Director	Jong, Jia-shi	8	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on 08/09/2016
Director	Lin, Su-Ming	7	1	88%	National Development Fund, Executive Yuan	Reappointed as juridical person director representative on 06/26/2015
Director	Huang, Hsiu-Gu	5	1	83%	Chunghwa Telecom Co., Ltd.	Reappointed as juridical person director representative on 06/26/2015 and resigned on 01/19/2018
Independent Director	Chung, Lo-Min	8	0	100%	-	Reappointed as independent director on 06/26/2015
Independent Director	Luo, Hsiao-Hsien	8	0	100%	-	Reappointed as independent director on 06/26/2015
Independent Director	Ting, Tin-Yu	8	0	100%	-	Newly appointed as independent director on 06/26/2015

Other mentionable items:

1. In the operation of the Board of Directors, should one of the below situations occur, the Board Meeting date, session, content of the resolution, opinions of all independent directors, and the Company's response to said opinions shall be properly recorded:

(1) Matters listed in Article 14-3 of the Securities and Exchange Act.

Meeting Dates	Agenda content	Any Independent Director Had a Dissenting Opinion or Qualified Opinion
January 27, 2017: 9th meeting of the 20th Board of Directors	Changes to duties of the Financial Department Vice President	Unanimously passed by all independent Directors
March 30, 2017: 10th meeting of the 20th Board of Directors	Issued domestic unsecured ordinary corporate bonds for 2017 Revision of "Procedures for the Acquisition or Disposition of Assets"	
May 11, 2017: 11th meeting of the 20th Board of Directors	Eliminated anti-competition limitations on concurrent service of Chairman of the Board Ho, Nuan-hsuan and board member Hsieh, Shih-chian Revision of "Procedure for Endorsement and Guarantee"	
November 5, 2017: 13th meeting of the 20th Board of Directors	Issuance of domestic unsecured convertible bonds with a total face value limited to NT$6 billion	
January 24, 2018: 14th meeting of the 20th Board of Directors	"Kaohsiung Airport Catering Services Ltd." share acquisition proposal	
March 22, 2018: 15th meeting of the 20th Board of Directors	General Audit Office, General Auditor, retirement due to age	

(2) Other matters up for decision by the Board not listed in Article 14-3 of the Securities and Exchange Act, but that were opposed by independent directors or about which said directors have reservations and their opinion has been recorded or submitted in a written statement: None.

2. Should a director recuse him or herself from a decision about which he or she has a conflict of interest, the name of the director, contents of the resolution, reasons for recusal, and the results of the vote should be noted:

Meeting Dates	Agenda content	Directors recused for conflicting interest	Reason for recusal	Participation in vote
January 27, 2017: 9th meeting of the 20th Board of Directors	Chairman of the Board and managers' 2017 annual bonuses and 2016 Lunar New Year bonuses	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien	Personal interest in this matter	Other than Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien who were recused as provided by law and did not participate in discussions or voting, passed unanimously by all 11 directors in attendance.
May 11, 2017: 11th meeting of the 20th Board of Directors	Eliminated anti-competition limitations on concurrent service of Chairman of the Board Ho, Nuan-hsuan and board member Hsieh, Shih-chian	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien	Personal interest in this matter	Other than Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien who were recused as provided by law and did not participate in discussions or voting, passed unanimously by all 11 directors in attendance.
January 24, 2018: 14th meeting of the 20th Board of Directors	2017 Chairman of the Board and managers 2018 annual bonus, 2018 Lunar New Year bonus and 2018 salary adjustments	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien	Personal interest in this matter	Other than Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien who were recused as provided by law and did not participate in discussions or voting, passed unanimously by all 10 directors in attendance.

3. Board of Director functional improvement goals for the last year and the current year (such as establishing an audit committee and improving information transparency) and implementation assessment:

(1) In order to strengthen management mechanisms and oversight, three functional committees, Remuneration Committee, Audit Committee, and Risk Committee, were set up under the Board of Directors. Each are convened based on their charters, which were approved by the Board. The committees meet to review and discuss relevant issues and report their conclusions and suggestions to the Board for resolution. The committees have been a success. The regulations governing functional committees passed by the Board specify the number of committee members, term of office, committee powers, rules of procedure, and resources to be provided by the Company when the committees exercise their powers.

(2) For more information regarding China Airlines Corporate Governance, please refer to our website (http://www.china-airlines.com): Corporate Social Responsibility, "Stakeholders' Area" and "Investor Information".

4. Independent director attendance record for 2017 through April 29, 2018:

Meeting Dates / Name	01/17/2017	03/30/2017	05/11/2017	06/22/2017	08/10/2017	11/05/2017	01/24/2018	03/22/2018
Chung, Lo-Min	✓	✓	✓	✓	✓	✓	✓	✓
Luo, Hsiao-Hsien	✓	✓	✓	✓	✓	✓	✓	✓
Ting, Tin-Yu	✓	✓	✓	✓	✓	✓	✓	✓

Note: ✓ Indicates attendance in person. ○ indicates attendance by proxy. ✕ indicates did not attend.

Note 1: For directors that are juridical persons, the name of the juridical person shareholder and its representatives must be disclosed.

Note 2: (1) When a director resigns before the year's end, the remark column shall note the date of resignation and actual attendance rate (%) calculated based on the number of meetings held during the period prior to resignation and the director's actual number of meetings attended.

(2) If there is a change of directors prior to the end of the year, both the new and old directors shall be included in the table and the remark column shall note whether the director has been reelected or newly elected and the date of the (re)election. Actual attendance rate (%) is calculated based on the number of meetings held during the period of service and the director's actual number of meetings attended.

3.3.2 Audit Committee:

The Audit Committee convened eight meetings from January 1, 2017 through April 29, 2018. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Chung, Lo-Min	8	0	100%	Served as independent director from 06/15/2012 and continued in the position on 06/26/2015
Independent Director	Luo, Hsiao-Hsien	8	0	100%	Served as independent director from 06/15/2012 and continued in the position on 06/26/2015
Independent Director	Ting, Tin-Yu	8	0	100%	Newly appointed independent director on 06/26/2015

Other mentionable items:

1. In the operation of the Audit Committee, should one of the below situations occur, the Board Meeting date, session, content of the resolution, result of the Audit Committee resolution, and the Company's response to said opinions shall be properly recorded:

(1) Matters listed in Article 14-5 of the Securities and Exchange Act:

<table>
<tr><th>Meeting Dates</th><th>Agenda content</th><th>Results of the vote by the Board of Auditors and company's handling of the Board's opinion</th><th>Results of Board of Directors decision</th></tr>
<tr><td>January 17, 2017
Second session of the 20th Board of Directors Board of Auditors</td><td>Endorsement and guarantee of foreign exchange credit card transaction funds to Tigerair Taiwan
Changes to duties of the Financial Department Vice President</td><td rowspan="6">Passed to the Board of Directors upon unanimous approval by all members in attendance.</td><td rowspan="6">Unanimously passed by all members of the Board of Directors in attendance.</td></tr>
<tr><td>March 30, 2017
7th meeting of the 20th Board of Directors Board of Auditors</td><td>2016 Annual Operations Report and Financial Statements
2017 Appointment and Remuneration for Certified Public Accountants
Appropriation of 2016 losses
Revision to the Procedures Governing the Acquisition and Disposal of Assets
2016 Internal Control System Statement</td></tr>
<tr><td>May 11, 2017
8th meeting of the 20th Board of Directors Board of Auditors</td><td>Q1 2017 Consolidated Financial Statement</td></tr>
<tr><td>August 10, 2017
9th meeting of the 20th Board of Directors Board of Auditors</td><td>Q2 2017 (including first half of the year) Consolidated Financial Statement
Internal audit business report for first half of 2017</td></tr>
<tr><td>November 5, 2017
10th meeting of the 20th Board of Directors Board of Auditors</td><td>Q3 2017 (including previous 3 quarters) Consolidated Financial Statement
China Airlines 2018 audit plan proposal
Issuance of domestic unsecured convertible bonds with a total face value limited to NT$6 billion</td></tr>
<tr><td>March 22, 2018
11th meeting of the 20th Board of Directors Board of Auditors</td><td>2017 Annual Operations Report and Financial Statements
2018 Appointment and Remuneration for Certified Public Accountants
2017 surplus allocation
Provision of NT$2 billion endorsement guarantee to Taiwan Aircraft Maintenance and Engineering Co., Ltd.
2017 Internal control system effectiveness audit and statement
Internal audit business report for first half of 2017</td></tr>
</table>

(2) Other matters up for decision by the Board not listed in Article 14-5 of the Securities and Exchange Act that were not passed by the Audit Committee but approved by a two-thirds majority of the entire Board: None.

2. In situations where independent directors recuse themselves due to conflict of interest, the independent director's name, content of the resolution, reason for recusal, and his or her voting participation should be properly recorded: None.

3. Communication between independent directors and internal audit managers and auditors (regarding issues such as Company financial and operational status, procedures, and results):

(1) In addition to independent directors in the company receiving a monthly audit report, audit manager will provide reports on the progress of work on the annual audit plan and semi-annual audits to the directors.

(2) At each quarterly Board of Auditors meeting, CPA reports and explains financial report audit and audit results to directors.

(3) Directors shall contact the audit supervisor or accountants when needed for full communication.

- Communication between independent directors and accountants:

Means of communication	Matter		Result	
	Primary matter	Proposal by independent director	Primary matter	Proposal by independent director
March 30, 2017 Board of Auditors	Accountant explained 2016 financial report audit results, and took questions from the directors for discussion	1. Please review and comment on regulations related to legal disclosure of purchase prices for planes. 2. IFRS 16 leasing announcement will be implemented in 2019, and will have a major impact on the company's financial reporting. Management departments please make preparations in advance.	Resolution passed by all in attendance.	1. Management departments gave a timely explanation at the meeting of responses to various items in the announcement, and will continue to supplement with written material. 2. Continue to request approval of Board of Directors and complete 2016 financial report announcement reporting by March 31, 2017.
	Report on impact of IFRS 16 leasing announcements and depreciation policy for new A350 planes	Depreciation amount will change substantially due to bringing in new planes and IFRS 16 announcement. Please provide counsel on 2017-2020 depreciation changes.	Agreed by all in attendance.	Provide in written follow-up information.
May 11, 2017 Board of Auditors	Accountant explained 2017 Q1 financial report audit results and revisions required by law, and took questions from the directors for discussion	Please make a preliminary calculation of the impact on the gearing ratio for the group's combined financial reports by Mandarin Airlines and Tigerair Taiwan post-IFRS 16 leasing report.	Agreed by all in attendance.	1. Complete 2017 Q1 financial report submission by May 16, 2017. 2. Impact on the group was discussed in a special report to the Board of Directors on August 10, 2017.
August 10, 2017 Board of Auditors	Accountant explained 2017 Q2 financial report audit results and impact of new announcement on financial reports, and took questions from the directors for discussion.	None	Resolution passed by all in attendance.	Continue providing reports to the Board of Directors, and complete submission of 2017 Q2 financial report by August 15, 2017.
November 5, 2017 Board of Auditors	Accountant explained 2017 Q3 financial report audit results, revisions required by law, and 2017 financial report audit plan and key audit items, and took questions from the directors for discussion	Suggest providing quarterly financial report for major subsidiary companies and annual accountant audit report in future.	Agreed by all in attendance.	Because no subsidiary companies are publicly traded, produce accountant audited annual financial report. In the future, provide quarterly balance sheets and profit and loss tables, and annual accountant audit reports for subsidiaries.
March 22, 2018 Board of Auditors	Accountant explained 2017 financial report audit results, and took questions from the directors for discussion	None.	Resolution passed by all in attendance.	Continue to request approval of Board of Directors and complete 2017 financial report submission by March 23, 2018.

• Communication between independent directors and internal audit supervisor:

Means of communication	Matter		Result	
	Primary matter	Proposal by independent director	Primary matter	Proposal by independent director
March 30, 2017 Board of Auditors	2016 internal control statement	None.	Resolution passed by all in attendance.	Continue to request approval of Board of Directors and report on 2016 internal control statement by March 31, 2017. Disclosure of 2016 annual report.
	Revisions to "Implementation Guidelines for Internal Audit"	Please summarize status of establishment of audit units in companies and sending out audit supervisors from the mother company and continue providing the board and the directors materials as per the original plan.	Resolution passed by all in attendance.	Provide related material on day of meeting, continue seeking agreement of Board of Directors.
	Internal audit report for last half of 2016	None.	Agreed by all in attendance.	Continue reports to Board of Directors.

	August 10, 2017 Board of Auditors	Internal audit report for first half of 2017	None.	Agreed by all in attendance.	Continue reports to Board of Directors.
	November 5, 2017 Board of Auditors	Audit plan for 2018	None.	Resolution passed by all in attendance.	Continue to request approval of Board of Directors and complete submission of announcement for 2018 internal audit plan by December 4, 2017.
	March 22, 2018 Board of Auditors	2017 Internal control system effectiveness audit and statement	None.	Resolution passed by all in attendance.	Continue to request approval of Board of Directors and submit 2017 internal control statement by March 23, 2018, disclosing in 2017 annual report.
		Internal audit business report for last half of 2017	None.	Agreed by all in attendance.	Continue reports to Board of Directors.

3.3.3 Risk Committee:

The Risk Committee convened six meetings from January 1, 2017 through April 29, 2018. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director	Luo, Hsiao-Hsien	6	0	100%	Assumed post on May 6, 2014
Director	Ting, Kwang-Hung	5	1	83%	Assumed post on May 6, 2014
Director	Charles C.Y. ,Chen	4	2	67%	Assumed post on August 11, 2016
Director	Huang, Hsiu-Gu	4	0	100%	Assumed post on May 6, 2014 and resigned January 19, 2018.
Director	Lin, Su-Ming	6	0	100%	Assumed post on May 6, 2014

Other mentionable items:

Meeting Dates	Agenda content	Risk Committee resolution results and company action on Risk Committee opinions	Results of Board of Directors decision
February 23, 2017 7th meeting of the 20th Board of Directors Risk Committee	Safety management report Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy	Passed to the Board of Directors upon unanimous approval by all members in attendance.	Unanimously passed by all members of the Board of Directors in attendance.
April 20, 2017 8th meeting of the 20th Board of Directors Risk Committee			
July 5, 2017 9th meeting of the 20th Board of Directors Risk Committee			
October 19, 2017 10th meeting of the 20th Board of Directors Risk Committee			
January 31, 2018 11th meeting of the 20th Board of Directors Risk Committee			
April 19, 2018 12th meeting of the 20th Board of Directors Risk Committee			

3.3.4 Corporate Governance Implementation Status and Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies”

Evaluation Item	Status of Implementation			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Brief Explanation	
1. Did the Company establish its Corporate Governance Best Practice Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and disclose those Principles?	✓		The company's "Rules for Corporate Governance" were set based on "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies"and were passed and implemented at the 6th meeting of the 19th Board of Directors on March 29, 2013 and disclosed on the company's "Major Corporate Regulations" Web page.	No Difference
2. Company ownership structure and shareholder rights (1)Did the Company establish internal operational procedures for dealing with shareholder suggestions, questions, disputes, and lawsuits and put these procedures into practice?	✓		(1) The company's Web site has a portal for shareholder service and a "Method for Handling Investor Relations" has been set so that investor suggestions and concerns are dealt with by shareholder service personnel and shareholder service agents using relevant procedures. This ensures a smooth channel of communication between the company and its shareholders and the quality of disclosed information.	No Difference
(2)Does China Airlines keep maintain a list of the major Company shareholders and the ultimate owners of these shareholders?	✓		(2) The China Aviation Development Foundation is China Airlines’ largest shareholder and maintains full communication and contact with the Company.	No Difference
(3)Did China Airlines establish and implement risk control mechanisms and firewalls at the Company and affiliated enterprises?	✓		(3) The Company has established Operational Procedures for Endorsements/Guarantees, Operational Procedures for Lending Funds to Others, and Regulations Governing Management of Invested Enterprises. All capital loans and funding, endorsements/guarantees, and operational supervision and management of Company subsidiaries shall proceed in accordance with these procedures and regulations. Audit units perform quarterly audits of Company endorsements/guarantees and capital loans/funding, which are provided to management and independent directors. The Corporate Development Office is responsible for overseeing implementation at invested enterprises and should any faults be discovered, an improvement deadline is set and the progress is tracked.	No Difference
(4)Did the Company establish internal standards to prevent insider trading on undisclosed information?	✓		(4) The Company established the Directors Code of Conduct, Procedures for Handling Material Inside Information, and High-Level Manager Code of Conduct to specify insider trading prevention and processing of secret stock trading and operating information as required of employees by law. Those with undisclosed material inside information are prohibited from engaging in securities trading.	No Difference

Evaluation Item	Status of Implementation: Yes	Status of Implementation: No	Status of Implementation: Brief Explanation	Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
3. Structure and responsibilities of the Board of Directors (1)Has the Company established policies calling for diversity among members of the Board of Directors and put said policies into practice?	✓		(1) China Airlines (Hereinafter "the Company") advocates and respects director diversity policy, and is convinced that the diversity can improve the overall performance of the Company. Members of the Board of Directors shall be based on personal capability and the diversification from different aspects shall also be taken into consideration, including basic characteristics (e.g., age, gender, race, nationality, etc.), experience and skills (e.g., aviation, sea freight, transportation, finance and accounting, law and insurance, academia, electricity, technology, and public utilities), operation and management, leadership and decision-making, and crisis management ability. To enhance capabilities among the Board of Directors for achieving ideal goals of corporate governance, the Company has set its "Rules for Corporate Governance" which clearly set forth that the Board as a whole should have the following capabilities: • The ability to make operational judgment. • The ability to perform accounting and financial analysis. • The ability to conduct management administration. • The ability to conduct crisis management. • Industrial knowledge. • Perspective of the international market. • The ability to lead. • The ability to make decisions. Moreover, the status of diversity among China Airlines' current Board members is as follows: APR 29, 2018	No Difference

Diversified Core / Name of board member	Gender	Operations Management	Perform Accounting And Financial Analysis	Conduct Management Administration	Conduct Crisis Management	Industrial Knowledge	Perspective Of The International Market	Lead	Make Decisions
Ho, Nuan-Hsuan	Male	✓	○	✓	✓	✓	✓	✓	✓
Hsieh, Su-Chien	Male	✓	○	✓	✓	✓	✓	✓	✓
Charles C.Y. ,Chen	Male	✓	○	✓	✓	✓	✓	✓	✓
Jong, Jia-shi	Male	✓	○	✓	✓	✓	✓	✓	✓
Cheng, Chuan-Yi	Male	✓	○	✓	✓	✓	✓	✓	✓
Ting, Kwang-Hung	Male	✓	○	✓	✓	✓	✓	✓	✓
Chen, Han-Ming	Male	✓	○	✓	✓	✓	✓	✓	✓
Lee, Kuo- Fu	Male	✓	○	✓	✓	✓	✓	✓	✓
Lin, Su-Ming	Male	✓	✓	✓	✓	✓	✓	✓	✓
Chung, Lo-Min	Male	✓	✓	✓	✓	✓	✓	✓	✓
Luo, Hsiao-Hsien	Male	✓	○	✓	✓	✓	✓	✓	✓
Ting, Tin-Yu	Male	✓	○	✓	✓	✓	✓	✓	✓

Note: ✓Indicates has the capability ○ indicates has some capability.

Evaluation Item	Yes	No	Brief Explanation	Deviations and Reasons
(2)In addition to the establishment of the Remuneration Committee and Audit Committee as required by law, did the Company establish committees with other functions of its own accord?	✓		(2) In addition to establishing the Audit Committee and Salary and Remuneration Committee as required by law, the company also voluntarily established the "Risk Committee", made up of 5 directors, which is convened based on organizational rules approved by the Board of Directors and meets in principle once per quarter. Committee members are responsible to the Board of Directors, and engage in review and discussion of relevant topics and report their conclusions and recommendations to the Board for action. Results have been good.	No Difference
(3)Has the Company established performance evaluation guidelines and evaluation methods for the Board of Directors and does it evaluate its performance regularly each year?	✓		(3) The Company's Board comprises ten juridical person shareholder representatives and three independent directors. Of these, the 10 juridical person shareholder representatives are assessed as determined by the juridical person shareholders, while the responsibilities of the three independent directors shall be faithfully fulfilled in accordance with the powers conferred by law.	No Difference

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Status of Implementation</th><th rowspan="2">Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Brief Explanation</th></tr>
<tr><td>(4)Does the Company periodically assess the independence of external CPAs?</td><td>✓</td><td></td><td>(4) As per Article 28 of the company's own "Rules for Corporate Governance" and the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies", the company's Audit Committee and the Board of Directors does regular assessments of the independence and suitability of accountants each year, with assessment results as follow:
<table>
<tr><th rowspan="2">Item Assessed</th><th colspan="2">Assessment Results</th><th rowspan="2">Conforms to independence?</th></tr>
<tr><th>Yes</th><th>No</th></tr>
<tr><td>1. Issued an accountant independence declaration.</td><td>✓</td><td></td><td>Yes</td></tr>
<tr><td>2. Have not gone seven continuous years without changing accountants.</td><td>✓</td><td></td><td>Yes</td></tr>
<tr><td>3. Not served as Company director or manager.</td><td>✓</td><td></td><td>Yes</td></tr>
<tr><td>4. Not a shareholder in the Company and has never been on the payroll.</td><td>✓</td><td></td><td>Yes</td></tr>
<tr><td>5. The accounting firm for which they work is not a Company affiliated enterprise.</td><td>✓</td><td></td><td>Yes</td></tr>
<tr><td>6. Has not provided any non-auditing services to the Company that could affect complete independence.</td><td>✓</td><td></td><td>Yes</td></tr>
</table>
After assessment by the company, accountants Yang, Cheng-hsiu and Chen, Li-chi of Deloitte & Touche both conform to the above assessment standards for independence, and are suitable to act as CPAs for this company. After the 11th meeting of the 20th Audit Committee on March 22, 2018, a report will be made to the 15th meeting of the 20th Board of Directors on the appointment of accountants.</td><td>No Difference</td></tr>
<tr><td>4. Has the Company set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs (this may include but is not limited to furnishing directors and supervisors information required for business execution, handling matters relating to board meetings and shareholders meetings according to laws, handling corporate registration and amendment registration, and producing minutes of board meetings and shareholders' meetings)?</td><td>✓</td><td></td><td>The company has set up a Corporate Sustainability Committee, to be specifically responsible for and organize sustainable governance for the company. With the "Corporate Social Responsibility and Sustainable Development Best Practice Principles" as the guiding principles, an overall plan for company-wide sustainable development strategy is set and planned, and a report on 2017 CSR work results was presented to the 14th meeting of the 20th Board of Directors on January 24, 2018, as follows:
(1) Organization: Adjustment and consolidation of team names and members in the Business Sustainability Committee(note), and enhancement of the linkage between operations and sustainability.
Here, a Joint Values Team was created to handle not only planning of relevant matters for the Board of Directors, functional committees and ordinary shareholder meetings, and a corporation information meeting was held on August 17, 2017 and April 24, 2018 as well.
(2) Management:
1. To emphasize the consideration of stakeholder interests, the 10th meeting of the 20th Board of Directors on March 30, 2017 passed revisions to the Practical Guidelines for Corporate Social Responsibility and Sustainable Development.
2. Two CSR training sessions were held on December 11, 2017, with a total of 58 governance employees in attendance.
(Note) Beginning in 2017, the Office of Business Development acts as executive secretary for committees, and based on operational framework and sustainable strategy teams were readjusted into six main teams: the "Customer Relation Team, Human Resource, Supply Chain, Environment, Society, and the Corporate Governance". Senior vice presidents serve as supervisors for each group, enhancing the link between sustainable development and operational governance.</td><td>No Difference</td></tr>
<tr><td>5. Has the Company established communication channels with stakeholders (including but not limited to shareholders, employees, customers, and suppliers) and set up an area dedicated to stakeholders on the Company website? Does the Company respond appropriately to</td><td>✓</td><td></td><td>As per the principles of the AA1000 SES-2011 stakeholder engagement standard, major stakeholders were identified and different channels of communication and platforms were set up to address each individual category of stakeholder, to ensure the ability to respond to complaints and desires from all stakeholders.
<table>
<tr><th>Item / Category</th><th>Focus of communication</th><th>Contact Person</th><th>Channel Of Communication And Response</th><th>Frequency</th></tr>
<tr><td rowspan="3">Employees</td><td rowspan="3">Employee feedback and satisfaction rates</td><td rowspan="3">Human Resource Div.
Miss Chi
Tel: +886(0)-3-3998917</td><td>Labor-Management Conference</td><td>Monthly</td></tr>
<tr><td>Employee concerns mailbox (Wecare listens mailbox, Speak Out employee communication mailbox, Team+ real-time information platform)</td><td>Real time</td></tr>
<tr><td>Website for retired employees and those who have left employment</td><td>Real time</td></tr>
</table></td><td>No Difference</td></tr>
</table>

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Status of Implementation</th><th rowspan="2">Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Brief Explanation</th></tr>
<tr><td>corporate social responsibility issues that stakeholders consider important?</td><td></td><td></td><td>
<table>
<tr><td rowspan="6">Customers</td><td rowspan="6">Customer thoughts and feelings</td><td rowspan="6">Passenger Service
Passenger dedicated phone line:
+886(0)-2-412-9000

Cargo Service
Miss Wei
Tel: +886(0)-3-3998263

Aircraft Maintenance
Mr. Chou
Tel: +886(0)-3-3987215</td><td>Customer satisfaction surveys</td><td>Semi-annually</td></tr>
<tr><td>Global marketing team meetings</td><td>Occasional</td></tr>
<tr><td>Discussions with travel agencies</td><td>Once or twice annually</td></tr>
<tr><td>Company website, industry social responsibility network, Facebook and Email</td><td>Real time</td></tr>
<tr><td>Dedicated customer service site</td><td>Real time</td></tr>
<tr><td>Site visits</td><td>Occasional</td></tr>
<tr><td rowspan="3">Investors</td><td rowspan="3">Reports on operating results, maintaining good communication</td><td rowspan="3">Finance Div.
Mr. Yang
Tel: +886(0)-3-3998331</td><td>Shareholders meeting</td><td>Annually</td></tr>
<tr><td>Shareholder hotline/mailbox</td><td>Real time</td></tr>
<tr><td>Corporate information meeting</td><td>Annually</td></tr>
<tr><td rowspan="3">Partners (Suppliers)</td><td rowspan="3">Status of supplier supply/shipment and sustainable risk</td><td>General Products
General Manager, Administration Div.
Miss Tang
Tel: +886(0)-3-3999136</td><td>Telephone, email</td><td>Occasional</td></tr>
<tr><td>Aircraft Parts
Engineering Div.
Mr. Tsai
Tel: +886(0)-3-3834251 Ext.7507</td><td>Consultative conferences</td><td>Quarterly</td></tr>
<tr><td>e-shopping / Duty free
In-Flight Service Supply Div.
Mr. Tsui
Tel: +886(0)-3-3934251 Ext.4925</td><td>Business visits</td><td>1-2 months</td></tr>
<tr><td rowspan="3">Society</td><td rowspan="3">Show concern for disadvantaged groups, increase social connection, spur transparent communication</td><td rowspan="3">CSR
Corporate Development Office
Mr. Chung
Tel: +886(0)-3-399-8530

Charitable activities
Corporate Communications Office
Mr. Lee
Tel: +886(0)-3-399-8639</td><td>Hold activities for the public good, participate in activities in society</td><td>Occasional</td></tr>
<tr><td>Press Releases</td><td>Occasional every month</td></tr>
<tr><td>Network mailbox</td><td>Occasional, daily</td></tr>
</table>
Moreover, the company website also has a "Stakeholder Contact": (https://www.china-airlines.com/tw/zh/about-us/stakeholder), and accounts in detail for communications channels for all stakeholders (including contact portals, email, telephone, etc.)For every issue stakeholders are concerned about, there is a dedicated employee ready to answer.</td><td></td></tr>
<tr><td>6. Has the Company appointed a professional shareholder services agent to handle shareholders meeting matters?</td><td>✓</td><td></td><td>The Company's professional services organization is CTBC Bank, which has been appointed to handle shareholder meeting matters.</td><td>No Difference</td></tr>
<tr><td>7. Information disclosure
(1)Has the Company established a public website to disclose financial, operational, and corporate governance information?</td><td>✓</td><td></td><td>(1) Dedicated units within the Company provide information to be disclosed on the China Airlines corporate website (http://www.china-airlines.com) regarding marketing, operations, finance, administration, aircraft operations, human resources, training, Shareholders' Meeting, and the annual report, prospectus, and any material information. Through this easily available information, consumers, suppliers, and investors can better understand China Airlines operations.</td><td>No Difference</td></tr>
</table>

Evaluation Item	Status of Implementation			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Brief Explanation	
(2)Has the Company adopted other methods of information disclosure (e.g., setting up an English website, designating a specialist responsible for gathering and disclosing Company information, setting up a spokesperson system, uploading recordings of investor conferences onto the Company website)?	✓		(2) The company has set up an English language website "China Airlines Corporate Website (https://www.china-airlines.com/tw/en), with the Office of Public Relations as the spokesperson and responsible for gathering and disclosing company information on a monthly basis, and for announcing corporate information to the outside, including press releases, new interviews and press conferences.	No Difference
8. Does China Airlines have other important information to facilitate better understanding of the Company's corporate governance practices (including, but not limited to employee rights, employee care, investor relations, supplier relations, stakeholder rights, director and supervisor training regimes, risk management policies, and risk measurement standards as well as the implementation of client policies and the Company's purchase of liability insurance for its directors and supervisors)?	✓		1. Employee rights: In addition to obeying the Labor Standards Act, in 2002 the company signed a collective agreement that remains in force today. salaries and remuneration, benefits and insurance are adjusted annually based on the remuneration policy and revenue, and there are also procedures for merit pay and higher pay for promotions to select and promote outstanding employees 2. Employee care: Primarily in three areas (1) Information: a. The company updated all its internal information networks in 2018, optimizing the platform user interface and enhancing information security, while also integrating provision of information via documents and periodically planning electronic bulletin boards for "News Focus, What's Going On in the Company, China Airlines Light, and Activities" with text and media. These share the company's latest operations information and decision making progress, while notifying employees of important information using email blasts. b. The Wecare Listens mailbox, Speak Out employee communication mailbox, Team+ real-time information platform and other diversified channels provide employees with ample direct channels to express their opinions and complaints. (2) Organizational: Based on the scale and dependencies of each unit in the company, employee relations departments or dedicated personnel have been established to be responsible for good communication channels and overall management of relations, assisting in publicizing various beneficial policies of the company and eliminating misunderstandings by improving internal employee satisfaction, cohesiveness, feeling of identification with the company, and work achievements at appropriate times. (3) Systemic: Periodically hold labor-management conferences and supervisor-employee communication meetings, and have employee benefits committee members participate in meetings with various types of unions and employee representatives, to tell employees about related governance actions at appropriate moments, and each resolution gives full respect to employee opinions and interests. 3. Investor relations: The company has established "Rules for Handling Investor Relations” by which it handles all investor concerns or opinions. A total of 17 were handled in 2017. 4. Supplier relations: Based on the company regulations in "Work Rules for Purchasing and Acceptance of Ordinary Goods", except in the case of patents and urgent purchases, all bids are public and disclosed on the company web site, establishing a transparent and open process with a fair competitive environment for transactions. Moreover, under the "Business Rules for Management of Suppliers of Ordinary Goods", supplier qualification, credit, and capability audits and assessments must be performed on suppliers at different stages of business risk, and audits for a total of 100 suppliers were completed in 2017. Additionally, under the company's "Announcement of Sustainable Supply Chain Management Policy", beginning in 2016, all suppliers have been required to sign a "Supplier Code of Conduct" at the time of bidding, jointly pledging to create a sustainable industrial environment; in the future, the company will continue to promote the purchase of products with environmental marks. As of the end of 2017, over NT$11.73 million had been spent on green purchases. 5. Stakeholder interests: The company Website has a "Stakeholder Contact" and other diverse communications channels and platforms to appropriately and effectively address all manner of stakeholder complaints and wishes. 6. Continuing education for directors and supervisors: see page 61 for details. 7. Status of implementation for risk management policy and risk balance standards: The company's operations are enormously impacted by both the domestic and international environment, so to further improve the risk management system mechanism and reduce the effect created by interplay among risks; the company	No Difference

Evaluation Item	Status of Implementation			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Brief Explanation	
			has established a "Risk Committee" answering directly to the Board of Directors. The committee meets once per quarter and issues periodic reports to the Board of Directors, assisting the Board in oversight of the setting, results and adaptive measures related to company risk management strategies. Moreover, to establish a solid internal governance system, the company has additionally set up "China Airlines Procedures for Handling Important Internal Information", "Ethical Code of Conduct for Directors", "Ethical Code of Conduct for Senior Supervisors" and "Rules for Employee Conduct in the Course of Work". 8. Implementation of customer policies: The company proactively uses electronic questionnaires to obtain information on passenger satisfaction. In 2017, a total of 599 valid customer satisfaction surveys were performed, and after statistical analysis, products and services were examined and improved as a result, raising the overall level of customer satisfaction. 9. Company purchase of liability insurance for directors and supervisors: In 2017, the company purchased liability insurance for all directors, to reduce and distribute the risk of legal liability for directors. At the 11th meeting of the 20th Board of Directors on May 11, 2017, a report was made to the Board on important information related to insurance for the directors, including the value, coverage and premiums paid.	
9. Please explain improvements that have been made in response to the results of the Corporate Governance Evaluation issued by the Taiwan Stock Exchange Corporate Governance Center: In 2017, the company began to compile its annual report in an English edition, and to furnish public information on an observation post 7 days prior to its annual meeting. Moreover, the company Web site has disclosed the status of communications by independent directors with the internal audit supervisor and accountants (such as how and what they communicate about the company's financial report and financial business, and the results of this communication).The diversification policy for members of the board of directors has also been disclosed and information provided in the annual report and on the Web site as to its progress.				

3.3.5 Composition, Responsibilities and Operations of the Remuneration Committee

The objective of the Remuneration Committee is to assist the Board to implement and assess the Company's overall compensation and benefits policy and director and manager remuneration.

A. Professional Qualifications and Independence Analysis of Remuneration Committee Members

Title (Note 1)	Criteria / Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria (Note 2)								Number of Other Public Companies in Which the Individual is Concurrently Serving as an Remuneration Committee Member	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Luo, Hsiao-Hsien	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Independent Director	Ting, Tin-Yu	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-
Other	He, Jyun-Huei	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	-

Note 1: Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during their term(s) in office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

Note 2: The Remuneration Committee is composed of four members. For the Remuneration Committee Charter, please refer to the Company website: http://www.china-airlines.com.

B. Attendance of Members at Remuneration Committee Meetings

The Remuneration Committee convened three meetings over the past year (from January 1, 2017 through April 29, 2018). Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Chairman	Luo, Hsiao-Hsien	3	0	100%	Assumed post on July 24, 2015.
Member	Ting, Tin-Yu	3	0	100%	Assumed post on July 24, 2015.
Member	He, Jyun-Huei	3	0	100%	Assumed post on July 24, 2015.
Member	Cao, Shou-Min	-	-	-	Assumed post on July 24, 2015 and resigned on July 1, 2016.
Other mentionable items: 1. If the Board of Directors declines to adopt or modifies a recommendation of the Remuneration Committee, the date of the meeting, session, content of the motion, resolution by the Board of Directors, and the Company's response to the Remuneration Committee's opinion (e.g., the remuneration passed by the Board of Directors exceeds the recommendation of the remuneration committee, the circumstances and cause for the difference shall be specified) shall be recorded: None. 2. Resolutions of the Remuneration Committee objected to by members or subject to a qualified opinion and recorded or declared in writing, the date of the meeting, session, content of the motion, all members' opinions and the response to members' opinion should be specified: None.					

3.3.6 Corporate Social Responsibility

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Brief Explanation	
1. Corporate governance implementation (1)Has the Company established corporate social responsibility policies or a CSR system and reviewed the effectiveness of implementation?	✓		(1) At the 6th meeting of the 20th Board of Directors on May 12, 2016, the Board passed revisions to the "China Airlines Co., Ltd. Corporate Social Responsibility and Sustainable Development Best Practice Principles " and has since taken this document a the highest guiding principle in the company's implementation of CSR. Moreover, the company has set up a Corporate Sustainability Committee, as the highest sustainable governance organization in the company, with a senior vice president acting as chair of the committee. The president reviews the progress of sustainable business at least twice annually. The following actions were taken in 2017 and disclosed in the 2017 CSR report: • Sustainability, operations and brand strategies were linked, and a call made to follow the United Nations' 9 sustainable development goals in setting a sustainable strategy blueprint. Six major strategic axes were set with 12 directions of strategic development. • Stock was taken of the six types of capital and these were included in actual value assessment tools to quantify the company's non-financial achievements. • Mechanisms for managing human rights risk and auditing sustainable supply chains were established. • The group's environmental sustainability capability was enhanced, for example, assisting Mandarin Airlines in obtaining carbon label certification. • Two major axes for social sustainability strategy were set, and plans related to corporate citizenship set based on the company's core strengths, in response to sustainable development goals 4 and 8.	No Difference
(2)Does the Company regularly hold CSR training?	✓		(2) The company runs sustainable development training classes and lectures for senior managers periodically each year, and started two CSR trainings on December 11, 2017, these being a practical course on report drafting and training on sustainable supply chain management. A total of 58 employees with relevant positions participated, to develop the concept of sustainable development.	No Difference
(3)Has the Company designated full- (or part-) time personnel to implement corporate social responsibility policy with senior management authorized by the Board of Directors to manage them, and do they give status reports to the Board of Directors?	✓		(3) The company has set up a Corporate Sustainability Committee, as an organization responsible solely for corporate social responsibility, with the president as its chair. There are six task forces based on their business structures and sustainability strategies, which are Customer Relation, Human Resource, Supply Chain, Environment, Society, and Corporate Governance. Corporate Development Office who is charged with developing and planning sustainable development strategies for the entire organization, and reports the latest progress acts as the executive secretary for the committee and assists in business promotion, and a report is made each year to the Board of Directors. At the 14th meeting of the 20th Board of Directors on January 24, 2018, a report on the results of CSR work was presented.	No Difference
(4)Has the Company established reasonable remuneration policies and integrated the employee performance evaluation system and CSR policies, and established a clear and effective incentive and discipline system?	✓		(4) As stipulated in the Company's Articles of Association, if the company makes a profit over the year, an amount of no less than 3% of the profit must be distributed as employee compensation. If the Company has accumulated losses, funds must be retained to offset the deficit. The company clearly states related rules in the business handbook (including performance evaluation, incentives and remuneration, etc.), and additionally, salaries and remuneration, benefits and insurance are adjusted annually based on the remuneration policy and revenue, and there are also procedures for merit pay and higher pay for promotions. Performance assessments for employees are done regularly three times a year, evaluating basic core job functions with other assessment indices and methods added as dictated by the job specialty, to remain current with actual employee work performance.	No Difference
2. Sustainable environmental development (1)Has the Company endeavored to make more efficient use of resources and use renewable materials that have a lower impact on the environment?	✓		(1) The company has employed internal and external audits and inspections to further improve its management of environmental and energy work, and a KPI performance review is done each quarter by environmental committee members and has met environmental sustainability goals. The following are the company's environmental management strategies and major management goals related to these considerations, as well as the management measures implemented to reach the goals: 1. Implementation of environmental management and carbon management strategies	No Difference

<table>
<tr><th rowspan="2">Evaluation Item</th><th colspan="3">Implementation Status</th><th rowspan="2">Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Brief Explanation</th></tr>
<tr><td></td><td></td><td></td><td>
<table>
<tr><th>Concept</th><th>Policy</th><th>Action plan</th></tr>
<tr><td>Complying with environmental laws and regulations</td><td>Enforcing compliance obligations to fulfill the company's responsibilities in environmental protection and energy conservation</td><td>(1) The company established its "Corporate Environmental Committee" in 2012. The committee periodically takes stock of legal requirements and new pledges and assesses the level of compliance.
(2) Keeping up with changes to international standards, and improving the function of the corporate environmental management system (ISO 14001:2015).
(3) Environmental goals and plans to promote them are set annually for different business areas (pax/cargo services, flight operation and office activities), with various resources conserving goals.
(4) Periodically (each quarter) use the "Environmental Committee meeting" to grasp the progress of environmental rules both domestic and international, and ways to comply, and track and review environmental and energy savings achievements (carbon/noise/air pollution).
(5) Primary consideration in the purchase of ordinary goods is given to those with an environmental lable is promoted, and periodic reports are made to the company on green products purchased, their quantity and the amount of money spent on them.
(6) Continued participation in DJSI, CDP and other international evaluations.</td></tr>
<tr><td>Conserving the Earth's resources</td><td>Establishing environmental and energy management systems, including performance indicators, to verify compliance with established policies</td><td>(1) Set and implemented short/mid/long-term GHG reduction goals.
(2) Began adding sustainable alternative fuels starting with ferrying of new planes in 2017.
(3) Manage carbon rights based on changes to EU ETS carbon prices.</td></tr>
<tr><td rowspan="2">Improving eco-efficiency</td><td>Promoting environmental and energy conservation education to foster employees' eco-awareness</td><td rowspan="2">(1) Beginning in 2014, group businesses have been invited each year to attend environmental symposia and related professional classes, to raise the overall capacity for environmental management.
(2) Through contractors' meetings, supplier meetings and regular meetings, the company continuously communicates its environmental management methods and requirements to suppliers.</td></tr>
<tr><td>Implementing green supply chain management to raise overall eco-efficiency</td></tr>
</table>
</td><td></td></tr>
</table>

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Brief Explanation	

Fulfilling social responsibility	Creating a low-carbon operating environment to establish continual improvement of environmental protection and energy efficiency	(1) In 2018, the company will plan and implement a "Green Ticket Price (Carbon Offset) Service", and continue to communicate environmental concepts to customers. (2) Annual plans and holding "Environmental Education Symposia" and "Fun Environmental Competitions". Occasionally sends new information about environmental protection to all employee mailboxes, to educate and guide them in environmentally friendly behaviors.
	Supporting green design and procurement to promote sustainable development	

2. Energy savings and carbon reduction

The company has gradually brought in the standards from clauses in the ISO 14001 environmental management system and the ISO 50001 energy management system, and established an Environmental Management System (EMS) and Energy Management System (EnMS). The company has promoted measures to save energy and reduce carbon since 2012. In 2017, the company jointly promoted 60 environmental management KPIs, saving 51,773 metric tons of aviation fuel, reducing ground vehicle fuel consumption by 98 kiloliters, and reducing energy usage by 549 MWh. The total annual reduction in carbon was 164,343 tons of CO_2e. Detailed data can be found below

Item	Amount conserved	Unit	Carbon (metric tons CO_2e)	Note: CO_2e conversion factor
Aircraft Fuel savings	51,773	Metric tons	163,796	3.16375
Ground Fuel savings	98	Kiloliters	257	2.361 (gasoline); 2.651 (diesel)
Electricity conserved	549	MWh	290	0.528
Annual carbon reduction			164,343	(Metric tons CO_2e)

3. Water conservation and wastewater treatment

The company's total water usage in 2017 was 141,257 units, up 3.60% from 2016. The major reason for the increase was the impact of support for the Cal Hotel due to construction and WC projects. So that 2017 water usage was up 4,907 units over 2016. However, beginning in May, 2016, wash operations were halted for 24 target locations, and eco-friendly cleaning methods used such as eco-shine, which not only achieved the goal of deep cleaning, but also reduced drag on aircraft bodies during flight and reduced fuel consumption during flight. This method can also reduce water consumption by 98%; in 2017, this was expanded to 55 marked aircraft, for a total water conservation of 883 units, up 3.6-fold from water savings in 2016. Moreover, The company takes the concept of "total recycling" in maintaining its campuses. It has established and operates an effluent treatment plant and an effluent/wastewater recycling treatment and reuse facility that recycles discharged water that is up to standard using it to wash vehicles, for ornamental ponds, and for watering. A total of 1,890 units of running water were conserved in 2017; the effluent/wastewater recycling and reuse rate (recycled quantity/total water use) was 2.7%. The 2018 Action Plan is to calculate rainwater/wastewater recycling and reuse quantities, and continue to bring in eco-shine and other water-saving methods as well as calculating efficiencies and establishing business goals. The water conservation goal for 2018 is 2,996 units.

4. Waste management

The company holds to five principles in managing its waste: Reduce, Reuse, Recycle, Refuse and Repair. The goal is 100% resourcing of waste materials, raising the reuse rate annually.

Ground operations in 2017 produced 711 tons of waste, while flight operations produced approximately 3,418 waste material quantities. Of this, ground operation waste primarily came from maintenance shops and employee activities on campus. The resource recovery rates were: ground operations, 42.03%, in-flight services, 31.26%. Of this, the most-recycled item was kitchen waste, followed by paper.

The 2018 Action Plan will reduce the production of waste and use resource recycling and set an initial goal for reduction in waste as per the "Goals for Setting Resource Recycling Ratios". The goal for 2018 is a reduction of 98,940 kilograms.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Brief Explanation	
(2)Has China Airlines established an environmental management system that is specifically designed with the Company's operations in mind?	✓		(2) The company keenly believes that aviation fuel efficiency is tightly tied to climate change and other sustainability topics. In 2007, the company established a cross-unit fuel usage management team to enhance aviation fuel conservation, with comprehensive cooperation from business planning through flight operations, aircraft maintenance and cycle management to manage and control approximately 30 fuel conservation efficiency indices, and to use systematic risk management thinking to implement policies of promoting environmental management. It actively and steadily extended business environment risk management mechanisms and brought in the ISO 14064 greenhouse gas management system, the ISO 14001 environmental management system and the ISO 50001 energy management system in phases.	No Difference
(3)Does the Company pay close attention to the potential impacts of climate change on operations, has it undertaken an examination of greenhouse gas emissions, and has it established a carbon and greenhouse gas reduction strategy?	✓		(3) In 2008, the company began to actively implement ISO 14064-1 greenhouse gas management, doing greenhouse gas emissions audits of the organization's operations, and implementing third-party reviews. To keep in step with global trends, in 2012 the company established a carbon risk management mechanism, and proactively responded to the Carbon Disclosure Plan (CDP). In October, 2014 the company announced its voluntary greenhouse gas reduction targets, and prior to the announcement of the start of a global carbon management mechanism by the ICAO, the company was proactively promoting management. Taking 2009 as a baseline, the company actively supported and implemented IATA's three phased goals: 1. Average annual improvement of 1.5% in fuel efficiency by 2020; 2. Carbon neutral growth by 2020 (CNG 2020); 3. Reach 50% of 2005 emissions by 2050. This has spurred achievement of strategic goals for greenhouse gas reductions in the domestic airline industry.	No Difference
3. Social welfare (1)Has the Company established management policies and procedures in accordance with relevant laws and regulations and international human rights conventions?	✓		(1) In the area of comprehensive management systems and organizational capacity, the company not only abides by the "Employee Code of Conduct" and "Employee Work Standards" set forth in various labor laws, but also refers to the "Universal Declaration of Human Rights", the "United Nations Global Compact", the International Labor Organization's basic compact on core labor standards, the UN Guiding Principles on Business and Human Rights, and local laws and regulations. The company has established a "Human Rights Policy" based on the aforementioned norms as guiding principles for the company's management.	No Difference
(2)Does the Company have an employee complaint mechanism and channels and does it take care of said complaints appropriately?	✓		(2) To guarantee employee interests and provide a healthy and safe working environment, and create a friendly workplace, the company has set "Rules for Employee Complaint" and "Rules for Employee Safety Reporting Incentives". It has also provided diversified channels of communication that all employees are familiar with, including a "Speak Out" area, periodic labor-management consultations and various dedicated complaint mailboxes (including Wecare, workplace sexual harassment, professional ethics, etc.) and handles all employee complaints according to a set process.	No Difference
(3)Does the Company provide employees with a safe and healthy work environment and regularly implement health and safety education programs for employees?	✓		(3) 1. The company obtained OHSAS 18001:2007 and CNS 15506:2001 workplace safety and sanitation management system certifications on April 20, 2016, and passed an SGS audit on March 9, 2018. 2. The company established an occupational safety and health committee as required by law, with responsibility for consideration, coordination and recommendations on matters concerning workplace safety and health, with preventing workplace disasters and ensuring employee safety and health as its goals. The committee meets every three months, and does statistical work and analysis on workplace accident cases, providing a report and tracking follow-up management of safety and health in these cases. Moreover, a roving safety and health inspection is held from time to time to discover dangers and remediate them. In 1,156 rounds done in 2017, 211 deficiencies were identified, with all completely remediated, for an improvement rate of 100%. 3. The China Airlines employee safety reporting system (AQD) is used for potential hazards in the workplace, with risk assessment performed to reduce the occurrence of accidents. In 2017, the AQD registered 107 cases related to safety and health, of which all 107 were remediated, for an improvement rate of 100%. 4. Responds to major domestic transportation accidents and periodically performs sampling inspections of highway buses leased by the company to ensure all necessary equipment is in place to provide employees with safe transportation. 5. The company provides employees with clean, nourishing food in cafeterias, and periodically visits to check that the cafeteria environment is sanitary and food is of good quality. 6. Implements safety and health training: (1) General employee safety and health training.	No Difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Brief Explanation	
			(2) New hire manager and employee safety and health training by e-Learning. (3) Workplace safety and health committee member training. 7. Events to promote health (1) A total of 16 events promoting health were held at the Taoyuan headquarters, with a total of 310 people participating. (2) A total of 14 events to promote health were held at the Taipei branch, with a total of 367 people participating. (3) A total of 10 events to promote health were held at the Kaohsiung branch, with a total of 144 people participating. (4) Free flu shots: 230 people in Taipei, 1,092 in Taoyuan, 549 maintenance personnel and 41 people in the Kaohsiung area.	
(4)Has the Company established a mechanism enabling periodic communication with employees and a reasonable method of informing employees of those operational changes that could significantly affect their work?	✓		(4) The company holds a monthly labor-management conference, and has also established a "Speak Out" area, Wecare mailbox and other means for employees to share their questions or concerns with the company. In 2017, a total of 28 cases were handled to completion, providing both labor and management with rapid access to important operational information and multiple channels of communication to exchange opinions. Major topics in the company were communicated in a timely manner, and information concerning employee interests was posted to the internal web site or sent to employee mailboxes. Through these multiple channels of communications and effective work processes harmony is maintained between labor and management, so that there is good common understanding of company operations.	No Difference
(5)Has the Company established an effective career skill development training program for employees?	✓		(5) To nurture human resources in the company, a "Training Information Committee" has been established with responsibility for planning annual training for employees. This includes strategic skills training, management skills training and training specific to a position. At the same time, in cooperation with the company's operational development strategy, deepening management talent and improving the perspective of promising talent, periodic strategic and management trainings are held, further developing the knowledge and skills employees need. In 2017, a total of NT$390 million was spent on training development. A total of 93,800 training hours were provided.	No Difference
(6)Has the Company established policies regarding R&D, procurement, production, operations, and service processes and complaint procedures to safeguard the rights of customers?	✓		(6) 1. Consumer interests policy: The company has set a service pledge, transport contracts, and disclaimers as required by law, and has also established a data confidentiality policy, "Information on Privacy Protection and Data Security", to do its utmost to protect the privacy of individual data for all customers. The policy is disclosed on the company web site. Moreover, the company added a Personal Data Team in 2018 and brought in an outside expert consulting team to assist in adapting to the EU General Data Protection Regulation (GDPR). All GDPR privacy protection systems are projected to be in place by May 28, 2018. 2. Consumer complaint procedure: The company provides consumers channels for complaints about products and services, including: the company web site (includes: special stakeholder area, customer response, service satisfaction survey), Facebook page, email customer service, global office addresses and telephone numbers for service lines. Customers may also write in directly and complaints all receive a response after handling.	No Difference
(7)Does the Company's product and service marketing and labeling adhere to relevant laws and regulations and international standards?	✓		(7) The services and products the company provides all adhere to the laws and regulations of various countries. As of the end of 2015, the company complied with US DOT's accessible web page regulations for airlines, and had developed WCAG AA-level accessible web pages. These provide a means for customers who have difficulty using traditional web pages to access the information on the pages using alternative means, effectively making the page more user-friendly and giving customers greater convenience. At the same time, internet transactions provide a payment platform that conforms to the industry standard (PCI DSS), ensuring the security of consumer credit card information. In 2017, to facilitate the management of the multilingual China Airlines web site structure, the company further the scope of its regional language pages, and as of the end of 2017, the China Airlines web site was available for 15 destination countries and provided 13 different languages.	No Difference
(8)Prior to entering a business relationship with a supplier, does the Company first determine whether or not the supplier has any record of negatively impacting society or the environment?	✓		(8) Potential CAL suppliers must issue a “tender declaration” prior to submitting a tender. CAL requires that suppliers meet conflict of interest avoidance principles, anti-bribery regulations, and supplier integrity standards, while at the same time following all local laws. CAL carefully assesses suppliers’ impact on the environment and society and their image, including their reputation and any record of previous illegal activities.	No Difference

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Brief Explanation	
(9)Do the Company's contracts with its major suppliers include provisions for terminating the agreement at any time in the event that the suppliers are involved in any activities that violate Company CSR policies and that significantly adversely impact the environment or society?	✓		(9) The company has set a "Supplier Code of Conduct" and specifically stipulates that suppliers must provide a safe, healthy working environment, guarantee mutual respect, dignity and fairness for labor, and respect professional ethical standards; in all circumstances, when supplying products or services, all actions must fulfill legal and ethical requirements and promise responsibility to society and the environment; In the event of any violations of these basic rules, the company terminates the bilateral business relationship.	No Difference
4. Strengthening information disclosure (1)Does the Company disclose on its website and TWSE Market Observation Post System relevant and reliable information about Company CSR?	✓		(1) The China Airlines website features a dedicated CSR section to highlight our related programs and we have disclosed our “CSR Report” and “GHG Emissions and Reduction Information” on the Taiwan Stock Exchange Market Observation Post System.	No Difference
5. If the Company has drawn up a code for CSR based on the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies please describe any differences between said code and the Best Practice Principles: To completely implement the company's social responsibility, the company has set its own "Practical Guidelines for Corporate Social Responsibility and Sustainable Development" based on the "Practical Rules for Listed and OTC Corporate Governance”. These were approved at the 6th meeting of the 20th Board of Directors on May 12, 2016. To conform to the government's promotion of CSR, and to keep in step with international trends, the company revised its "Practical Guidelines for Corporate Social Responsibility and Sustainable Development" based on the revised "Practical Rules for Listed and OTC Corporate Governance" in March, 2017. Using these as the highest guiding principles for CSR, there was a comprehensive review of corporate operations and feedback was provided to management and executives, for efforts in social responsibility in the three major areas of environment, society and governance (ESG); this year, there were no operational discrepancies.				
6. Other important information for facilitating the understanding of CSR and its implementation: (1) Environmental protection: in 2017, China Airlines brought on 10 new A350s, ferrying them from Toulouse, France to Taiwan on November 30. These planes are in the Airbus Air TOTAL cooperative aviation sustainable alternative fuel plan, and sustainable aviation/alternative fuels (SAF) were added making this the first airline in Taiwan to use SAF and setting a milestone in carbon reduction among Taiwanese airlines. This fuel was granted the international Certificate of Sustainability (COS) and can effectively reduce greenhouse gas emissions (a reduction of 20,000 kilograms of CO_2e per flight). This reduces the burden on the earth's environment and combined with the A350-900's fuel conservation efficiency could reduce CO_2e emissions by 30% or more compared to planes currently in service. (2) Social welfare: The company has long held educational events for the public good, and participates in the "Friendly Campus" educational program for remote elementary schools as well as the "General Knowledge Platform for the Public Good". Each year, it holds events for the public good at which volunteers teach, including Chuwei Elementary, Hsihai Elementary, Shanfong Elementary, Haihu Elementary and Kuolin Elementary, benefiting 1,031 students, with a total of 31 volunteers working; Aihsin Papa Tsou held 4 events at Miaoli's Chungho Elementary, Taitung's Chunghua Hsunlihui, Taipei's Children's Autism Foundation, and Chiayi County's Tapang Elementarywith over 350 students served by 211 volunteers. Invited "House of Dreams" and other high school disadvantage youth to an event with NBA star rear guard Jeremy Lin. Sponsored the Eden Foundation's 2017 "Onward to American Crazy Baseball to See Yin Hsiong" prize drawing, the Huashan Foundation Dragon Boat Festival "Move to Love for the Elderly", Mid-Autumn Festival "Love for the Elderly in the Moonlight" and the Lunar New Year "Come Together to Love the Elderly" events, donated transportation for relief materials 3 times to the Tzu Chi Foundation, cooperated with Taoyuan Area Fishing on fencing and cleaning the beach and on the "2018 Fencing the Furnace" event, and continued to provide courtesy air transportation to sick children for the "Hsiyuan Association". (3) Promotion of CSR: Participated in various travel exhibition events in Taiwan and abroad, and sponsored the Taiwan Tourism Bureau and the Tourist Association's "2017 Taiwan Lantern Festival", "2017 Fulong International Sand Art Season", and the Taipei City Government's 2017 Universiade Cheerleading Performance Event, the A350 London Cultural Experience Day and the 2017 AAPA President's conference, sponsored the Tourism Bureau's "Welcome 2017 with 10 Million Tourists to Taiwan" event, to take specific action to support and participate in promotion of Taiwan tourism. China Airlines innovates with creative thinking. In 2017, the company earned approbation and awards in Taiwan and abroad and each honor was the result of the hard work of the entire China Airlines team, allowing the airline to forge an outstanding reputation worldwide.				
7. If the Company CSR report has received certification from relevant certification bodies, please detail below: The CAL 2016 CSR Report was certified by SGS Taiwan Ltd. in May 2017 as meeting GRI core indicators and passed AA1000AS TYPE II high-level assurance.				

3.3.7 Ethical Corporate Management

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reason
	Yes	No	Brief Explanation	
1. Establishment of ethical operation policies and programs (1)Do the Company's Articles of Association and external documents explicitly express its ethical policies and methods and are the Board and management committed to the active implementation of these commitments?	✓		(1) CAL has established Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct, which were passed in 2016 at the 5th meeting of the 20th Board session. These guidelines and principles clearly spell out the Company's ethical operating policies, methods, and commitments. They are published on the CAL website and the Taiwan Stock Exchange Market Observation Post System.	No Difference
(2)Has the Company established and implemented programs to prevent unethical conduct and do these programs clearly specify relevant procedures, conduct guidelines, and a discipline and appeals system for rule violations?	✓		(2) The company has established the "Guide to Integrity in Management and Business Procedures and Conduct" and clearly laid out each item of forbidden unethical behavior, a reporting system, and a discipline system, and implements this in the operations of each unit. Moreover, the company has also set up a unit dedicated to integrity in management (Human Resources Div.) with responsibility for periodic reports to the Board of Directors.	No Difference
(3)Does the Company implement preventative measures for each item under Clause 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies or other operations that have higher risk of unethical behavior?	✓		(3) China Airlines' Ethical Corporate Management Best Practice Principles expressly state that the scope of these regulations shall cover all business operations with a higher risk of unethical behavior, while also strengthening related measures to prevent those situations listed under Clause 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/TPEx Listed Companies.	No Difference
2. Implementing ethical corporate management (1)Does the Company evaluate the ethical records of the businesses with which it has dealings and include clear ethical corporate behavior provisions in contracts with such counterparties?	✓		(1) In the process of business dealings with other companies, CAL employees explain our ethical management policy and related regulations to counterparties and expressly refuse to directly or indirectly provide, promise, demand or accept any form of improper benefit. When signing contracts with others, CAL fully reviews the counterparty's ethical corporate behavior and includes complying with our ethical corporate management policies as a provision in contracts.	No Difference
(2)Has the Company established an organization under the direct jurisdiction of the Board of Directors that promotes ethical management principles and also regularly reports to the Board concerning implementation?	✓		(2) The company's Div. of Human Resources is the specialized unit promoting integrity in operations. It is responsible for collecting and organizing information on the status of integrity in operations for the various units, and reports annually to the Board of Directors. Moreover, the company encourages reporting of unethical behavior or improper behavior, and has established and announced an independent reporting mailbox with the General Audit Office investigating cases, how each is handled and following up on reviewing improvement measures and reporting to the Board of Directors.	No Difference
(3)Has the Company formulated and implemented policies to prevent conflicts of interest and provide appropriate ways to record any potential conflicts found?	✓		(3) CAL Procedures for Ethical Management and Guidelines for Conduct expressly state that should a conflict of interest arise in the execution of Company duties, employees shall report the situation to their direct supervisor, who should provide appropriate guidance.	No Difference
(4)Has the Company implemented effective accounting and internal control systems and does it have an internal auditing unit or independent accountant periodically review them?	✓		(4) In order to implement ethical management, the Company has established effective accounting and internal control systems, which are reviewed annually by internal auditors. The unit under review shall issue a corrective plan for each issue discovered during the audit and follow ups will be held regularly to review implementation.	No Difference
(5)Does the Company periodically hold internal and external ethical corporate behavior training?	✓		(5) The company has created documents such as the "Guiding Principles for Operational Integrity" and the "Guide to Ethical Operational Business Procedures and Behavior", and disclosed them on the company's internal and official web sites for both employees and outsiders to reference. In 2017, the company also held the China Airlines Group Code of Conduct e-Learning training (including Guiding Principles for Operational Integrity, human rights policy, employee workplace behavior rules and environmental and energy conservation policy) for in-service employees and new hires. A total of 6,030 in-service employees completed the training, and another 200 new hires also took it, for a total of 3,115 training hours.	No Difference

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reason
	Yes	No	Brief Explanation	
3. Operation of the Company's Violation Reporting System (1)Has the Company established a concrete violation reporting and rewards system, set up convenient reporting channels, and appointed suitable personnel to handle these cases?	✓		(1) Article 20 of the company's "Guide to Integrity in Management and Business Procedures and Conduct" stipulates and discloses reporting channels, specialized units, handling procedures and the discipline system, as follows: 1. Reporting channel: A reporting mailbox has been set up and disclosed on both the internal and public Web sites at auditor@china-airlines.com, for people both in the company and outside to use. 2. Dedicated unit: The General Audit Office. 3. Handling procedure: The company personnel handling reported incidents must make a written statement with regard to the non-disclosure of the identity of the reporter and the matter being reported, pledge to protect the reporter against any improper consequences as a result of the report, and the General Audit Office will follow the procedure below: (1) For reported cases dealing with a ordinary employee, a report must be made to the department supervisor, and if the report concerns a director or high-level supervisor, a report must be made to a director. (2) The Office of the Chief Auditor and the supervisor or personnel notified in the foregoing clause shall immediately investigate the relevant facts, and if necessary get help from legislative compliance or other relevant departments. (3) If after investigation the person reported is shown to have violated relevant laws, regulations, or the ethical operations policies of the company, the reported person shall immediately be requested to stop that behavior, and be punished accordingly. When necessary, payment for damages may be sought through legal means to protect the reputation and interests of the company. (4) The receipt of a report, its investigation, and the results of that investigation must all be retained in a written document and kept for 5 years. The file should be kept in electronic format. Prior to the expiration of this retention period, any complaint concerning the content of the report should have relevant information appended and retained until any lawsuit is concluded. (5) If the report is upheld after investigation, relevant units of the company shall be tasked with reviewing related internal control systems and work procedures, and providing measures for improvement to put an end to similar behavior occurring in the future. (6) The General Audit Office shall investigate cases, how each is handled and follow up on reviewing improvement measures and report to the Board of Directors.	No Difference
(2)Has the Company established an investigation SOP for violation reporting and a relevant confidentiality mechanism?	✓		(2) According to CAL Procedures for Ethical Management and Guidelines for Conduct, all reports of violations and related follow up investigations are kept strictly confidential and CAL has set up clear and effective awards and punishments, appeals system, violation reporting confidentiality mechanism, and investigation SOP.	No Difference
(3)Does the Company have any measures in place to protect individuals from possible mistreatment arising from reporting violations?	✓		(3) According to CAL Procedures for Ethical Management and Guidelines for Conduct, employees who process violation reports must sign a written statement pledging to maintain confidentiality of the reporters and the details of the case. CAL also promises to protect the whistleblower from being improperly punished due to the reporting.	No Difference
4. Strengthening information disclosure (1)Does the Company disclose the content of our Ethical Corporate Management Best Practice Principles and their effectiveness on our website and the TWSE Market Observation Post System?	✓		CAL's Ethical Corporate Management Best Practice Principles and Procedures for Ethical Management and Guidelines for Conduct are disclosed on the China Airlines website and the Taiwan Stock Exchange Market Observation Post System, along with the effectiveness of ethical operations and fair trade principles.	No Difference
5. If the Company has established a code of ethical corporate management based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any differences between said code and the Best Practice Principles: No Differences				
6. Other information that will assist in the understanding of Company ethical corporate management practices: None.				

3.3.8 Corporate Governance Guidelines and Regulations

The company has set a "Corporate Charter", "Rules for Discussions of Official Business at Shareholder Meetings", "Rules for Discussions of Official Business by the Board of Directors", "Ethical Code of Conduct for Directors", "Election of Directors", "Rules for Corporate Governance", "Guiding Principles for Operational Integrity", "Guide to Integrity in Management and Business Procedures and Conduct", "Practical Guidelines for Corporate Social Responsibility and Sustainable Development", "Ethical Code of Conduct for Directors", "Ethical Code of Conduct for Senior Supervisors", "Employee Workplace Rules of Conduct", "China Airlines Group Rules of Conduct", "Supplier Code of Conduct" and "Human Rights Policy", has set up 3 committees under the Board of Directors: "Audit", "Remuneration", and "Risk", and has set various organizational rules. The relevant rules listed above are all made public on the company's web site (http://www.china-airlines.com) and the company's social responsibility network (https://calec.china-airlines.com/csr/index.html).

3.3.9 Resignation or Dismissal of the Company’s Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D: None.

3.3.10 Other Important Information Regarding Corporate Governance

A. The organization and operations of Company internal auditing are disclosed on the Company website: http://www.china-airlines.com.

B. Certifications of the personnel related to the company's internal audits:

Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate: 1 person, R.O.C. Certified Public Accountant License: 2 people.

B. Company financial staff certifications and licenses: Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate:

6 people, International Internal Auditor Certificate: 5 people, R.O.C. Certified Public Accountant License: 2 people, R.O.C. Securities (Senior) Specialist: 7 people, R.O.C. Securities Investment Trust and Consulting Professional: 6 people, R.O.C. Futures Specialist: 4 people, R.O.C. Financial Planning Personnel Proficiency Test Passing Certificate: 4 people, R.O.C. Stock Affairs Specialist Proficiency Test Passing Certificate: 7 people, USA Certified Public Accountant License: 1 person, R.O.C. Basic Enterprise Internal Audit Proficiency Test Passing Certificate: 6 people.

C. Company Director Continuing Education:

From January 1, 2017 through April 29, 2018

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Chairman	Ho, Nuan-Hsuan	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Director	Hsieh, Su-Chien	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Director	Charles C.Y. ,Chen	3hr	02/25/2017	Taiwan Institute of Directors	The Rise of Innovation Economics -Revolution and Challenges to Enterprise Operations
		3hr	03/28/2017	Taiwan Institute of Directors	Thinking and Challenges for Enterprises to Hold Power in the Online Economy
		3hr	11/17/2017	Taiwan Institute of Directors	The Sixth Annual Chinese Family Business Symposium
		3hr	01/08/2018	Taiwan Institute of Directors	Digital Transformation-Starting from Enhanced Board Digital Capabilities
Director	Ting, Kwang-Hung	3hr	05/10/2017	Taiwan Corporate Governance Association	Disclosure of Major Corporate Information and Director and Supervisor Responsibility
		3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
Director	Lee, Kuo- Fu	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Director	Jong, Jia-shi	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Director	Cheng, Chuan-Yi	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Director	Chen, Han-Ming	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Director	Lin, Su-Ming	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		7hr	06/19/2017	Taiwan Accounting Association	IFRS9 [Financial Tools] and IFRS5 [Client Contract Income] Accounting Standards Seminar
		3hr	08/01/2017	Taiwan Institute of Directors and KPMG	Tax Administration in the Era of Tax Evasion
		1hr	09/21/2017	Insurance Anti-Fraud Institute	Preventing Money Laundering and Countering the Financing of Terrorism Workshop

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Director	Huang, Hsiu-Gu	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Independent Director	Chung, Lo-Min	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Independent Director	Luo, Hsiao-Hsien	3hr	04/11/2017	Ministry of Transportation and Communications	Financial Report Analysis and Practical Applications
		3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors
Independent Director	Ting, Tin-Yu	3hr	05/11/2017	Training by: Taiwan Corporate Governance Association	Legal Risk of Corporate Directors
		3hr	11/05/2017	Training by: Taiwan Corporate Governance Association	Legal Liability and Risk Management for Untrue Financial Reports by Directors and Supervisors

D. Corporate Governance Related Training Attended by Company Managers:

From January 1, 2017 through April 29, 2018

Title	Name	Date(s)	Sponsoring Organization	Course	Training hours
Vice President, Finance Div.	Chen, I-Chieh	09/06/2017	Accounting Research and Development Foundation	A Practical Workshop on Combined Financial Report Compilation	6hr
		11/23/2017-11/24/2017		Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
		12/21/2017-12/22/2017		Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
Assistant Vice President, Finance Div.	Ho, Hui-Fen (Note 1)	12/28/2017-12/29/2017	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
Auditor General, General Audit Office	Chung, Chuar-Duan	07/06/2017	Institute of Internal Auditors-Chinese Taiwan	Internal Auditor Professional Course-Operation Audits Practice	6hr
		07/12/2017	Institute of Internal Auditors-Chinese Taiwan	Internal Auditor Professional Course-Practical Risk Assessment and Checking Skills	6hr
Deputy Auditor General, General Audit Office	Fang, Juo-Ling (Note 2)	05/22/2017	Accounting Research and Development Foundation	"Topics of the Day" Main Points of Newest Labor Law Revisions and Internal Audit Practices for Enterprise Salary Cycles	6hr
		09/13/2017	Accounting Research and Development Foundation	"Overview of Legal Liability for Internal Audits" Overview of legal liability for internal auditors and whistle-blower system	6hr
Deputy Auditor General, General Audit Office	Ho, Hui-Fen (Note 1)	04/16/2018-04/18/2018	Institute of Internal Auditors-Chinese Taiwan	Internal Auditing Professional Course-Pre-Employment Training Workshop for the First-Time Corporate Internal Auditor	18hr

(Note 1) Ms. Ho, Hui-Fen had her work responsibilities changed on 2018/02/01, to take up a job as the deputy auditor general in the General Audit Office.

(Note 2) Ms. Fang, Juo-Ling had her job responsibilities changed as of 2018/01/01, taking up work as the vice president in the Administration Divsion.

E. On December 6, 2012, after approval by the Board of Directors, the Company established the China Airlines Ltd. Procedures for Handling Material Inside Information. In addition to announcing the new procedures to the Board, management, and employees, they were also published under Important Company Regulations on the Investor Relations section of the CAL website so the Board, management, and employees can reference them at any time in order to avoid violations and the occurrence of insider trading.

China Airlines Ltd. Procedures for Handling Material Inside Information:

Article 1: These Procedures are specially adopted to establish sound mechanisms for the handling and disclosure of material inside information by the Company, in order to prevent improper information disclosures and to ensure the consistency and accuracy of information released by the Company to the public.

Article 2: The Company shall implement its handling and disclosure of material inside information in accordance with applicable laws and regulations, the rules and regulations of the Taiwan Stock Exchange Corporation, and these Procedures.

Article 3: These Procedures shall apply to all directors, managerial officers, and employees of the Company. The Company shall ensure that any other person who acquires knowledge of the Company's material inside information due to their position, profession, or relationship of control shall comply with the applicable provisions of these Procedures.

Article 4: For the purposes of these Procedures, the term "material inside information" refers to information that is defined as material inside information by the Securities and Exchange Act, other applicable laws and regulations, and the applicable rules and regulations of the Taiwan Stock Exchange Corporation or the GreTai Securities Market.

Article 5: The Company's Finance Division is tasked with handling material inside information. The division shall have the following functions and authorities:

1. Responsibility for formulating the drafts of these Procedures and any amendments to them.
2. Responsibility for receiving inquiries in connection with the methods of handling material inside information, and for consultation, review, and recommendations relating to these Procedures.
3. Responsibility for receiving reports on unauthorized disclosures of material inside information and formulation of corresponding measures.
4. Responsibility for designing a system for preserving all documents, files, electronic records, and other materials related to these Procedures.
5. Other activities related to these Procedures.

Article 6: The Company's directors, managerial officers, and employees shall exercise the due care and fiduciary duty of a good administrator and act in good faith when performing their duties. No director, manager, or employee with knowledge of material inside information of the Company may divulge the information to others before it is made public. No director, managerial officer, or employee of the Company may inquire about or collect any non-public material inside information of the Company not related to their individual duties from a person with knowledge of such information, nor may they disclose to others any non-public material inside information of the Company of which they become aware for reasons other than the performance of their duties.

Article 7: Proper protection of confidentiality shall be given to files and documents containing the Company's material inside information when transmitted in written form. When transmitted by email or other electronic means, such files and documents must be processed with appropriate security technology, such as encryption or electronic signatures.

Files and documents containing the Company's material inside information shall be backed up and stored in a secure location.

Article 8: The Company shall ensure that the firewalls specified in the preceding two articles are established, and take the following additional steps:

1.Adopt adequate control measures for the firewalls and perform periodic testing.
2.Enhance measures for custody and maintaining the secrecy of files and documents containing non-public material inside information of the Company.

Article 9: Any organization or person outside of the Company that is involved in any corporate action of the Company relating to a merger or acquisition, major memorandum of understanding, strategic alliance, other business partnership plans, or the signing of a major contract shall be required to sign a confidentiality agreement, and may not disclose to another party any material inside information of the Company thus acquired.

Article 10: The Company shall comply with the following principles when making external disclosures of material inside information:

1. The information disclosed shall be accurate, complete, and timely.
2. There shall be a well-founded basis for the information disclosure.
3. The information shall be disclosed fairly.

Article 11: Any disclosure of the Company's material inside information, except as otherwise provided by law or regulation, shall be made by the Company's spokesperson, or by a deputy spokesperson acting in such capacity in a confirmed sequential order. When necessary, the disclosure may be made directly by a responsible person of the Company.

The Company's spokesperson or deputy spokesperson shall communicate to outside parties only information within the scope authorized by the Company, and no personnel of the Company, other than those serving as the Company's responsible person, spokesperson, or deputy spokesperson, may disclose any material inside information of the Company to outside parties without authorization.

Article 12: The Company shall keep records of the following in respect of any disclosure of information to outside parties:

1. The person who discloses the information, the date, and the time.
2. How the information is disclosed.
3. What information is disclosed.
4. What written material is delivered.
5. Any other relevant details.

Article 13: If a media agency releases information that is in any respect inconsistent with material information disclosed by the Company, the Company shall promptly issue a clarification on the Market Observation Post System (MOPS) and request that the media agency correct the information.

Article 14: Any director, managerial officer, or employee of the Company that becomes aware of any unauthorized disclosure of the Company's material inside information shall report to the responsible unit and the internal audit department of the Company as soon as practicable.

Upon receipt of a report made pursuant to the preceding paragraph, the responsible unit shall formulate corresponding measures. When necessary, it may invite members from the internal audit and other departments to meet for discussion of the measures, and shall keep a record of the results of the measures for future reference. The internal auditors shall also perform such audits as their duties may require.

Article 15: The Company shall take measures to discover those responsible and take appropriate legal action against any personnel under either of the following circumstances:

1. Personnel of the Company disclose material inside information without authorization to any outside party, or otherwise violate these Procedures or any other applicable law or regulation.
2. A spokesperson or deputy spokesperson of the Company communicates to any outside party any information beyond the scope authorized by the Company, or otherwise violates these Procedures or any other applicable law or regulation.

If any person outside the Company divulges any material inside information of the Company, thereby causing damage to any property or interest of the Company, the Company shall pursue appropriate measures to hold the person divulging the information legally liable.

Article 16: These Procedures shall be incorporated into the Company's internal control system. The internal auditors shall keep themselves regularly informed of the status of compliance with these Procedures and shall prepare related audit reports, so as to ensure full implementation of the procedures for handling material inside information.

Article 17: At least once per year, the Company shall conduct educational campaigns to promote awareness among all directors, managerial officers, and employees with respect to these Procedures and related laws and regulations.

The Company shall also provide educational campaigns to new directors, managerial officers, and employees in a timely manner.

Article 18: These Procedures, and any amendments to them, shall be implemented upon approval by the Board of Directors.

3.3.11 Internal Control Systems

A. Internal Control Statement

CHINA AIRLINES

China Airlines Co., Ltd.
Internal Control Statement

Date: March 22, 2018

The Company states the following with regard to our internal control system during the period of fiscal year 2017 based on the self-assessment result :

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are responsibilities of the management and the Board of Directors. The Company has established such a system. The goal of the system is aimed at the operation efficiency and effectiveness (including profits, performance, and assets safeguarding), and to provide reasonable assurance on producing reliable, timely and transparent reports in compliance with the governing law and regulations.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company, however, contains self-monitoring mechanisms which will take corrective actions upon detecting deficiency.

3. The Company should evaluate the effectiveness of the design and execution of its internal control system based on judgment criteria set by "the Regulation Governing the Establishment of Internal Control Systems by Public Companies" (hereinafter referred as "The regulations"). The regulations adopt the criteria, and divide the managerial control process into five key elements: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and Communications, and 5. Monitoring. Each element contains detailed items. Aforementioned items please refer to The regulations.

4. The Company has conducted an effectiveness evaluation on its internal control system by adopting the above mentioned internal control system judgment criteria.

5. Based on the preceding assessment result, the Company believes that its internal control system (with subsidiaries supervision and management)

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Taoyuan City 33758, Taiwan, R.O.C.

CHINA AIRLINES

on the date of December 31, 2017 includes the awareness of operation effectiveness and target achievement efficiency, reports are reliable, timely, and transparent in compliance with the governing law and regulations. The design and execution of the internal control system are effective which can reasonably assure the accomplishment of the aforementioned objectives.

6. This Statement will become the major part of the Company's annual report and prospectus, which will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.

7. This Statement has been approved by the Board of Directors Meeting of the Company held on the date of March 22, 2018, where none of the thirteen attending directors expressed dissenting opinions, and unanimously affirmed the content of this Statement.

Chairman: NH Ho

NUAN-HSUAN HO

President: J-C. Hsieh

SU-CHIEN HSIEH

桃園市大園區航站南路一號
No. 1, Hangzhan S . Rd . , Dayuan Dist
Taoyuan City 33758, Taiwan, R.O.C.

B. If the company has commissioned external auditors to review the Company’s internal control system, the external auditor’s report should be disclosed: None.

3.3.12 Any disciplinary measures taken against the Company or its internal staff due to violations of legal requirements or taken by the Company against its own staff due to violations of the internal control system. The details of the disciplinary measures, major faults, and improvement measures should be noted:

No.	Penalty	Deficiency	Improvement
1	A fine of NT$300,000.	Taoyuan City Government, Letter "Labor Inspection" No. 1060090550, Cabin crew working flight CI-781 on February 21, 2017 had a flight held to wait for transfer passengers, and no arrangements were made for replacements for the cabin crew. This caused an overtime situation, in violation of Article 32, clause 2 of the Labor Standards Act (work time of more than 12 hours), meriting a fine.	When holding a flight to wait for transfer passengers, ensure that the supervisor for that flight arranges for relief personnel to avoid work hour overages.
2	A fine of NT$300,000.	Taoyuan City Government "Labor Inspection" Letter No. 1060198033, cabin crew working Flights CI-511 and 512 on July 7 2017 were delayed due to traffic control and weather; cabin crew working CI-541 and 542 on July 12, 2017had a mechanical issue. This caused an overtime situation, in violation of Article 32, clause 2 of the Labor Standards Act (work time of more than 12 hours), meriting a fine.	1. The company considers that this issue was caused by a natural disaster, a factor that is beyond its control. An appeal was filed according to law, to protect the company's reputation. 2. The company periodically reviews factors that are related to flight delaysand bring in team dispatch planning considerations.
3	A fine of NT$300,000.	Taoyuan City Government "Labor Inspection" Letter No. 1060282279, cabin crew working flights CI-100 and 101 on October 14, 2017. Delay due to traffic control and weather factors. This caused an overtime situation, in violation of Article 32, clause 2 of the Labor Standards Act (work time of more than 12 hours), meriting a fine.	1. The company considers that this issue was caused by a natural disaster, a factor that is beyond its control. An appeal was filed according to law, to protect the company's reputation. 2. The company periodically reviews factors that are related to flight delaysand bring in team dispatch planning considerations.
4	A fine of NT$300,000.	On December 9, 2017, a mechanical problem occurred with a flight from another station, and the change to the CI 152 plane caused a delay.	1. This case was due to an uncontrollable factor, and an appeal was brought under law to protect the company's reputation. 2. The company periodically reviews factors that are related to flight delaysand bring in team dispatch planning considerations.

3.3.13 Major Resolutions of Shareholders' Meeting and Board Meetings

A. Major Resolutions of Shareholders' Meeting in 2017

Item	Major resolutions	Execution
1. 2016 Operations Report and Financial Statement	This resolution was passed as proposed upon voting.	On the record after a June 22, 2017 shareholders' resolution.
2. Appropriation of 2016 losses	This resolution was passed as proposed upon voting.	On the record after a June 22, 2017 shareholders' resolution.
3. Revision of "Procedures for the Acquisition or Disposition of Assets"	This resolution was passed as proposed upon voting.	It is on the record after a June 22, 2017 shareholders' resolution, and was followed that day.
4. Revised "Procedure for Endorsement and Guarantee"	This resolution was passed as proposed upon voting.	It is on the record after a June 22, 2017 shareholders' resolution, and was followed that day.
5. Elimination of anti-competition limitations on concurrent service of Chairman of the Board Ho, Nuan-hsuan and board member Hsieh, Shih-chian	This resolution was passed as proposed upon voting.	It is on the record after a June 22, 2017 shareholders' resolution, releasing Chairman Ho, Nuan-chian and Director Hsieh, Shi-chian from non-compete restrictions.

B. Major Resolutions of Board Meetings (January 1, 2017 to April 29, 2018)

20th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
9th session	01/17/2017	1. 2016 Employee Compensation Case 2. Chairman of the Board and managers' 2016 annual bonuses and 2017 Lunar New Year bonuses 3. Changes to duties of the Financial Div. Vice President	1.Approved. 2.Approved. 3.Approved.	1.None. 2.None. 3.None.	1.None. 2.None. 3.None.
10th session	03/30/2017	1. Audit report for last half of 2016 2. 737-800 passenger plane sale 3. Convening 2017 shareholders meeting 4. Issue of domestic unsecured common corporate bonds for 2017 5. 2016 Financial Report and Combined Financial Report 6. 2016 Operations Report 7. 2016 Loss Appropriation 8. 2017 CPA appointment and remuneration 9. Revision of "Procedures for the Acquisition or Disposition of Assets" 10. 2016 Internal Control System Statement 11. Revisions to "Implementation Rules for Internal Audits" 12. Revised version of the "Practical Guidelines for Corporate Social Responsibility and Sustainable Development"	1.Approved. 2.Approved. 3.Approved. 4.Approved. 5.Approved. 6.Approved. 7.Approved. 8.Approved. 9.Approved. 10.Approved. 11.Approved. 12.Approved.	1.None. 2.None. 3.None. 4.None. 5.None. 6.None. 7.None. 8.None. 9.None. 10.None. 11.None. 12.None.	1.None. 2.None. 3.None. 4.None. 5.None. 6.None. 7.None. 8.None. 9.None. 10.None. 11.None. 12.None.
11th session	05/11/2017	1. Revisions to the "Organizational Regulations for the Audit Committee" and the "Rules on the Scope of Responsibility of Directors" 2. Elimination of anti-competition limitations on concurrent service of Chairman of the Board Ho, Nuan-hsuan and board member Hsieh, Shih-chian	1.Approved. 2.Approved.	1.None. 2. If it is necessary for Chairman Ho to act as vice-chairman of a subsidiary in his capacity as chairman of the group, proposed	1.None. 2. Response and explanation given to managers.

20th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
		3. Revised "Procedure for Endorsement and Guarantee"	3.Approved.	that an appropriate and relevant reason be explained should anyone outside the company inquire. 3.None.	3.None.
12th session	08/10/2017	1. Q2 2017 (including first half of the year) combined financial report 2. Effect on financial report gearing ratio and group countermeasures after implementation of IFRS 16 leasing announcement 3. 2017 internal audit business report for first half of the year	1.Approved. 2.Approved. 3.Approved.	1. None. 2. After IFRS 16 is implemented, there will be different currencies in lease contracts for listed assets and liabilities. Propose that the authorities strive to have both assets and liabilities use the same currency. 3. None.	1. None. 2. Managers all gave explanations at the meeting. 3. None.
13th session	11/05/2017	1. China Airlines 2018 audit plan proposal 2. 2018 annual business plan and budget 3. Revisions to "Organizational Regulations for Audit Board" 4. Revisions to "Rules on Discussions of Business by the Board of Directors" 5. Revisions to the "Rules on Scope of Responsibility of Independent Directors" 6. Issuance of domestic unsecured convertible bonds with a total face value limited to NT$6 billion 7. Proposal for salary and remuneration for senior vice president Wang, Hong 8. Proposal for salary and remuneration for senior vice president Kao, Hsing-huang 9. Removal of anti-competition restrictions on senior vice president Wang, Hong concurrently serving in two positions	1.Approved. 2.Approved. 3.Approved. 4.Approved. 5.Approved. 6.Approved. 7.Approved. 8.Approved. 9.Approved.	1.None. 2.None. 3.None. 4.None. 5.None. 6.None. 7.None. 8.None. 9.None.	1.None. 2.None. 3.None. 4.None. 5.None. 6.None. 7.None. 8.None. 9.None.
14th session	01/24/2018	1. The company's 2017 CSR results 2. 2017 Employee Compensation and 2018 Lunar New Year bonuses	1.Approved. 2.Approved.	1.None. 2. Proposal to appropriately explain and clarify inappropriate union phrasings and positions.	1.None. 2. Already coordinated with immediate and appropriate response and clarification for those

20th Board	Date	Item	Major resolutions	Opinions of independent directors	Execution
		3. Chairman of the Board and managers 2017 annual bonus, 2018 Lunar New Year bonus and 2018 salary adjustments 4. 2018 employee salary adjustments 5. "Kaohsiung Airport Catering Services Ltd." share acquisition proposal	3. Approved. 4.Approved. 5.Approved.	3. (1) Proposal to prudently investigate and assess performance-linked senior manager salary adjustments; (2) Senior managers may also face pressure for salary cuts in the face of corporate losses still recommend putting in performance bonuses. 4.None. 5.None.	on the outside. 3. Summary of opinions of multiple directors, and continue current business. 4.None. 5.None.
15th session	03/22/2018	1. Implementation plan and timetable for adoption of international financial reporting standard No. 16, "Leasing" 2. Internal audit business report for last half of 2017 3. Retirements of General Audit Office General Auditor due to age 4. Convening the 2018 shareholders' meeting 5.Internal control system effectiveness audit and statement 6. 2017 Financial Report and Combined Financial Report 7. 2017 annual operations report 8. Surplus allocation for 2017 9. 2018 CPA appointment and remuneration 10. Provision of NT$2 billion endorsement guarantee to Taiwan Aircraft Maintenance and Engineering Co., Ltd.	1.Approved. 2.Approved. 3.Approved. 4.Approved. 5.Approved. 6.Approved. 7.Approved. 8.Approved. 9.Approved. 10.Approved.	1.None. 2.None. 3. None. 4. None. 5. None. 6. None. 7. None. 8. None. 9. None. 10. None.	1.None. 2.None. 3. None. 4. None. 5. None. 6. None. 7. None. 8. None. 9. None. 10. None.

3.3.14 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting with Important Resolutions Passed by the Board of Directors: None.

3.4 Information Regarding the Company's Audit Fee and Independence

3.4.1 Audit Fee

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche	Yang, Chen-Hsiu	Chen, Li-Chi	01/01/2017-12/31/2017	None

Unit: NT$ thousands

Fee Range	Fee Items	Audit Fee	Non-audit Fee	Total
1	Under 2,000		✓	
2	000 ~ 4,000			
3	4,000 ~ 6,000			
4	6,000 ~ 8,000	✓		
5	8,000 ~ 10,000			✓
6	Over 10,000			

3.4.2 Audit and Non-Audit Fees Paid to CPAs, the Certified Accounting Firm to Which Said CPAs Belong and Any Affiliated Enterprises and Details Regarding Non-Audit Fees. See Below:

Unit: NT$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Period Covered by CPA's Audit	Remarks
			System of Design	Company Registration	Human Resource	Others	Subtotal		
Deloitte & Touche	Yang, Chen-Hsiu Chen, Li-Chi	7,250	-	-	-	987	8,237	01/01/2017-12/31/2017	Other, including audit fees for direct deductions by concurrent operators, audit fees for transfer pricing reports, audit fees for convertible corporate bond conversion to capital, fees for accountant signoff related to issuance of corporate bonds, and audit fees regarding agency collection of tax for US airport PFC, etc.

3.4.3 Changed audit firms and the audit fee paid was less than the audit fees paid in the previous year prior to the change: Not Applicable.

3.4.4 Those with audit fees amounting to a reduction of 15% or more compared to the previous year: None.

3.5 Replacement of CPA:

3.5.1 On the previous accountant

<table>
<tr><td>Date of change</td><td colspan="3">May, 2016</td></tr>
<tr><td>Reason and explanation for change</td><td colspan="3">Due to internal reorganization at the CPA firm, the resolution was passed at the 6th meeting of the 20th Board of Directors on May 12, 2016 that from the financial report for Q2 of 2016, the CPA would be switched to Yang, Cheng-hsiu and Chen, Li-chi.</td></tr>
<tr><td rowspan="3">Explanation was termination of the person or accountant appointed or refusal of appointment</td><td>Involved party / Situation</td><td>Accountant</td><td>Appointee</td></tr>
<tr><td>Proactive termination of appointment</td><td></td><td></td></tr>
<tr><td>Did not accept further (continuing) appointment</td><td>✓</td><td></td></tr>
<tr><td>Newest check report within two years other than one signed and issued without disclaimer and reason</td><td colspan="3">2015 check report was revised without disclaimer, primarily since 2015 revised security issuer financial report compilation standards and Financial Supervisory Commission approved 2013 international financial reporting standards, international accounting standards, interpretations and interpretation reports, so that there was an effect from tracking back and utilizing the preceding standards, interpretation and interpretation reports and making adjustments to the prior period's financial reports.</td></tr>
<tr><td rowspan="6">Objection from issuer</td><td rowspan="4">Yes</td><td></td><td>Accounting principles or customary practice</td></tr>
<tr><td></td><td>Financial report disclosure</td></tr>
<tr><td></td><td>Scope of check or steps</td></tr>
<tr><td></td><td>Other</td></tr>
<tr><td>None</td><td colspan="2">✓</td></tr>
<tr><td colspan="3">Explanation</td></tr>
<tr><td>Other items disclosed (for which disclosure is required under Article 10, Clause 6, items 1d through 1g)</td><td colspan="3">None.</td></tr>
</table>

3.5.2 On successor accountants

Name of firm	Deloitte & Touche
Accountant Name	Yang, Cheng-hsiu; Chen, Li-chi
Date of appointment	May, 2016
Pre-appointment consultations for opinions on method of accounting or accounting principles for specific transactions and consultation on possibility of signing and results of same	None.
Written opinions of successor accountants at odds with those of previous accountants	None.

3.6 Audit Independence: None.

3.7 Changes in Shareholding of Directors, Managers and Major Shareholders

Unit: Shares

Title	Name	2017		The current year through April 29, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Major Shareholder	China Aviation Development Foundation (Note 1)	83,160,083 (83,160,083)	(300,000,000)	0	0
Chairman	China Aviation Development Foundation Representative: Ho, Nuan-Hsuan				
Director	China Aviation Development Foundation Representative: Hsieh, Su-Chien; Charles C.Y., Chen; Ting, Kwang-Hung; Jong, Jia-Shi; Lee, Kuo-Fu; Cheng, Chuan-Yi; Chen, Han-Ming				
Director	National Development Fund, Executive Yuan Representative: Lin, Su-Ming	519,750,519 (519,750,519)	0	0	0
Independent Director	Chung, Lo-Min	0	0	0	0
Independent Director	Ting, Tin-Yu	0	0	0	0
Independent Director	Luo, Hsiao-Hsien	0	0	0	0
President	Hsieh, Su-Chien	0	0	0	0
Senior Vice President	Lo, Ya-Mei	0	0	0	0
Senior Vice President	Kao, Shing-Hwang	0	0	0	0
Senior Vice President	Chang, Chih-Chieh	0	0	0	0
Senior Vice President	Wang, Houng	0	0	0	0
Senior Vice President	Chang, Young	0	0	0	0
Auditor General	Chung, Chuar-Duan	0	0	0	0
Data Protection Officer	Chung, Ming-Jyh (Assumed Post on 12/30/2017)	0	0	0	0
Vice President	Chien, Feng-Nien (Assumed Post on 01/03/2017)	0	0	0	0
Vice President	Chen, I-Ko	0	0	0	0
Vice President	Lai, Ming-Hui	0	0	0	0
Vice President	Wang, Chen-Min	0	0	0	0
Vice President	Liu, Der-Chuan	0	0	0	0
Vice President	Peng, Long-Min	(693)	0	0	0
Vice President	Chen, Kang-Reuy (Assumed Post on 05/13/2017)	0	0	0	0
Vice President	Fang, Juo-Ling	0	0	0	0
Vice President	Chen, I-Chieh	0	0	0	0
Vice President	Hong, Tsu-Kuang	0	0	0	0
Vice President	Chiu, Chang-Hsin (Assumed Post on 12/18/2017)	0	0	0	0
Vice President	Chou, Jyh-Shyan	0	0	0	0
Vice President	Liu, Tsao-Yang	0	0	0	0
Vice President	Peng, Pao Chu	0	0	0	0
Vice President	Lu, Shih-Ming	0	0	0	0

Title	Name	2017		The current year through April 29, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Sun, Jia-Min	0	0	0	0
Vice President	Lee, Jung-Hui	0	0	0	0
Vice President	Li, Chih-Wei	0	0	0	0
Deputy Auditor General	Ho, Hui-Fen	0	0	0	0
Assistant Vice President	Tsai, Chih Hung	0	0	0	0
Assistant Vice President	Tung, Hsing-Hua (Assumed post on 03/16/2018)	0	0	0	0
Assistant Vice President	Huang, Hsiang-Piao (Assumed post on 08/01/2017)	0	0	0	0
Assistant Vice President	Jeng, Jong-Shinn	0	0	0	0
Assistant Vice President	Lai, Hsiang-Kuang (Assumed post on 10/01/2017)	0	0	0	0
Assistant Vice President	Ouyang, John (Assumed post on 06/17/2017)	0	0	0	0
Assistant Vice President	Hsueh, Po-Wen	0	0	0	0
Assistant Vice President	Wei, Shi Jong (Assumed post on 03/31/2018)	0	0	0	0
Assistant Vice President	Shann, Da-Sin (Assumed post on 01/01/2018)	0	0	0	0
Assistant Vice President	Yu, Yau	0	0	0	0
Assistant Vice President	Yeah, Shao-Ting	0	0	0	0
Assistant Vice President	Chen, Jo-Ching	0	0	0	0
Assistant Vice President	Huang, Hui Na (Assumed post on 09/01/2017)	0	0	0	0
Assistant Vice President	Pan, Wen-Tsung	0	0	0	0
Assistant Vice President	Kao, Shu-Chuan	0	0	0	0
Assistant Vice President	Hsiao, Kuo Chih	0	0	0	0
Assistant Vice President	Hung, I-Lan (Assumed post on 06/16/2017)	0	0	0	0
Assistant Vice President	Wang, Wei (Assumed post on 02/02/2017)	43,999	0	0	0
Assistant Vice President	Lu, Shwu-Huoy	0	0	0	0
Assistant Vice President	Liu, Duan-Shiuh	(19,000)	0	0	0
Assistant Vice President	Hsiao, Jui-Fu (Assumed post on 09/16/2017)	0	0	0	0
Assistant Vice President	Kuey, Kuo-Ching (Dismissed on 01/26/2017)	0	0	0	0
Assistant Vice President	Teng, Shu Hua (Dismissed on 02/21/2017)	0	0	0	0

Title	Name	2017		The current year through April 29, 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President	Chung, Wan-Chun (Dismissed on 03/01/2017)	0	0	0	0
Assistant Vice President	Yeh, Jin-Fu (Dismissed on 03/13/2017)	0	0	0	0
Assistant Vice President	Wei, Shih-Kai (Dismissed on 03/21/2017)	0	0	0	0
Assistant Vice President	Tung, Wei (Dismissed on 04/30/2017)	0	0	0	0
Vice President	Wei, Yih-Jiun (Dismissed on 05/08/2017)	0	0	0	0
Assistant Vice President	Kung, Yuan-Jau (Dismissed on 05/22/2017)	0	0	0	0
Vice President	Tsao, Jyh-Fen (Dismissed on 06/09/2017)	0	0	0	0
Senior Vice President	Huang, Chwen-Jiun (Dismissed on 08/16/2017)	0	0	0	0
Assistant Vice President	Huang, Tze-Chi (Dismissed on 08/31/2017)	0	0	0	0
Assistant Vice President	Huang, Yuan-Yue (Assumed Post on 05/01/2017) (Dismissed on 09/25/2017)	0	0	0	0
Vice President	Chang, Ming-Way (Dismissed on 10/02/2017)	0	0	0	0
Vice President	Chen, Shann-Juan (Dismissed on 11/30/2017)	0	0	0	0
Vice President	Liu, Shyh-Hwa (Dismissed on 12/18/2017)	0	0	0	0
Vice President	Ku, Yueh-Han (Dismissed on 01/01/2018)	0	0	0	0
Assistant Vice President	Chu, Te-Hsiu (Dismissed on 01/08/2018)	0	0	0	0
Assistant Vice President	Lin, Ming-Hsiu (Dismissed on 01/11/2018)	0	0	0	0
Director	Chunghwa Telecom Co., Ltd. Representative: Huang, Hsiu-Gu (Dismissed on 01/19/2018)	0	0	0	0
Assistant Vice President	Liao, Wei-Chih (Dismissed on 03/01/2018)	0	0	0	0
Assistant Vice President	Lin, Hsiao-Feng (Dismissed on 03/26/2018)	0	0	0	0

Note 1: Refers to major shareholders holding more than 10% of company shares.

3.7.1 Shares Trading with Related Parties: Not Applicable.

3.7.2 Shares Pledge with Related Parties: Not Applicable.

3.8 Relationships among the Top Ten Shareholders

April 29, 2018

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
China Aviation Development Foundation (Representative：Wang, Kwo-Tsai)	1,867,341,935	34.13%	0	0%	0	0%	None	None	None
National Development Fund, Executive Yuan (Representative：Dr. Chen, Mei-Ling)	519,750,519	9.50%	0	0%	0	0%	None	None	None
Chunghwa Telecom Co., Ltd. (Representative：Cheng, Yu)	263,622,116	4.82%	0	0%	0	0%	None	None	None
New Labor Pension Fund	81,735,000	1.49%	0	0%	0	0%	None	None	None
Morgan Stanley & Co. International Plc.	68,723,026	1.26%	0	0%	0	0%	None	None	None
Cathay Life Insurance Co., Ltd. (Representative：Huang, Tiao-Kuei)	55,580,000	1.02%	0	0%	0	0%	None	None	None
China Airlines Ltd. Employee Stock Ownership Trust Plan	53,820,014	0.98%	0	0%	0	0%	None	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	46,832,821	0.86%	0	0%	0	0%	None	None	None
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	45,290,050	0.83%	0	0%	0	0%	None	None	None
Dimensional Emerging Markets Value Fund	45,165,353	0.83%	0	0%	0	0%	None	None	None

3.9 Ownership of Shares in Affiliated Enterprises

Dec 31, 2017

Unit: shares; %

Affiliated Enterprises	Ownership by the Company		Direct or Indirect Ownership by Directors, Managers		Total Ownership	
	Shares	%	Shares	%	Shares	%
1. Cal-Dynasty International, Inc.	2,614,500	100.00	-	-	2,614,500	100.00
1A Dynasty Properties Co., Ltd.	-	-	5,000	100.00	5,000	100.00
1B Dynasty Hotel Of Hawaii, Inc.	-	-	400,000	100.00	400,000	100.00
2. Cal-Asia Investment Inc.	7,172,346	100.00	-	-	7,172,346	100.00
2A Eastern United International Logistics (Holdings) Ltd.	-	-	1,050,000	35.00	1,050,000	35.00
2B Arport Air Terminal (Xiamen) Co., Ltd.	-	-	(Note 1)	28.00 (Note 2)	(Note 1)	28.00 (Note 2)
2C Arport Air Cargo Service (Xiamen) Co., Ltd.	-	-	(Note 1)	28.00 (Note 2)	(Note 1)	28.00 (Note 2)
2D Taikoo (Xiamen) Landing Gear Services Co., Ltd.	-	-	(Note 1)	2.59	(Note 1)	2.59
2E Taikoo Spirit Aerosystems (Jinjiang) Composite Co., Ltd.	-	-	(Note 1)	5.45	(Note 1)	5.45
3. Hwa Hsia Company Ltd. (Note 4)	77,270	100.00	-	-	77,270	100.00
4. Freighter Prince (Note 5)	-	-	-	-	-	-
5. Freighter Princess (Note 5)	-	-	-	-	-	-
6. Yestrip Co., Ltd.	1,600,000	100.00	-	-	1,600,000	100.00
7. Cal Park Co., Ltd.	150,000,000	100.00	-	-	150,000,000	100.00
8. Cal Hotel Co., Ltd.	46,500,000	100.00	-	-	46,500,000	100.00
9. Taiwan Aircraft Maintenance And Engineering Co., Ltd.	135,000,000	100.00	-	-	135,000,000	100.00
10. Mandarin Airlines, Ltd.	188,154,025	93.99	-	-	188,154,025	93.99
11. Sabre Travel Network (Taiwan) Ltd.	13,021,042	93.93	-	-	13,021,042	93.93
12. Tigerair Taiwan Co., Ltd.	180,000,000	90.00	20,000,000	10.00	200,000,000	100.00
13. China Pacific Laundry Services Ltd.	13,750,000	55.00	-	-	13,750,000	55.00
14. Taiwan Air Cargo Terminal Ltd.	135,000,000	54.00	12,500,000	5.00	147,500,000	59.00
15. Dynasty Holidays, Inc.	408	51.00	-	-	408	51.00
16. China Pacific Catering Services Ltd.	43,911,000	51.00	-	-	43,911,000	51.00
17. Taoyuan International Airport Services Co., Ltd.	34,300,000	49.00	-	-	34,300,000	49.00
18. Taiwan Airport Service Co., Ltd.	20,626,644	47.35	469,755	1.08	21,096,399	48.43
18A Taiwan Airport Service (Samoa) Co., Ltd.	-	-	(Note 1)	100.00	(Note 1)	100.00
19. NORDAM Asia Ltd.	245,000	49.00	-	-	245,000	49.00
20. Kaohsiung Airport Catering Services Ltd.	14,329,759	35.78	-	-	14,329,759	35.78
21. Global Sky Express Ltd.	250,000	25.00	-	-	250,000	25.00
22. Asian Compressor Technology Services Co., Ltd.	7,732,200	24.50	-	-	7,732,200	24.50
23. Science Park Logistics Co., Ltd. (Note 6)	13,293,000	26.00	-	-	13,293,000	26.00
24. China Aircraft Services Limited.	28,400,000	20.00	-	-	28,400,000	20.00
25. Jardine Air Terminal Services Ltd.	12,000,000	15.00	-	-	12,000,000	15.00
26. Everest Investment Holdings Ltd.	(Note 3)	13.59	-	-	(Note 3)	13.59
27. Chung-Hwa Express Co., Ltd.	1,100,000	11.00	-	-	1,100,000	11.00

Note 1: This company has not issued shares.

Note 2: CAL-Asia Investments Inc. directly holds 14% stake, Taiwan Airport Service (Samoa) Co., Ltd. directly holds 14% stake.

Note 3: Includes 1,359,368 shares of common stock and 135,937 shares of preferred stock.

Note 4: Hwa Hsia Company Ltd. was renamed “Dynasty Aerotech International Corp.” in 2018.

Note 5: Freighter Princess Ltd., and Freighter Prince Ltd. both went out of business in February, 2017.

Note 6: The company disposed of all Science Park Logistics holdings in August, 2017.

Capital Overview

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares:

APR 29, 2018

Unit: shares; NT$

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Sources of Capital	Approval Date and Document No. by Ministry of Economic Affairs
02/2012	10	6 billion	60 billion	5.2 billion	52 billion	Cash increase NT$5,683,776,490	Jing Shou Shang No. 10101028630, February 20, 2012
05/2015	10	6 billion	60 billion	5.24 billion	52.4 billion	Corporate debt for equity swap NT$491,665,650	Jing Shou Shang No. 10401079310, May 7, 2015
05/2015	10	6 billion	60 billion	5.37 billion	53.7 billion	Corporate debt for equity swap NT$1,208,413,350	Jing Shou Shang No. 10401096840, May 28, 2015
09/2015	10	6 billion	60 billion	5.47 billion	54.7 billion	Corporate debt for equity swap NT$1,000,652,560	Jing Shou Shang No. 10401186200, September 17, 2015
12/2015	10	6 billion	60 billion	5.47 billion	54.7 billion	Corporate debt for equity swap NT$8,169,930	Jing Shou Shang No. 10401250360, December 8, 2015
12/2017	10	6 billion	60 billion	5.47 billion	54.7 billion	Corporate debt for equity swap, NT$945,010	Jing Shou Shang No. 10601158980, December 4, 2017

Note: There was no "Capital Increase by Assets Other than Cash".

B. Type of Stock:

APR 29, 2018; Unit: Thousand shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares (Note)	
Common Stock Inscribed	5,470,984	529,016	6,000,000	Listed Stocks

Note: On June 18, 2014, the Company approved revision to the Articles of Association at the Shareholders' Meeting that adjusted the total authorized capital to 7 billion shares.

4.1.2 Status of Shareholders

APR 29, 2018; Unit: shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	4	26	232	771	113,747	114,780
Shareholding	519,750,824	148,462,888	2,485,926,542	1,166,138,126	1,150,706,270	5,470,984,650
%	9.50%	2.71%	45.45%	21.31%	21.03%	100.00%

4.1.3 Shareholding Distribution Status

APR 29, 2018; Unit: shares

Class of Shareholding	Number of Shareholders	Shareholding	Percentage (%)
1-999	34,579	11,440,179	0.21%
1 000-5,000	48,342	115,661,125	2.11%
5,001-10,000	13,521	106,993,272	1.96%
10,001-15,000	5,142	63,725,468	1.16%
15,001-20,000	3,484	64,296,459	1.18%
20,001-30,000	3,210	81,151,421	1.48%
30,001-40,000	1,555	55,139,031	1.01%
40,001-50,000	1,140	53,162,989	0.97%
50,001-100,000	2,012	144,653,477	2.64%
100,001-200,000	844	120,719,135	2.21%
200,001-400,000	416	117,896,538	2.15%
400,001-600,000	142	70,283,358	1.28%
600,001-800,000	66	46,266,100	0.85%
800,001-1,000,000	60	54,010,823	0.99%
1 000,001 or over	267	4,365,585,275	79.80%
Total	114,780	5,470,984,650	100.00%

4.1.4 List of Major Shareholders:

APR 29, 2018; Unit: shares

Shareholding / Shareholder's Name	Shares	Percentage
China Aviation Development Foundation	1,867,341,935	34.13%
National Development Fund, Executive Yuan	519,750,519	9.50%

4.1.5 Market Price, Net Worth, Earnings, and Dividends per Share

Unit: Thousand shares; NT$

Items / Year			2016 (Distributed in 2017)	2017 (Distributed in 2018)	2018 (As of APR 29)(Note 9)
Market Price per Share (Note 1)	Highest Market Price		12.05	13.40	12.75
	Lowest Market Price		9.07	9.02	10.30
	Average Market Price		10.22	10.92	11.60
Net Worth per Share (Note 2)	Before Distribution		10.20	10.43	10.51
	After Distribution		-	-	-
Earnings per Share	Weighted Average Shares		5,468,002	5,468,030	5,465,208
	Diluted Earnings Per Share (Note 3)		0.10	0.40	0.01
Dividends per Share (Note 8)	Cash Dividends		-	0.2181820086(Note11)	-
	Stock Dividends	Dividends from Retained Earnings	-	- (Note 11)	-
		Dividends from Capital Surplus	-	- (Note 11)	-
	Accumulated Undistributed Dividends (Note 4)		-	- (Note 11)	-
Return on Investment	Price / Earnings Ratio (Note 5)		101.40	26.00 (Note 11)	-
	Price / Dividend Ratio (Note 6)		N/A (Note 10)	47.67% (Note 11)	-
	Cash Dividend Yield Rate (Note 7)		N/A (Note 10)	2.10% (Note 11)	-

* If shares are distributed in connection with a capital increase out of earnings or capital reserve, further disclose information on market prices and cash dividends retroactively adjusted based on the number of shares after distribution.

Note 1: Annual Average Market Price = Annual Turnover Value / Trading Volume.

Note 2: Based both on the number of issued shares at the end of the year, and on the distribution decided on at the Shareholders' Meeting the following year.

Note 3: For those requiring retroactive adjustment due to stock grants, both the pre-and post-adjustment EPS should be listed.

Note 4: In issuing equity securities, provisions may be made to accumulate undistributed dividends for the year and postpone distribution until a year when profit is made. The dividends accumulated over the period ending in the year of distribution should be disclosed.

Note 5: P/E Ratio = Average market price of a share in the current year / EPS.

Note 6: P/D Ratio = Average market price of a share in the current year / cash dividend per share.

Note 7: Cash dividend yield = cash dividend per share / average market price of a share in the current year.

Note 8: In accordance with Taiwan Stock Exchange regulations, treasury share effects have already been considered.

Note 9: Net worth per share and EPS are calculated based on the financial statement for the most recent quarter that has been verified by an accountant. All other fields are based on the current year data through the publication date of the annual report. As of publication of this report, the Q1 2018 financial information has not been reviewed by Deloitte & Touche yet.

Note 10: 2016 loss appropriation plan, shareholder meeting resolution passed June 22, 2017, to cover the deficit using statutory surplus reserve, no available surplus distribution.

Note 11: 2017 surplus allocation plan resolution passed at the 15th meeting of the 20th Board of Directors on March 22, 2018, and it will be sent to the 2018 shareholders' meeting for recognition.

Note 12: The company's 2017 final daily closing price was NT$11.65.

4.1.6 Dividend Policy and Implementation Status

A. Dividend Policy:

The CAL Articles of Association outlines the below dividend policy:

If the company makes a profit over the year, an amount of no less than 3% of the profit must be distributed as employee compensation. If the Company has accumulated losses, funds must be retained to offset the deficit.

The aforementioned employee compensation is primarily disbursed as stock or cash and the resolution must be approved at a meeting of the Board of Directors with two-thirds of directors in attendance and must receive support from half of participating members.

Should the Company make a profit over the year, said profit must first be used to pay all taxes and offset accumulated losses, then 10% of the remaining amount is to be set aside as a legal reserve. After setting aside or reversing a special reserve, any remaining amount along with accumulated undistributed earnings shall be distributed as shareholder dividends and bonuses according to a resolution drawn up by the Board and approved by the Shareholders' Meeting that follows the below principles:

(1)Not less than 50% of the amount shall be distributed as shareholder dividends and bonuses. After pretax profits are deducted as outlined above, should the amount left not be sufficient for distribution, the difference will be made up by accumulated undistributed profit.

(2)In the event of a yearly loss, depending on financial, operation, and management considerations, all or part of the legal reserve may be distributed as new stock or cash as prescribed by law and competent authority regulations.

(3)Dividends and bonuses are distributed as stock or cash, with cash dividends making up no less than 30% of the total distributable dividends.

B. Proposed Distribution of Dividend:

The company's surplus allocation plan was passed in a resolution on 2017 cash dividend distribution at the 15th meeting of the 20th Board of Directors on March 22, 2018, and it will be sent to the 2018 shareholders' meeting for recognition.

C. No significant change in expected future dividend policy.

4.1.7 Impact of Stock Dividends issuance on Company's Business Performance and Earnings per Share: Not Applicable.

4.1.8 Employees' Compensation and Directors' Remuneration

A. Articles of Association regulations: See 4.1.6 Dividend Policy and Implementation Status.

B. The basis for estimating the amount of employee compensation and director bonuses, for calculating the number of shares to be distributed as stock bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

As stipulated in the Company's Articles of Association, directors are not awarded bonuses. Should the actual amount of employee compensation, due to Board of Director resolution prior to the publication date of the annual individual financial statement, differ significantly from the estimated value of employee compensation, the difference is charged to the earnings of the year making the initial estimate. If there are changes in the amount after the publication of the annual individual financial statement, the adjustment shall be recorded in the following year as a result of change in accounting estimate.

C. Board approved employee compensation and director bonus proposal:

(1) Amount of employee bonuses (including stock and cash) and director bonuses distributed. If the actual amount distributed differs from the original estimated amount, the difference, reason, and how this was handled is to be disclosed:

The company's Board of Directors passed a resolution on 2017 Employee Compensation on January 24, 2018, resolving to issue NT$799,768 thousand in Employee Compensation in cash; as per the company's charter, no reward was issued to directors. If the above estimated figures are at odds with the amount issued, it will be handled through changes in accounting estimates, and adjusted and entered into the following year.

(2) The amount of any proposed distribution of employee stock bonuses, and the size of such an amount as a percentage of the sum of the net income for the current period and total employee bonuses: Not Applicable.

E. The actual employee compensation and director bonuses distributed for the previous year (2016) (including number of shares distributed, value, and stock price). Should there be a discrepancy with the proposed amount of employee compensation and director bonuses, the difference, reason, and how this was handled should be stated:

(1) Employee compensation: None.

(2) Director bonuses: Not Applicable.

4.1.9 Buyback of Treasury Stock: None.

4.2 Bonds

4.2.1 Corporate Bonds:

APR 29, 2018

Corporate Bond Type	Domestic Unsecured straight bond (2013)	Domestic Unsecured 5th convertible bond (2013)	Domestic Unsecured straight bond (2016-1)	Domestic Unsecured straight bond (2016-2)
Issue date	01/17/2013	12/26/2013	05/26/2016	09/27/2016
Denomination	NT$1,000,000	NT$100,000	NT$1,000,000	NT$1,000,000
Issuing and transaction location	Republic of China	Republic of China	Republic of China	Republic of China
Issue price	Par	Par	Par	Par
Total price	NT$10,900,000,000	NT$6,000,000,000	NT$5,000,000,000	NT$5,000,000,000
Coupon rate	Tranche A: 1.60% p.a.; Tranche B: 1.85% p.a.	0.00% p.a.	1.19% p.a.	1.08% p.a.
Tenor	Tranche A: 5 years Maturity: 01/17/2018 Tranche B: 7 years Maturity: 01/17/2020	5 year maturity: 12/26/2018	5 year maturity: 05/26/2021	5 year maturity: 09/27/2021
Guarantee agency	Not applicable	Not applicable	Not applicable	Not applicable
Consignee	CTBC Bank Trust Department	CTBC Bank Trust Department	Hua Nan Commercial Bank	Hua Nan Commercial Bank
Underwriting institution	Not applicable	KGI Securities	YuanTa Securities	MasterLink Securities
Certified lawyer	Kuo, Hui-Chi (Hsi Endai Lawyer Office)	Chiu, Ya-Wen (Handsome Attorney-at-Law)	Kuo, Hui-Chi (Ture Honesty International Law Office)	Kuo, Hui-Chi (Ture Honesty International Law Office)
CPA	Huang, Jui-chan; Chen, Li-Chi (Deloitte & Touche)	Not applicable	Huang, Jui-chan (Deloitte & Touche)	Yang, Chen-Hsiu (Deloitte & Touche)
Repayment method	Tranche A: Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year Tranche B: Repayment of 50% of the principal in the sixth year and the remaining 50% in the seventh year	According to the offering of Domestic Unsecured convertible 5th bond (2013) section 6	Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year	Repayment of 50% of the principal in the fourth year and the remaining 50% in the fifth year
Outstanding principal	NT$5,500,000,000	NT$1,695,900,000	NT$5,000,000,000	NT$5,000,000,000
Terms of redemption or advance repayment	None.	According to the offering of Domestic Unsecured convertible 5th bond (2013) section 18 and 19	None.	None.
Restrictive clause	None.	None.	None.	None.
Name of credit rating agency, rating date, rating of corporate bonds	None.	None.	None.	None.
Other rights attached: As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities	Not applicable	NT$3,316,800,000	Not applicable	Not applicable
Other rights attached: Issuance and conversion (exchange or subscription) method		According to the offering of Domestic Unsecured convertible 5th bond (2013) section 8 and 9		
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	Not applicable	(Note)	Not applicable	Not applicable
Transfer agent	None.	None.	None.	None.

APR 29, 2018

Corporate Bond Type	Domestic Unsecured straight bond (2017-1)	Domestic Unsecured straight bond (2017-2)	Domestic Unsecured 6th convertible bond (2018)
Issue date	May 19, 2017	October 12, 2017	January 30, 2018
Denomination	NT$1,000,000	NT$1,000,000	NT$100,000 per
Issuing and transaction location	Republic of China	Republic of China	Republic of China
Issue price	Par	Par	Issued at 100.2% of par value
Total price	NT$2,350,000,000	NT$3,500,000,000	NT$6,012,000,000
Coupon rate	A: 1.20% per annum B: 1.75% per annum	A: 1.14% per annum B: 1.45% per annum 0.00% per annum	0.00% p.a.
Tenor	Tranche A: 3 years (May 19, 2017 to May 19, 2020); Tranche B: 7 years (May 19, 2017 to May 19, 2024)	Tranche A: 3 years (October 12, 2017 to October 12, 2020); Tranche B: 5 years (October 12, 2017 to October 12, 2022)	5 years (January 30, 2018 to January 30, 2023)
Guarantee agency	Not applicable	Not applicable	Not applicable
Consignee	Huanan Commercial Bank	Huanan Commercial Bank	Chinatrust Commercial Bank Trust Department
Underwriting institution	Masterlink Securities Corporation	Fubon Integrated Securities Ltd.	Taihsin Integrated Securities Ltd.
Certified lawyer	Kuo, Hui-Chi (Ture Honesty International Law Office)	Kuo, Hui-Chi (Ture Honesty International Law Office)	Chiu, Ya-Wen (Handsome Attorney-at-Law)
CPA	Yang, Chen-Hsiu (Deloitte & Touche)	Yang, Chen-Hsiu (Deloitte & Touche)	Not applicable
Repayment method	One-time repayment of capital upon maturity.	Tranche A: one-time payment upon maturity; Tranche B: return of 50% of capital 4 and 5 years from the start date, respectively.	According to the offering of Domestic Unsecured 6th convertible bond (2018) section 6
Outstanding principal	NT$2,350,000,000	NT$3,500,000,000	NT$6,000,000,000
Terms of redemption or advance repayment	None	None	According to the offering of Domestic Unsecured 6th convertible bond (2018) section 18 and 19
Restrictive clause	None	None	None
Name of credit rating agency, rating date, rating of corporate bonds	None	None	None
Other rights attached: As of the printing date of this annual report, converted amount of (exchanged or subscribed) ordinary shares, GDRs or other securities	Not applicable	Not applicable	Not yet converted
Other rights attached: Issuance and conversion (exchange or subscription) method As per the 5th issue of domestic unsecured convertible bonds			According to the offering of Domestic Unsecured 6th convertible bond (2018) section 8 and 9
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	Not applicable	Not applicable	(Note)
Transfer agent	None	None	None

Note: As of April 29, 2018, the conversion price as per the domestic unsecured 5th convertible bond (2013) was NT$11.64, and NT$13.2 as per the domestic unsecured 6th convertible bond (2018). Assuming all convertible corporate bonds are completely converted, the holding ratios for the China Aviation Development Foundation, the National Development Fund, Executive Yuan and Chunghwa Telecom will be reduced from 48.45% to 43.66%, but as there will be no major change to the holding structure, the impact on shareholder interests will not be great.

4.2.2 Corporate Bonds Undergoing Private Placement: None.

4.2.3 Convertible Bonds:

Unit: NT$

Types of Corporate Bonds		Domestic Unsecured 5th convertible bond (2013)		Domestic Unsecured 6th convertible bond (2018)
Item \ Year		2017	The current year through April 29, 2018	The current year through April 29, 2018
Convertible Bond Market Price	Highest	116.20	112.80	102.15
	Lowest	100.50	102.00	100.80
	Average	108.18	106.91	101.61
Conversion Price (Note)		11.64	11.64	13.20
Issuance date and conversion price at the time of issue		Issued over-the-counter on December 26, 2013, at a conversion price upon issue of NT$12.24. Beginning July 31, 2016, in response to the 2016 cash dividend, the domestic unsecured 5th convertible bond (2013) and the conversion rules stated that the conversion price must be adjusted, for which reason it was adjusted from NT$12.24 to NT$11.64.		For the January 30, 2018 over-the-counter issue, conversion price at the time of issue was NT$13.20.
Conversion method		Issue new shares.		Issue new shares.

4.2.4 Exchangeable Bond, Shelf Registration, Shelf Registration: None.

4.3 Other Securities-Related Issues

4.3.1 Preferred shares: None.

4.3.2 Global Depository Receipts: None.

4.3.3 Employee Stock Options: None.

4.3.4 Employee Restricted Stock: None.

4.3.5 Status of New Shares Issuance in Connection with Mergers and Acquisitions: None.

4.4 Financing Plans and Implementation

As of April 29, 2018, the use of funds earned through previously issued securities are progressing as planned and are in line with expected results.

Operational Highlights

V. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

A. Main areas of business operations

(1) Air passenger transport and regularly scheduled and non-scheduled international contract charter flight services.

(2) Air cargo services.

(3) Ground handling services for international civil airports and transiting aircraft.

(4) In-flight merchandise sales.

(5) Provision of in-flight meal and beverage services and other related products.

(6) Laundry services for textiles and clothing used aboard aircraft and general laundry services for the hospitality industry.

(7) Warehousing services for import, export, or transit cargo.

(8) Aircraft body and parts maintenance.

(9) Civil aviation personnel training.

(10) Other: In addition to permitted operations, the Company may engage in any other operations not prohibited or restricted by law.

B. Revenue distribution

Unit: NT$ thousands

Item \ Proportion of Overall Business	2017	
	Net Revenue	Proportion of Revenue
Passenger Revenue	102,216,106	65%
Cargo Revenue	43,336,068	28%
Other	10,569,611	7%
Total	156,121,785	100%

C. Main products

(1) Passenger service: Air passenger transport and regularly scheduled and non-scheduled contract international charter flight services.

(2) Cargo service: Transport services for cargo, courier, mail, and packages.

(3) Ground services: Handling of luggage and cargo, aircraft cleaning, and ground support equipment.

(4) In-flight sales: Providing in-flight duty free sales services.

(5) Airline catering: Providing meal services to airlines.

(6) Warehousing and logistics services: Provide airfreight forwarding and logistics services.

(7) Aircraft maintenance services: Airframe, engine, and aircraft component maintenance.

(8) Tourism and leisure services: General hotel industry and travel services.

(9) Investment and leasing services: Engaged in real estate investment, building management, and leasing.

(10) Civil aviation personnel training: Provide maintenance training courses, develop professional maintenance personnel.

D. Product Development

(1) Enlarge European market territory

As the new Airbus A350-900s are brought in, there is now direct service all over Europe, with new aircraft providing uninterrupted direct flights. After flights to London were resumed in 2017, China Airlines now operates 5 destinations with a total of 22 weekly flights. Starting in April, 2018, China Airlines is partnering with Air France of the Skyteam Alliance on a codeshare between Taipei and Paris, coordinating with other airlines' codeshare flights within Europe and providing the tightest flight network between Taiwan and Europe. This will attract more business and tourist travelers headed to Europe, and continue to develop the Taiwan-Europe market.

(2) Create a sensory experience in flight, with optimized customer service quality in the A350

To improve the uniqueness of the China Airlines brand, next generation modern design of cabins is set off by atmospheric lighting, metro style boarding/exit music, and a unique, identifiable scent in the cabin, as well as in-flight food from the Sky Bistro which provides European-style tapas and innovative dishes. This brings a youthful, innovative, quality sensory impression and begins the passengers' impression of Europe from the moment they board the plane, bringing an entirely new European experience.

(3) Enhanced long haul and regional flight network distribution

The company continues to augment its long-haul fleet, while reviewing and commenting on the plan to bring in narrow body aircraft. To keep in step with growing market demand, this will help the company improve its capacity on North American, European, Southeast Asian and Northeast Asian routes, not only providing Taiwanese with more diversified flight choices, but also increasing transfer and transshipment capacity, enhancing Taiwan's position as a East Asian hub.

5.1.2 Industry Overview

A. State of the industry and future development

The operating environment for the airline industry is deeply impacted by global economic growth and oil prices. Of these factors:

(1)Economic growth

Based on IMF projections, overall global growth in 2018 will be 3.9%, somewhat higher than the 3.7% posted in 2017. This indicates that the 2018 economy is moving toward stability, and among the nations that deal with Taiwan, with the exception of continued growth in Southeast Asia, the rest, such as Japan and China, are projected to experience a drop in economic growth compared to 2017. Therefore, overall economic growth capacity is still doubtful.

(2)Oil prices

Oil prices are an enormous component of airline operations costs. Although in recent years, oil prices have declined significantly, in December 2016 OPEC and non-OPEC oil producing nations concluded a global production slowdown agreement, and the US has ramped up its oil production and gradually reduced its holdings. Crude oil prices have gradually climbed since the last half of 2017, with oil prices projected to continue rising in the short term. This will cause a corresponding increase to airline operation costs.

The IATA announced its airline market projection report in December of 2017:

(1) Air passenger market

From 2013 to 2016, global airline passenger demand growth rates were higher than supply, and overall carriage rates rose. Afterwards, due to the rapid development of the airline passenger carriage market, in 2017 overall supply growth rates were higher than demand, and IATA's 2018 Revenue Passenger Kilometers growth was approximately 6%, with Available Seat Kilometer growth at 5.7%. Because growth in demand was slower than growth in supply, it is projected that overall passenger carriage rates will show a downward trend; the Asia-Pacific region will show the same trend, with supply and demand growth rates for 2018 of 6.7 and 7.0%, respectively.

(2) Air cargo market

Based on IATA statistics, global Freight Tonne Kilometers for 2017 will grow by 9.3%. and Available Freight Tonne Kilometers should grow by 3.9%.Overall, the 2017 global trade situation was stable and recovering, with European and US markets showing stable demand. Consumer electronics, machinery and semiconductor equipment, e-commerce products, traditional industrial restocking and other demand grew, leading to a rise in air cargo shipments. IATA projects that in 2018, cargo demand will grow by 4.5%, somewhat slower than in 2017, and that overall the cargo market will still be full of both opportunities and challenges.

B. Relationship between upstream, midstream, and downstream firms

The air transport service industry primarily provides transportation for passengers and cargo. These operations rely on the support and assistance of upstream, midstream, and downstream industries that enable us to provide comprehensive services and meet our customers' needs.

(1)Upstream industries

Primarily aircraft, aircraft engine, and ground service equipment (such as towing vehicles and loading vehicles and equipment needed on the apron) manufacturers. Currently, in addition to purchasing aircraft, Taiwanese airlines also utilize leasing to add to their fleets, so the aircraft leasing industry is also an upstream industry for air transport providers.

(2)Midstream industries

Primarily airlines themselves and related support industries such as the oil industry that provides aviation fuel, the aircraft maintenance industry that repairs and maintains airlines' aircraft and components, and the airline catering industry that provides in-flight meals. In response to the changing needs of downstream industries, the air transport industry's strategic adjustments in their operating scale, fleets, or flight networks will also affect the development of upstream industries.

(3)Downstream industries

In terms of passenger transport, the air transport industry primarily serves the public and travel agencies, while cargo transport services are provided to the courier and freight forwarding industries. As a member of the air transport industry, the needs of downstream customers are at the core of the CAL's product and services planning. Our mission is to provide safe, convenient, and comprehensive services.

C. Product development trends

(1)Air cargo market liberalization, airlines continue to add capacity

As integration within the global airline industry becomes more mature, air cargo liberalization is expanding within the Asia-Pacific region. The USA, Japan, Singapore, Malaysia, and Thailand have already opened their skies to Taiwanese carriers. In recent years, Korea, Vietnam, and the Philippines have considerably relaxed regulations, enabling further expansions in destinations and capacity. However, in addition to domestic airlines continuing to expand their networks, low-cost and foreign carriers are also adding capacity making the industry increasingly competitive. China Airlines is fully aware of these trends and will continue to develop new business opportunities and expand market share.

(2)Taiwan Taoyuan Airport expansion, a new East Asian hub

In recent years, the government has aimed to develop Taiwan Taoyuan Airport into an East Asian transit hub. In addition to actively expanding policies and freedoms of the air, the R.O.C. government promulgated the "Taoyuan International Airport Park Master Conceptual Plan" and "Implementation Plan" in 2011 and 2012 respectively and successively launched Terminal 1 renovations, airport roadway improvements, and plans for Terminal 3 and satellite terminal, and a third runway. China Airlines is working in coordination with government policies to gradually expand fleet capacity and create a new transfer hub in Asia.

(3)Grasp trends, expand cargo income

The company continues to expand into high-profit special areas of cargo shipment such as engine materials, temperature-controlled shipments and precision machinery, with companies like TSMC and UMC using China Airlines as their main shipper for semiconductor precision equipment; moreover, in the realm of e-commerce, in response to the trend toward cross-border e-commerce, the company has enhanced its cooperation with express operators and continues to develop postal business including cargo-to-post in Taiwan, a cooperative site with the postal service in China, and expansion of mail carriage, continuing to grasp logistics trends, increasing operational income.

(4)As next generation aircraft come on line, belly compartment cargo capacity is increased

In 2017, as the company took delivery of a number of A350-900 (XWB) planes, as well as 10 Boeing 777-300ERs,passenger plane belly compartment payload capacity rose, and the company will make best use of this belly compartment space, adjusting cargo capacity to conform to the rapidly changing operational models of different markets and further improving the utilization rates for cargo space.

D. Product competition

China Airlines primarily operates international passenger and cargo air transport services. Because of our continued focus on stable revenue and cost controls, CAL is not only the Taiwan market leader, but also an important player on the international stage. According to R.O.C. Civil Aeronautics Administration statistics, China Airlines is the market leader in both passenger and cargo air transport. Also, released in 2017, the IATA 2016 international passenger and cargo capacity rankings showed that China Airlines was 33rd in the world and 12th in the Asia-Pacific region for passenger air transport with 38.234 billion Revenue Passenger Kilometers (RPK). While cargo capacity reached 5.273 billion Freight Revenue Ton Kilometers (FRTK) earning China Airlines 10th place globally and 4th place in the Asia-Pacific region.

Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo in 2017

Airline	Passenger	Cargo
China Airlines	25.09%	38.03%
EVA Air	22.27%	24.72%
Mandarin Airlines	2.51%	0.76%
UNI Air	1.52%	0.46%
Far Eastern Air Transport	0.33%	-
Tigerair Taiwan	3.93%	0.05%
Other-Foreign Carriers	44.35%	35.97%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2017 - Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

IATA Global International Route Passenger and Cargo Rankings 2016

Passenger (Passenger-Kilometers) Rankings Unit: 1 million			Cargo (Ton-Kilometer) Rankings Unit: 1 million		
1	Emirates	270,797	1	Emirates	12,270
2	United Airlines	145,470	2	Cathay Pacific Airways	9,947
3	Lufthansa	145,124	3	Qatar Airways	9,221
4	Ryanair	142,740	4	Korean Air	7,639
5	British Airways	140,668	5	Lufthansa	7,379
6	Qatar Airways	137,603	6	Federal Express	7,000
7	Delta Air Lines	132,502	7	Cargolux	6,878
8	Air France	129,153	8	Singapore Airlines	6,345
9	American Airlines	114,366	9	United Parcel Service	5,603
10	Cathay Pacific Airways	110,246	10	China Airlines	5,273
11	Turkish Airlines	108,286	11	Air China	4,948
12	KLM	97,676	12	AirBridgeCargo Airlines	4,914
13	Singapore Airlines	92,437	13	Etihad Airways	4,481
14	Etihad Airways	89,480	14	China Southern Airlines	4,247
15	Qantas Airways	77,458	15	British Airways	4,112
16	easyJet	75,333	16	All Nippon Airways	3,804
17	Korean Air	72,321	17	Asiana Airlines	3,796
18	Air Canada	69,321	18	China Eastern Airlines	3,723
19	LATAM Airlines Group	62,963	19	Turkish Airlines	3,609
20	Air China	60,225	20	KLM(4)	3,564
21	Thai Airways International	57,711	21	EVA Air	3,480
22	China Southern Airlines	57,680	22	Air France	3,418
23	Aeroflot Russian Airlines	53,316	23	Polar Air Cargo	3,258
24	China Eastern Airlines	52,635	24	United Airlines	3,185
25	Norwegian	47,269	25	LATAM Airlines Group	2 936
26	All Nippon Airways	44,232	26	Nippon Cargo Airlines	2 899
27	Iberia	43,564	27	American Airlines	2 897
28	Air Berlin	41,631	28	Delta Air Lines	2 233
29	Saudi Arabian Airlines	40,918	29	AeroLogic	2 200
30	EVA Air	40,904	30	Qantas Airways	2 196
31	Japan Airlines	40,305	31	Thai Airways International	2 106
32	Asiana Airlines	40,058	32	Saudi Arabian Airlines	2 062
33	China Airlines	38,234	33	Japan Airlines	1 812

Source: IATA WATS 2017

5.1.3 Research and Development

A. Costs of R&D investment and successfully developed technologies or products

From January 1, 2017 through the publication date of this report, the Company invested approximately NT$121 million in research and development. The following table summarizes the technologies and products developed:

Project	R&D Project Description
Passenger automatic luggage check system establishment and expansion	In response to future smart airports, many airports around the world are installing automated luggage check equipment for passenger use. This self-service initiative provides passengers with a completely new travel experience, reducing the time needed to wait in line to check in. In line with the IATA's Fast Travel spirit of passenger self-service, saving labor by workers and increasing the efficiency of service. The company will coordinate with all airports supplying automated passenger luggage check interfaces, to provide passengers with automated luggage check service. In March, 2017, the system formally went online at the A1 station of the MRT.
Air network space optimization system	Established an automated procedure for air network space allocation integrating it onto the CCNet platform for the cargo department to plan allocation of cargo space and increase revenue from cargo operations. Development and testing was completed in June, 2017, and winter season space allocation was done using the system in October, 2017. SkyTeam Cargo Express Booking
SkyTeam Cargo Express Booking	Express cargo space, cargo status and itinerary information is exchanged with various Skyteam Alliance members in an integrated internal reservation, status and itinerary system. This improves cooperation and competitiveness on cargo within the Skyteam Alliance. In March, 2017, internal system integration was performed continuing later to China Southern Airlines, China Eastern Airlines, and Korean Airlines for integrated testing. The system formally went online in December, 2017 and was rolled out to general cargo space, status exchange, etc. in the Skyteam Alliance.
Virtual Reality flight attendant training system	The use of virtual reality integrating sound, images and text allows students to experience the feeling of "really being there". It also provides real-time interaction. Having established a 360-degree A350 virtual cabin environment, modeling interactive opening and closing of doors and inspection procedures and accessible bathroom operation procedures, and noting points to attend to with related equipment, cabin crew become more familiar with the A350 doors and accessible bathroom operation procedures, the cabin environment and the cabin equipment.
Dispatch service management system	Established a system to assist dispatch on-duty managers in doing the next day's dispatch service assignments and adjustments, so that managers can rapidly grasp the status of personnel and flights, carry out appropriate decision making for adjustment, and guarantee flight safety.
New general items purchasing system	Set up a new general items purchasing system in which all items are completely under green management, optimizing ordering, inquiry and quotations, and purchase processes, enhancing supplier audit management, to raise purchasing quality and reduce purchasing cost.
Cargo account inventory	To improve cargo account business, a cargo account inventory system was established with cargo operating revenue, receivables and temporary payments placed into the corresponding transactions in each bill transaction, integrating up- and downstream account information, automating accounts, to increase the efficiency of account inventory, manage risk, improve management efficiency and save labor.
A next generation China Airlines enterprise information network	To improve collaboration among colleagues in the company, the company should use integrated searches. It has established a next generation China Airlines Enterprise Information Platform (EIP) available in Traditional Chinese, Simplified Chinese and English, in Web pages and mobile versions. The platform provides an information and communication platform for all employees that speeds up action within the company and enhances communication between units thus improving overall work efficiency.
Member package cloud sales system	To increase member sales and provide greater convenience for regular customer purchases of tickets online, while also raising airline ticket sales volume. The company established a member package ticket online sales system to provide members with a one-stop shopping portal for multiple airline tickets on the same itinerary but with specific flights left open, and a way to reserve seats and obtain boarding passes on flights using this ticket.
Travel industry B2B information exchange service cooperation	To grasp in real time whether travelers have joined a group to flexibly adjust flight allocations in sales, and reduce labor on the part of travel agents and subsidiary group control personnel. This assists the Taipei office to exchange information and cooperation on services with high-market share travel professionals throughout Taiwan, so that travel professionals can rapidly obtain information about changes to seat reservation records and provide real-time changes to the number of people on a tour to operators and adjusting seats as needed thus improving the efficiency of sales and the productivity of employees. It is estimated that this will bring a 2-4% increase in group passengers.
New system for promotions and card renewals for Dynasty Club members	Pursuant to review of promotions and card renewals for "high status" members and how to maintain the value of the "high status" to retain highly-loyal customers, many Dynasty Club promotion rules were adjusted, including new definitions for the standard mileage/number of trips interval calculations for promotions, new calculation standards for flights on China Airlines or Mandarin Airlines-operated flights, mechanisms to retain mileage or trips above the promotion standard, co-branded card promotion and extension rules adjustments, which were implemented in December, 2017.
UnionPay card reservations of duty-free products	The UnionPay debit card was added in November, 2017 as a new means of payment for reserving duty-free items. This allows all UnionPay cardholders to reserve duty-free items whether by credit or debit, providing convenience for more passengers to use diverse methods of payment.

B. Future R&D Projects

(1) In order to meet future development needs, China Airlines will continue to invest in R&D projects. Over 2018, we plan to invest a total of NT$220 million into R&D. The following table summarizes future projects:

Project	Future R&D Project Description	Estimated Completion Date
Comprehensive Integrated Cargo Management System	Introduce the RMS (revenue management system) and connect to the existing CCNET cargo reservation and cargo handling system, to maximize revenue from cargo. Based on the work plan, an exhibition of products from six companies and RFI (request for information) on product functions have been completed, and the current phase will set criteria for product evaluation and set up an assessment team and draft an RFP (request for proposal).	June, 2018 As of the printing of the annual report, project progress was at 50%
The New Distribution Capability system	The New Distribution Capability (NDC) system is a distribution standard promoted by IATA. Its objective is to enhance information exchange capabilities between airlines and agents. It is projected that the system will go into widespread use in 2020. The company is using its existing NDC information system on the PSS structure as a foundation to set up NDC XML API through this initiative, implementing airline industry commercial modes such as product searches, reservations, payments and ticketing. The early phase objective is to complete IATA NDC Level 3 certification, to improve China Airlines' international visibility.	June, 2018 As of the printing of the annual report, project progress was at 52%
China Airlines e-commerce town project - member functions	In coordination with the rollout and operation of the future China Airlines e-commerce town, numerous member system support functions are being developed to provide members a friendly process, special deals and mileage coupons. The system provides more products and channels for member mileage activities, improving member loyalty.	August, 2018 As of the printing of the annual report, project progress was at 25%
Major operations indicators system	Integrating relevant information from various units in the company on Marketing, Sales, Operation and Security and Finance, this provides a one-stop, clear Dashboard analytical interface to effective provide a decision support system function and provide a mobile operations interface so that senior managers can effectively grasp the major operations indices of the company.	September, 2018 As of the printing of the annual report, project progress was at 38%
New financial debt management system	To improve financial operations decision making, the company is setting up a new financial debt management system. Its functions will include online signoff forms for financial debt transactions and management information to improve business procedures and financial analysis effectiveness, which will benefit decision making analysis.	December, 2018 As of the printing of the annual report, project progress was at 10%
Next generation team scheduling system	To coordinate with the enormous expansion of the company's flights and crews, as well as demand for passenger and cargo aircraft mission dispatch, a new generation crew dispatch system is planned. It is hoped this will allow rapid, optimized allocation of personnel and fair and effective allocation of group schedules in accordance with civil aviation laws to ensure the quality of crew dispatch.	December, 2018 As of the printing of the annual report, project progress was at 17%
New era flight operations control system	A new age flight operations control system is being brought into jointly manage flights and personnel using simplified flight operations control management, precise control of discrepancies, forward-looking decision making support and other functions. This will allow real-time adaptation to the many changes in the operating environment with timely, highly effective, low-cost flight operations control decision making.	December, 2018 As of the printing of the annual report, project progress was at 39%
Next generation multi-media passenger service system	To adapt to increasing customer service business load and the demands of different channels of customer service, the current customer service system equipment has shown itself insufficient. An update to the existing customer service system is planned, bringing in a multi-media customer service platform, integrating email, Facebook and other channels of customer service demand to actively answer passengers' customized information inquiries in real time and improve the efficiency and service quality of the customer service center.	December, 2018 As of the printing of the annual report, project progress was at 64%

(2) Major Factors Affecting the Success of Future R&D

A. Full support of operational managers
B. Proper grasp of operational needs
C. Utilization of the latest IT know-how and technology
D. Information system architecture upgrades
E. Implementation of project management
F. Strict budget control

5.1.4 Long-term and Short-term Development

To promote sustainable operations and strengthen international competitiveness, CAL has planned the following short- and long-term passenger and cargo transport developments:

A. Short-term Development

(1) Passenger

- Japanese and Korean tours continue to flourish, enhance investment in capacity

  Taiwanese demand for tourism in Japan is strong, and a flood of Koreans are coming to Taiwan on vacation. The company has increased its capacity supply and is also responding to seasonal demand by planning added flights/charters to improve profit space.

- In coordination with the government's new Southern Policy, expand market potential

  The company has added flights to destinations with good potential (such as Bangkok, Penang, etc.) and in combination with the government's policy of providing landing visas for Southeastern Asian countries, this will effectively spur more people from Southeast Asia to come to Taiwan for tourism.

- Drive travel demand in Oceania, and maintain the leading brand position on the market

  In December, 2017 the company added several flights to Sydney and Brisbane, for an average of 3 flights to Oceania daily. In 2018, it will continue to enlarge its service to this area, to enhance the company's network spread and satisfy the need for connections to Europe and Northeast Asia.

(2) Cargo

- Customized scheduled charters, making the most of flight network efficiency

  2017 saw splendid results from scheduled charter business, with expanded charter business to accommodate individual customer demand. Some 120 charter flights were completed between Taipei, Hong Kong, Nanjing, Vietnam, Los Angeles, and Chicago, and further development of Southeast Asian and other emerging markets will continue in 2018, as well as adjustments to route networks in response to market changes and promotion of custom charter business. China Airlines will strive to bring the full effectiveness of its cargo fleet into play.

B. Long-term Development

(1) Passenger

- Optimize the long-haul flight network to bring Taoyuan's hub position into full play

  All routes to Europe were made direct flights as of December, 2016, and flights to London were resumed in December, 2017. This added 5 destinations the company services, and in April, 2018, a Taipei-Paris codeshare will be added with Skyteam Alliance partner Air France. This is the most destinations and flights from Taiwan to Europe, and is an enormous advantage for the company's operations. After software and hardware upgrades on European routes, and with more articulation, this will be even more helpful to attract passengers, improving the company's overall image. The Sydney and Brisbane routes have been increased to 2 and 1 daily flight respectively as of December, 2017, and service to Ontario Los Angeles was added in March, 2018. These routes provide Taiwanese passengers better service to Australia and the US; in the future, passengers from China will also benefit from added flights to more conveniently go through a Taiwan hub to reach destinations in Southeast Asia.

- Response to competition from low cost carriers: Sharing the market with subsidiary Tigerair Taiwan to enhance group competitiveness

  As per Centre for Asia Pacific Aviation (CAP) statistics, in 2017 Low Cost Carriers (LCC) on the Taiwan market held a 16% market share. This represents a rapid rise from the 3.6% market share of 2012. This reflects the fierce competition on the market. The company and its subsidiary Tigerair Taiwan hold periodic consultations to distinguish market positioning and customer segments in order to provide appropriate products to each segment, enhancing the Chian Airlines group's overall competitiveness.

- Continue bringing in new model passenger aircraftimproving passenger service quality

  With the introduction of next-generation long-haul aircraft like the 777 and the A350, all European and US routes have been planned to use only next generation aircraft. With 4 more A350s coming online in 2018, there will be improvements to product quality on the Oceania routes thus improving the quality of service on long-haul routes. Currently satisfying market trends in the Southern Pacific market and coordinating with route development strategies, selection of the new generation of narrow body aircraft has begun, with review and comment on the A320 neo series and 737 MAX ongoing. In the future, one will be selected to replace the current 737-800, in hopes of creating a higher-quality product and provide passengers with a more comfortable flight experience.

(2) Cargo

- The Southern Policyand development of high-growth cargo sources

With the new Southern policy and continued economic development in Southeast Asian nations, sources of cargo like consumer electronics, textiles, and cross-border e-commerce promise market growth. China Airlines will continue its thorough development in Japan, Singapore, Malaysia, Indonesia, Vietnam, the Philippines and Thailand to win cargo moving north-south in Asia, and will also optimize combination of Southeast Asian cargo flight destinations, considering the conversion of multi-leg destinations into direct flights based on the development of demand. The company will do its utmost to coordinate with the development of the Southeast Asian region and improve overall revenue efficiency; additionally, the potential market for special cargo such as semiconductor precision machines, motors, temperature controlled cold chain and biotech pharmaceuticals will also continue to bring strong development. Enhance interairline and alliance cooperation and expand cargo route networks and enhance cargo information development

Use interairline cooperation to open up ASEAN, India, Mexico, Brazil and other emerging cargo markets to extend the service network, and adapt to the development of logistics; cooperate with SkyTeam Cargo to coordinate with the development of a joint express freight platform to improve transshipment efficiency and develop the network; also continue to enhance cargo operations/service information systems, and use the integration of various systems and real-time information provision to improve internal operations efficiency, customer service quality and satisfaction levels.

5.2 Market and Sales Overview

5.2.1 Market Analysis

A. Main Sales (Service) Region

Overview of Company passengers/cargo (RPK/FRTK, REV) by region and passenger and cargo transport market share over the past two years:

(1)Passenger routes:

Item / Area	2016			2017		
	No. of Passengers	RPK (Million)	Revenue (NT$ Million)	No. of Passengers	RPK (Million)	Revenue (NT$ Million)
Trans-Pacific	1,386,818	12,280	18,571	1,370,384	12,461	17,829
Europe	601,381	4,328	7,063	462,491	4,322	7,688
South-East Asia	3,450,709	8,457	16,385	3,692,451	9,126	17,516
Domestic	1,000,915	254	1,574	1,222,213	295	1,939
Hong Kong/Macau	2,738,184	2,096	7,594	2,969,871	2,322	8,075
North-East Asia	5,142,683	9,275	25,042	6,161,837	10,863	30,518
Oceania	558,714	2,795	4,542	510,978	2,703	4,272
Mainland China	2,702,393	2,698	14,511	2,675,925	2,576	14,379
Total	17,581,797	42,183	95,282	19,066,150	44,668	102,216

Note 1: Revenue passenger kilometers (RPK) equal the total number of revenue passengers multiplied by the flight distance travelled (kilometers).

Note 2: The above data includes scheduled flights, charter flights, and extra flights.

Note 3: The above data includes Mandarin Airlines and Tigerair Taiwan.

(2) Cargo routes:

Item / Area	2016		2017	
	FRTK (Million)	Revenue (NT$ Million)	FRTK (Million)	Revenue (NT$ Million)
Trans-Pacific	3,500	20,547	3,724	24,912
Europe	716	4,625	793	5,451
South-East Asia	718	6,034	817	7,549
North-East Asia	185	1,842	204	2,156
Oceania	72	481	73	435
Mainland China	135	2,192	142	2,833
Total	5,326	35,721	5,753	43,336

Note 1: Freight revenue ton-kilometer (FRTK) equals the revenue cargo load (tons) multiplied by the flight distance travelled (kilometers).

Note 2: The above data includes scheduled flights, charter flights, and extra flights.

Note 3: The above data includes Mandarin Airlines and Tigerair Taiwan.

B. Market Share (%) of Major Product Categories in the Last Two Years

Year / Airline	Passengers		Cargo	
	2016	2017	2016	2017
China Airlines	25.04%	25.09%	38.12%	38.03%
EVA Air	21.48%	22.27%	24.84%	24.72%
Mandarin Airlines	2.61%	2.51%	0.86%	0.76%
UNI Air	1.50%	1.52%	0.5%	0.46%
Far Eastern Air Transport	0.45%	0.33%	-	-
Tigerair Taiwan	2.72%	3.93%	0.04%	0.05%
Other – Foreign Carriers	42.19%	44.35%	35.08%	35.97%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2016 and 2017 - Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

C. Market Analysis of Major Product Categories

(1) Passenger

Based on statistics from the Tourism Bureau of the Ministry of Transportation and Communications, the passenger market for 2017 in Taiwan saw 10.74 million foreigners come to Taiwan (a growth rate of 0.5%), while 15.65 million trips were made from Taiwan going abroad (a growth rate of 7.3%). Overall growth was 4%. If visitors from Mainland China are excluded, the growth rate for foreign visitors to Taiwan was 12%, showing that Taiwan's tourism market still has potential for development. It is projected that in 2018, due to policy shifts on Mainland tour groups, demand across the Strait will continue to follow a declining trend. In terms of regional routes, due to the expansion of LCC, and hot competition, the Northeast Asian market will continue to be balanced for supply and demand, and the Southeast Asian market will benefit from policy with demand continuing to climb; in terms of the long-haul market, a stable US economy and improvement in the fluctuating European economy and increased market supply will see higher demand. In the future, Taiwanese and foreign operators will continue to add supply, and it is projected that market demand growth will gradually balance out.

(2) Cargo

World economic trends in 2017 showed clear recovery and growth. The newest announcement on Customs incoming and outgoing trade from Taiwan's Ministry of Finance shows that in 2017, Taiwan's exports grew 13.2%, while imports grew 12.6%. Both represented the greatest growth rate over the past 7 years. Looking ahead to 2018, the effect of electronic and mobile equipment innovations and upgrades, machinery and semiconductor capital equipment, e-commerce and postal cargo, the Internet of Things, car electronics and artificial intelligence and other business opportunities indicates a cautiously optimistic economic outlook. As airlines around the world continue to take delivery on new generation widebody aircraft, belly compartment cargo capacity is rapidly increasing, which will continue to impact the supply and demand balance in air cargo. Moreover, the rising trend in oil prices, trade protectionism, the international situation and regional political factors are still factors that impact the development of air cargo business.

D. Competitive Niche

(1) Next Generation Long-Haul Fleet Taking Shape

The 10 Boeing 777-330ER planes brought in under China Airlines' next-generation product plan were in place as of the last half of 2016. 14 Airbus A350-900s were also delivered over the last half of 2016, and the airline had 10 for capacity in December, 2017. Another 4 will be brought in in 2018, not only raising China Airlines' operational efficiency, but also bringing new business opportunities with the new fleet. The fleet is becoming younger, and under the new generation product plan, Taiwanese culture will be thrust onto the world stage, allowing China Airlines to become newer as it ages, using this transition to provide long-haul passengers with a totally new experience.

(2) Extensive Route Network, Leader in the Region and Australia/New Zealand Markets

The company has been shipping for 58 years, and the destinations in its passenger network span Europe, the Americas, Asia and Oceania, reaching 22 countries and 79 different destinations. The company's cargo routes ship to 29 countries and 147 destinations (as of December 31, 2017), forming a complete network of air service for passengers and goods alike. The company actively deploys regional and Oceania routes with China Airlines' regional routes covering both sides of the Strait of Taiwan, Northeast and Southeast Asia, at the highest market share of any airline.

(3) A Leader in Collaboration

Aside from the routes it operates itself, China Airlines is also Taiwan's first airline to join a global airline alliance, and the first operator in Taiwan to run codeshare flights. At present, the company cooperates with 22 airlines on codeshare flights, more than any other airline in Taiwan. The company actively deploys on the world market, allowing passengers to enjoy a dense route network running between Taiwan and major cities worldwide. This provides passengers with more rapid and complete service.

(4) Expand the scope of cooperation, upgrade maintenance capabilities

Chian Airlines realizes the importance of aircraft maintenance for itself and all airlines. That's why it has partnered with Airbus to become a founding member of the Airbus maintenance alliance. At the same time, it also has a joint venture in Taiwan with NORDAM aerospace group (USA) to establish a compound materials and maintenance plant, "NORDAM Asia Ltd.” which not only satisfies its own fleet maintenance needs and upgrades its capability to repair and maintain compound materials, but also energizes the entire aerospace industry chain in Taiwan, opening up new business opportunities.

E. Corporate Governance and Policies

(1) Corporate Human Rights Policy

China Airlines respects and obeys internationally recognized human rights norms and principles, and firmly believes that respecting and protecting human rights is the basis for achieving sustainable enterprise development. China Airlines' human rights policy applies to the airline and all enterprises in which it has a controlling interest, and the company strives to respect, protect, assess and compensate employees and customers who encounter human rights issues. Moreover, we also hold China Airlines' suppliers and contractors to the same standards and requirements, and require them to conform to the spirit and basic principles of the policy.

(2) Sustainable Supply Chain Management

In order to achieve its goal of sustainable supply chain management, in 2015 China Airlines set a Supplier Code of Conduct that includes major areas such as compliance with laws and regulations, human rights and labor conditions, workplace safety and health, environmental protection, fair transactions and ethics, quality and safety, and information security. To increase the sustainability of its many suppliers, in 2016 the company further required its suppliers to sign a Supplier Code of Conduct, pledging with partners to create a sustainable industrial environment and move together toward a bright future. Moreover, in 2017, for the second time, China Airlines became the only shipping operator in Taiwan to be selected for the Dow Jones Sustainability Index (DJSI) as emerging market shares included in the composite index, and won a fourth Taiwan Corporate Sustainability award.

(3) Environmental Sustainability Management

China Airlines holds fast to its belief in environmental sustainability. It views the "environment" as an important factor in achieving sustainable operations. In 2007, the company set management concepts around environment and energy, and in 2011 it established a dedicated Environmental Department and an Environmental Committee, and the President reviews corporate environmental and energy management achievements quarterly and sets bonus measures. In 2013 a statement of environmental and energy policy was released, making the company the first airline in Taiwan to establish an organization with specific responsibility for the environment and to set a policy for it.

(4) Corporate Social Responsibility

China Airlines realizes that its success comes from the support of society, and it has long held fast to the concept of giving back. The company continues its major strategy of creating social value; we hold diverse events to help disadvantaged groups, to give more back to our home. This nurtures potential and develops talent for the nation, providing greater value for customers and shareholders alike.

(5) Enterprise Risk Management Architecture and Process

China Airlines understands the importance of risk management, and places great emphasis on possible interactions between risks. It refers to Enterprise Risk Management (ERM) and other publications and practical methods while also considering the environment and operational characteristics of the industry. The airline industry is currently facing three major risk sources: security, operations, and financial risk management structures, and is using four major steps, "Identification, risk analysis, risk assessment, risk management". The company identifies potential risks in these three areas and based on frequency of occurrence and seriousness of the risk, does analysis and assessment, distinguishing the degree of risk and finally developing response plans for high-risk items to reduce the impact on company operations.

F. Favorable and Unfavorable Factors in the Long Term

(1) Favorable Factors

- The Asia-Pacific region is benefiting from the growth of emerging economies in the near term, and demand for air travel is increasing sharply. IATA projects that growth in passenger volume in this region will be higher than global averages, and passenger volume is projected to grow for passenger services; in the area of freight, although the same beneficial factors can drive demand in cargo, due to the overall air freight market still being in an oversupply situation, market demand will not be hot but should remain stable.
- Growth in the air industry is affected not only by economic factors; geographical position is another key factor. Taiwan is situated in the center of the Asia-Pacific region, and has boundless potential for the air travel market. Development as an air transport center will allow a grasp of this business opportunity. As a result, the government has gradually promoted expansion of the Taoyuan airport in recent years, creating an East Asian transshipment hub.
- With the development of Internet technologies and the mobile internet, e-commerce has grown rapidly. It is gradually replacing traditional brick-and-mortar channels, and brings new opportunities for the cargo market. According to statistics from Seabury Aviation Consulting, between 2006 and 2016, international packages and express goods grew 2.5-fold and 1.6-fold, respectively. That growth was higher than other cargo types, and adds a new source of cargo for airlines.

(2) Unfavorable Factors Since the end of 2016 when OPEC and non-OPEC countries reached an agreement on global reduction in production

- The US has ramped up its oil production and gradually reduced its holdings. International fuel oil prices have risen gradually since the second half of 2017, and seem likely to continue rising in the near term. This is an issue for the global air transport industry.
- The prosperity of the air transport industry is inextricably linked to the global economic pulse, and its operating environment is easily impacted by global political unrest and natural disasters. Examples include the cross-Strait political situation, European terrorist threats, and European and American elections.

- In recent years air rights have gradually opened up, allowing domestic and foreign carriers as well as low-cost carriers to enter the market one after another. The huge increase in capacity has put pressure on ticket prices, impacting overall revenues for several airlines. Additionally, with the liberalization of the market, and ubiquitous crowding in large airports around the globe, IATA statistics indicate that at present, more than 170 airports are classed as Grade 3, overcrowded airports. Within the short term, this problem is unlikely to be alleviated, so that air transport operations are facing serious challenges.

(3) Response Measures

- Through information gathering and management, we will keep abreast of global political and economic developments. To respond to unpredictable events in the operating environment, we will adapt flight schedules, aircraft deployment, and capacity to increase the passenger load factor and profitability of those routes.
- In response to changes in passenger behavior and the popularity of mobile devices, the Company will adapt to changing passenger needs. Launching a variety of promotional activities, providing mobile, electronic information features and marketing directed at target customer groups will strengthen the Company’s competitiveness.
- In coordination with the arrival of the new long-haul fleet and new opportunities afforded by Open Skies, the Company is actively adding new routes and destinations to maintain our regional advantage and optimize our long-haul network. With Taiwan’s geographical advantage, we will build an East Asian transfer hub while expanding cooperation with our airline partners to build a global flight network and generate more revenue.

5.2.2 Production Procedures of Main Products

A. Major Products and Their Main Uses

Major Products	Main Uses
Passenger services	International passenger air transport and scheduled, non-scheduled, and charter flights.
Cargo services	International cargo, courier, mail, and package transport.
In-flight sales	Providing passengers with in-flight duty free sales services.

B. Major Products and Their Production Processes

The Company is a member of the airline industry and not a manufacturer, so there is no production process.

5.2.3 Supply Status of Main Materials

CAL is a member of the airline industry, not a manufacturer. Therefore, there is no need for production raw materials. Aviation fuel makes up the largest proportion of operating costs. In addition to aviation fuel supplied at Taiwan Taoyuan Airport by CPC Corporation and Formosa Petrochemical Corporation, the Company also purchases fuel from large oil companies around the world at the various destinations served, so fuel supplies are very fragmented.

5.2.4 Major Suppliers and Clients

A. Major Clients in the Last Two Calendar Years:

CAL is a member of the airline industry and clients are members of the general public.

B. Major Suppliers in the Last Two Calendar Years:

CPC Corporation, Formosa Petrochemical Corporation, and Chevron Corporation, etc.

Unit: NT$ thousands

Item	2016				2017				2018 (As of March 31)			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	CPC Corporation	11,593,459	9.42	None	CPC Corporation	13,875,830	10.34	None	CPC Corporation	4,010,741	11.16	None
2	Formosa Petrochemical Corporation	3,193,911	2.60	None	Formosa Petrochemical Corporation	4,083,732	3.05	None	Chevron Corporation	1,207,754	3.36	None
3	Chevron Corporation	2,346,937	1.90	None	Chevron Corporation	3,373,214	2.51	None	Formosa Petrochemical Corporation	1,078,900	3.00	None
Other		105,938,894	86.08		Other	112,816,598	84.10		Other	29,641,079	82.48	
Net Total		123,073,201	100.00		Net Total	134,149,374	100.00		Net Total	35,938,474	100.00	

Reasons for changes:

Fuel is the Company’s primary operating expense. Overall, purchases have remained stable.

5.2.5 Production in the Last Two Years

Unit: thousand kilometers

Capacity and Traffic / Year	2016	2017	Rate of Increase (Decrease)
Available Seat Kilometers (ASK)	54,192,310	55,723,852	2.83%
Revenue Passenger Kilometers (RPK)	42,183,064	44,668,163	5.89%
Load Factor (%)	77.84%	80.16%	2.32 ppt
Freight Available Ton Kilometers (FATK)	7,554,981	7,960,873	5.37%
Freight Revenue Ton Kilometers (FRTK)	5,325,986	5,752,743	8.01%
Load Factor (%)	70.50%	72.26%	1.77 ppt
Available Ton Kilometers (ATK)	12,420,950	12,962,698	4.36%
Revenue Ton Kilometers (RTK)	9,114,419	9,762,044	7.11%
Load Factor (%)	73.38%	75.31%	1.93 ppt

Note 1: The above data includes scheduled flights, charter flights, and extra flights.

Note 2: The above data includes Mandarin Airlines and Tigerair Taiwan.

Reasons for Changes:

In 2017, the company brought additional passenger capacity on market, Available seat kilometers (thousands) and revenue passenger kilometers (thousands) both increased compared to 2016; to align with the increase in cargo demand, Available Ton Kilometers (thousands) and Revenue Freight Ton Kilometers (thousands) also increased in comparison to 2016, and there was a rise in the overall passenger-freight carriage rate compared to 2016.

5.2.6 Shipments and Sales in the Last Two Years

Unit: thousand kilometers; NT$ thousands

Item	2016		2017	
	RPK/FRTK	Amount	RPK/FRTK	Amount
Passenger Revenue	42,183,064	95,282,373	44,668,163	102,216,106
Cargo Revenue	5,325,986	35,721,425	5,752,743	43,336,068
Other Operating Revenue	-	10,075,309	-	10,569,611
Total	-	141,079,107	-	156,121,785

Note 1: The above data includes scheduled flights, charter flights, and extra flights.

Note 2: The above data includes Mandarin Airlines and Tigerair Taiwan.

Reasons for Changes:

The company's passenger and freight business sales both increased in 2017 compared to 2016, primarily due to the cargo capacity from cargo space on passenger aircraft coming onto the market in 2017, and driving an increase in volume and revenue; moreover, due to economic stability and recovery in 2017, and a brisk demand in international trade leading to rising freight prices, freight revenue grew in 2017.

5.3 Human Resources

Year		2016	2017	APR 29, 2018
Number of Employees	Male	6,554	6,476	6,460
	Female	6,094	6,169	6,102
	Total	12,648	12,645	12,562
Average Age		40.20	40.60	40.70
Average Years of Service		12.90	13.30	13.40
Education	PhDs	0.11%	0.11%	0.10%
	Master’s Degrees	10.34%	10.64%	10.64%
	Bachelor’s Degrees	82.74%	82.66%	82.71%
	Senior High School	6.25%	6.22%	6.22%
	Below Senior High School	0.56%	0.37%	0.33%

5.4 Environmental Protection Expenditure

5.4.1 Total Losses and Penalties: None.

5.4.2 Company Countermeasures to Future Environmental Protection Issues

A. ISO 14001 Environmental Management System and ISO 50001 Energy Management System

To achieve overall improvement in the company's environment and energy management mechanisms, the company's environmental management mechanism has introduced ISO 14001 EMS and ISO 50001 EnMS standards, in its PDCA management procedure, which comprehensively identifies and manages environmental and energy issues arising from corporate operations activities.

China Airlines implemented self and third party mechanism and has received ISO 14001 certification again in 2018. The certification was issued by DNV-GL and valid for Corporate Activities at Offices, Cargo Activities, Passenger Service, Aircraft and Engine Maintenance. In addition, we also implement energy management system according to ISO 50001:2011, and apply for re-certification annually to ensure the effectiveness of the system.

China Airlines is the second carrier in the world to hold ISO 14001 and ISO 50001 certifications simultaneously, and the first airline in Taiwan with the most comprehensive coverage.

B. Environmental KPI Controls

The Company's five major Environmental Management Committees and the Carbon Management Taskforce have adopted and implemented environmental KPI (key performance indicators). The annual review by the Environmental Committee, convened and chaired by China Airline's President, encourages all divisions to implement environmental protections.

In 2017, a total of 60 KPI were completed and carbon emissions were reduced by 164,343 tons of CO_2e through conservation of aviation fuel, energy, and vehicle fuel. In 2018, we set up a further 55 KPI and expect to reduce emissions by 152,076 tons of CO_2e over the year.

C. Environmental Management Inspection Mechanism

As part of the Company's environmental management inspection mechanism, each unit performs a stage one environmental management self-audit then Company headquarters performs a stage two audit. Through this double audit system, we can ensure that environmental management is implemented from the ground up within each unit.

In Q2 and Q4 of 2017, second-level audits were completed (including cause/rectification measure and recheck work), with audit items including set inspection table items as well as rechecks from the previous audit, environmental and energy KPI implementation checks, and checks on implementation of rectification measures based on the results of Taoyuan City EPA audits.

D. Employee Environmental Education and Training

In order to comprehensively implement Company environmental policies, environmental management procedures, and increase employee environmental awareness, China Airlines offers employee environmental education and training. CAL headquarters holds training regarding environmental policies and systems, while each individual unit holds environmental training as it pertains to its own operations. Such training can promote a higher level of ecological awareness and concern for our Earth among employees and build a culture of environmental sustainability at the Company. From 2014-2016, the company provided training for all its employees in Taiwan and in 2016 extended this to employees stationed abroad as well as foreign team members. This formed an environmentally sustainable corporate culture. Additionally, in 2017, the company held an annual environmental education event series with online multimedia, environmental symposia and sharing, which spread the sustainable environmental concepts of reducing waste and supporting ecological preservation.

E. Carbon Inventory and Reduction Project，to keep well in line with international management trends

(1) A solid response to ICAO CORSIA

The ICAO plan promotes the Carbon Offsetting and Reduction Scheme for International Aviation, or CORSIA. It is anticipated that this will formally begin in 2019. Through its participation in IATA's environmental committee and the AAPA environmental work team, the company has actively grasped the progress of CORSIA and the scope of its content, and set up internal capacity at the group and company levels. Related information has also been simultaneously provided to agencies in Taiwan for review, to assist with government policymaking response strategy. On another front, China Airlines has worked through the Flight Safety Foundation's industry-government platform to assist in holding working meetings related to CORSIA, so that domestic representatives from organizations in industry, government and academe can understand the international carbon control mechanism.

(2) Implementation of an annual proactive organization greenhouse gas audit

Following the ISO/CNS 14064-1 rules, the company began greenhouse gas audits in 2009. These covered flight, ground logistics and office and administrative business, and third-party certification was performed.

In April, 2018, the company completed the third party (DNV GL) certification process for 2017, obtaining the certificate of "Reasonable Assurance". In 2017, greenhouse gas emissions were certified at 7,174,056.92 metric tons CO_2e.

(3) A healthy response to the EU Emission Trading Scheme

Based on the new EU regulations from April, 2014, the company completed a 2017 Intra-EU Flight CO_2e emissions audit and certification in March, 2018. Results showed 106 flights in 2017, with total CO_2e emissions of 3,568 metric tons. The EU has allocated 7,157 annual metric tons of annual carbon rights to the company for 2017-2020, so there were 3,589 metric tons excess for 2017.

F. Actively participate in international environmental protection initiatives

(1) The company participates in ICAO, IATA and AAPA environmental committees and workgroups, to grasp relevant international environmental protection laws and regulations as and trends in carbon control, and responses to these.

(2) The company cooperates with the EPA, National Central University and the EU's IAGOS-ERIin implementing the Pacific Greenhouse Gases Measurement (PGGM) plan. In June 2012, July 2016 and July 2017, the company installed IAGOS instrumentation in its B-18806, B18317 and B18316 aircraft, automatically collecting atmospheric gas data during flight. This data was supplied to domestic and foreign research organizations to explore and understand changes to atmospheric gases, for research into ecological protection. Between July 1, 2012 and December 31, 2017, some 6,757 measurements of atmospheric gases were collected. This represents an important contribution to global ecology and to Taiwan's image in environmental protection.

(3) The company supports international ecodiversity conservation. At the 73rd IATA conference in June, 2017, the company signed the "Initiative to Prohibit Illegal Shipments of Wild Animals and Plants" (the Buckingham Palace Declaration) and in the future will work hard with 20-odd companies from around the world to put an end to shipments of wild animals and plants to promote implementation of the UN sustainability goals.

G. Building an Energy-Efficient, Environmental Fleet

In planning our new fleet, the primary concern was to select planes that met international flight noise and emissions standards while also prioritizing fuel efficient models.

Beginning in September, 2014, the company has been bringing in fuel-efficient Boeing 777-300ER and Airbus A350-900 aircraft, and by the end of March, 2018, had a total of 10 777-300ERs and 12 A350-900s in the fleet.

H. Promote Continuous Improvement in Maintenance Operations

(1) Maintenance Facility Environmental Management Team

The maintenance facility established an Environmental Management Committee, in which an assistant vice president-level manager serves as Environmental Management representative. The Committee is made up of members employed in the maintenance facility and environmental-related units. Through the committee platform, the effectiveness of maintenance facility environmental management is regularly monitored and reviewed to meet legal requirements, international trends, company policies, and our corporate social responsibilities.

(2) Establishing Maintenance Facility Environmental KPI

Each year, the maintenance facility sets environmental KPI in accordance with Company goals and in consideration of potential maintenance facility environmental impacts. The KPI include fuel, energy, and water conservation, green procurement, waste recycling, and environmental education and training. Each goal is regularly monitored and reviewed by the Environmental Management Committee to continuously improve environmental management and keep up with domestic and international environmental protection trends.

(3) Continue to Implement Maintenance Facility ISO 14001 Environmental Management System/ISO 50001 Energy Management System

In accordance with ISO14001 and ISO 50001 provisions, the maintenance facility completed the management systems' PDCA model in the areas of environmental policy establishment, environmental management document formulation, environmental assessment, environmental objective setting, education and training, environmental performance assessment, internal auditing, and environmental management review. Each year these efforts are certified by a third-party auditor.

(4) Air Pollution Control

Each year air pollution emissions testing is performed on the heating boilers in our maintenance facility's engine plant and plating factory based on relevant standards and regulations and a quarterly air pollution control fee declaration is made (because the facility uses super diesel, no inspection is required, but a declaration must be made).

(5) Wastewater Treatment

Our maintenance facility wastewater treatment plant treats wastewater produced by airplane cleaning, paint stripping, and plating. The plant has obtained a wastewater discharge permit and our water pollution prevention measures program has been updated to meet legal regulations. Improvements are implemented and equipment added as necessary to ensure compliance with the latest environmental regulations.

(6) Waste Disposal

Waste produced by the maintenance facility is sorted and stored as required by law into recycling, reusable waste, and industrial waste then collected by EPA-approved recyclers and waste disposal companies. Maintenance facility units perform scheduled reviews to ensure the legality of the final disposal. The waste disposal program is updated regularly as required by law and each year's actual waste amount is updated and declared. Soil and groundwater remediation fees are paid based on the latest laws and the declared amount of waste produced.

(7) Procurement

The maintenance facility has received all necessary authorizations for the toxic chemicals purchased and in use, which are properly stored, labeled, managed, and declared. In order to maintain compliance, improvements to these processes are implemented, new equipment added, and applications for revisions are made based on the latest environmental laws and regulations.

(8) Airport Noise Control

In order to control employee noise exposure while working on the apron, the Company regularly commissions professional testing organizations to perform operating environment noise inspections at the Taipei Taoyuan and Kaohsiung Airports. The Company purchases and distributes hearing protection equipment to protect employees working on the apron from hearing loss. As required in the Civil Aviation Law of The Republic of China, CAL pays aviation noise control fees (see below table) and supports related education campaigns implemented by the authorities.

5.4.3 Countermeasures

Unit: NT$ thousands

Item / Year	2017	2018	2019	2020
Environmental protection equipment and maintenance costs (does not include depreciation)	14,165	14,000	14,000	14,000
Fees for wastewater equipment regular sampling inspections by inspection agencies and permitting	172	200	200	200
Waste disposal costs	3,315	3,000	3,000	3,000
Aviation noise control fees (paid to the terminal based on airplane model and number of flights)	188,485	193,008	193,008	193,008
Fees for establishment of an environmental control system and strategic research project	5,697	5,500	5,500	5,500
Green procurement	11,730	12,000	12,000	12,000

5.4.4 Effect of Environmental Expenditures on Earnings

Energy-saving equipment and improved management expenditures reduce both Company energy use and operating costs.

5.4.5 Effect of Environmental Expenditures on Competitiveness

Environmental performance has already become an important benchmark in achieving corporate social responsibility. With the rise of green consumers, actively investing in environmental improvements can positively affect our competitive position and improve brand image.

5.5 Labor Relations

5.5.1 List of employee benefits, training, retirement program, and status of their implementation, and labor-management agreements and protections of employee rights and interests

A. Good Labor-Management Relations

On May 4, 1988, the China Airlines Union was established. On July 29, 2011, in accordance with revisions to the Labor Union Act, it was renamed the China Airlines Employee Union. In 2002, a collective agreement was signed between labor and management, which is regularly negotiated and renewed.

B. Retirement Program and Pension Preparations

(1) Labor Standards Act Old-Age Pension System: In June, 1987, the company established a retirement standards oversight committee. Under the old system the monthly allocation ratio was 15%, and it has now reached the legal upper limit. In the case of pensions, after the employee's retirement takes effect, the Office of Human Resources will automatically apply to the Bank of Taiwan to have a payment made, and the employee will be notified when a check is issued. As of the end of December, 2017, 53.2 of employees were eligible to request a retirement benefit under the old system (of which 37% were eligible for both).

(2) Labor Pension Act New Pension System: Under the provisions of the Labor Pension Act, beginning in July, 2015 pension monies will be paid under the new system on a monthly basis to the Bureau of Labor Insurance for eligible employees. The new system sets aside 6% monthly, depositing it into the employee's individual retirement account at the Bureau of Labor Insurance, with an automatic request for payment made to the Bureau after the employee's retirement conditions are fulfilled. As of the end of December, 2017, 66.4% of the company's employees were eligible to draw retirement monies in this way (of whom 42% were eligible for both the new and the old systems).

C. Labor-Management Communications

(1) Units within the Company with a relatively large number of employees, such as the maintenance facility, Ground Services Division, Cabin Crew Division, Flight Operations Division, and Taipei and Kaohsiung Branches hold regular communication meetings. In addition, elected employee and union representatives attend monthly company-wide labor-management conferences to improve understanding and communication.

(2) Establish an employee complaint mechanism and channels to ensure proper response:

When employee rights have been violated or a situation is improperly handled, as stipulated in the Regulations Governing Employee Complaints, employees can lodge a complaint with the responsible operating unit or the Human Resources Division. If the employee objects to the response, he or she can file an appeal with the Human Resources Division. Use of employee complaint channels: a total of 28 written complaints were handled in 2017.

D. Benefits

(1) Employee care

Pension appropriation, labor and health insurance, employer liability insurance, group insurance, employee physical examination, and providing a nursing room.

(2) Employee stock ownership trust

In August 1998, the Company set up an employee stock ownership trust. Employees are free to participate and the amount, depending on employee position, is deducted directly from their monthly salary. Through the end of 2017, a total of 1,907 employees participated.

(3) Profit sharing

As per the company charter, if the company posts a profit in a given year, it must allocate no less than three percent as employee bonuses. However, if the company still has accumulated losses, it shall first retain a sum of money to make up the deficiency.

(4) Welfare system

The Company’s Employee Welfare Committee was set up in December 1967. As stipulated by law, the Committee distributes benefits, handles the disbursement of wedding allowances, funeral allowances, disaster allowances, employee children excellence scholarships, birthday bonuses, and birth allowances, arranges visits to nursing homes, holds recreational sports activities, distributes meals and holiday gift certificates, and offers distress or purchase loans.

(5) Employee leisure

Employee group activity subsidies, employee group travel subsidies, discounted tickets for current and former employees.

(6) Working environment

Workplace compliant with occupational safety standards, gender equality.

E. Collective Agreement

The CAL Collective Agreement was renewed on January 5, 2015 and went into effect the following day. On January 19 of the same year, the Council of Labor Affairs issued a written approval. The full text of the agreement is available through the CAL Enterprise Information Portal.

F. Counseling

To take care of our colleagues needs and participate in employee personal growth, the Company has employed professional counselors and psychiatrists to provide counseling services to employees. In 2017, there was a total of 101 counseling visits totaling 195.5 hours.

G.In addition to promoting employee education and training to enhance staff knowledge and skills, we also continue to accumulate knowledge and encourage exchange within the Company to build a learning organization. Through the management personnel training program and the “China Airlines Lecture Hall” training system, the Company holds courses to improve employees’ strategic, management, professional, and general workplace skills.

(1) To encourage employees to participate in various classes and self-study opportunities provided by the ROC Workforce Development Agency under the Ministry of Labor, all credit and non-credit courses successfully completed by an employee will be registered in the E-Learning system's record of outside training, and the self-pay portions of the costs for such courses subsidized by the company (in cases where the government provides assistance for the full amount, no additional subsidy will be paid). Each person may draw a total of NT$5,000 in such subsidies annually.

(2) Obtain the NT$1.8 million 2017 training subsidy funding from the China Aviation Development Foundation; obtain the ROC Ministry of Labor Workforce Development Agency's 2017 training subsidy of NT$488,625.

(3) Popularize and hold strategic work, management, professional and general skills courses.

- Marketing training: including marketing strategies, customer operations, freight business and related OJT training, with a total of 188 in-person classes and 44 e-classes, training a total of 4,855 people.
- Professional technical classes: including enterprise safety/inspection work, flight services, joint management and EMO, with a total of 3,581 in-person classes and 3,417 e-classes, training a total of 49,210 people.
- Service: including service quality assurance, introduction to public relations, service business, ground services operations and in-flight products, with a total of 589 in-person classes and 345 e-classes, with a total of 28,890 people trained.
- Other: including investment management unit business, law and insurance, financial, information technology, and human resources management, with a total of 165 face-to-face classes and 22 e-classes, training a total of 7,106 people.

5.5.2 CAL has established an employee code of conduct or ethical code and arranges pre-employment Employee Rights and Responsibilities classes for new hires. The main content of the Company’s Employee Code of Conduct is as follows:

The Company’s Employee Code of Conduct primarily consists of workplace ethics, privacy, occupational safety, discrimination and harassment, moral integrity, media and public image, conflict of interest avoidance, anti-trust and fair competition, exchanging gifts and anti-corruption, CAL asset and intellectual property protections, reporting responsibilities, respect for human rights, and commitment to environmental protection. The company includes an assessment and consideration of the foregoing items of workplace behavior in its annual results; employees unable to respect or who violate the foregoing regulations governing workplace behavior are penalized based on the company's regulations governing rewards and penalties, based on the severity of the offense.

5.5.3 Implementation of work environment and employee personal safety protection measures

The Company complies with the requirements outlined in the Occupational Safety and Health Act and other relevant regulations. Therefore, we formulated and follow our Occupational Health and Safety Manual and actively promote the Occupational Health and Safety Management system to implement related operations. To address potential dangers in the work environment, in addition to hazard identification, risk assessment, engineering controls, government management, and providing employees with personal protective equipment, we also arrange employee physicals, health promotion activities, and health education counseling to reduce occupational incidents. The Company has also strictly implemented automatic safety checks, workplace environment monitoring, and safety inspections. Furthermore, we launched workplace incident education to enhance employee safety awareness. As part of health and safety education and emergency response training, the Company provides essential health and safety training to both new hires and existing employees. Through the participation of all employees in harm prevention, we are committed to continuous improvement and creating a safe and healthy work environment.

5.5.4 Over the most recent year through the date of the publication of this report, the estimated value of any losses or potential future losses due to labor disputes

During 2017 and up until April 29, 2018, the company had been fined approximately NT$1.20 million because of overtime caused by labor-management disputes or unavoidable factors such as weather, mechanical factors, etc. Of this, for the cases that were caused by reasons outside the company's control, the company has used proper channels to obtain administrative relief to protect the company's reputation. Moreover, losses from labor-management disputes expanding to the level of demonstrations that will cause damage to the company's operations and commercial reputation cannot be calculated, so that the company currently uses multiple channels of communication to maintain good mutual interaction mechanisms between the parties, and to achieve its goals of taking care of employee welfare and improving the quality of the working environment, to comprehensively improve the level of satisfaction of employees in all categories of work and eliminate any unnecessary labor-management disputes that could lead to controversial incidents.

5.6 Major Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	International Lease Finance Corporation	02/2006-02/2022	Aircraft Type:A330-300/No.:B-18351	-
Lease	AWA Leasing Co., Ltd.	06/2006-06/2018	Aircraft Type:A330-300/No.:B-18308	-
Lease	Zhong Hang Co., Ltd.	06/2006-06/2018	Aircraft Type:A330-300/No.:B-18309	-
Lease	Zhong Hang Co., Ltd.	12/2006-09/2017	Aircraft Type:747-400F/No.:B-18723	-
Lease	Whitney Leasing Limited	02/2007-02/2023	Aircraft Type:A330-300/No.:B-18352	-
Lease	Zhong Hang Co., Ltd.	04/2007-04/2019	Aircraft Type:A330-300/No.:B-18315	-
Lease	Whitney Leasing Limited	05/2008-05/2024	Aircraft Type:A330-300/No.:B-18353	-
Lease	SPRITE AVIATION NO. 1 DAC	12/2008-12/2018	Aircraft Type:A330-300/No.:B-18312	-
Lease	Bluesky Magical 1001 Leasing Co.	11/2010-11/2022	Aircraft Type:A330-300/No.:B-18355	-
Lease	MSN 1272&1278 Aircraft Leasing (Cayman) Limited	12/2011-12/2023	Aircraft Type:A330-300/No.:B-18356	-
Lease	MSN 1272&1278 Aircraft Leasing (Cayman) Limited	01/2012-01/2024	Aircraft Type:A330-300/No.:B-18357	-
Lease	Panamera Aviation Leasing	10/2012-10/2024	Aircraft Type:A330-300/No.:B-18358	-
Lease	Panamera Aviation Leasing V Limited	12/2012-12/2024	Aircraft Type:A330-300/No.:B-18359	-
Lease	Sky Aircraft A1450 Limited	12/2013-12/2025	Aircraft Type:A330-300/No.:B-18360	-
Lease	Avolon Aerospace (Ireland) AOE 35 Limited	06/2014-06/2026	Aircraft Type:A330-300/No.:B-18361	-
Lease	Wilmington Trust SP Services	04/2013-04/2021	Aircraft Type:737-800/No.:B-18651	-
Lease	Wilmington Trust SP Services	05/2013-05/2021	Aircraft Type:737-800/No.:B-18652	-
Lease	Wilmington Trust SP Services	06/2013-06/2021	Aircraft Type:737-800/No.:B-18653	-
Lease	Avolon Aerospace AOE 73 Limited	03/2014-03/2022	Aircraft Type:737-800/No.:B-18655	-
Lease	Avolon Aerospace AOE 78 Limited	05/2014-05/2022	Aircraft Type:737-800/No.:B-18656	-
Lease	SMBC Aviation Capital (UK) Limited	06/2014-06/2022	Aircraft Type:737-800/No.:B-18657	-
Lease	Oriental Leasing 3 Company Limited	10/2014-09/2026	Aircraft Type:777-300ER/No.:B-18051	-
Lease	Oriental Leasing 4 Company Limited	10/2014-10/2026	Aircraft Type:777-300ER/No.:B-18052	-
Lease	Celestial Aviation Trading 34 Limited	11/2014-11/2026	Aircraft Type:777-300ER/No.:B-18053	-
Lease	Wilmington Trust SP Services (Dublin) Limited	01/2015-01/2027	Aircraft Type:777-300ER/No.:B-18055	-
Lease	Sky High XXXVII Leasing Company Limited	05/2015-05/2027	Aircraft Type:777-300ER/No.:B-18001	-
Lease	Sky High XXXVII Leasing Company Limited	06/2015-06/2027	Aircraft Type:777-300ER/No.:B-18002	-
Lease	Sky High XXXVII Leasing Company Limited	08/2015-08/2027	Aircraft Type:777-300ER/No.:B-18003	-
Lease	ALC Blarney Aircraft Limited	09/2015-09/2023	Aircraft Type:737-800/No.:B-18658	-
Lease	ALC Blarney Aircraft Limited	10/2015-10/2023	Aircraft Type:737-800/No.:B-18659	-
Lease	Sky High XXXVII Leasing Company Limited	10/2015-10/2027	Aircraft Type:777-300ER/No.:B-18005	-
Lease	Sky High XXXVIII Leasing Company Limited	01/2016-01/2028	Aircraft Type:777-300ER/No.:B-18006	-
Lease	ALC Blarney Aircraft Limited	03/2016-03/2024	Aircraft Type:737-800/No.:B-18660	-
Lease	Sky High XXXIX Leasing Company Limited	05/2016-05/2028	Aircraft Type:777-300ER/No.:B-18007	-
Lease	Chilli Leasing LLC	09/2016-09/2024	Aircraft Type:737-800/No.:B-18661	-
Lease	Pacific Triangle Leasing Limited	09/2016-09/2024	Aircraft Type:737-800/No.:B-18662	-
Lease	BOC Aviation Limited	10/2016-10/2024	Aircraft Type:737-800/No.:B-18663	-
Lease	BOC Aviation Limited	11/2016-11/2024	Aircraft Type:737-800/No.:B-18665	-
Lease	BOC Aviation Limited	01/2017-01/2025	Aircraft Type:737-800/No.:B-18666	-
Lease	BOC Aviation Limited	02/2017-12/2025	Aircraft Type:737-800/No.:B-18667	-
Loan	BNP Paribas(EXIM Guarantee)	01/2005-01/2017	Aircraft Type:747-400F/No.:B-18719	-
Loan	Chang Hwa Commercial Bank	03/2005-01/2017	Aircraft Type:747-400/No.:B-18211	-
Loan	Mega International Commercial Bank	04/2005-04/2017	Aircraft Type:747-400/No.:B-18212	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Loan	Bank of Taiwan	05/2005-05/2017	Aircraft Type:747-400/No.:B-18215	-
Loan	BNP Paribas(EXIM Guarantee)	05/2005-05/2017	Aircraft Type:747-400F/No.:B-18720	-
Loan	CIB (ECA Guarantee)	06/2005-06/2017	Aircraft Type:A330-300/No.:B-18305	-
Loan	CIB (ECA Guarantee)	07/2005-07/2017	Aircraft Type:A330-300/No.:B-18306	-
Loan	BNP Paribas(EXIM Guarantee)	08/2005-08/2017	Aircraft Type:747-400F/No.:B-18721	-
Loan	CIB (ECA Guarantee)	09/2005-09/2017	Aircraft Type:A330-300/No.:B-18307	-
Loan	Mega International Commercial Bank	07/2006-10/2017	Aircraft Type:747-400F/No.:B-18722	-
Loan	First Commercial Bank	05/2007-05/2019	Aircraft Type:A330-300/No.:B-18316	-
Loan	Cathay United Bank	08/2007-08/2019	Aircraft Type:747-400F/No.:B-18725	-
Loan	Taiwan Cooperative Bank	02/2008-02/2020	Aircraft Type:A330-300/No.:B-18317	-
Loan	ICBC (Macau)	01/2010-01/2017	Aircraft Type:747-400/No.:B-18208	-
Loan	Taiwan Business Bank	10/2010-10/2017	Test Cell	-
Loan	Taiwan Business Bank	04/2011-04/2018	Test Cell	-
Loan	Hua Nan Commercial Bank	05/2012-05/2017	Unsecured Loan	-
Loan	Taipei Fubon Commercial Bank	10/2012-10/2019	Aircraft Type:737-800/No.:B-18610&B18617	-
Loan	First Commercial Bank	09/2013-09/2018	Unsecured Loan	-
Loan	First Commercial Bank	10/2013-10/2018	Unsecured Loan	-
Loan	Taiwan Cooperative Bank	12/2013-12/2018	Unsecured Loan	-
Loan	Taipei Fubon Commercial Bank	02/2014-02/2017	Unsecured Loan	-
Loan	Bank SinoPac	03/2014-03/2017	Unsecured Loan	-
Loan	Far Eastern International Bank	03/2014-03/2017	Unsecured Loan	-
Loan	CTBC Bank	03/2014-03/2017	Unsecured Loan	-
Loan	Bank SinoPac	03/2014-03/2017	Unsecured Loan	-
Loan	Bank of Taiwan	03/2014-03/2019	Unsecured Loan	-
Loan	Chang Hwa Commercial Bank	06/2014-06/2017	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2014-06/2019	Unsecured Loan	-
Loan	Industrial Bank of Taiwan	07/2014-07/2017	Unsecured Loan	-
Loan	The Shanghai Commercial & Savings Bank	07/2014-07/2017	Unsecured Loan	-
Loan	JihSun International Commercial Bank	09/2014-09/2017	Unsecured Loan	-
Loan	Chang Hwa Commercial Bank	12/2014-12/2017	Unsecured Loan	-
Loan	Taichung Commercial Bank	12/2014-12/2017	Unsecured Loan	-
Loan	Taishin International Bank	12/2014-12/2017	Unsecured Loan	-
Loan	CTBC Bank	12/2014-12/2017	Unsecured Loan	-
Loan	Bank of Taiwan	12/2014-12/2019	Aircraft Type:747-400F/No.:B-18701	-
Loan	Chang Hwa Commercial Bank	01/2015-01/2018	Unsecured Loan	-
Loan	Land Bank of Taiwan	01/2015-01/2018	Unsecured Loan	-
Loan	Taipei Fubon Commercial Bank	02/2015-11/2017	Aircraft Type:747-400F/No.:B-18707	-
Loan	Hua Nan Commercial Bank	03/2015-03/2020	Unsecured Loan	-
Loan	Mega International Commercial Bank	07/2015-07/2020	Aircraft Type:747-400F/No.:B-18711	-
Loan	Bank of America Corporation	01/2016-01/2019	Unsecured Loan	-
Loan	Ta Chong Commercial Bank	01/2016-01/2018	Unsecured Loan	-
Loan	E.SUN Commercial Bank	06/2016-06/2019	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2016-06/2021	Unsecured Loan	-
Loan	Mega International Commercial Bank	08/2016-08/2019	Unsecured Loan	-
Loan	Land Bank of Taiwan	09/2016-09/2018	Unsecured Loan	-
Loan	KGI Bank	09/2016-09/2019	Unsecured Loan	-
Loan	Bank of Taiwan	10/2016-10/2028	Aircraft Type:A350-900/No.:B-18901	-
Loan	Bank of Communications	11/2016-11/2019	Unsecured Loan	-
Loan	Bank of Communications	01/2017-01/2029	Aircraft Type:A350-900/No.:B-18902	-
Loan	Taipei Fubon Commercial Bank	03/2017-01/2020	Unsecured Loan	-
Loan	Bank SinoPac	03/2017-03/2020	Unsecured Loan	-
Loan	Agricultural Bank of Taiwan	04/2017-04/2029	Aircraft Type:A350-900/No.:B-18905	-
Loan	Taiwan Business Bank	04/2017-04/2029	Aircraft Type:A350-900/No.:B-18905	-
Loan	Mega International Commercial Bank	05/2017-08/2019	Unsecured Loan	-
Loan	The Export-Import Bank of the Republic of China	06/2017-06/2019	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2017-06/2029	Aircraft Type:A350-900/No.:B-18906	-
Loan	O-Bank	07/2017-07/2020	Unsecured Loan	-
Loan	China Construction Bank Corporation	11/2017-11/2029	Aircraft Type:A350-900/No.:B-18903	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Loan	Bank of Taiwan	04/2018-04/2030	Aircraft Type:A350-900/No.:B-18907	-
Bills	China Bills Finance Corporation and syndicate	06/2014-11/2017	FRCP Joint Underwriting,	-
Bills	Mega Bills and syndicate	08/2014-11/2017	FRCP Joint Underwriting,	-
Bills	Union Bank of Taiwan	01/2015-02/2018	FRCP	-
Bills	International Bills Finance Corp.	02/2015-10/2017	Aircraft Type:747-400F/No.:B-18710	-
Bills	Mega Bills	03/2015-05/2018	FRCP	-
Bills	International Bills Finance Corp. and syndicate	12/2015-03/2019	FRCP Joint Underwriting,	-
Bills	China Bills Finance Corporation	04/2016-04/2020	FRCP	-
Bills	Mega Bills	07/2016-07/2020	FRCP	-
Bills	International Bills Finance Corp.	09/2016-09/2020	FRCP	-
Bills	China Bills Finance Corporation and syndicate	12/2016-12/2020	FRCP Joint Underwriting,	-
Bills	China Bills Finance Corporation and syndicate	10/2017-04/2022	FRCP Joint Underwriting,	-
Taipei CAL Building Lease contract	FX Hotels Group Inc.	09/01/2010-12/30/2026	Rental subject: Located at No.131, Sec. 3, Nanjing E. Rd., Songshan Dist., Taipei City, CAL Building. Part of B1F 560.7 ㎡,1F 471.1 ㎡,10-13F 7,091 ㎡.Total 8,122.8 ㎡. Rent 1F and 11 parking space at B1F	-
Nankan CAL Park Land Lease contract	Costco Co.	Construction date: 01/2012-07/2012 Lease inception: Since business day or The day following the expiry of one year since construction commencement date Rental period: 20 years since lease inception	Rental subject: Land located at No.705 and No.705-1 Jinzhong part, Lujhu Dist., Taotuan City. Total 27,709.21 ㎡	In accordance with notarized text
Taipei CAL Building Lease contract	OEC Group	03/01/2016-12/31/2026	Rental subject: Located at No.131, Sec. 3, Nanjing E. Rd., Songshan Dist., Taipei City, CAL Building. 7F 1,796.8 ㎡, part of B1F 50.4 ㎡ 1 parking space at B1F, 12 parking space at B2F.	-
Taipei CI Building Superficies Contract	Northern Region Branch, National Property Administration, MOF	12/31/2016-12/30/2026	Renew lease period for 10 years according to original contract. Rental price adjust base on Announced Land Current Value and assessed and publicly announced land value.	-
Kaohsiung CAL Building Lease contract	FX Hotels Group Co.	12/31/2012-12/30/2032	Rental subject: Located at No.81, Zhonghua 3rd Rd., Qianjin Dist., Kaohsiung City. B1F 383.2 ㎡, 1F 336.8 ㎡, mezzanine 79.4 ㎡, 2F-12F 3,583.3 ㎡, Roof protrusion 117.2 ㎡. Total 4,499.9 ㎡	-
CAL BOT Park Building Lease contract	CAL Park Co., Ltd	01/01/2017-12/31/2018 Renew every 2 years	Rental subject: Administration Center Building, Crew Center Building, Flight Training Center Building, Basement Parking Lot. Total 83107.4 ㎡.	-

Financial Information

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT$ thousands

Item		Financial Summary for the Last Five Years (Note 1) 2013	2014 (Note 2)	2015 (Note 5)	2016 (Note 6)	2017 (Note 7)	2018 (As of March 31) (Note 3)
Current assets		37,085,072	40,910,490	45,642,615	47,338,201	47,411,834	48,653,145
Property, Plant and Equipment		149,662,068	142,655,066	129,628,866	140,136,737	153,617,531	160,389,245
Intangible assets		489,412	670,997	1,009,678	1,137,115	1,019,345	1,098,975
Other assets		33,739,347	44,837,474	45,645,150	35,888,706	23,850,922	18,289,898
Total assets		220,975,899	229,074,027	221,926,309	224,500,759	225,899,632	228,431,263
Current liabilities	Before distribution	61,906,028	61,357,995	68,220,452	68,605,724	60,289,113	63,359,878
	After distribution	61,906,028	61,357,995	70,728,977	-	-	Not yet allocated
Non-current liabilities		106,179,511	116,730,020	93,149,314	98,027,837	106,453,000	104,980,175
Total liabilities	Before distribution	168,085,539	178,088,015	161,369,766	166,633,561	166,742,113	168,340,053
	After distribution	168,085,539	178,088,015	163,878,291	-	-	Not yet allocated
Equity attributable to shareholders of the parent		50,806,464	48,664,275	58,269,896	55,783,817	57,023,237	57,477,716
Capital stock		52,000,000	52,491,666	54,708,901	54,708,901	54,709,846	54,709,846
Capital surplus (Note 4)		1,924,015	480,462	798,415	799,932	799,999	1,209,977
Retained earnings	Before distribution	(3,161,115)	(3,870,736)	2,872,235	206,092	1,664,405	1,695,038
	After distribution	(3,161,115)	(2,358,783)	363,710	206,092	-	Not yet allocated
Other equity interest		86,936	(1,905,698)	(66,283)	112,264	(107,641)	(93,773)
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	(43,372)
Non-controlling interest		2,083,896	2,321,737	2,286,647	2,083,381	2,134,282	2,613,494
Total equity	Before distribution	52,890,360	50,986,012	60,556,543	57,867,198	59,157,519	60,091,210
	After distribution	52,890,360	50,986,012	58,048,018	-	-	Not yet allocated

Note 1: 2013 - 2017 annual financial information was verified by Deloitte & Touche.

Note 2: In 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: As of the date of printing of this annual report, 2018 Q1 financial information has not yet been reviewed by Deloitte & Touche.

Note 4: The 2014 Deficit Compensation Proposal was passed by the Shareholders' General Meeting held on June 26, 2015 and additional paid-in capital of NT$1,511,953,000 was used to compensate for the deficit.

Note 5: The 2015 Earnings Distribution Proposal resolution was passed by the Shareholders' General Meeting held on June 24, 2016. As required by law, the Company appropriated a legal reserve of NT$287,224,000 and special reserve of NT$76,486,000 and distributed cash dividends totaling NT$2,508,525,000.

Note 6: The 2016 Deficit Compensation Proposal was passed at the shareholder meeting held on June 22, 2017, with legal reserve bonds of NT$81,132,000 making up the shortfall.

Note 7: The 2017 Surplus Distribution Proposal resolution was passed at the 15th meeting of the 20th Board of Directors on March 22, 2018, but has not yet been approved at the shareholders' regular meeting.

6.1.2 Consolidated Condensed Statement of Comprehensive Income – Based on IFRS

Unit: NT$ thousands; EPS (net) = NT$

Item \ Year	Financial Summary for the Last Five Years (Note 1)					2018 (As of March 31)
	2013	2014 (Note 2)	2015	2016	2017	(Note 3)
Revenue	141,702,545	150,581,742	145,056,217	141,079,107	156,121,785	39,735,027
Gross profit	11,027,385	13,631,370	20,268,374	18,005,906	21,972,411	3,796,553
Operating Profit	726,268	2,518,747	8,129,197	4,564,687	8,826,160	423,311
Non-operating Income and Expenses	(1,087,448)	(2,156,321)	(994,312)	(2,684,836)	(5,302,197)	(256,543)
Pretax Profit (Loss)	(361,180)	362,426	7,134,885	1,879,851	3,523,963	166,768
Income from operations of continued segments - after tax	(948,880)	(597,488)	5,926,210	710,940	2,490,792	98,151
Income from discontinued operations	-	-	-	-	-	-
Net Income (Loss)	(948,880)	(597,488)	5,926,210	710,940	2,490,792	98,151
Other comprehensive income (Income/Loss after taxes)	121,723	(1,947,078)	1,269,760	(681,669)	(1,113,176)	(67,848)
Total Comprehensive Gain (Loss) for the Year	(827,157)	(2,544,566)	7,195,970	29,271	1,377,616	30,303
Net income attributable to shareholders of the parent	(1,274,046)	(749,073)	5,763,714	571,540	2,208,066	30,573
Net income attributable to non-controlling interest	325,166	151,585	162,496	139,400	282,726	67,578
Comprehensive income attributable to Shareholders of the parent	(1,171,929)	(2,693,811)	7,072,042	26,103	1,240,677	(40,291)
Comprehensive income attributable to non-controlling interest	344,772	149,245	123,928	3,168	136,939	70,594
Earnings (Loss) per share	(0.25)	(0.14)	1.06	0.10	0.40	0.01

Note 1: 2013 - 2017 annual financial information was verified by Deloitte & Touche.

Note 2: In 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: As of the date of printing of this annual report, the 2018 Q1 financial information has not yet been reviewed by Deloitte & Touche.

6.1.3 Condensed Balance Sheet – Based on IFRS (Parent Company Only)

Unit: NT$ thousands

Item \ Year		Financial Summary for the Last Five Years (Note 1)					2018 (As of March 31) (Note 3)
		2013	2014 (Note 2)	2015 (Note 5)	2016 (Note 6)	2017 (Note 7)	
Current assets		31,333,434	34,477,533	37,904,039	39,908,492	37,933,696	-
Property, Plant and Equipment		139,946,013	131,178,428	118,446,472	129,121,632	142,265,548	-
Intangible assets		473,064	649,614	990,307	1,115,101	989,327	-
Other assets		39,304,463	51,594,035	51,802,032	41,394,218	30,729,421	-
Total assets		211,056,974	217,899,610	209,142,850	211,539,443	211,917,992	-
Current liabilities	Before distribution	59,940,257	59,079,846	64,725,525	64,339,805	54,925,364	-
	After distribution	59,940,257	59,079,846	67,234,050	64,339,805	-	-
Non-current liabilities		100,310,253	110,155,489	86,147,429	91,415,821	99,969,391	-
Total liabilities	Before distribution	160,250,510	169,235,335	150,872,954	155,755,626	154,894,755	-
	After distribution	160,250,510	169,235,335	153,381,479	155,755,626	-	-
Equity attributable to shareholders of the parent		50,806,464	48,664,275	58,269,896	55,783,817	57,023,237	-
Capital stock		52,000,000	52,491,666	54,708,901	54,708,901	54,709,846	-
Capital surplus (Note 4)		1 924,015	480,462	798,415	799,932	799,999	-
Retained earnings	Before distribution	(3,161,115)	(3,870,736)	2,872,235	206,092	1,664,405	-
	After distribution	(3,161,115)	(2,358,783)	363,710	206,092	-	-
Other equity interest		86,936	(1,905,698)	(66,283)	112,264	(107,641)	-
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	-
Non-controlling interest		-	-	-	-	-	-
Total equity	Before distribution	50,806,464	48,664,275	58,269,896	55,783,817	57,023,237	-
	After distribution	50,806,464	48,664,275	55,761,371	55,783,817	-	-

Note 1: 2013 - 2017 annual financial information was verified by Deloitte & Touche.
Note 2: In 2015, the Company began using the financial reporting standards in the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and these standards have been applied retroactively to affected sections of the previous year's (2014) financial statement.
Note 3: The Company has not prepared an individual financial statement for Q1 2018.
Note 4: The 2014 Deficit Compensation Proposal was passed by the Shareholders' General Meeting held on June 26, 2015 and additional paid-in capital of NT$1,511,953,000 was used to compensate for the deficit.
Note 5: The 2015 Earnings Distribution Proposal resolution was passed by the Shareholders' General Meeting held on June 24, 2016. As required by law, the Company appropriated a legal reserve of NT$287,224,000 and special reserve of NT$76,486,000 and distributed cash dividends totaling NT$2,508,525,000.
Note 6: The 2016 Deficit Compensation Proposal was passed by the Shareholders' General Meeting held on June 22, 2017, using a statutory surplus reserve of NT$81,132,000 to cover the deficit.
Note 7: The surplus allocation assignments for 2017 were passed in a resolution at the 15th meeting of the 20th Board of Directors on March 22, 2018, but have not yet been approved at the shareholders' regular meeting.

6.1.4 Condensed Statement of Comprehensive Income – Based on IFRS (Parent Company Only)

Unit: NT$ thousands; EPS (net) = NT$

Year / Item	Financial Summary for the Last Five Years (Note 1)					2018 (As of March 31) (Note 3)
	2013	2014 (Note 2)	2015	2016	2017	
Revenue	131,752,677	139,726,168	133,441,725	127,524,864	139,815,211	-
Gross profit	8,307,802	10,917,174	17,623,801	15,275,980	17,966,397	-
Operating Profit	(283,782)	1,870,191	7,885,097	4,475,707	7,358,114	-
Non-operating Income and Expenses	(660,555)	(1,820,766)	(1,047,275)	(2,938,456)	(4,269,911)	-
Pretax Profit(Loss)	(944,337)	49,425	6,837,822	1,537,251	3,088,203	-
Income from operations of continued segments - after tax	(1,274,046)	(749,073)	5,763,714	571,540	2,208,066	-
Income from discontinued operations	-	-	-	-	-	-
Net Income(Loss)	(1,274,046)	(749,073)	5,763,714	571,540	2,208,066	-
Other comprehensive income (income/Loss after tax)	102,117	(1,944,738)	1,308,328	(545,437)	(967,389)	-
Total Comprehensive Gain (Loss) For The Year	(1,171,929)	(2,693,811)	7,072,042	26,103	1,240,677	-
Net income attributable to shareholders of the parent	(0.25)	(0.14)	1.06	0.10	0.40	-

Note 1: 2013 - 2017 annual financial information was verified by Deloitte & Touche.

Note 2: In 2015, the Company began using the financial reporting standards in the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and these standards have been applied retroactively to affected sections of the previous year's (2014) financial statement.

Note 3: The Company has not prepared an individual financial statement for Q1 2018.

6.1.5 Condensed Balance Sheet – Based on ROC GAAP (Parent Company Only): Not Applicable.

6.1.6 Condensed Statement of Comprehensive Income – Based on ROC GAAP (Parent Company Only): Not Applicable.

6.1.7 Auditors' Opinions from 2013 to 2017

Year	Accounting Firm	Name of CPA	Audit Opinion
2013	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Unqualified Opinion
2014	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Unqualified Opinion
2015	Deloitte & Touche	Huang, Jui-chan; Chen, Li-Chi	Qualified Opinion (Note)
2016	Deloitte & Touche	Yang, Chen-Hsiu; Chen, Li-Chi	Unqualified Opinion
2017	Deloitte & Touche	Yang, Chen-Hsiu; Chen, Li-Chi	Unqualified Opinion

Note: In 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous period's financial statement.

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis – Based on IFRS

Year / Item (Note 4)		Financial Summary for The Last Five Years (Note 1)					2018 (As of March 31) (Note 3)
		2013	2014 (Note 2)	2015	2016	2017	
Financial structure (%)	Debt Ratio	76.07	77.74	72.71	74.22	73.81	73.69
	Ratio of long-term capital to property, plant and equipment	106.29	117.57	118.57	111.24	107.81	102.92
Solvency (%)	Current ratio	59.91	66.68	66.90	69.00	78.64	76.79
	Quick ratio	47.96	53.49	53.06	53.16	59.46	57.06
	Interest earned ratio (times)	77.14	115.55	496.25	265.40	369.02	121.87
Operating performance	Accounts receivable turnover (times)	18.50	17.45	16.98	17.67	18.40	17.80
	Average collection period	19.73	20.91	21.49	20.66	19.84	20.50
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Property, plant and equipment turnover (times)	0.91	1.03	1.07	1.05	1.06	1.01
	Total assets turnover (times)	0.64	0.67	0.64	0.63	0.69	0.70
Profitability	Return on total assets (%)	0.37	0.48	3.28	0.80	1.60	0.62
	Return on stockholders' equity (%)	(1.79)	(1.15)	10.63	1.20	4.26	0.66
	Pre-tax income to paid-in capital (%)	(0.69)	0.69	13.04	3.44	6.44	1.22
	Profit ratio (%)	(0.67)	(0.40)	4.09	0.50	1.60	0.25
	Earnings per share (NT$)	(0.25)	(0.14)	1.06	0.10	0.40	0.01
Cash flow	Cash flow ratio (%)	34.71	27.56	46.60	25.71	47.35	17.03
	Cash flow adequacy ratio (%)	129.04	207.19	233.25	303.17	351.58	310.12
	Cash reinvestment ratio (%)	7.50	5.48	10.56	4.83	8.82	3.61
Leverage	Operating leverage	25.65	8.19	3.21	4.99	3.16	12.77
	Financial leverage	(0.52)	5.04	1.28	1.40	1.18	3.93

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)

1. Interest earned ratio: Because there was an increase in net profit before taxes for 2017 compared with the previous year, the TIE (times interest earned) increased.
2. Profitability: Because 2017 net profit increased compared to the previous year, profitability for various items rose.
3. Cash flow ratio and cash reinvestment ratio: Because net cash inflow for 2017 business activities increased, cash flow ratio and cash re-investment ratio both increased.
4. Operating leverage: Mainly due to an increase in 2017 operating profit compared to the previous year, the degree of operating leverage declined.

6.2.2 Financial Analysis – Based on IFRS (Parent Company Only)

Item (Note 4) \ Year		Financial Summary for the Last Five Years (Note 1)					2018 (As of March 31) (Note 3)
		2013	2014 (Note 2)	2015	2016	2017	
Financial structure (%)	Debt Ratio	75.93	77.67	72.14	73.63	73.09	-
	Ratio of long-term capital to fixed assets	107.98	121.07	121.93	114.00	110.35	-
Solvency (%)	Current ratio	52.27	58.36	58.56	62.03	69.06	-
	Quick ratio	40.36	45.32	44.54	45.82	49.03	-
	Interest earned ratio (times)	49.95	100.38	495.43	246.03	350.56	-
Operating performance	Accounts receivable turnover (times)	17.26	16.23	15.56	15.92	16.62	-
	Average collection period	21.14	22.49	23.46	22.92	21.96	-
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Fixed assets turnover (times)	0.90	1.03	1.07	1.03	1.03	-
	Total assets turnover (times)	0.63	0.65	0.62	0.61	0.66	-
Profitability	Return on total assets (%)	0.20	0.41	3.36	0.75	1.54	-
	Return on stockholders' equity (%)	(2.49)	(1.51)	10.78	1.00	3.91	-
	Pre-tax income to paid-in capital (%)	(1.82)	0.09	12.50	2.81	5.64	-
	Profit ratio (%)	(0.97)	(0.54)	4.32	0.45	1.58	-
	Earnings per share (NT$)	(0.25)	(0.14)	1.06	0.10	0.40	-
Cash flow	Cash flow ratio (%)	33.43	25.44	47.38	26.71	47.41	-
	Cash flow adequacy ratio (%)	135.16	209.68	232.93	309.01	357.86	-
	Cash reinvestment ratio (%)	7.31	5.10	10.74	4.94	8.48	-
Leverage	Operating leverage	(59.39)	10.21	3.15	4.85	3.46	-
	Financial leverage	0.12	(19.66)	1.28	1.38	1.21	-

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)
1. Interest earned ratio: Because there was an increase in net profit before taxes for 2017 compared with the previous year, the TIE (times interest earned) increased.
2. Profitability: Because 2017 net profit increased compared to the previous year, profitability for various items rose.
3. Cash flow ratio and cash reinvestment ratio: Because net cash inflow for 2017 business activities increased, cash flow ratio and cash re-investment ratio both increased.
4. Operating leverage: Mainly due to an increase in 2017 operating profit compared to the previous year, the degree of operating leverage declined.

Note 1: 2013 - 2017 annual financial information was verified by Deloitte & Touche.
Note 2: In 2015, the Company began implementing the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of IFRS, International Accounting Standards, IFRIC and SIC Interpretations recognized by the Financial Supervisory Commission. Therefore, the aforementioned standards and interpretations have been applied retroactively to affected sections of the previous year's (2014) financial statement.
Note 3: As of printing of this annual report, Q1 2018 consolidated financial information has not yet been reviewed by Deloitte & Touche. The Company has not prepared an individual financial statement for Q1 2018.
Note 4: The calculations of the above financial ratios utilize the formulas listed below:

1. Financial structure
   (1) Debt ratio = total liabilities / total assets
   (2) Ratio of long-term capital to property, plant and equipment = (total shareholders' equity + non-current liabilities) / net property, plant and equipment
2. Solvency
   (1) Current ratio = current assets / current liabilities
   (2) Quick ratio = (current assets – inventory – prepaid expenses) / current liabilities
   (3) Interest earned ratio (times) = earnings before interest and taxes / interest expenses
3. Operating performance
   (1) Accounts receivable turnover (including accounts receivable and notes receivable arising from business activities) = net sales / average accounts receivable (including accounts receivable and notes receivable arising from business activities)
   (2) Average collection period = 365 / average accounts receivable turnover
   (3) Inventory turnover = cost of goods sold / average inventory
   (4) Accounts payable turnover (including accounts payable and notes payable arising from business activities) = cost of goods sold / average accounts payable (including accounts payable and notes payable arising from business activities)
   (5) Average inventory turnover days = 365 / inventory turnover ratio
   (6) Property, Plant and Equipment Turnover = net sales / net property, plant and equipment
   (7) Total asset turnover = net sales / average total assets
4. Profitability
   (1) Return on total assets = [net income + interest expense x (1 - effective tax rate)] / average total assets
   (2) Return on stockholders' equity = net income / average stockholders' equity
   (3) Net margin = net income / net sales
   (4) Earnings per share = (net income attributable to owners of the parent – preferred stock dividends) / weighted average number of shares outstanding
5. Cash flow
   (1) Cash flow ratio = net cash flows from operating activities / current liabilities
   (2) Cash flow adequacy ratio = five year sum of net cash flows from operating activities / five year sum of (capital expenditures + increase in inventory + cash dividends)
   (3) Cash Flow Cash Reinvestment Ratio = (net cash flows from operating activities – cash dividends) / (gross property, plant and equipment + long-term investments + other non-current assets + working capital)
6. Leverage
   (1) Operating Leverage = (net sales – variable operating costs and expenses) / operating profit
   (2) Financial Leverage = operating profit / (operating profit – interest expenses)

6.2.3 Consolidated Financial Analysis – Based on ROC GAAP: Not Applicable.

6.2.4 Financial Analysis – Based on ROC GAAP (Parent Company Only): Not Applicable.

6.3 Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report: Please refer to Appendix 1.

6.4 Parent Company Only Financial Statements for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report: Please refer to Appendix 2.

6.5 Audit Committee's Report

Audit Committee Report

The Board of Directors shall create and send (1) the 2017 consolidated financial statement and individual financial statement that have been jointly audited by Deloitte CPAs Chen-Hsiu Yang and Li-Chi Chen who released an official unqualified opinion by March 22, 2018 and (2) the 2017 business report and Earnings Distribution Statement, after having been found to have no discrepancies by this audit committee and, thereupon, issue a report in accordance with the items stipulated in Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

China Airlines

Convener of the audit committee: Chung, Lo-Min

22 March 2018

Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status

7.2 Analysis of Operation Results

7.3 Analysis of Cash Flow

7.4 Major Capital Expenditure Items

7.5 Investment Policy in Last Year, Main Causes for Profits or Losses, Improvement Plans and the Investment Plans for the Coming Year

7.6 Analysis of Risk Management

VII. Review of Financial Conditions, Financial Performance, and Risk Management

7.1 Analysis of Financial Status (Consolidated)

Analysis of changes in assets, liabilities and equity over the past two years: Unit: NT$ thousands

Item \ Year	2017	2016	Difference	
			Amount	%
Current Assets	47,411,834	47,338,201	73,633	0.16
Property, Plant and Equipment	153,617,531	140,136,737	13,480,794	9.62
Intangible Assets	1,019,345	1,137,115	(117,770)	(10.36)
Other Assets	23,850,922	35,888,706	(12,037,784)	(33.54)
Total Assets	225,899,632	224,500,759	1,398,873	0.62
Current Liabilities	60,289,113	68,605,724	(8,316,611)	(12.12)
Non-Current Liabilities	106,453,000	98,027,837	8,425,163	8.59
Total Liabilities	166,742,113	166,633,561	108,552	0.07
Capital stock	54,709,846	54,708,901	945	0.00
Capital surplus	799,999	799,932	67	0.01
Retained Earnings	1,664,405	206,092	1 458,313	707.60
Other Equity	(107,641)	112,264	(219,905)	(195.88)
Treasury shares	(43,372)	(43,372)	-	-
Non-Controlling Interests	2,134,282	2,083,381	50,901	2.44
Total Equity	59,157,519	57,867,198	1,290,321	2.23

Analysis of changes in financial ratios:

1. Other assets: Primarily due to the delivery of 6 A350s, prepayments for aircraft were converted to fixed assets, workshops and equipment.
2. Retained earnings: 2017 after-tax profits were NT$2.491 billion, an increase of NT$1.78 billion over 2016 after-tax net profits.
3. Other equity: Primarily due to fluctuations in fair value of cash flow hedging derivative financial products.

Future response actions: The above changes do not significantly affect on the Company.

7.2 Analysis of Financial Performance (Consolidated)

Financial Performance Analysis Table

Unit: NT$ thousands

Item \ Year	2017	2016	Difference	
			Amount	%
Revenue	156,121,785	141,079,107	15,042,678	10.66
Cost	134,149,374	123,073,201	11,076,173	9.00
Gross Profit	21,972,411	18,005,906	3,966,505	22.03
Operating Expenses	13,146,251	13,441,219	(294,968)	(2.19)
Operating Income	8,826,160	4,564,687	4,261,473	93.36
Non-operating Income and Expenses	(5,302,197)	(2,684,836)	(2,617,361)	(97.49)
Pretax Profit	3,523,963	1,879,851	1,644,112	87.46
Income Tax Expense	1,033,171	1,168,911	(135,740)	(11.61)
Net Income (Loss)	2,490,792	710,940	1,779,852	250.35
Other Comprehensive Income	(1,113,176)	(681,669)	(431,507)	(63.30)
Total Comprehensive Gain (Loss) for the Year	1,377,616	29,271	1,348,345	4,606.42

Analysis of changes in financial ratios:

1. Operating income, pretax profit, and net income for the period: 2017 cargo revenue was up compared to 2016, primarily because of overall economic trends and growth in trade demand. leading to increased operating gross profit, operating net profit, pre-tax net profit and net profit for this period.
2. Non-operating income and expenses: the impact of purges to the fleet in 2017 and 2016 as impaired losses were NT$4.262 billion and $1.066 billion respectively.
3. Other comprehensive income (net): Primarily due to fluctuations in fair value of hedging derivative financial products in 2017.
4. Total comprehensive income for the period: 2017 passenger and cargo revenue was up from 2016, primarily because of overall economic trends and growth in trade demand. 2017 non-operating net expenditures were higher than in 2016, primarily due to asset impairment; fluctuations in fair value of 2017 derivative financial products for hedging.

7.3 Analysis of Cash Flow (Consolidated)

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT$ thousands

Item \ Year	2017	2016	Difference	
			Amount	%
Cash and Cash Equivalents, Beginning of Year	24,267,197	23,491,085	776,112	3.30
Net Cash Flow from Operating Activities	28,547,018	17,636,372	10,910,646	61.86
Net Cash Flow from Investing Activities	(25,792,340)	(21,021,616)	(4,770,724)	(22.69)
Net Cash Flow from Financing Activities	(4,669,431)	4,208,402	(8,877,833)	(210.95)
Exchange Rate Adjustment	232,888	(47,046)	279,934	595.02
Cash and Cash Equivalents, End of Year	22,585,332	24,267,197	(1,681,865)	(6.93)

Analysis of change in cash flow in the current year:

1. Operating activity cash flow discrepancy, primarily due to an increase in 2017 operating results compared to the previous year.
2. Investment activity cash flow discrepancy primarily due to the impact of 2016 aircraft prepayment refund.
3. Financing activity cash flow discrepancy primarily due to 2017 repayment of more than the amount borrowed.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis: None.

7.3.3 Cash Flow Analysis for the Coming Year

The cash balance at the beginning of the year was NT$16.56 billion and estimated net cash flow from operating activity for the year is NT$22.07 billion. Cash flow from investment and financing activities are estimated to total NT$16.23 billion and NT$34.48 billion respectively. The cash shortfall was made up through mortgage loans, corporate bond issuance, and medium-term Unsecured Loans of NT$27.21 billion and the cash and cash equivalents at the end of the year totaled NT$15.13 billion.

7.4 Major Capital Expenditure Items (Parent Company Only)

Major capital expenditures primarily include purchases of new airplanes as part of operational expansion, which does not have a significant impact on the Company’s financial operations.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Coming Year

In order to support our primary airline operations and enhance competitiveness of the CAL Group, investments are primarily in airline industry-related companies. Currently, these include air transport, ground services, logistics and warehousing, air cargo terminals, airline catering, laundry, information networks, aeronautics, tourism services, and investing and leasing industries to create a comprehensive air service network and wide-ranging services. Calculated under the equity method, reinvestment revenues for 2017 totaled NT$1.628 billion.

The company's joint venture business over the next year will continue with construction of China Airlines hotels and of Taiwan Aircraft Maintenance and Engineering Ltd.'s hangars and NORDAM Asia Ltd.'s facilities. It will also feature potential investment feasibility studies in areas such as passenger carriage, freight, aircraft maintenance and flight training.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Response Measures

A. Impact of changes in interest rates, foreign exchange rates, and inflation on Company income:

Although changes in interest and foreign exchange rates do have a level of impact on Company income, through effective controls the impact is limited.

B. Response measures to changes in interest rates, foreign exchange rates, and inflation:

To prevent changes in interest rates, foreign exchange rates, and inflation from creating risks to the Company's overall finances, we hold regular meetings of the Board of Directors Risk Committee, and keep on top of economic and financial developments both in Taiwan and overseas to develop a hedging strategy, evaluate performance of derivatives, and set the appropriate hedge ratio. These controls help prevent changes by utilizing financial hedging instruments in the financial environment and oil prices from creating systemic financial risks and enable CAL to achieve proper risk management.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

A. The Company does not engage in high-risk, highly-leveraged investments.

B. The Company has developed Operational Procedures for Lending Funds to Others and Operational Procedures for Endorsements/Guarantees and risks of such operations are controlled through strict assessment. Therefore, loans and endorsements/guarantees do not lead to profits or losses for the Company.

C. Company derivative products include forward foreign exchange and foreign exchange options contracts and oil options contracts, which are primarily to hedge against the risk of fluctuations in oil prices, interest rates, and foreign exchange rates. Transactions are performed in accordance with the Company's Operational Procedures for Derivatives Trading and are regularly evaluated to ensure effective risk controls.

7.6.3 Future Research & Development Projects and Corresponding Budget: Please refer to page 94.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales: None.

7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales: None.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures:

China Airlines has tirelessly worked to build a positive image. We continue to enhance our transport services and airplane maintenance to ensure flight safety. In the spirit of SOP+, we properly implement every service detail. The Company actively promotes social welfare to fulfill our corporate social responsibility. Environmental management has become an operational focus, to do our part to protect the Earth. In the event of a false negative news story, information, or situation that adversely impacts our brand image, the Company will respond immediately, holding a press conference or issuing a press to release a correction. We will communicate with the media immediately and issue clarification on our website or through social media platforms to reduce negative impact.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans: None.

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans: None.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration: None.

7.6.10 Effects of, Risks Relating to, and Response to Large Share Transfers or Changes in Shareholdings by Directors or Shareholders with Shareholdings of over 10%: None.

7.6.11 Effects of, Risks Relating to, and Response to the Changes in Management Rights: None.

7.6.12 Litigation or Non-litigation Matters

A. Any major litigation, non-litigation or administrative disputes involving the Company that are already finalized or still pending.

No.	Case Name	Summary	Disputed Amount (NT$)	Litigants	Current Status
1	Litigation for refunding overpayment on aircraft rental	1. In 2002, the Civil Aeronautics Administration (CAA) unilaterally terminated an aircraft rental contract with the Company for six aircraft, resulting in early termination of the contract, which changed the nature of the lease and the rent calculation basis and resulted in rent overpayment by the Company. 2. In 2010, the CAA resolved that the Civil Aeronautics Administration should pay the Company more than NT$1.5 billion and in 2015 the Supreme Court revoked the arbitration judgment, which resulted in the Company filing a civil lawsuit against the CAA to recoup the aforementioned rent overpayment.	More than 1.2 billion	Plaintiff: China Airlines Defendant: Civil Aeronautics Administration	On the first ruling by the Taipei District Court, the company's claim was rejected, but because there was a calculation error by the court of first instance, the services of a law office were retained on April 2, 2018 to proceed on appeal.
2	US Passenger Fare Antitrust Class Action Lawsuit	In December 2007, because major global passenger airlines charged passenger transport fees and fuel surcharges and as a member of Association of Asia Pacific Airlines, the Company was listed as a joint defendant. The case is being heard by the District Court of California, San Francisco.	Currently no specific claim figures. The claim is for punitive damages of three times the fuel surcharge overcharged during the disputed period	Plaintiff: Global passenger group representative Defendant: China Airlines and more than 10 other airlines	This case was settled out of court and the 20th meeting of the 13th Board of Directors passed a resolution to pay no more than US$19.50 million (plus court costs of US$250,000). Later, on December 8, 2017, a formal settlement agreement was signed, with settlement monies paid out in four installments.

B. Major litigation, non-litigation or administrative disputes involving a subsidiary (TACT Logistics) that are already finalized or still pending:

The income tax return of TACT for 2001 was assessed by the tax authorities. After a reinvestigation, an administrative appeal and administrative proceedings, the case was settled, and the amount of penalty assigned on June 8, 2017 was $59,501 thousand. TACT had recognized a sufficient provision for the fine, and the payment is expected to be made on schedule.

7.6.13 Other Major Risks:

CAL fully understands the importance of risk management and the potential for interaction between different types of risk. We established the Risk Committee directly under the supervision of the Board of Directors to improve risk management and require subordinate units to control for each major risk category.

The CAL risk management organization and units responsible for implementation:

Type of Risk	Responsible Department	Risk Management Measures
Operating Risk	Corporate Development Office	The operating environment for the aviation industry is ever changing. Major political and economic events as well as unexpected internal or external incidents can have a huge impact on company operations. The Corporate Development Office analyses potential political, economic, aviation industry, and internal Company situations that could affect the Company and proposes concrete response plans to reduce their impact on China Airlines' strategic direction and annual business plan.
Safety Risk	Corporate Safety Office	Safety is the cornerstone of airline operations and only a good record of flight safety can earn passenger trust. The Corporate Safety Office utilizes the Safety Management System (SMS) to identify and evaluate important internal and external operating risks including flights, aircraft, in-flight service, and ground handling, then proposes improvement measures.
Financial Risk	Finance Div.	The domestic and global economy affects Company operating results. Primary operating costs for airlines include interest rate, exchange rate, and fuel and influence by outside factors can result in significant volatility. Therefore, the Finance Division utilizes financial hedging instruments to fix the above factors within a certain range, regularly monitors financial risk, and establishes relevant strategies and measures to effectively manage financial risk.

7.7 Other Important Matters: None.

Special Disclosure

8.1 Summary of Affiliated Companies

8.2 Private Placement Securities in the Most Recent Years

8.3 The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years

8.4 Special Notes

8.5 Situations with Major Impacts on Shareholder Equity or Share Prices

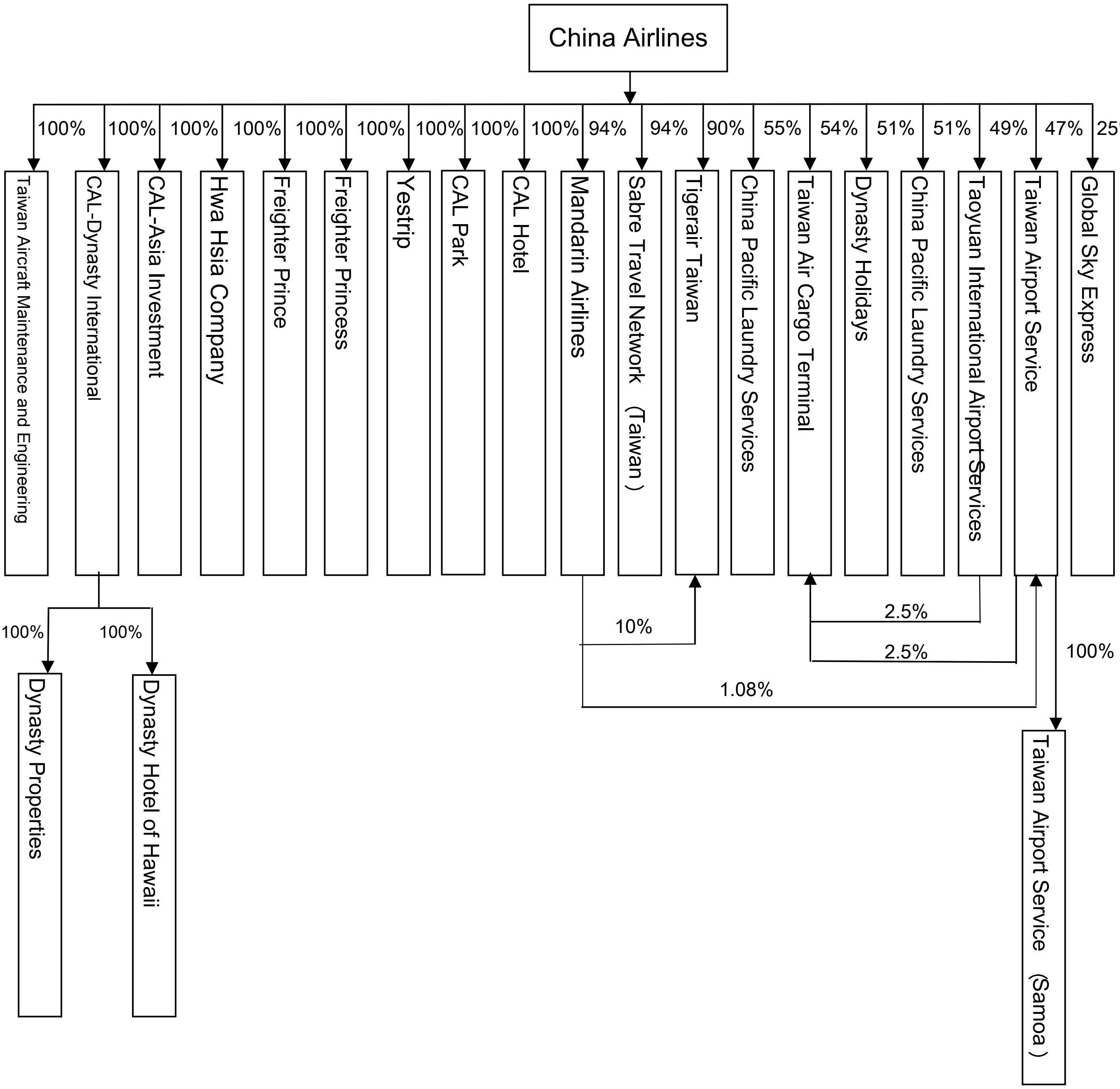
VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Basic information of Affiliated Companies

A. Affiliated Companies Chart

Dec 31, 2017



Note 1: The affiliates listed above mean companies in which the company has invested and has a 50% or higher voting share, or the means to control, either directly or through a subsidiary company. China Pacific Laundry Services and China Pacific Catering Services are joint ventures.

Note 2: The Freighter Princess and Freighter Prince companies went out of business in February, 2017.

Note 3: Hwa Hsia Company Ltd. was renamed "Dynasty Aerotech International Corp." in 2018.

B. Basic information of Affiliated Company

Dec 31, 2017/Unit: NT$ thousands

Company	Date Founded	Address	Capital (Note)	Principal Activities
1. CAL-Dynasty International, Inc.	07/01/1991	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	780,448	Holding & investing
1A Dynasty Properties Co., Ltd.	08/15/1973	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	14,925	Real estate investing, property leasing
1B Dynasty Hotel of Hawaii, Inc.	12/10/1973	1830 Ala Moana Blvd. Honolulu, Hawaii 96815, U.S.A.	119,403	Hotel service
2. CAL-Asia Investment Inc.	06/29/1995	263 Main Street, P.O. Box 2196, Road Town, Tortola, British Virgin Island	522,245	Holding & investing
3. Hwa Hsia Company Ltd. (Note 3)	05/11/1989	No.6, Hangqin South Road, Dayuan District, Taoyuan City	77,270	Aviation ground handling service, cleaning service
4. Freighter Prince Ltd. (Note 2)	09/06/2001	Ugland House, P.O.Box 309, George Town, Grand Cayman, Cayman Islands, British West	-	Aircraft leasing
5. Freighter Princess Ltd. (Note 2)	01/11/2002	Ugland House, P.O.Box 309, George Town, Grand Cayman, Cayman Islands, British West	-	Aircraft leasing
6. Yestrip Co., Ltd.	01/18/2001	10F, No.9,Section 3, Nanjing E Rd., Zhongshan District, Taipei City	16,000	Travel service
7. CAL Park Co., Ltd.	09/06/2006	No.1, Hangzhan S Rd., Dayuan District, Taoyuan City	1,500,000	Real estate leasing, parking lot management
8. CAL Hotel Co., Ltd.	01/03/2007	No.1-1, Hangzhan S Rd., Dayuan District, Taoyuan City	465,000	Hotel business
9. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	01/16/2015	No.15, Hangqin South Road, Dayuan District, Taoyuan City	1,350,000	aircraft maintenance and repair
10. Mandarin Airlines, Ltd.	04/29/1991	No.3, Alley 123, Lane 405, Dunhua North Road, Songshan District, Taipei City	2,001,825	Civil air transport
11. Sabre Travel Network (Taiwan) Ltd.	10/09/1990	No.57, Fuxing North Road, Songshan District, Taipei City	138,618	IT service & GDS
12. Tigerair Taiwan Co., Ltd.	04/21/2014	No.1, Hangzhan S Rd., Dayuan District, Taoyuan City	2,000,000	Civil air transport
13. China Pacific Laundry Services Ltd.	09/08/1997	No.7, Lane 54, Sande Street, Luzhu District, Taoyuan City	250,000	laundry service
14. Taiwan Air Cargo Terminal Ltd.	12/22/1999	No.10-1, Hangqin North Road, Dayuan District, Taoyuan City	2,500,000	Air cargo and storage service
15. Dynasty Holidays, Inc.	10/28/1980	5F, You Ei Ginza Second Building, 9-7, 1Chome, Ginza, Chuo-Ku, Tokyo, Japan	10,591	Travel service
16. China Pacific Catering Services Ltd.	08/19/1994	No.22, Lane 156, Section 2, Haishan Rd., Luzhu District, Taoyuan City	861,000	Catering service
17. Taoyuan International Airport Services Co., Ltd.	11/08/1978	No.15, Hangqin North Road, Dayuan District, Taoyuan City	700,000	Aviation ground handling service
18. Taiwan Airport Service Co., Ltd.	07/19/1966	No.340, Dunhua N Rd., Songshan District, Taipei City	435,600	Aviation ground handling service
18A Taiwan Airport Service (Samoa) Co., Ltd.	03/22/2004	TrustNet Chambers, Lotemau Centre, P. O. Box 1225, Apia, Samoa	219,870	Holding & investing
19. Global Sky Express Ltd.	09/29/1994	No.186, Section 4, Nanjing East Road, Songshan District, Taipei City	10,000	Air freight forwarder

Note 1: Capital was calculated using the exchange rate at the end of 2017: 1TWD=0.0335USD, 3.7769JPY, 0.2182CNY.
Note 2: Freighter Princess Ltd., and Freighter Prince Ltd. ceased operations in February, 2017.
Note 3: Hwa Hsia Company Ltd. was renamed “Dynasty Aerotech International Corp.” in 2018.

C. Overall Description of the Industries in which Affiliated Companies (Including Subsidiaries and Other Invested Companies) Operate

China Airlines' affiliated companies can be divided into seven categories, each of which is highly dependent on the Company's operations, and include airlines, ground services, air transport support, aerospace technology, logistics and warehousing, tourism and leisure, and investment and leasing. The categories are described below:

Classification	Description
Airlines	Mandarin Airlines provides domestic and international passenger and cargo air transport services to further capitalize on our competitive advantage in the cross-strait market. Tigerair Taiwan is tasked with operating in the Asian low-cost carrier market to develop new business opportunities.
Ground Handling Services	Ground services at Taiwan Taoyuan and Taitung Airports are provided by Taoyuan International Airport Services Co., Ltd., while Kaohsiung Airport and all other domestic airports are serviced by Taiwan Airport Service Co., Ltd. Overseas, the Company has invested in Jardine Aviation Services in Hong Kong, which serves as China Airlines' ground handling agent in Hong Kong. Cleaning and repair ground services are provided by Hwa Hsia Company Ltd..
Air Transport Support	The Company has invested in domestic airline reservation system operations and maintenance provider Sabre Travel Network (Taiwan) Ltd. Overseas, the Company invested in Singapore's Everest Company. In-flight catering services are provided for northern Taiwan by China Pacific Catering Services Ltd. and by Kaohsiung Airport Catering Services in the South. China Pacific Laundry Services Ltd. provides laundry services for textiles and clothing used aboard aircraft and general laundry services for the hospitality industry.
Logistics and Warehousing	Domestically, TACT Logistics is responsible for providing warehousing services at Taiwan Taoyuan Airport and Kaohsiung International Airport. In Mainland China, the Company made indirect investments in Xiamen International Airport Co., Ltd and Xiamen International Airport Air Cargo Service Co., Ltd. Logistics services are provided domestically by invested companies Global Sky Express Ltd., Chung Hwa Express Corp., and Science Park Logistics. Overseas, the Company has indirectly invested in Hong Kong's Eastern United International Logistics.
Aerospace Technology	In aerospace technology business in Taiwan, the company invested in Taiwan Aircraft Maintenance and Engineering Ltd., responsible for all aspects of maintenance and repair services for Boeing 777 and 737s and Airbus A320 and A350 models; NORDAM Asia provides thrust reverser and composite material maintenance services in the Asian region, and Hwa Pu Aircraft Engine Technology Company provides maintenance for PW4000 engines and other high-value added items; overseas, the company invests in Xiamen Taiko Landing Gear Co. in Mainland China, providing and maintaining landing gear, and Jinjiang Taiku Shibirui Composite Materials, providing composite material maintenance. In Hong Kong, the company invests in the China Aircraft Service Company, providing aircraft maintenance capacity.
Tourism and Leisure	Domestic investments include Yestrip and CAL Hotel Co., Ltd. Overseas investments include an indirect investment in Dynasty Hotel of Hawaii in the USA and investment in Japan's Dynasty Holidays.
Investment and Leasing Business Group	Established CAL-Dynasty International that makes indirect investments in Chinese and American companies engaged in real estate investments and leasing management. CAL-Asia Investment Inc. and Taiwan Airport Service (Samoa) Co., Ltd. are engaged in general investment holdings. Freighter Prince and Freighter Princess are special purpose entities set up to meet financial structuring needs.

Note: Freighter Princess Ltd., and Freighter Prince Ltd. went out of business in February, 2017.

D. Directors, Supervisors and Presidents of Affiliated Companies

Dec 31, 2017
Units: Shares; %

Company	Title	Name	Shareholding Shares	Shareholding %
1. CAL-Dynasty International, Inc.	Chairman	Ho, Nuan-Hsuan (Note 1)	2,614,500 (USD10, share)	100
	Director	Hsieh, Su-Chien (Note 1)		
	Director (President)	Lee, Hsien-Kuang (Note 1)		
1A Dynasty Properties Co., Ltd.	Chairman (President)	Lee, Hsien-Kuang (Note 2)	5,000 (USD100, share)	100
	Director	Hsieh, Su-Chien; Peng, Pao-Chu (Note 2)		
1B Dynasty Hotel of Hawaii, Inc.	Chairman	Lee, Hsien-Kuang (Note 2)	400,000 (USD10, share)	100
	Director	Peng, Pao-Chu (Note 2)		
	Director (President)	Fang, Yuan-Hua (Note 1)		
2. CAL-Asia Investment Inc.	Chairman	Ho, Nuan-Hsuan (Note 1)	7,172,346 (USD1, share)	100
	Director	Hsieh, Su-Chien (Note 1)		
	Director (President)	Lo, Ya-Mei (Note 1)		
3. Hwa Hsia Company Ltd.(Note 4)	Chairman	Chao, Lin (Note 1)	77,270	100
	Director	Liu, Der-Chuan; Sun, Jia-Min; Ku, Yueh-Han (Note 1)		
	Supervisor	Chen, I-Chieh (Note 1)		
	Director(President)	Lu, Yung-Nan (Note 1)		
4. Freighter Prince (Note 3)	-	-	-	-
5. Freighter Princess (Note 3)	-	-	-	-
6. Yestrip Co., Ltd.	Chairman	Hsieh, Hsin-Ni (Note 1)	1,600,000	100
	Director	Tong, Huai-Ming; Wang, Chen-Min (Note 1)		
	Supervisor	Huang, Hui-Na (Note 1)		
	President	Lo,Chun-Ying (Nominated By China Airlines)		
7. CAL Park Co., Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	150,000,000	100
	Director	Hsieh, Su-Chien; Ku, Yueh-Han (Note 1)		
	Supervisor	Chung, Chuar-Duan (Note 1)		
	Director(President)	Hsieh, Su-Chien (Note 1)		
8. CAL Hotel Co., Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	46,500,000	100
	Director	Hsieh, Su-Chien; Kao, Shing-Hwang; Chang, Chih-Chieh; Lo, Ya-Mei (Note 1)		
	Supervisor	Chung, Chuar-Duan; Chen, I-Chieh (Note 1)		
9. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Chairman	Huang, Chwen-Jiun (Note 1)	16,000,000	100
	Director	Chang, Young; Wang, Houng; Sun, Jia-Min; Lee, Jung-Hui (Note 1)		
	Supervisor	Chung, Chuar-Duan; Ho, Hui-Fen (Note 1)		
	President	Lee, Jung-Hui (Nominated By China Airlines)		
10. Mandarin Airlines, Ltd.	Chairman	Hsieh, Su-Chien (Note 1)	188,154,025	93.99
	Director	Chang, Young; Kao, Shing-Hwang; Wang, Houng; Chang, Chih-Chieh; Lo, Ya-Mei (Note 1)		
	Supervisor	Chen, I-Chieh		
	Director(President)	Tsao, Jyh-Fen (Note 1)		
11. Sabre Travel Network (Taiwan) Ltd.	Chairman	Wu, Wen-Kuo (Note 1)	13,021,042	93.93
	Director	Lu, Shih-Ming; Tong, Huai-Ming; Wang, Chen-Min (Note 1)	609,000	4.39
	Director	Todd Arthur (Represent Sabre Travel Network Asia Pacific)		
	Supervisor	Fang, Juo-Ling		
	President	Chen, Chau-Ling (Nominated By China Airlines)		
12. Tigerair Taiwan Co., Ltd.	Chairman	Chang, Horng-Jong (Note 1)	180,000,000	90
	Director	Chang, Young; Chang, Chih-Chieh; Peng, Pao-Chu; Wang, Chen-Min (Note 1)		
	Supervisor	Tsao, Jyh-Fen (Represent Mandarin Airlines)	20,000,000	10
	Supervisor	Chen, I-Chieh		
	President	Chang, Horng-Jong		
13.China Pacific Laundry Services Ltd.	Chairman	Chiu, Chang-Hsin (Note 1)	13,750,000	55
	Director	Hong, Tsu-Kuang; Liu, Tsao-Yang (Note 1)		
	Director	Chen, Derrick (Represent Hendriz Holding)	3,750,000	15

Company	Title	Name	Shareholding	
			Shares	%
	Director	So, Raymond(Represent Heathlee Int'l)	3,750,000	15
	Supervisor	Wong, Andy (Represent Merton Lake)	3,750,000	15
	Supervisor	Chen, I-Chieh		
	President	Lo, Tao-Wei (Nominated By China Airlines)		
14. Taiwan Air Cargo Terminal Ltd.	Chairman	Chen, Chong-Yi (Note 1)	135,000,000	54
	Deputy Chairman	Charles C. Y. Chen (Represent Eyon Industrial Co.)	6,000,000	2.4
	Director	Chang, Chih-Chieh; Liu, Der-Chuan (Note 1)		
	Director	UPS	20,000,000	8
	Director	Michael Shea (Represent Hsin Feng Corp.)	7,000,000	2.8
	Supervisor	Fang, Juo-Ling		
	Supervisor	Chen, Jyi-Fu (Represent Express Container Terminal Corp.)	15,000,000	6
	President	Chang, Cheng-Hao (Nominated By China Airlines)		
15. Dynasty Holidays, Inc.	Chairman (President)	Chang, Ming-Way (Note 1)	408	51
	Director	Wang, Chen-Min; Tsao, Jyh-Fen (Note 1)		
	Director	Koizumi Kazuhisa; Yamada Keisuke (Represent Koizumi Group)	392	49
	Supervisor	Ho, Hui-Fen (Note 1)		
	Supervisor	Ishihara Tetsu (Represent Koizumi Group)		
16. China Pacific Catering Services Ltd.	Chairman	Yeh, Chu-Lan (Note 1)	43,911,000	51
	Director	Ho, Nuan-Hsuan ; Chiu, Chang-Hsin (Note 1)		
	Director	Wong, Andy; Yau, Algernon (Represent Aldeburgh Limited)	21,045,500	24.5
	Supervisor	Chung, Chuar-Duan		
	Supervisor	Lee, Agatha (Represent Deli Holdings Limited)	21,045,500	24.5
	President	An, Long-Chi (Nominated By China Airlines)		
17. Taoyuan International Airport Services Co., Ltd.	Chairman	Lin, Hsin-Te (Represent Motc)	31,500,000	45
	Director(President)	Huang, Chin-Feng (Note 1)	34,300,000	49
	Director	Hsieh, Su-Chien; Chang, Young; Lo, Ya-Mei; Wang, Houng (Note 1)		
	Director	Chen, Yen-Po; Chang, Chang-Chi; Li, Hung-Sheng; Yang, Shao-Yung(Represent Motc)		
	Director	Pi, Chung-Wei (Represent UPS)	4,200,000	6
	Supervisor	Li, Mi; Li, Shen-Yi		
18. Taiwan Airport Service Co., Ltd.	Chairman	Chang, Young (Note 1)	20,626,644	47.35
	Director(President)	Chung, Ming-Jyh (Note 1)		
	Director	Peng, Pao-Chu (Note 1)		
	Director	Chung, Ting-Chun (Representing juridical person shareholder Rih Hsin Asset Management Company)	9,405,300	21.59
	Director	Chang, Chieh-Tang (Represent Goldsun Building Materials)	7,405,200	17
	Supervisor	Chung, Chuar-Duan		
	Supervisor	Chen, Yao-Ming		
18A Taiwan Airport Service (Samoa) Co., Ltd.	Authorized Signatory	Chang, Young (Represent Taiwan Airport Service Co.)	5,876,976 (USD1, share)	100
19. Global Sky Express Ltd.	Chairman	Li, Chung-Hui	50,000	5
	Director	Liu, Der-Chuan; Tsao, See-Dee; Peng, Pao-Chu (Note 1)	250,000	25
	Director	Pao, Hsueh-Chao	40,000	4
	Director	Huang, Nan-Sheng	50,000	5
	Director	Wei, Ching-Li	20,000	2
	Director	Hsiao, Yu-Hsin	20,000	2
	Director	Chung, Mei-Chih (Represent Leader Mutual Freight System)	20,000	2
	Supervisor	Huang, Hui-Na		
	Supervisor	Yeh, Chien-Tien	10,000	1
	Supervisor	Chiang, Ming-Fang (Represent Morrison Express)	50,000	5
	President	Hsu, Chih-Chiang (Nominated By China Airlines)		

Note 1: Representative of juridical person shareholder China Airlines.
Note 2: Representative of juridical person shareholder CAL-Dynasty International, Inc..
Note 3: Freighter Princess Ltd. and Freighter Prince Ltd. went out of business in February, 2017.
Note 4: Hwa Hsia Company Ltd. was renamed "Dynasty Aerotech International Corp." in 2018.

E. Affiliated Company Business Overview

Dec 31, 2017

Unit: NT$ thousands; EPS=NT$

Company	Capital	Total Assets	Total Liabilities	Total Equity	Operating Revenue	Operating Income (Loss)	Profit(Loss)	EPS (Dollars)
1. CAL-Dynasty International, Inc.	780,448	1,341,285	155,962	1,185,323	339,801	59,085	34,695	13.27
1A Dynasty Properties Co., Ltd.	14,925	706,411	240,614	465,797	99,373	28,830	15,835	3,166.98
1B Dynasty Hotel of Hawaii, Inc.	119,403	487,605	93,752	393,853	240,796	26,992	13,176	32.94
2. CAL-Asia Investment Inc.	214,100	478,933	0	478,933	0	(1,084)	31,191	4.35
3. Hwa Hsia Company Ltd.	77,270	215,194	122,694	92,500	379,982	14,830	11,280	145.98
4. Freighter Prince Ltd.	-	-	-	-	-	-	-	-
5. Freighter Princess Ltd.	-	-	-	-	-	-	-	-
6. Yestrip Co., Ltd.	16,000	69,501	43,597	25,904	41,702	(289)	440	0.27
7. CAL Park Co., Ltd.	1,500,000	4,390,357	2,867,661	1,522,696	326,887	60,191	10,017	0.07
8. CAL Hotel Co., Ltd.	465,000	518,485	82,519	435,966	574,085	47,533	48,590	1.04
9. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	1,350,000	1,234,663	3,115	1,231,548	0	(68,856)	(68,580)	(4.29)
10. Mandarin Airlines, Ltd.	2,001,825	4,398,795	3,085,340	1,313,455	7,897,163	39,360	125,570	0.63
11. Sabre Travel Network (Taiwan) Ltd.	138,618	600,525	120,806	479,719	377,999	218,321	182,046	13.13
12. Tigerair Taiwan Co., Ltd.	2,000,000	4,878,700	3,861,883	1,016,817	6,800,010	512,022	572,953	2.86
13. China Pacific Laundry Services Ltd.	250,000	366,099	54,773	311,326	237,411	50,235	42,461	1.70
14. Taiwan Air Cargo Terminal Ltd.	2,500,000	3,623,230	1,142,768	2,480,462	1,798,333	209,971	190,444	0.76
15. Dynasty Holidays, Inc.	10,591	112,373	61,409	50,964	54,768	(5,984)	(4,725)	(5,906.46)
16. China Pacific Catering Services Ltd.	861,000	2,845,894	1,360,848	1,485,046	2,922,922	563,502	472,248	5.48
17. Taoyuan International Airport Services Co., Ltd.	700,000	2,796,382	1,461,476	1,334,906	3,039,289	284,874	248,207	3.55
18. Taiwan Airport Service Co., Ltd.	435,600	1,144,654	596,693	547,961	943,905	94,975	108,331	2.49
18A Taiwan Airport Service (Samoa) Co., Ltd.	175,432	370,322	0	370,322	0	0	25,143	4.28
19. Global Sky Express Ltd.	10,000	37,083	7,336	29,747	107,402	8,275	6,876	6.88

Note 1: Capital, total assets, total liabilities, total equity were calculating using the exchange rate at the end of 2017.

Note 2: Operating revenue, operating profit, and income for the period were calculated using the 2017 quarterly average exchange rates.

Note 3: Exchange rates at the end of 2017 were 1TWD=0.0335USD, 3.7769JPY, 0.2182CNY.

Note 4: Quarterly average exchange rates in 2017 were as following:

Q1: 1TWD=0.0318USD, 3.6340JPY, 0.2196CNY.

Q2: 1TWD=0.0331USD, 3.6872JPY, 0.2276CNY.

Q3: 1TWD=0.0330USD, 3.6633JPY, 0.2212CNY.

Q4: 1TWD=0.0331USD, 3.7331JPY, 0.2201CNY.

Note 5: Freighter Princess Ltd., and Freighter Prince Ltd. went out of business in February, 2017.

Note 6: Hwa Hsia Company Ltd. was renamed "Dynasty Aerotech International Corp." in 107

(2) Affiliated Company Consolidated Financial Statements: Information required to be disclosed regarding affiliated company consolidated financial statements is included in Appendix 1 Consolidated Financial Statements. The Company will no longer prepare a separate consolidated financial statement for affiliated companies.

(3) Relationship Report: China Airlines is not the subsidiary of any company, so a relationship report is not required.

8.2 Private Placement Securities in the Most Recent Years: None.

8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years:

APR 29, 2018

Units: NT$; shares; %

Company	Capital	Source of Funds	% Stake in Subsidiary	Date of Acquisition or Disposal	Number of Shares and Value of Stocks Acquired	Number of Shares and Value of Stocks Disposed of	Investment Gain/Loss	Number of Shares and Value of Stock Held as of the Printing Date of this Report	Amount of Company Endorsement /Guarantee of Subsidiary
Hwa Hsia Company Ltd. (Note 1)	77,270,000	Equity Fund	100%	-	-	-	-	814,152 shares 8,793,000	-
Mandarin Airlines, Ltd.	2,042,368,000	Equity Fund	93.99%	-	-	-	-	2,074,628 shares 22,406,000	-

Note 1: Hwa Hsia Company Ltd. was renamed "Dynasty Aerotech International Corp." in 2018.

Note 2: No subsidiary has a Company stock pledge nor has the Company lent money to any subsidiary.

8.4 Special Notes: None.

8.5 Situations with Major Impacts on Shareholder Equity or Share Prices:

8.5.1 Change in the chairman of the board, general manager, or one-third or more of the directors of the Company.

A. The Company’s juridical person director China Aviation Development Foundation assigned Mr. Ho, Nuan-Hsuan to serve as its representative on the 20th Board on June 24, 2016. On the same day, the Board approved the appointment of Mr. Ho, Nuan-Hsuan to serve as Chairman. On July 6, 2016, Mr. Hsieh, Su-Chien was assigned to serve as representative on the 20th Board. On July 26, 2016, Mr. Cheng, Chuan-Yi and Chen, Han-Ming were assigned to serve as representatives on the 20th Board. On August 9, 2016, Mr. Jong, Jia-shi was assigned to serve as representative on the 20th Board.

B. "Chunghwa Telecom", the company's juridical person Board member, was discharged on January 19, 2018, with representative Mr. Huang Hsiu-Gu discharged accordingly.

8.5.2 Signing of major memoranda, strategic alliances or other plans for business cooperation or major contracts

A. The company signed a Letter of Intent with France's Airbus on January 10, 2017. With the assistance of Airbus, China Airlines will comprehensively upgrade its Taiwan maintenance, engineering and technical training capacities. Under the agreement, in the future China Airlines and Airbus will strengthen their cooperation on overall maintenance, including all Airbus models under the China Airlines umbrella. They will also jointly assess various technical and business solutions.

B. The company signed a Memorandum of Cooperation with the USA's NORDAM on March 3, 2017 to set up a joint venture in Taiwan. NORDAM's brand will continue to provide engine thrust reversal equipment and maintenance services for composite materials in Asia. Through this bilateral cooperation, China Airlines' own fleet thrust reversal maintenance needs will be satisfied, and the capacity of China Airlines' maintenance facility to service composite materials will improve, thereby spurring the development of the aerospace industry in Taiwan.

8.5.3 Lawsuits, non-contentious matters, administrative actions, administrative disputes, injunctive procedures or compulsory enforcement matters

In 2006, the US Department of Justice began an antitrust investigation of multiple global carriers for fuel surcharges collected between 2000 and 2006. Because of this, some American passengers brought a class action suit in December, 2007 in US District Court for San Francisco, over passenger flight fares and surcharges. The company, being a member of the Association of Asia Pacific Airlines, was listed as a defendant. This matter was disclosed in the company's 2016 financial report.

Since major Asian carriers have recently been settling with the plaintiffs, the company consulted an attorney and, after considering the costs of a lawsuit, settled with the plaintiffs for US$19.50 million. A settlement agreement was signed with the plaintiffs on December 8, 2017, and will be included in the 2017 financial report. Furthermore, the settlement monies will be divided into four installments paid over a three-year period, to reduce the impact on the company's operations. The settlement is based on the consideration of minimizing damage to the company, and does not imply acknowledgement of any willful or negligent damage to the plaintiffs. The company strives to carry out policies that respect anti-trust laws, and in addition to actively training its entire staff, also takes necessary audit measures to ensure the implementation of this policy and guarantee the rights of the company and its employees.

(Appendix 1)

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

CHINA AIRLINES, LTD.

By

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March 22, 2018

INDEPENDENT AUDITORS’ REPORT

The Board of Directors and the Shareholders
China Airlines, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of China Airlines, Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the consolidated financial statements of the Group are stated below:

Deferred Income Tax Assets

Due to suffering tax losses in previous years, the Group was granted loss carryforwards which can be used against taxable income in a certain period. The Group recognized the loss carryforwards as deferred tax assets to the extent that the taxable profit in the future will be available against the loss carryforwards. As of December 31, 2017, the Group recognized tax losses as deferred tax assets, in the amount of NT$821,417 thousand. Refer to Notes 4, 5 and 28 in the accompanying consolidated financial statement for the related detailed information.

The difference between the amount representative of the Group's financial position and its tax base are material to the consolidated financial statements as a whole in the aviation industry. Moreover, deferred tax assets arising from tax losses are dependent on future taxable income and the reversal of existing taxable temporary differences, which involve management's judgment when assessing the realization of tax losses. As there is a significant level of judgment involved in valuing the deferred tax assets, we have deemed this to be a key audit matter.

The following are the main audit procedures for the key audit matter mentioned above:

1. Acquiring the internal financial forecasts and the estimate of future taxable income, and reviewing the rationality of management's assumptions.

2. Acquiring information about the differences between the Group's financial position and its tax base, and assessing the rationality of reconciliations and the realization schedule of temporary differences to verify whether they are consistent with management's financial forecasts.

Impairment Loss of Noncurrent Assets Held for Sale

The board of directors of the Group resolved to dispose of several aircrafts. According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", impairment losses from the disposal of aircrafts were recognized as the differences between the expected transaction value and the carrying amount of the aircrafts, and then the aircrafts were reclassified as noncurrent assets held for sale. As of December 31, 2017, the carrying amount of the aircrafts held for sale was NT$309,330 thousand, and recognized impairment loss in NT$3,571,301 thousand. Refer to Notes 4, 5 and 12 in the accompanying consolidated financial statements for the related detailed information.

Due to the lack of an open trading market for aircrafts, prices for the disposal of aircrafts varies significantly, and the expected transaction value of aircrafts reflecting the carrying amount of noncurrent assets held for sale was difficult to evaluate. Therefore, we identified noncurrent assets held for sale as a key audit matter.

The following were the main audit procedures for the key audit matter mentioned above:

1. Reviewing the rationality of an assessment on the transaction value based on industry-recognized publications, historical selling prices of similar aircraft models, and the suggested price proposed by a broker and observing the subsequent transactions.

2. Discussing the retirement schedule with the accountable department, and reviewing whether the correspondences and the latest quote were consistent with the market value claimed by management.

Acquisition Costs of a New Fleet

In accordance with IAS 16 "Property, Plant and Equipment", acquisition costs of aircrafts should be allocated into several significant components, including airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and should be depreciated over different useful lives. As of December 31, 2017, the carrying amount of flight equipment was NT$126,832,379 thousand. Refer to Notes 4, 5, and 15 in the accompanying consolidated financial statements for the related detailed information.

Since the Group introduced a brand new fleet of A350-900 this year, the allocation base should be adjusted. Moreover, the carrying amount related to the aircrafts and the amount of depreciation expense recognized would be subject to the allocation of acquisition costs and the applied useful life, which were made in accordance with management's judgment. Therefore, we identified the acquisition costs of the new fleet as a key audit matter.

The following were the main audit procedures for the key audit matter mentioned above:

1. Reviewing the certificates issued by the aircraft and engine manufacturers, the suggested operating cost of the aircraft manufacturer, and the historical experience of the maintenance department to assess the rationale used to determine the division amount by management.

2. Conducting an assessment on the rationality of useful life on the basis of fleet performance in the industry, historical experience of fleet operations, and documents that described the basis used by management to determine the useful life of its new fleet.

Other Matter

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chen-Hsin Yang and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2018

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

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated 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' report and consolidated financial statements shall prevail.

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 18 and 31)	$ 22,585,332	10	$ 24,267,197	11
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	306,839	-	416,641	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 31)	293	-	58,449	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 31)	8,604,265	4	8,353,785	4
Notes and accounts - related parties (Notes 31 and 32)	8,359	-	3,562	-
Other receivables (Notes 4 and 31)	714,413	-	952,320	-
Current tax assets (Notes 4 and 28)	32,487	-	28,259	-
Inventories, net (Notes 4 and 11)	8,731,755	4	8,434,386	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	426,553	-	185,100	-
Other assets - current (Notes 6 and 18)	6,001,538	3	4,638,502	2
Total current assets	47,411,834	21	47,338,201	21
NONCURRENT ASSETS				
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 31)	-	-	3,268	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 9 and 31)	84,075	-	140,357	-
Investments accounted for using the equity method (Notes 4 and 14)	2,507,346	1	2,866,431	1
Property, plant and equipment (Notes 4, 5, 15 and 33)	153,617,531	68	140,136,737	62
Investment properties (Notes 4 and 16)	2,075,624	1	2,075,903	1
Other intangible assets (Notes 4 and 17)	1,019,345	1	1,137,115	1
Deferred income tax asset (Notes 4, 5 and 28)	5,519,332	2	6,256,665	3
Other assets - noncurrent (Notes 18, 21, 31, 33 and 34)	13,664,545	6	24,546,082	11
Total noncurrent assets	178,487,798	79	177,162,558	79
TOTAL	$ 225,899,632	100	$ 224,500,759	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 19)	$ 120,000	-	$ 135,000	-
Short-term bills payable (Note 19)	-	-	900,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 31)	8,655	-	-	-
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 31)	82,295	-	20,854	-
Notes and accounts payable (Note 31)	483,884	-	869,712	-
Notes and accounts payable - related parties (Notes 31 and 32)	590,806	-	555,829	-
Other payables (Notes 22 and 31)	13,033,069	6	11,465,254	5
Current tax liabilities (Notes 4 and 28)	28,722	-	48,687	-
Provisions - current (Notes 4, 5 and 24)	475,725	-	81,925	-
Deferred revenue - current (Notes 4, 5 and 23)	16,375,789	7	14,820,860	7
Bonds payable and put option of convertible bonds - current portion (Notes 4, 20, 26 and 31)	4,367,100	2	2,700,000	1
Loans and debts - current portion (Notes 19, 31 and 33)	19,304,674	9	32,268,540	14
Capital lease obligations - current portion (Notes 4, 21, 31 and 33)	1,617,321	1	1,284,001	1
Other current liabilities (Notes 27 and 31)	3,801,073	2	3,455,062	2
Total current liabilities	60,289,113	27	68,605,724	30
NONCURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 31)	926	-	-	-
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 31)	6,994	-	2,775	-
Bonds payable - noncurrent (Notes 4, 20, 26 and 31)	21,050,000	9	19,538,044	9
Loans and debts - noncurrent (Notes 19, 31 and 33)	65,753,503	29	56,962,187	25
Provisions - noncurrent (Notes 4, 5 and 24)	8,013,583	4	7,408,229	3
Deferred tax liabilities (Notes 4 and 28)	190,682	-	273,610	-
Capital lease obligations - noncurrent (Notes 4, 21, 31 and 33)	636,222	-	3,645,304	2
Deferred revenue - noncurrent (Notes 4, 5 and 23)	1,818,265	1	1,808,903	1
Accrued pension costs (Notes 4, 5 and 25)	8,101,565	4	7,956,835	4
Other noncurrent liabilities (Notes 27 and 31)	881,260	-	431,950	-
Total noncurrent liabilities	106,453,000	47	98,027,837	44
Total liabilities	166,742,113	74	166,633,561	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 20 and 26)				
Share capital	54,709,846	24	54,708,901	25
Capital surplus	799,999	-	799,932	-
Retained earnings				
Legal reserve	206,092	-	287,224	-
Special reserve	-	-	76,486	-
Unappropriated retained earnings (accumulated deficit)	1,458,313	1	(157,618)	-
Total retained earnings	1,664,405	1	206,092	-
Other equity	(107,641)	-	112,264	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	57,023,237	25	55,783,817	25
NON-CONTROLLING INTERESTS (Note 26)	2,134,282	1	2,083,381	1
Total equity	59,157,519	26	57,867,198	26
TOTAL	$ 225,899,632	100	$ 224,500,759	100

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earning Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
REVENUE (Notes 4, 27 and 32)	$ 156,121,785	100	$ 141,079,107	100
COSTS (Notes 4, 8, 11, 18, 25, 27 and 32)	134,149,374	86	123,073,201	87
GROSS PROFIT	21,972,411	14	18,005,906	13
OPERATING EXPENSES (Notes 4, 25, 27 and 32)	13,146,251	8	13,441,219	10
OPERATING PROFIT	8,826,160	6	4,564,687	3
NONOPERATING INCOME AND LOSS				
Other income (Notes 4 and 27)	560,399	-	759,139	1
Other gains and losses (Notes 8, 9, 12, 13, 14, 15 and 27)	(5,052,031)	(3)	(2,688,096)	(2)
Finance cost (Notes 8 and 27)	(1,346,801)	(1)	(1,292,865)	(1)
Share of the profit of associates and joint ventures (Note 14)	536,236	-	536,986	-
Total nonoperating income and loss	(5,302,197)	(4)	(2,684,836)	(2)
PRETAX PROFIT	3,523,963	2	1,879,851	1
INCOME TAX EXPENSE (Notes 4, 5 and 28)	1,033,171	-	1,168,911	1
NET INCOME	2,490,792	2	710,940	-
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 25)	(1,021,715)	(1)	(940,795)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4, 14 and 26)	(42,277)	-	(66,815)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	173,691	-	159,935	-
	(890,301)	(1)	(847,675)	-

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earning Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 26)	$ (140,074)	-	$ (112,092)	-
Cash flow hedges (Notes 4 and 26)	(128,280)	-	312,094	-
Share of the other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4, 14 and 26)	60	-	(41)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	45,419	-	(33,955)	-
	(222,875)	-	166,006	-
Other comprehensive loss for the year, net of income tax	(1,113,176)	(1)	(681,669)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,377,616	1	$ 29,271	-
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 2,208,066	2	$ 571,540	-
Non-controlling interests	282,726	-	139,400	-
	$ 2,490,792	2	$ 710,940	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 1,240,677	1	$ 26,103	-
Non-controlling interests	136,939	-	3,168	-
	$ 1,377,616	1	$ 29,271	-
EARNING PER SHARE (NEW TAIWAN DOLLARS; Note 29)				
Basic	$ 0.40		$ 0.10	
Diluted	$ 0.39		$ 0.10	

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Company											
			Retained Earnings			Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016	$ 54,708,901	$ 798,415	$ -	$ -	$ 2,872,235	$ 157,959	$ 1,755	$ (225,997)	$ (43,372)	$ 58,269,896	$ 2,286,647	$ 60,556,543
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)	(4,548)	(8,084)
Appropriation of 2015 the earning												
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-	-	-
Cash dividends - $0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540	139,400	710,940
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)	(136,232)	(681,669)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103	3,168	29,271
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(201,886)	(201,886)
BALANCE AT DECEMBER 31, 2016	54,708,901	799,932	287,224	76,486	(157,618)	78,564	1,714	31,986	(43,372)	55,783,817	2,083,381	57,867,198
Compensation of deficit - capital surplus	-	-	(81,132)	(76,486)	157,618	-	-	-	-	-	-	-
Disposal of capital surplus of investments in associates accounted for using the equity method	-	(64)	-	-	-	-	-	-	-	(64)	-	(64)
Convertible bonds converted to common shares	945	131	-	-	-	-	-	-	-	1,076	-	1,076
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(2,269)	-	-	-	-	(2,269)	(46,118)	(48,387)
Net income for the year ended December 31, 2017	-	-	-	-	2,208,066	-	-	-	-	2,208,066	282,726	2,490,792
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(747,484)	(113,550)	60	(106,415)	-	(967,389)	(145,787)	(1,113,176)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,460,582	(113,550)	60	(106,415)	-	1,240,677	136,939	1,377,616
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(39,920)	(39,920)
BALANCE AT DECEMBER 31, 2017	$ 54,709,846	$ 799,999	$ 206,092	$ -	$ 1,458,313	$ (34,986)	$ 1,774	$ (74,429)	$ (43,372)	$ 57,023,237	$ 2,134,282	$ 59,157,519

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,523,963	$ 1,879,851
Adjustments to reconcile to net cash generated from (used in) operating activities:		
Depreciation expenses	18,340,022	17,545,523
Amortization expenses	259,129	147,486
Bad-debt expense	45,016	83,657
Net loss on fair value change of financial assets and liabilities held for trading	32,039	35,678
Interest income	(210,264)	(242,801)
Dividend income	(9,564)	(59,099)
Share of profit of associates and joint ventures	(536,236)	(536,986)
Gain on disposal of property, plant and equipment	(6,153)	(79,848)
Loss on disposal of financial assets carried at cost	-	346
Gain on disposal of investments accounted for using the equity method	(101,105)	-
(Gain) loss on disposal of noncurrent assets held for sale	(252,467)	26,429
Impairment loss recognized on noncurrent assets held for sale	3,571,301	347,868
Impairment loss recognized on available-for-sale financial assets	-	19,005
Impairment loss recognized on property, plant, equipment	690,579	717,758
Loss on inventories and property, plant and equipment	644,005	207,019
Impairment loss recognized on financial assets carried at cost	56,023	71,826
Net gain on foreign currency exchange	(327,854)	(3,855)
Finance costs	1,346,801	1,292,865
Recognition of provisions	3,201,642	2,613,011
Amortization of unrealized gain on sale-leasebacks	(14,512)	(14,512)
Loss on repurchase of bonds payable	-	41,943
Changes in operating assets and liabilities		
Financial assets held for trading	77,133	91,729
Financial liabilities held for trading	9,580	-
Derivate financial assets for hedging	-	13,096
Notes and accounts receivable	(298,519)	(883,623)
Notes and accounts receivable - related parties	(101,830)	152,611
Other receivables	215,027	(15,595)
Inventories	(616,396)	(358,861)
Other current assets	(1,474,384)	(293,137)
Notes and accounts payable	(464,147)	(281,324)
Notes and accounts payable - related parties	309,729	(233,483)
Other payables	2,239,296	(1,166,447)
Deferred revenue	1,564,292	1,651,689
Provisions	(1,755,029)	(1,393,565)
Other current liabilities	314,740	399,500

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Accrued pension liabilities	$ (876,289)	$ (3,532,023)
Other liabilities	(23,007)	22,045
Cash generated from operations	29,372,561	18,265,776
Interest received	228,247	239,461
Dividends received	443,509	513,203
Interest paid	(1,319,910)	(1,195,427)
Income tax paid	(177,389)	(186,641)
Net cash generated from operating activities	28,547,018	17,636,372
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	-	63
Proceeds of the sale of financial assets carried at cost	-	5,579
Acquisition of associates	(2,450)	-
Proceeds from disposal of noncurrent assets held for sale	1,128,472	384,285
Proceeds from disposal of investments accounted for using the equity method	380,850	-
Payments for property, plant and equipment	(2,535,293)	(2,755,043)
Proceeds from disposal of property, plant and equipment	95,929	519,489
Increase in refundable deposits	(289,911)	(250,177)
Decrease in refundable deposits	245,505	333,973
Increase in prepayments for equipment	(24,756,184)	(24,906,679)
Refunds of prepayments for aircrafts	-	5,693,791
Increase in long-term lease receivable	(716)	-
Increase in computer software costs	(141,448)	(277,235)
Decrease in restricted assets	82,906	230,338
Net cash used in investing activities	(25,792,340)	(21,021,616)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(18,021)	(35,000)
(Decrease) increase in short-term bills payable	(900,000)	890,005
Proceeds from issue of bonds payable	5,850,000	9,700,000
Exercise of put options of bonds payable	-	(994,705)
Repayments of bonds payable	(2,700,000)	(2,400,000)
Proceeds from long-term debts	30,657,300	35,241,000
Repayments of long-term debts and capital lease obligations	(37,506,405)	(35,501,395)
Proceeds of guarantee deposits received	250,062	121,440
Refunds of guarantee deposits received	(214,060)	(94,448)
Dividends paid to owners of the Company	-	(2,508,525)
Cash dividends paid to non-controlling interests	(39,920)	(201,886)
Acquisition of subsidiaries' shares	(48,387)	(8,084)
Net cash (used in) generated from financing activities	(4,669,431)	4,208,402

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	$ 232,888	$ (47,046)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,681,865)	776,112
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	24,267,197	23,491,085
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 22,585,332	$ 24,267,197

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

CHINA AIRLINES, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

China Airlines, Ltd. (the “Company”) was founded in 1959 and its shares have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) the sale of aircraft parts, equipment and entire aircraft; and (f) leasing of aircrafts.

The major shareholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of December 31, 2017 and 2016, CADF and NDF held 43.63% of the Company’s shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statement of the Company and its subsidiaries (collectively the “Group”) were approved by the board of directors and authorized for issue on March 22, 2018.

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

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

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

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Group, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Group has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Group’s respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 32 for related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 "Financial Instruments"

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss using the effective interest method; and

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal. Besides this, unlisted shares carried at cost will be measured at fair value instead;

b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; and

c) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding

IFRS 9 requires impairment loss on financial assets to be recognized using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for trade receivables, contract assets and lease receivables.

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

Impact on Assets and Equity	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
December 31,2017			
Noncurrent assets			
Financial assets at fair value through other comprehensive income	$ -	$ 131,585	$ 131,585
Financial assets carried at cost	84,075	(84,075)	-
Total effect on assets	225,899,632	47,510	225,947,142
Equity			
Unappropriated retained earnings	1,458,313	60	1,458,373
Other equity	(107,641)	47,450	(60,191)
Total effect on equity	59,157,519	47,510	59,205,029

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, the Group recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

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

New IFRSs	Effective Date Announced by IASB (Note)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

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

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described 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 an 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 an asset or liability.

Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within 12 months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as noncurrent.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Foreign Currencies

In preparing the consolidated financial statements of the Group, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Cash Equivalents

Cash equivalents, consisting of commercial paper and time deposits, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sales and are stated at the lower of cost or net realizable value. The costs of inventories sold or consumed are determined using the weighted-average method.

Noncurrent Assets Held for Sale

Noncurrent assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the noncurrent asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Noncurrent assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement and the rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of equity of associates and joint venture attributable to the Group.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the subscription of additional new shares of the associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for more than one period. The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Property, plant and equipment are stated at cost less recognized accumulated depreciation and recognized accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

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.

Investment Properties

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. The estimated useful lives and residual values are reviewed at the end of each reporting period.

Any gain or loss arising on the derecognition of investment properties is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise, corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company uses the estimated cash flows discounted by the future pre-tax discount rate, and the discount rate reflects the current market time value of money and the specific risks to the asset for estimated future cash flows not yet adjusting to the market.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit 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 for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All regular way purchases or sales of financial assets means buy or sell financial assets in the period made by regulation or market convention.

1) Measurement category

Financial assets may be classified into the following specified categories: Financial assets at fair value through profit or loss, held-to maturity investments, available-for-sale financial assets and loans and receivables. The classification of financial assets depends on their nature and the purpose identified at their original recognition. The Group's financial assets consist of the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial assets. Fair value is determined in the manner described in Note 31.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss or other comprehensive income on financial assets.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market, and other receivables are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss and available-for-sale financial assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between such an asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include the following:

a) Significant financial difficulty of the issuer or counterparty;

b) Breach of contract, such as a default or delinquency in interest or principal payments;

c) It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

d) The disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is the residual interest in any contract after all liabilities are deducted from the Group's assets. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except for derivative financial instruments, all the financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The Group derecognizes financial liabilities only when the obligation is discharged, canceled or expired. The difference between the carrying amount of such a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premiums. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and fuel price risks, including foreign exchange forward contracts, interest rate swaps, currency options and fuel swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rates, foreign exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedges. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items which have been hedged, the objective of risk management, the hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period as when the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Group revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

The Group recognizes provisions when the Group has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. 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.

<u>Aircraft lease contracts</u>

When an aircraft lease contracts expires and the leased item will be returned to the lessor, the Group should assess if existing obligations exist and if it is required to recognize a provision when signing the lease contract.

Revenue Recognition

a. Rendering of services

Passenger fares and cargo revenue are recognized when transport service is provided. The value of unused passenger tickets is recognized as "advance tickets - sales".

b. Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

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

a. Financial leases

<u>The Group as lessee</u>

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

b. Sales and leasebacks

For a sale and leaseback transaction, if it meets the condition whereby all the risks and rewards of ownership of the leased asset are essentially transferred to the lessee, the sale and leaseback transaction is classified as a finance lease. If part of the significant risks and rewards of ownership of the leased asset remain with the lessor (i.e. the buyer), the sale and leaseback transaction is classified as an operating lease.

1) Financial leases

This transaction does not actually dispose of the assets. The accounting treatment used treats the transaction as if it did not occur, and the assets are continuously recognized at the book value of the asset before sale.

2) Operating leases

If the selling price is equal to the fair value, the transaction gain or loss should be recognized immediately. If the selling price is above fair value, the difference between the fair value and the book value of the gain or loss should be recognized immediately; only the part of the selling price which is above fair value shall be deferred and amortized over the period of the lease.

c. Operating leases

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

In the event that lease incentives are received when entering into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit in the Group's defined benefit plans.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Programs

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member rewards and operates a "Tigerclub Member Privilege Program" to provide members with accumulated ticket reward bonuses, which could be used to offset the payments for airfare, luggage fees, priority check-ins, and ordering of meals in flight cabins. A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company should recognize this deferred revenue as revenue only when it has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the granted share options vest immediately.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

a. Current tax

The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the consolidated statements of comprehensive income.

The Group's current tax liabilities are calculated by the tax rate was legislated or substantially legislated at the balance sheet date.

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. 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 unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profit will be available to allow all or part of the assets 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 profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of an owned or leased aircraft that meet the criteria for fixed asset capitalization and engines as replacement parts for aircraft and engines are capitalized and amortized over the expected annual overhaul cycle using the straight-line depreciation method.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies shown on Note 4, 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

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 are discussed below.

Income Taxes

The Group is subject to income taxes in numerous jurisdictions. Where the final tax payable differs from the amounts that were initially recognized, these differences will affect the income tax and deferred tax provisions in the period in which the differences are determined. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be used. When evaluating the realizability of a deferred tax asset, management uses significant accounting judgments and estimates, including expected future revenue growth and profit margins, income tax exemption periods, the use of tax credits, tax planning and certain assumptions. Changes in the industry environment and regulations will result in a material adjustment of the deferred tax asset.

Estimated Impairment of Trade Receivables

The Group assesses the receivables portfolio monthly for impairment. Impairment evidence may include observable changes in debtors' solvency and national or local economic conditions that correlate with defaults on receivables settlement. Management's analysis of expected cash flows is based on past experience of loss on assets with similar credit risk characteristics. The Group periodically reviews the methods of determining, and assumptions on, the expected amount and timing of cash flows to reduce the difference between the estimated and the actual losses.

Fair Value of Derivatives and Other Financial Instruments

The Group's management uses its judgment in selecting an appropriate valuation technique for financial instruments with no quoted market prices in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instruments. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices, interest rates or oil prices (if applicable). The chosen valuation techniques and assumptions used may affect the fair value of financial instruments.

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment is depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Group on the basis of past experience and fleet operation performance in the industry. Due to changes in the fleet plan, the board of directors of the Company has decided to change the expected useful lives of four 747-400 (GE) from 20 to 16-17 years since January 1, 2018 in order to meet the economic benefits and number of years of consumption. It is estimated that the depreciation expense will increase by approximately NT$770 million annually.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period are calculated using actuarial assumptions. Those assumptions, which are based on management's judgment and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

Maintenance Reserve for Operating Lease Aircrafts

Maintenance reserve is based on the requirement under lease contracts to reflect maintenance costs that may arise on lease expirations. Estimation of this reserve is based on the past maintenance experience with the same or similar type of aircraft; incurred overhaul costs; and historical operating performance data. Changes in judgment or estimations may have a material impact on the amount of maintenance reserve.

Frequent Flyer Programs

As stated in Note 4, "Frequent Flyer Programs", a portion of passenger revenue attributable to the awarding of frequent flyer benefits is deferred until the awards are given out. The deferment of the revenue is estimated on the basis of historical trends of breakage and redemption, which is then used to project the expected claiming of these benefits. Changes in fair value per mileage or the redemption rate may have a material impact on deferred revenue.

Impairment of Flight Equipment

The impairment of flight equipment was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to the recognition of additional or reversal of impairment losses.

Impairment of Noncurrent Assets Held for Sale

When the carrying amount of noncurrent assets held for sale is lower than fair value, the difference between the carrying amount and fair value is recognized as impairment loss, and the fair value was determined based on the quote of potential buyers, the market price of similar assets, etc.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	**2016**
Cash on hand and revolving funds	$ 374,445	$ 359,106
Checking accounts and demand deposits	11,427,766	9,266,679
Cash equivalents		
Time deposits with original maturities of less than three months	4,812,734	3,698,109
Repurchase agreements collateralized by bonds	5,970,387	10,943,303
	$ 22,585,332	$ 24,267,197

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

	December 31	
	2017	**2016**
Bank balance	0%-2%	0.05%-2%
Time deposits with original maturities of less than three months	0.59%-4.2%	0.13%-12.9%
Repurchase agreements collateralized by bonds	0.36%-2.2%	0.33%-1.40%

The amount of time deposits with original maturities more than three months for the years ended December 31, 2017 and 2016 were $1,323,095 thousand and $1,267,927 thousand, respectively, and the market rate intervals were 0.16%-1.42% and 0.16%-2.45%, which were recognized as other current assets. (Refer to Note 18.)

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

	December 31	
	2017	**2016**
Financial assets held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ -	$ 1,200
Non-derivative financial assets		
Beneficial certificates	306,839	415,441
	$ 306,839	$ 416,641
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
Current	$ 8,655	$ -
Noncurrent	926	-
	$ 9,581	$ -

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.31-2019.01.31	NTD194,030/USD6,500
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.26	NTD32,258/USD1,000

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2017	2016
Derivative financial assets under hedge accounting		
Foreign exchange forward contracts	$ 293	$ 61,634
Fuel options	-	83
	$ 293	$ 61,717
Current	$ 293	$ 58,449
Noncurrent	-	3,268
	$ 293	$ 61,717
Derivative financial liabilities under hedge accounting		
Interest rate swaps	$ -	$ 3,855
Foreign exchange forwards contracts	89,289	19,774
	$ 89,289	$ 23,629
Current	$ 82,295	$ 20,854
Noncurrent	6,994	2,775
	$ 89,289	$ 23,629

The fair value of each derivative contract is determined using quotes from financial institutions.

Cash Flow Hedges

a. Interest rate swaps

The Group entered into interest rate swap contracts to mitigate the risk of changes in interest rates on the cash flow exposure related to the outstanding floating rate debt. All swapped fixed interest rate swap out the floating rate interest rate swap contracts are designated as cash flow hedges. The outstanding interest rate swap contracts at the end of the reporting period were as follows:

Notional Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2016			
NT$2,500,000	2017.03.09-2017.06.22	1.01%-1.14%	TAIBOR rate

The interest rate swaps settle on a quarterly basis. The Company will settle the difference between the fixed and floating interest rates on a net basis.

b. Fuel options

The Group used fuel options to minimize the risk of changes in fuel price related to operating cost.

The outstanding fuel options at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2016			
Buy fuel call options	USD	2017.01.05-2017.02.08	NTD83

Based on the Taiwan Stock Exchange's regulation for the public companies' monthly declarations on the trading of derivative financial instruments, the contractual amounts are shown at the absolute values of the fair values because fuel swap contracts only have notional amounts.

c. Foreign exchange forward contracts

The Group entered into foreign exchange forward contracts to minimize cash flow exposure related to fuel payments and aircraft payments, which will be paid in U.S. dollars.

The outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.05-2019.06.21	NTD7,105,942/USD236,924
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.03-2018.10.25	NTD5,381,178/USD167,078

Gains and losses of hedging instruments reclassified from equity to profit or loss were included in the following line items in the consolidated statements of comprehensive income:

	For the Year Ended December 31	
	2017	2016
Increase in operating costs	$ (52,034)	$ (352,960)
Increase in finance costs	(2,814)	(10,390)
Other foreign exchange losses	(21,773)	(71,460)
	$ (76,621)	$ (434,810)

The amount of gains and losses on hedging instruments reclassified from profit or loss to prepayments for equipment were $100,367 thousand and $154,970 thousand in 2017 and 2016, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2017		2016	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Unlisted common shares				
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 52,704	14
Jardine Aviation Service	-	15	56,023	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	3	-	6
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	19,898	5	20,157	5
Chung Hwa Express Co.	11,000	11	11,000	11
	83,602		139,884	
Unlisted preference shares				
Everest Investment Holdings Ltd. (AH)	473		473	-
	$ 84,075		$ 140,357	
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 84,075		$ 140,357	

The Group recognized an impairment loss of $71,826 thousand in July 2016, because the value of Taikoo (Xiamen) Landing Gear Service Co., Ltd. permanently declined. Due to the permanent decrease in the value of Jardine Aviation Service held by the Group, the Group recognized an impairment loss of $56,023 thousand in June 2017, which was classified as other gains and losses.

On the reporting date, the above unlisted share investments held by the Group were measured at cost after deducting impairment losses because their range of reasonable fair value estimates were significant and unable to be reasonably evaluated. Thus, the management considered their fair values unable to be measured.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2017	2016
Notes receivable	$ 362,855	$ 525,797
Accounts receivable		
Accounts receivable	8,423,278	8,019,386
Less: Allowance for impairment loss	(181,868)	(191,398)
	8,241,410	7,827,988
	$ 8,604,265	$ 8,353,785

The average credit period was 7 to 55 days. In determining the recoverability of an account receivable, the Group considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period, and any allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Group's past default experience with the counterparty and an analysis of the counterparty's current financial position.

Movement in the allowance for impairment loss recognized on notes receivable and accounts receivable were as follow:

	For the Year Ended December 31	
	2017	2016
Beginning balance	$ 191,398	$ 109,927
Impairment loss recognized on receivables	45,016	83,657
Amounts written off during current period	(54,570)	(2,462)
Effects of exchange rate changes	24	276
Ending balance	$ 181,868	$ 191,398

11. INVENTORIES

	December 31	
	2017	2016
Aircraft spare parts	$ 8,082,993	$ 7,713,264
Items for in-flight sale	576,429	553,327
Work in process - maintenance services	71,046	166,684
Others	1,287	1,111
	$ 8,731,755	$ 8,434,386

The operating costs recognized for the years ended December 31, 2017 and 2016 included losses from inventory write-downs of $324,447 thousand and $196,000 thousand, respectively.

12. NONCURRENT ASSETS HELD FOR SALE

	December 31 2017	December 31 2016
Aircrafts held for sale	$ 309,330	$ 185,100
Long-term equity investments held for sale - Asian Compressor Technology Services	117,223	-
	$ 426,553	$ 185,100

To enhance its competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts according to a planned schedule. Such aircrafts, classified as noncurrent assets held for sale, had an original book value which was higher than the expected sale price and which was recognized as an impairment loss. However, the actual loss shall be identified by the actual sale price.

In 2017 and 2016, the Company recognized impairment losses of $3,571,301 thousand and $347,868 thousand, respectively. In 2017 and 2016, the Company recognized disposal gains and losses of $252,467 thousand and $(26,429) thousand, respectively. The fair value was determined by transactions of the related market, and the proposed sale price was based on the current status of the aircrafts. The fair value is classified as level 3.

Long-term equity investments in Asian Compressor Technology Services were reclassified to noncurrent assets held for sale. For related information, refer to Note 14,a.

13. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%) December 31 2017	Proportion of Ownership (%) December 31 2016
China Airlines, Ltd.	Cal-Dynasty International	A holding company, real estate and hotel services	100	100
	Cal-Asia Investment	General investment	100	100
	Hwa Hsia	Cleaning of aircraft and maintenance of machine and equipment	100	100
	Yestrip	Travel business	100	100
	Cal Park	Real estate lease and international trade	100	100
	Cal Hotel Co., Ltd.	Hotel business	100	100
	Sabre Travel Network (Taiwan)	Sale and maintenance of hardware and software	94	94
	Mandarin Airlines	Air transportation and maintenance of aircraft	94	94
	Taiwan Air Cargo Terminal (Note)	Air cargo and storage	59	59
	Dynasty Holidays	Travel business	51	51
	Taoyuan International Airport Services	Airport services	49	49
	Taiwan Airport Services (Note)	Airport services	48	48
	Global Sky Express	Forwarding and storage of air cargo	25	25
	Freighter Princess Ltd.	Aircraft lease	-	100
	Freighter Prince Ltd.	Aircraft lease	-	100
	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	100	90
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100
Cal-Dynasty International	Dynasty Properties Co., Ltd.	Real estate management	100	100
	Dynasty Hotel of Hawaii, Inc.	Hotel business	100	100
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Airport supporting service and investment	100	100

Note: Proportion of ownership is considered from the perspective of the Group.

To facilitate the integration of resources and business management of the Group, on August 1, 2016, Hwa Hsia Co., Ltd. merged with Hwa Shin Building Safeguard Co., Ltd. (the dissolved company) and was the surviving entity. All of the assets, liabilities and other rights and obligations were transferred to Hwa Hsia Co., Ltd.

Considering the Group's development strategy, Mandarin Airlines bought 323,367 shares of Taiwan Airport Services for a total of $8,084 thousand over the course of the current year.

The Company increased its investments with a payment of $490,000 thousand, $700,000 thousand and $100,000 thousand to Taiwan Aircraft Maintenance and Engineering Co., Ltd. for the purpose of building hangars in April 2017, November 2017 and October 2016, respectively.

The Group liquidated Freighter Princess Ltd. and Freighter Prince Ltd., because the lease contracts related to these subsidiaries expired, and a disposal loss of $61 thousand was recognized.

To integrate the resources of the Group, the board of directors reached an agreement to purchase 10% of the shares of Tigerair Taiwan, which were held by Roar Aviation III Pte. Ltd., in December 2016. The transaction was completed in January 2017.

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries. The financial information for the years ended December 31, 2017 and 2016 of these subsidiaries was reported according to information that was independently audited.

The Group's holding of the issued share capital of China Pacific Catering Services and China Pacific Laundry Services exceeded 50%, yet the Group did not have control over the investees. For related information, refer to Note 14,b.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31 2017	December 31 2016
Investments in associates	$ 1,576,753	$ 2,060,403
Investments in jointly controlled entities	930,593	806,028
	$ 2,507,346	$ 2,866,431

a. The amount of investment in associates were as follows:

	December 31	
	2017	2016
Unlisted companies		
China Aircraft Services	$ 493,077	$ 515,051
Kaohsiung Catering Services	300,400	267,371
Asian Compressor Technology Services	-	279,176
Science Park Logistics	-	257,928
Airport Air Cargo Terminal (Xiamen)	483,814	467,041
Airport Air Cargo Service (Xiamen)	256,291	230,888
Eastern United International Logistics (Holdings) Ltd.	43,171	42,948
	$ 1,576,753	$ 2,060,403

At the end of the reporting period, the proportion of ownership and voting rights of associates held by the Group were as follows:

	Proportion of Ownership and Voting Rights December 31	
Name of Associate	2017	2016
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	-	25%
Science Park Logistics	-	26%
Airport air Cargo Terminal (Xiamen)	28%	28%
Airport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

The investment income of associates recognized accounted for using the equity method were as follows:

	2017	2016
China Aircraft Services	$ 24,470	$ 51,028
Kaohsiung Catering Services	86,757	75,674
Asian Compressor Technology Services	88,943	109,815
Science Park Logistics	21,819	26,136
Airport air Cargo Terminal (Xiamen)	22,381	14,307
Airport air Cargo Service (Xiamen)	27,886	24,742
Eastern United International Logistics (Holdings) Ltd.	4,806	5,617
	$ 277,062	$ 307,319

Other comprehensive income of associates accounted for using the equity method in 2017 and 2016 are losses in the amounts of $(740) thousands and $(1,325) thousand, respectively.

In August 2017, the Group sold all of its holdings of Science Park Logistics to a non-related party, HCT Logistics Co., Ltd. The agreed upon price was $380,850 thousand, and a disposal gain of $101,166 thousand was recognized.

In October 2017, the Group signed a contract with a non-related party, MB Aerospace, to sell all of its holdings of Asian Compressor Technology Services and reclassified it as noncurrent assets held for sale at book value. The transaction was completed and all payments were settled in January 2018.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were all independently audited, except those of China Aircraft Services and Eastern United International Logistics (Holding) Ltd. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

b. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2017	2016
China Pacific Catering Services	$ 756,965	$ 638,980
China Pacific Laundry Services	171,229	167,048
NORDAM Asia Ltd.	2,399	-
	$ 930,593	$ 806,028

At the end of the reporting period, the proportion of ownership and voting rights in jointly controlled entities held by the Group were as follows:

	Proportion of Ownership and Voting Rights December 31	
	2017	2016
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia Ltd.	49%	-

The Group entered into a joint venture agreement with the Taikoo Group to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the majority power in the board of directors to pose a motion for veto, and therefore the Group does not have control.

To enhance the Group's maintenance capabilities, the Company established a joint venture with the US Nordam Aerospace Group in December 2017 to provide thrust reversers and composite repair services in Asia under the Nordam brand.

Details of investment income attributable to investment in jointly controlled entitles were as follows:

	For the Year Ended December 31	
	2017	2016
China Pacific Catering Services	$ 235,871	$ 208,039
China Pacific Laundry Services	23,354	21,628
NORDAM Asia Ltd.	(51)	-
	$ 259,174	$ 229,667

Other comprehensive income of associates accounted for using the equity method in 2017 and 2016 are losses in the amounts of $(41,477) thousand and $(65,531) thousand, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were all independently audited, except of NORDAM Asia Limited. However, the management determined that there would have been no significant adjustments had this investee's financial statements been independently audited.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 6, "Names, Locations, And Other Information Of Investees Over Which The Company Exercises Significant Influence", and Table 7, "Investments In Mainland China", following these Notes to Consolidated Financial Statements.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2016	$ 976,427	$ 13,140,158	$ 229,849,035	$ 28,087,404	$ 15,167,890	$ 287,220,914
Additions	-	93,660	1,827,641	2,987	858,094	2,782,382
Disposals	-	(110,227)	(6,339,141)	(410,271)	(293,592)	(7,153,231)
Reclassification	-	406	22,924,544	1,218,771	252,436	24,396,157
Net exchange difference	(11,253)	(19,014)	-	-	(3,028)	(33,295)
Balance at December 31, 2016	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ (5,355,804)	$ (128,953,990)	$ (14,201,904)	$ (9,080,350)	$ (157,592,048)
Depreciation expense	-	(508,403)	(14,209,081)	(2,061,900)	(765,860)	(17,545,244)
Disposals	-	74,349	5,612,149	410,271	288,884	6,385,653
Impairment loss	-	-	(717,758)	-	-	(717,758)
Reclassification	-	-	2,375,572	6,690	631	2,382,893
Net exchange difference	-	8,303	-	155	1,856	10,314
Balance at December 31, 2016	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)
Cost						
Balance at January 1, 2017	$ 965,174	$ 13,104,983	$ 248,262,079	$ 28,898,891	$ 15,981,800	$ 307,212,927
Additions	-	674,719	1,022,602	1,607	821,218	2,520,146
Disposals	-	(5,942)	(4,550,399)	(479,936)	(825,699)	(5,861,976)
Reclassification	-	-	18,692,862	(2,232,883)	260,432	16,720,411
Net exchange difference	(42,548)	(75,452)	-	(123)	(7,740)	(125,863)
Balance at December 31, 2017	$ 922,626	$ 13,698,308	$ 263,427,144	$ 26,187,556	$ 16,230,011	$ 320,465,645
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ (5,781,555)	$ (135,893,108)	$ (15,846,688)	$ (9,554,839)	$ (167,076,190)
Depreciation expense	-	(393,458)	(15,178,386)	(1,919,407)	(848,492)	(18,339,743)
Disposals	-	3,926	4,022,977	619,775	415,421	5,062,099
Impairment loss	-	-	(690,579)	-	-	(690,579)
Reclassification	-	-	11,144,331	3,003,549	8,271	14,156,151
Net exchange difference	-	33,592	-	(101)	6,657	40,148
Balance at December 31, 2017	$ -	$ (6,137,495)	$ (136,594,765)	$ (14,142,872)	$ (9,972,982)	$ (166,848,114)

Property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

Building	
Main buildings	45-55 years
Others	10-25 years
Machinery equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Assets leased to others	3-5 years
Flying equipment and equipment under finance leases	
Airframes	15-25 years
Aircraft cabins	7-20 years
Engines	10-20 years
Heavy maintenance on aircrafts	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	7-12 years
Repairable spare parts	3-15 years
Leased aircraft improvements	5-12 years

Regarding changes in fleet composition, current and forecasted market value, and other technical factors, the Group recognized impairment losses on aircraft equipment in 2017 and 2016 of $690,579 thousand and $717,758 thousand, respectively.

Refer to Note 33 for the carrying amounts of property, plant and equipment pledged by the Group.

Based on the particularity of risk in the aviation industry, all of the Group's assets such as aircrafts, real estate, and movable property are adequately insured to diversify the potential risk related to operations.

The Group generated the following non-cash investment activities related to the purchase of property, plant and equipment in 2017:

	December 31, 2017
Increase in property, plant and equipment	$ 2,520,146
Decrease in retentions payable on construction contracts	18,895
Capitalized interest paid	(3,748)
Purchase of property, plant and equipment paid	$ 2,535,293

16. INVESTMENT PROPERTIES

	December 31	
	2017	2016
Carrying amount		
Investment properties	$ 2,075,624	$ 2,075,903

The investment properties held by the Group were land located in Nankan and buildings in Taipei, which were all leased to others. The buildings were depreciated on a straight-line basis over 55 years.

The fair value of the investment properties held by the Group were $2,506,230 thousand and $2,348,759 thousand as of both December 31, 2017 and 2016, respectively. The fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

All of the Group's investment properties were held under freehold interest.

	Cost	Accumulated	Net Value
Balance on January 1, 2016	$ 2,082,390	$ (6,208)	$ 2,076,182
Depreciation expense	-	(279)	(279)
Balance on December 31, 2016	$ 2,082,390	$ (6,487)	$ 2,075,903
Balance on January 1, 2017	$ 2,082,390	$ (6,487)	$ 2,075,903
Depreciation expense	-	(279)	(279)
Balance on December 31, 2017	$ 2,082,390	$ (6,766)	$ 2,075,624

17. OTHER INTANGIBLE ASSETS

	Computer Software Costs	Accumulated Amortization	Net Value
Balance at January 1, 2016	$ 1,623,186	$ (613,508)	$ 1,009,678
Additions	277,235	-	277,235
Amortization expense	-	(147,486)	(147,486)
Reclassification	(2,267)	-	(2,267)
Exchange influence	-	(45)	(45)
Balance at December 31, 2016	$ 1,898,154	$ (761,039)	$ 1,137,115
Balance at January 1, 2017	$ 1,898,154	$ (761,039)	$ 1,137,115
Additions	141,448	-	141,448
Amortization expense	-	(259,129)	(259,129)
Exchange influence	-	(89)	(89)
Balance at December 31, 2017	$ 2,039,602	$ (1,020,257)	$ 1,019,345

The above other intangible assets were depreciated on a straight-line basis over 2-12 years.

18. OTHER ASSETS

	December 31	
	2017	2016
Current		
Other financial assets	$ 1,806,413	$ 1,267,927
Temporary payments	464,258	355,003
Prepayments	2,834,936	2,429,741
Restricted assets	-	178,193
Others	895,931	407,638
	$ 6,001,538	$ 4,638,502
Noncurrent		
Prepayments for aircrafts	$ 10,942,604	$ 21,845,682
Prepayments - long-term	1,164,604	1,116,985
Refundable deposits	1,377,136	1,389,464
Restricted assets	161,398	144,835
Other financial assets	18,803	18,827
Others	-	30,289
	$ 13,664,545	$ 24,546,082

The prepayments for aircrafts comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and ATR72-600 aircrafts. For details of the contract for the purchase of the A350-900 and ART72-600 aircrafts, refer to Note 34. The rights to the six confirmed orders of 777-300 ER aircrafts were transferred to the aircraft leasing company upon delivery of the aircrafts. Then, all six aircrafts were leased back. As of May 2016, all the aircrafts had been delivered, and the Group was refunded with deposits for the aircraft purchases.

The Group designated its time deposits with original maturities of more than three months which were classified as other financial instruments as cash flow hedges to hedge exchange rate exposure from the expenditure of aircraft rentals. As of December 31, 2016, the book value of the hedging instruments was $455,037 thousand. The losses on the effective portion of the cash flow hedges reclassified from equity for 2016 were $2,884 thousand, which were classified as operating costs in the statement of comprehensive income.

19. BORROWINGS

a. Short-term loans

	December 31	
	2017	2016
Bank loans - unsecured	$ 120,000	$ 135,000
Interest rates	1.04%-1.15%	1.51%-2%

b. Short-term and bills payable

	December 31	
	2017	2016
Commercial paper	$ -	$ 900,000
Less: Unamortized discount on bills payable	-	-
	$ -	$ 900,000
Annual discount rate	-	0.758%

c. Long-term debts

	December 31	
	2017	2016
Unsecured bank loans	$ 26,820,000	$ 33,993,999
Secured bank loans	32,176,074	18,100,914
Commercial paper		
Proceeds from issue	26,100,000	37,200,000
Less: Unamortized discount	37,897	64,186
	85,058,177	89,230,727
Less: Current portion	19,304,674	32,268,540
	$ 65,753,503	$ 56,962,187

For information on secured bank loans which were secured by freehold land, buildings, machinery equipment and flight equipment, refer to Note 33.

Bank loans (New Taiwan dollars and U.S. dollars) are repayable quarterly, semiannually or in lump sum upon maturity. Related information is summarized as follows:

	Currency	
	New Taiwan Dollars	U.S. Dollars
Original currency		
December 31, 2017	$ 58,996,074	$ -
December 31, 2016	51,045,365	32,536
Translated to New Taiwan dollars		
December 31, 2017	58,996,074	-
December 31, 2016	51,045,365	1,049,548
Interest rates		
December 31, 2017	0.92%-1.72%	-
December 31, 2016	0.92%-2.27%	0.8539%-4.39%

(Continued)

	Currency	
	New Taiwan Dollars	U.S. Dollars
Periods		
December 31, 2017	2007/5/24-2029/11/9	-
December 31, 2016	2005/3/4-2029/2/4	2005/1/18-2017/9/21

(Concluded)

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until December 2021, were used by the Group to guarantee commercial papers issued. As of December 31, 2017 and 2016, the commercial papers were issued at discount rates of 0.9983%-1.2897% and 1.0510%-1.4580%, respectively.

20. BONDS PAYABLE

	December 31	
	2017	2016
Unsecured corporate bonds first-time issued in 2013	$ 8,200,000	$ 10,900,000
Unsecured corporate bonds first-time issued in 2016	4,700,000	4,700,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	-
Unsecured corporate bonds second-time issued in 2017	3,500,000	-
Convertible bonds - fifth time	1,667,100	1,638,044
	25,417,100	22,238,044
Less: Current portion and put option of convertible bonds	4,367,100	2,700,000
	$ 21,050,000	$ 19,538,044

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19

(Continued)

Category	Period	Conditions	Rate (%)
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in September of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.5.19-2020.5.19	Principal repayable on due date; indicator rate; payable annually	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to share capital or buying back, principal repayable in December of 2018	-

(Concluded)

The Company issued its 2016 first unsecured corporate bonds with a face value of $5,000,000 thousand, and the purchasers of the bonds included Mandarin Airlines Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd., who held a face value of $300,000 thousand which was eliminated from the consolidated financial statements.

The Company issued the fifth issue of unsecured convertible bonds, and the issuance conditions were as follows:

a. The holders may demand a lump-sum payment for the bonds upon maturity.

b. The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" in December 2015. The Company paid $994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy back of $41,943 thousand, for which the Company reclassified the remaining face value to noncurrent assets.

c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.

d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT$12.24, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 31, 2016, there was adjustment the conversion price to NT$11.64, corporate bonds with a face value of $3,316,800 thousand had been converted to 270,985 thousand units of common shares.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - options. The effective interest rate of the liability component was 1.8245% per annum on initial recognition.

Proceeds from issuance	$ 6,000,000
Equity component	(518,621)
Liability component at the date of issuance	$ 5,481,379

On November 5, 2017, the Company's board of directors resolved to issue its 2018 second, five-year unsecured convertible bonds for $6,012,000 thousand, at a coupon rate of 100.2% and a conversion price set at NT$13.2, on January 30, 2018.

21. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2017	2016
Minimum lease payments -flight equipment		
Within one year	$ 1,580,000	$ 1,254,000
Later than one year and no later than five years	596,000	3,562,000
Present value of minimum lease payments	$ 2,176,000	$ 4,816,000
Interest rates	1.0617%-1.1317%	1.0323%-1.0980%

As of December 31, 2017, the Company leased engines and a total of three A330-300 aircrafts by sale-leaseback contracts under finance leases. The lease terms are from June 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to the aircrafts and engines and enjoyed the same substantive rights as were enjoyed prior to the transactions. Interest rate underlying all obligation under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Finance leases

Taiwan Air Cargo Terminal Co. (TACT) entered into a terminal construction contract. Refer to Note 34 for the terms of the contract. Dynasty Holiday Co., Ltd. signed a long-term equipment lease contract, and the lease contract is a finance lease contract.

	December 31	
	2017	2016
Minimum lease payments - cargo terminal and other		
Within one year	$ 37,484	$ 30,131
Beyond one year and within five years	40,851	85,244
	78,335	115,375
Less: Financial cost	(792)	(2,070)
Present value of minimum lease payments	$ 77,543	$ 113,305
Present value of minimum lease payments - cargo terminal and other		
Within one year	$ 37,321	$ 30,001
Beyond one year and within five years	40,222	83,304
	$ 77,543	$ 113,305
Discount rate	4.756%	4.756%
Total amount of present value of minimum lease payments		
Current	$ 1,617,321	$ 1,284,001
Noncurrent	636,222	3,645,304
	$ 2,253,543	$ 4,929,305

c. Operating lease arrangements (include sale-leaseback-operating leases)

China Airlines, Ltd., Mandarin Airlines, Tigerair Taiwan and Taiwan Air Cargo Terminal rented planes, hangars and etc. under various operating lease contracts expiring on various dates until May 2028. The Group does not have a bargain purchase option to acquire the leased planes and hangar at the expiration of the lease periods.

The rental rates stated in the aircraft lease agreements some are fixed and some are floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually, subleasing is not allowed for all the lease arrangements. As of December 31, 2017, the Group has rented eleven A330-300 planes, fifteen B737-800 planes, ten 777-300ER planes, six ERJ 190 planes, three ATR72-600 and ten A320-200 planes under operating contracts which the lease terms range from 6 to 12 years, with an extension option.

As of December 31, 2017 and 2016, the refundable deposits paid by the Group under operating lease contracts were $807,629 thousand and $982,988 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31, 2017 and 2016 were $1,394,791 thousand and $1,459,935 thousand, respectively.

The future minimum lease payments for the non-cancelable operating lease commitments were as follows:

	December 31	
	2017	2016
Up to 1 year	$ 11,499,501	$ 10,431,969
Over 1 year to 5 years	43,175,899	39,692,972
Over 5 years	29,762,766	33,360,179
	$ 84,438,166	$ 83,485,120

The lease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2017	2016
Minimum lease payments	$ 10,432,620	$ 10,723,726

22. OTHER PAYABLES

	December 31	
	2017	2016
Fuel costs	$ 3,484,288	$ 2,664,944
Ground service expenses	1,187,329	902,879
Repair expenses	926,686	968,371
Interest expense	290,902	294,751
Short-term employee benefits	2,550,551	1,926,538
Terminal surcharges	876,108	748,070
Commission expenses	407,109	391,857
Others	3,310,096	3,567,844
	$ 13,033,069	$ 11,465,254

23. DEFERRED REVENUE

	December 31	
	2017	2016
Frequent flyer programs	$ 2,450,877	$ 2,427,565
Advance ticket sales	15,743,177	14,202,198
	$ 18,194,054	$ 16,629,763
Current	$ 16,375,789	$ 14,820,860
Noncurrent	1,818,265	1,808,903
	$ 18,194,054	$ 16,629,763

24. PROVISIONS

	December 31	
	2017	2016
Operating leases - aircrafts	$ 8,489,308	$ 7,490,154
Current	$ 475,725	$ 81,925
Noncurrent	8,013,583	7,408,229
	$ 8,489,308	$ 7,490,154

	Aircraft Lease Contract
Balance at January 1, 2016	$ 6,187,481
Additional provisions recognized	2,613,011
Usage	(1,393,565)
Effect of exchange rate changes	83,227
Balance at December 31, 2016	$ 7,490,154
Balance at January 1, 2017	$ 7,490,154
Additional provisions recognized	3,201,642
Usage	(1,755,029)
Effect of exchange rate changes	(447,459)
Balance at December 31, 2017	$ 8,489,308

The Group leased flight equipment under operating lease agreements. Under the contracts, when the leases expire and the equipment is returned to the lessor, the flight equipment has to be repaired according to the expected years of use, number of flight hours, flight cycles and the number of engine revolutions. The Group had existing obligations to recognize provisions when signing a lease or during the lease term. Tigerair Taiwan Co., Ltd. also leased flight equipment under operating lease agreements. In accordance to the contract, Tigerair must pay maintenance reserves monthly according to the actual number of flight hours.

25. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

Employees based in the U.S. and Japan of China Airlines Co., Ltd. and subsidiaries are members of the U.S. and Japan government retirement benefit plans. Subsidiaries should appropriate a specific portion to retirement benefit plans. The obligation to the government retirement benefit plans of China Airlines Co., Ltd. and subsidiaries is to appropriate a specific portion amount.

b. Defined benefit plans

The defined benefit plan adopted by the Company and in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company and subsidiary contribute amounts equal to 2%-15% 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 committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2017	2016
Present value of funded defined benefit obligation	$ 16,149,382	$ 15,119,110
Fair value of plan assets	(8,047,817)	(7,162,275)
Deficit (net defined benefit liabilities)	$ 8,101,565	$ 7,956,835

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	$ 14,436,208	$ (3,882,634)	$ 10,553,574
Service cost			
Current service cost	742,100	-	742,100
Net interest expense (income)	161,780	(45,264)	116,516
Recognized in profit or loss	903,880	(45,264)	858,616
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	7,254	7,254
Actuarial (gain) loss - changes in demographic assumptions	6,094	-	6,094
Actuarial (gain) loss - changes in financial assumptions	(233,100)	-	(233,100)
Actuarial (gain) loss - experience adjustments	1,160,547	-	1,160,547
Recognized in other comprehensive income	933,541	7,254	940,795
Contributions from the employer	-	(4,221,019)	(4,221,019)
Benefits paid	(979,274)	979,274	-
Others	(175,245)	114	(175,131)
Balance at December 31, 2016	15,119,110	(7,162,275)	7,956,835

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Service cost			
Current service cost	$ 939,046	$ -	$ 939,046
Cost from consolidation	(319)	-	(319)
Net interest expense (income)	178,259	(90,471)	87,788
Recognized in profit or loss	1,116,986	(90,471)	1,026,515
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	23,429	23,429
Actuarial (gain) loss - changes in demographic assumptions	19,197	-	19,197
Actuarial (gain) loss - changes in financial assumptions	458,746	-	458,746
Actuarial (gain) loss - experience adjustments	520,343	-	520,343
Recognized in other comprehensive income	998,286	23,429	1,021,715
Contributions from the employer	-	(1,769,694)	(1,769,694)
Benefits paid	(951,194)	951,194	-
Others	(133,806)		(133,806)
Balance at December 31, 2017	$ 16,149,382	$ (8,047,817)	$ 8,101,565

(Concluded)

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

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

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

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

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

	December 31	
	2017	2016
Discount rate(s)	0.88%-1.25%	1.000%-1.625%
Expected rate(s) of salary increase	1.000%-2.000%	1.000%-2.000%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31, 2017
Discount rate(s)	
0.5% increase	$ (736,506)
0.5% decrease	798,561
Expected rate(s) of salary increase	
0.5% increase	768,588
0.5% decrease	(721,823)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	$ 887,216	$ 880,886
The average duration of the defined benefit obligation	8-12 years	7-13 years

26. EQUITY

a. Share capital

Common shares

	December 31	
	2017	2016
Numbers of shares authorized (in thousands)	6,000,000	6,000,000
Amount of shares authorized	$ 60,000,000	$ 60,000,000
Amount of shares issued	$ 54,709,846	$ 54,708,901

For the years ended December 31, 2017, the Company issued the 5th domestic unsecured convertible bonds, and holders of such bonds amounting to $1,100 thousand applied for conversion, for which 95 thousand of the Company's common shares were exchanged. In accordance with the law, the Company may apply for a change of registration after issuing new shares.

b. Capital surplus

	December 31	
	2017	2016
Issuance of shares in excess of par value and conversion premium	$ 552,696	$ 552,470
Expired employee share options	11,747	11,747
Long-term investments	955	1,019
Gain on sale of treasury shares held by subsidiaries	2,673	2,673
Bonds payable equity component	146,589	146,684
Others	85,339	85,339
	$ 799,999	$ 799,932

The capital surplus from shares issued in excess of par (including additional paid-in capital from issuance of common shares and treasury share transactions) and donations may be used to offset deficits; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (but limited to a certain percentage of the Company's paid-in capital on yearly basis).

The capital surplus from long-term investments and employee share options expired may not be used for any purpose. Besides, capital surplus from conversion of employee shares and convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

According to amended Company Act, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan with due consideration of any future aircraft acquisition plans and fund demand, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders by cash or shares (cash dividends cannot be less than 30% of total dividends distributed). However, if the Company's profit before tax in a fiscal year after deductions for the abovementioned items is not sufficient for earnings distribution, retained earnings can be used as a supplement for the deficiency. If the Company has no deficit in a fiscal year, the Company can distribute all or part of the capital surplus by cash or shares with due consideration of finance, marketing and management requirements in accordance with the laws and regulations.

The distribution of dividends should be resolved and recognized in the shareholders' meeting in the following year.

1) Appropriation of earnings in 2015

The appropriation of earnings for 2015 was resolved in the shareholders' meeting on June 24, 2016. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 287,224	
Special reserve	76,486	
Cash dividends	2,508,525	$0.458522382

2) Appropriation of earnings in 2016

The legal reserve of $81,132 thousand and special reserve of $76,486 thousand used to offset deficits are subject to resolution by the shareholders in their meeting to be held on June 22, 2017.

3) Appropriation of earnings in 2017

The appropriation of earnings for 2017 should be resolved in the board of directors meeting to be held on March 22, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 145,831	
Special reserve	118,810	
Cash dividends	1,193,670	$0.2181820086

The appropriation of earnings should be resolved in the shareholders' meeting to be held on June 27, 2018.

When the Company distributes undistributed earnings for the years after 1998, except for non-ROC residents shareholders, all shareholders can receive imputation tax credit calculated by the Tax Deduction Ratio on the distribution date.

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total
Balance on January 1, 2016	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Exchange differences on translating foreign operations	(93,013)	-	-	(93,013)
Cash flow hedges on changes in fair value of hedging instruments	-	-	(278,201)	(278,201)
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	-	-	589,024	589,024
Share of associates accounted for using the equity method	-	(41)	-	(41)
Effect of income tax	13,618	-	(52,840)	(39,222)
Balance on December 31, 2016	$ 78,564	$ 1,714	$ 31,986	$ 112,264
Balance on January 1, 2017	$ 78,564	$ 1,714	$ 31,986	$ 112,264
Exchange differences on translating foreign operations	(136,476)	-	-	(136,476)
Cash flow hedges on changes in fair value of hedging instruments	-	-	(305,137)	(305,137)
Cumulative gain (loss) on changes in fair value of hedging instruments reclassified to profit or loss	-	-	176,927	176,927

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total
Share of associates accounted for using the equity method	$ -	$ 60	$ -	$ 60
Effect of income tax	22,926	-	21,795	44,721
Balance on December 31, 2017	$ (34,986)	$ 1,774	$ (74,429)	$ (107,641)

(Concluded)

e. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Beginning balance	$ 2,083,381	$ 2,286,647
Net income attributable to non-controlling interests	282,726	139,400
Foreign exchange differences	(3,598)	(19,079)
Actuarial gains and losses on defined benefit plans	(206,821)	(183,431)
Cash flow hedge on changes in fair value of hedging instruments	(131)	515
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	61	756
Effect on income tax	64,702	65,007
Acquisition of non-controlling interests in subsidiaries	(46,118)	(4,548)
Dividends paid by subsidiaries	(39,920)	(201,886)
Ending balance	$ 2,134,282	$ 2,083,381

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of December 31, 2017 and 2016 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year (Note)	Number of Shares, End of Year
Year ended December 31, 2017			
Company's shares held by its subsidiaries reclassified from investments in shares to treasury shares	2,889	-	2,889
Year ended December 31, 2016			
Company's shares held by its subsidiaries reclassified from investments in shares to treasury shares	2,889	-	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2017			
Mandarin Airlines	2,075	$ 24,169	$ 24,169
Hwa Hsia	814	9,485	9,485
		$ 33,654	$ 33,654
December 31, 2016			
Mandarin Airlines	2,075	$ 19,294	$ 19,294
Hwa Hsia	814	7,572	7,572
		$ 26,866	$ 26,866

The above acquisitions by subsidiaries of the Company's shares in previous years were due to investment planning. The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' rights on these treasury shares, except for the rights to subscribe for the Company's new shares and voting rights.

27. NET INCOME

a. Revenue

	For the Year Ended December 31	
	2017	2016
Passenger	$ 102,216,106	$ 95,282,373
Cargo	43,336,068	35,721,425
Others	10,569,611	10,075,309
	$ 156,121,785	$ 141,079,107

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income	$ 210,264	$ 242,801
Subsidy income	32,332	168,377
Dividend income	9,564	59,099
Others	308,239	288,862
	$ 560,399	$ 759,139

c. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Gain on disposal property, plant and equipment and noncurrent assets held for sale	$ 258,620	$ 53,419
Net loss on financial assets held for trading	(32,039)	(35,678)
Gain (loss) on disposal of investments	101,105	(346)
Loss on foreign exchange, net	(51,756)	(629,965)
Impairment loss on noncurrent assets held for sale	(3,571,301)	(347,868)
Impairment loss on property, plant and equipment	(690,579)	(717,758)
Impairment loss on financial assets carried at cost	(56,023)	(71,826)
Others	(1,010,058)	(938,074)
	$ (5,052,031)	$ (2,688,096)

The Company has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action lawsuit filed at the U.S. Northern District Court of California by a group of passengers who alleged that there was an antitrust violation in December 2007. After consulting with the lawyers and considering the cost of litigation, the Company settled with the plaintiff in the amount of US$19,500 thousand, and the settlement was recognized in 2017 financial statement. The settlement funds will be divided into four-phase payments in three years.

d. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest expense		
Bonds payable	$ 319,315	$ 294,890
Bank loans	974,535	912,945
Interest on obligations under financial leases	50,137	74,640
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	2,814	10,390
	$ 1,346,801	$ 1,292,865

Information of interest capitalization was as follows:

	For the Year Ended December 31	
	2017	2016
Capitalization interest	$ 216,305	$ 421,285
Capitalization rate	1.31%-1.41%	1.45%-1.73%

e. Depreciation and amortization expense

	For the Year Ended December 31	
	2017	2016
Property, plant, equipment	$ 18,339,743	$ 17,545,244
Investment properties	279	279
Intangible assets	259,129	147,486
Depreciation and amortization expense	$ 18,599,151	$ 17,693,009
An analysis of depreciation by function		
Operating costs	$ 17,667,649	$ 16,839,497
Operating expenses	672,373	706,026
	$ 18,340,022	$ 17,545,523
An analysis of amortization by function		
Operating costs	$ 281	$ 32
Operating expenses	258,848	147,454
	$ 259,129	$ 147,486

f. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plan	$ 482,586	$ 425,860
Defined benefit plan	1,026,515	858,616
	$ 1,509,101	$ 1,284,476
Other employee benefits		
Salary expenses	$ 20,287,418	$ 18,931,016
Personnel service expenses	5,578,306	5,249,939
	$ 25,865,724	$ 24,180,955
An analysis of employee benefits expense by function		
Operating costs	$ 22,640,698	$ 20,827,112
Operating expenses	4,734,127	4,638,319
	$ 27,374,825	$ 25,465,431

To be in compliance with the Company Act as amended, the Articles stipulate the distribution of employees' compensation at rates of no less than 3% of the net profit before income tax and employees' compensation. For the years ended December 31, 2017 and 2016, the employees' compensation was $799,768 thousand and $382,318 thousand, respectively, of the base net profit. The employees' compensation in cash for the years ended December 31, 2017 and 2016 was approved by the Company's board of directors on January 24, 2018 and January 17, 2017, respectively.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date that the annual consolidated financial statements are authorized for issue are adjusted in the year that the bonuses and remuneration were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

28. INCOME TAX

a. Income tax expense recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31 2017	2016
Current tax		
Current year	$ 148,743	$ 173,195
Prior year adjustment	1,364	(159)
Income tax on unappropriated earnings	-	3,085
Deferred tax		
Current year	883,064	992,790
Income tax expense recognized in profit or loss	$ 1,033,171	$ 1,168,911

A reconciliation of accounting profit and income tax expense were as follows:

	For the Year Ended December 31 2017	2016
Profit before tax	$ 3,523,963	$ 1,879,851
Income tax expense calculated at the statutory rate (17%)	$ 599,074	$ 319,574
Effect on different tax of subsidiaries govern by other region	19,209	33,055
Effect on adjustment to income tax		
Non-deductible expenses in determining taxable income	5,593	145,181
Temporary differences	642,737	(478,805)
Tax-exempt income	(95,556)	(88,767)
Additional income tax under the Alternative Minimum Tax Act	9,906	-
Income tax on unappropriated earnings	-	3,085
Loss carryforwards - current used	(1,061,324)	(12,495)
Loss carryforwards - generated	11,630	235,828
Oversea income tax expense	17,474	19,624
Deferred tax		
Temporary differences	272,772	350,309
Unrecognized loss carryforwards, investment tax credits and temporary difference	610,292	642,481
Adjustments for prior years' tax	1,364	(159)
Income tax expense recognized in profit or loss	$ 1,033,171	$ 1,168,911

b. Income tax recognized in other comprehensive income

	2017	2016
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 23,612	$ 19,101
Hedging instruments fair value revaluation for cash flow hedging	21,807	(53,056)
Actuarial gain or loss on defined benefit plan	173,691	159,935
Total income tax recognized in other comprehensive income	$ 219,110	$ 125,980

c. Deferred tax assets and liabilities

For the year ended December 31, 2017

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plans	$ 1,351,205	$ (143,358)	$ 173,691	$ -	$ 1,381,538
Frequent flyer programs	421,695	4,411	-	-	426,106
Maintenance reserves	1,250,075	257,210	-	-	1,507,285
Allowance for reduction of inventory	200,841	38,274	-	-	239,115
Others	651,976	469,902	22,623	(630)	1,143,871
Loss carryforwards	2,380,873	(1,559,456)	-	-	821,417
	$ 6,256,665	$ (933,017)	$ 196,314	$ (630)	$ 5,519,332
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gains	$ -	$ 915	$ -	$ -	$ 915
Depreciation difference from fixed assets	85,949	(54,939)	-	-	31,010
Others	187,661	4,071	(22,796)	(10,179)	158,757
	$ 273,610	$ (49,953)	$ (22,796)	$ (10,179)	$ 190,682

For the year ended December 31, 2016

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Ending Balance
Deferred tax assets					
Temporary differences					
Defined benefit plans	$ 1,789,811	$ (598,541)	$ 159,935	$ -	$ 1,351,205
Frequent flyer programs	452,949	(31,254)	-	-	421,695
Maintenance reserves	1,037,489	212,586	-	-	1,250,075
Allowance for reduction of inventory	174,650	26,191	-	-	200,841
Others	894,828	(197,579)	(44,711)	(562)	651,976
Loss carryforwards	2,838,688	(457,815)	-	-	2,380,873
	$ 7,188,415	$ (1,046,412)	$ 115,224	$ (562)	$ 6,256,665
Deferred tax liabilities					
Temporary differences					
Unrealized foreign exchange gains	$ 2,534	$ (2,534)	$ -	$ -	$ -
Depreciation difference from fixed assets	125,008	(39,059)	-	-	85,949
Others	213,139	(12,029)	(10,756)	(2,693)	187,661
	$ 340,681	$ (53,622)	$ (10,756)	$ (2,693)	$ 273,610

In February 2018, it was announced that the Income Tax Law in the R.O.C. was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as of December 31, 2017 are expected to be adjusted and increase by $974,000 thousand and $33,650 thousand, respectively, in 2018.

Deductible temporary differences, and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets.

	December 31	
	2017	2016
Loss carryforwards		
2019	$ 10,900,000	$ 7,300,000
2020	-	22,020
2021	17,929	80,080
2022	9,617	125,568
2023	71,861	127,707
2024	34,048	233,693
2025	221,121	638,257
2026	1,184,297	1,126,110
2027	68,415	-
	$ 12,507,288	$ 9,653,435
Difference in depreciation	$ 323,173	$ 229,761

d. Unused tax loss carryforwards as of December 31, 2017 were as follows:

Expiry Year	Unused Amount
China Airlines, Ltd.	
2019	$ 11,764,885
2021	2,899,496
2022	619,799
2026	202,699
	$ 15,486,879
Mandarin Airline Co., Ltd.	
2026	$ 594,300
Tigerair Taiwan Co., Ltd.	
2025	169,222
2026	752,730
	$ 921,952

(Continued)

Expiry Year	Unused Amount
Cal Hotel Co., Ltd.	
2021	17,929
2022	9,617
	$ 27,546
Taiwan Air Cargo Terminal Limited	
2023	$ 71,861
2024	34,048
2025	33,775
2026	43,511
	$ 183,195
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	
2025	$ 18,124
2026	31,476
2027	68,415
	$ 118,015
Hwa Hsia	
2026	$ 7,265

(Concluded)

e. Integrated income tax

	December 31	
	2017	2016
Imputation credit accounts	$ 195,252	$ 102,527

The Company accumulated a deficit for which to be compensated for the year ended December 31, 2016, and therefore there was no tax deduction ratio resulting from earnings distribution.

Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

f. Income tax assessment

The income tax returns for 2015 of the Company and its subsidiaries, have been examined by the tax authorities.

29. EARNING PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

	For the Year Ended December 31 2017	2016
Basic earnings per share	$ 0.40	$ 0.10
Diluted earnings per share	$ 0.39	$ 0.10

	For the Year Ended December 31 2017	2016
Earnings used in the computation of basic earnings per share	$ 2,208,066	$ 571,540
Effect of potentially dilutive common shares:		
Interest on convertible bonds (after tax)	24,801	-
Earnings used in the computation of diluted earnings per share	$ 2,232,867	$ 571,540

	For the Year Ended December 31 2017	2016
Weighted average number of common shares in computation of basic earnings per share	5,468,030	5,468,002
Effect of potentially dilutive common shares:		
Convertible bonds	145,763	-
Employees' compensation or bonuses issued to employees	70,259	47,337
Weighted average number of common shares used in the computation of diluted earnings per share	5,684,052	5,515,339

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonuses would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Group consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Group needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

31. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Financial instruments not evaluated at fair value

Except as detailed in the following table, the management considers the carrying amounts of financial assets and financial liabilities recognized in the financial statements as approximating their fair values.

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 25,417,100	$ 25,818,511	$ 22,238,044	$ 22,580,069
Loans and debt	85,058,177	87,070,820	89,230,727	91,315,640

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying values are their fair values. As of December 31, 2017 and 2016, the fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.75% and 1.191%, respectively, prevailing in the market for long-term debts (Level 2). Fair values of bond payable trading in OTC and based on quoted market prices (Level 1).

2) Fair value measurements recognized in the balance sheets

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

a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Beneficial certificates	$ 306,839	$ -	$ -	$ 306,839
Financial liabilities at FVTPL				
Derivative instruments	$ -	$ 9,581	$ -	$ 9,581
Derivative financial assets for hedging	$ -	$ 293	$ -	$ 293
Derivative financial liabilities for hedging	$ -	$ 89,289	$ -	$ 89,289

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	$ -	$ 1,200	$ -	$ 1,200
Beneficial certificates	415,441	-	-	415,441
	$ 415,441	$ 1,200	$ -	$ 416,641
Derivative financial assets for hedging	$ -	$ 61,634	$ 83	$ 61,717
Derivative financial liabilities for hedging	$ -	$ 23,629	$ -	$ 23,629

There were no transfers between Levels 1 and 2 in the current periods.

d) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign exchange forward contracts and interest rate swaps	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

e) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of currency options and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of currency options and fuel options.

Because some financial instruments and non-financial instruments cannot show their fair value, the total fair value showed by these disclosure are not total value of the Group.

b. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Financial assets at FVTPL	$ 306,839	$ 416,641
Available-for-sale financial assets (Note 3)	84,075	140,357
Derivative financial assets for hedging	293	61,717
Loans and receivables (Note 1)	35,276,119	36,576,111
Financial liabilities		
Financial liabilities at FVTPL	9,581	-
Derivative financial liabilities for hedging	89,289	23,629
Financial liabilities at amortized cost (Note 2)	127,928,250	130,110,449

Note 1: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable, accounts receivable - related parties, other receivables, refundable deposits, other financial assets and other restricted financial assets.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, part of other current liabilities, part of other noncurrent liabilities and guarantee deposits.

Note 3: The balances include financial assets measured at cost.

c. Financial risk management objectives and policies

The Group has risk management and hedging strategies to respond to changes in the economic and financial environment and in the fuel market. To reduce the financial risks from changes in interest rates, in exchange rates and in fuel prices, the Group has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by the Group shareholders to reduce the impact of market price changes on earnings. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

In addition, the Group has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging percentage. This committee informs the Group of global economic and financial conditions, controls the entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

The Group is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Group entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk. The Group enters into foreign exchange forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

The Group enters into foreign currency option contracts to hedge against the risks on change in related exchange rates, enters into forward contracts to hedge against the risks on changes in foreign-currency assets, liabilities and commitments in the related exchange rates.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

The following details the Group's sensitivity to a one dollar increase or decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies (i.e. the U.S. dollar). This is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for a one U.S. dollars increase/decrease against the New Taiwan dollar.

When the New Taiwan dollar strengthens one dollar against the U.S. dollar and all other variables were held constant, there will be an increase in pre-tax profit in 2017 of $60,437 thousand and a decrease in pre-tax profit in 2016 of $47,622 thousand.

b) Interest rate risk

The Group enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates. The risk is managed by the Group by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2017	2016
Fair value interest rate risk	$ 27,537,100	$ 26,093,421
Cash flow interest rate risk	85,311,720	91,339,655

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A one yard (25 basis) point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates increased one yard (25 basis) points higher and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2017 would have decreased by $213,279 thousand.

Had interest rates increased one yard (25 basis) point and had all other variables been held constant, the Group's pre-tax profit for the year ended December 31, 2016 would have decreased by $228,349 thousand.

c) Other price risk

The Group was exposed to fuel price risk on its purchase of aviation fuel. The Group enters into fuel swap contracts to hedge against adverse risks on fuel price changes.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to fuel price risks at the end of the reporting period.

	For the Year Ended December 31, 2016	
	Pre-tax Profit Increase (Decrease)	Other Comprehensive Income Increase (Decrease)
Fuel price increase of 5%	$ 75	$ (110)
Fuel price decrease of 5%	-	(185)

The Group depends on the market of fuel and the cost of hedging to enter into fuel swap contracts to hedge against adverse risk on fuel price changes. There is no outstanding fuel swap contracts for the years ended December 31, 2017.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Group has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Group consider into the financial condition of the customers, the credit rating agency rating, the Group's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Group uses certain credit enhancement tools to reduce the credit risk of specific customers. Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Group's finance department. The Group's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, and so the risk of counterparties failing to discharge an obligation is low; therefore, there is no significant credit risk.

3) Liquidity risk

The objective of the Group's management of liquidity is to maintain cash and cash equivalents sufficient for operating purposes, marketable securities with high liquidity and loan commitments that are sufficient to ensure that the Group has adequate financial flexibility.

Liquidity and interest risk rate table

The following table shows the remaining contractual maturity analysis of the Group's financial liabilities with agreed-upon repayment periods, which were based on the date the Group may be required to pay the first repayment and financial liabilities is evaluated based on undiscounted cash flows, including cash flows of interest and principal.

Bank loans with a repayment on demand clause were included in the second column of the table below regardless of whether or not the banks would choose to exercise early their rights to repayment. The maturity dates for other non-derivative financial liabilities were based on the agreed-upon repayment dates. The Group's liquidity analysis for its derivative financial instruments is also shown in the following table. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross cash inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by yield curves at the end of the reporting period.

December 31, 2017

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.2090	$ 236,138	$ 1,406,511	$ 193,648	$ 455,544	$ -
Floating interest rate liabilities	1.1251	7,270,988	12,906,591	18,465,141	28,374,270	18,151,425
Fixed interest rate liabilities	1.1800	5,900	17,700	2,023,600	-	-
Derivative instruments	-	28,410	53,885	6,994		
Bonds payable	1.4142	2,790,923	1,911,231	301,932	20,651,932	1,014,142
		$ 10,332,359	$ 16,295,918	$ 20,991,315	$ 49,481,746	$ 19,165,567

December 31, 2016

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Finance lease liabilities	1.1462	$ 335,590	$ 1,002,171	$ 3,040,196	$ 656,351	$ -
Floating interest rate liabilities	1.192	4,684,754	27,758,614	15,705,615	33,282,382	7,428,296
Fixed interest rate liabilities	0.016	401,301	419,159	-	-	-
Derivative instruments	-	2,655	18,200	2,775	-	-
Bonds payable	1.3384	74,408	2,923,225	4,599,541	15,403,437	-
		$ 5,498,708	$ 32,121,369	$23,348,127	$ 49,342,170	$ 7,428,296

Loan commitments

	December 31	
	2017	2016
Unused bank loan limit (unsecured)	$ 25,181,000	$ 14,424,006

32. RELATED-PARTY TRANSACTIONS

The transactions, accounts balances, income and expenses between related parties were eliminated from the consolidated report and, therefore, were not disclosed in this note. Except for the disclosures stated in other notes, transactions between the Group and its related parties are disclosed below:

a. Related parties' names and relationships

Name	Relationship with the Company
Kaohsiung Catering Services	Associate
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
Nordam Asia Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Group, spouse and second-degree relative

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31	
		2017	2016
Other income	Major shareholder of the Company	$ 31,971	$ 28,328
	Associate	$ 1,938	$ 2,552
	Joint venture investment	$ 46,461	$ 14,325

c. Purchases

Related Party Type	For the Year Ended December 31	
	2017	2016
Major shareholder of the Company	$ 71,852	$ 63,084
Associate	$ 745,686	$ 656,653
Joint venture investment	$ 1,857,684	$ 1,613,899

d. Accounts receivable - related parties (generated by operations)

Related Party Type	December 31	
	2017	2016
Associate	$ -	$ 501
Joint venture investment	6,431	1,549
Major shareholder of the Company	1,928	1,512
	$ 8,359	$ 3,562

The receivables are not guaranteed, and there is no allowance for doubtful accounts related to accounts receivable - related parties. The payment periods of such accounts were within 30 to 90 days, and there are no overdue payments.

e. Accounts payable - related parties (generated by operations)

Related Party Type	December 31 2017	December 31 2016
Associate	$ 116,525	$ 120,824
Joint venture investment	469,827	431,502
Major shareholder of the Company	4,454	3,503
	$ 590,806	$ 555,829

The remaining balance of notes and accounts payable - related parties will be paid in cash if they are not secured.

f. Leases of properties (operating leases)

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots, the Company paid the rental on usage hours. In 2017 and 2016, the Company had paid rentals of about $71,852 thousand and $63,084 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2017		2016	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
Cal Park	$ 3,850,000	$ 2,850,000	$ 3,850,000	$ 2,783,000
Taiwan Air Cargo Terminal	1,080,000	318,611	1,080,000	436,418
Cal Hotel	-	-	180,000	-
Tigerair Taiwan	1,055,604	405,998	919,742	438,740

h. Compensation of key management personnel

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Short-term employee benefits	$ 46,805	$ 47,748
Post-employment benefits	4,007	12,269
	$ 50,812	$ 60,017

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

33. PLEDGED ASSETS

The following assets were pledged or mortgaged as collateral for long-term bank loans, lease obligations and business transactions:

	December 31 2017	December 31 2016
Property, plant and equipment	$ 39,821,666	$ 54,552,306
Restricted assets - noncurrent		
Pledged certificate deposits	161,398	323,028
	$ 39,983,064	$ 54,875,334

34. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2017, the Group had commitments and contingent liabilities (except for those mentioned in other notes) as follows:

a. In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate purchase prices of US$3,933,235 thousand and US$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of December 31, 2017, ten of the aircrafts had been handed over to the Company, and the total list price of the remaining four aircrafts was US$1,150,984 thousand, which has been paid in the amount of US$287,746 thousand (recognized as prepayments for aircrafts).

b. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircrafts, and the total list price of the six aircrafts was $120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, which has been paid in the amount of US$12,856 thousand (recognized as prepayments for aircrafts). Additionally, Mandarin Airlines signed a lease contract for three ATR72-600 aircrafts, which were delivered in 2017.

c. Taiwan Air Cargo Terminal Co. (TACT) signed a terminal construction contract with the Civil Aeronautics Administrations (CAA) on January 14, 2000. The chartered operation period (COP) is 20 years from the date of transfer of the chartered operation rights from CAA to TACT. The terminal expansion and improvements and the equipment installation and upgrade in the Taiwan Taoyuan International Airport cargo terminal and Kaohsiung cargo terminal were expected to be completed in the first 10 years of the COP. This construction project was approved by TACT's board of directors in 2003. TACT filed an application for a 10-year extension of the COP for the cargo terminals in the Taiwan Taoyuan International Airport and Kaohsiung International Airport and received the approval from the Taoyuan Airport Corporation and CAA in July 2013 and July 2015, respectively.

   The original total expenditure of the previous main construction project was $8,490,000 thousand. However, TACT filed an arbitration for the total amount of expenditure in 2012 to revise the total amount to $6,840,000 thousand.

   As of December 31, 2017, TACT had signed the following construction contracts with unrelated parties:

Client Name	Contract Title	Contract Amount (VAT Included)
CECI Engineering Consultant, Inc., Taiwan	Cargo Terminal Expansion Construction Consultant Contract	$ 552,285

As of December 31, 2017, the cumulated consultant service expense and construction equipment had amounted to $473,599 thousand (VAT included) and $5,051,184 thousand (VAT included), respectively. Upon completion of the projects, the amount of $460,578 thousand (VAT included) and $5,051,184 thousand (VAT included) were reclassified to property, plant, and equipment. The remaining cumulative payments were recognized under construction in progress.

Assets acquired from cargo terminal improvements, equipment acquisition and subsequent equipment acquisition and replacement will be transferred to the government without any compensation when the chartered operating license expires.

TACT should pay royalties to Taoyuan Airport Corporation and the CAA during the chartered operation period. The calculation is based on annual sales (including operating and nonoperating revenue but excluding the rental revenue from specific districts), and Taoyuan Airport Corporation and the CAA have the option to adjust the royalty rates every 3 years starting from the date of transfer of the chartered operation rights on the basis of actual revenue and expenditures. The current royalty rate is 6%.

d. CAL Park Co., Ltd. ("CAL Park") signed "Taiwan Taoyuan International Airport Aviation Operation Center (including Airport Hotel) Construction Operating Contract" with the CAA on September 20, 2006. However, on November 1, 2010, the Taoyuan Airport Corporation took over the CAA's rights on this contract from the CAA. The contract is effective for 50 years (consisting of the development stage and operating period) from the contract date. Three years before contract expiry date, CAL Park has the first option to renew the contract once with a 20-year extension.

CAL Park's business scope includes providing business and other operating space related to civil air transport, hotels, aviation service and related industries adhered to the base and essential services law and approved by the Taoyuan Airport Corporation.

CAL Park should pay land rentals on the date of the registration of surface rights. The rental rates for the development stage differ from those for the operation period. The rental rates should follow Article No. 2 of the "Regulations for Favorable Rentals Regarding Public Land Lease and Superficies in Infrastructure Projects," which states that rental calculation in the development stage should include the land value added tax plus the necessary maintenance fee; in the operation period, rentals are 60% of the amount based on the National Building Land Rental Standard plus land value tax, value-added tax and the necessary maintenance fee.

During the 50 years beginning from the initial operation date of CAL Park to the end of the construction period, CAL Park should pay royalties based on the operating revenue estimated in the financial plan of its investment execution proposal. If the sales and business tax declared and filed by a business entity for a single year exceeds 10% of the operating revenue as estimated in the financial plan in its investment execution proposal, CAL Park should pay additional royalties at 10% of this excess.

CAL Park should submit the asset transfer plan within five years before the expiry date of the chartered operation period, begin the negotiation of the asset transfer contract, and complete the assignation no later than three years before the expiry date of the chartered period. If CAA decides not to keep the building and equipment on the base area, CAL Park should remove all related building and equipment within three months after the expiry date.

e. Taiwan Aircraft Maintenance Company contracted out Ronggong Engineering Co., Ltd. for a construction repair project. The contract expiration date is November 5, 2018, and the estimated total cost of the project is $1.906 billion. As of December 31, 2017, $301,069 thousand was paid (recognized as construction in progress).

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 351,902	29.8507	$ 10,504,521
EUR	21,358	35.7143	762,786
HKD	293,872	3.8183	1,122,091
JPY	6,147,548	0.2648	1,627,871
CNY	469,241	4.5830	2,150,530
Financial liabilities			
Monetary items			
USD	418,839	29.8507	12,503,415
EUR	5,971	35.7143	213,250
HKD	87,927	3.8183	335,732
JPY	4,972,250	0.2648	1,316,652
CNY	150,678	4.5830	690,557

December 31, 2016

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 310,384	32.2581	$ 10,012,403
EUR	15,665	34.0136	532,807
HKD	273,060	4.1580	1,135,385
JPY	5,138,687	0.2770	1,423,417
CNY	483,548	4.6425	2,244,088
Financial liabilities			
Monetary items			
USD	259,145	32.2581	8,359,536
EUR	6,512	34.0136	221,486
HKD	94,831	4.1580	394,306
JPY	4,442,045	0.2770	1,230,446
CNY	137,773	4.6425	639,614

For the years ended December 31, 2017 and 2016, the Group's net foreign exchange losses were $51,756 thousand and $629,965 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

36. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:

1) Financing provided: None

2) Endorsements/guarantees provided: Table 1 (attached)

3) Marketable securities held: Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Table 3 (attached)

5) Acquisitions of individual real estates at costs or price of at least NT$100 million or 20% of the paid-in capital: None

6) Disposals of individual real estates at costs or prices of at least NT$100 million or 20% of the paid-in capital: None

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 5 (attached)

9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached)

10) Derivative financial transactions (Notes 7 and 8)

b. Investment in mainland China: Table 7 (attached)

c. Business relationships and important transactions between China Airlines, Ltd. and its subsidiaries: Table 8 (attached)

37. SEGMENT INFORMATION

a. Segment information

The Group mainly engages in air transportation services for passengers and cargo; the services include airport service, storage service, and other air transportation services which are below the financial threshold for an operating segment of the Group. Therefore, the Group's main reportable segment is air transportation. The accounting policies of the reportable segment are consistent with the accounting policies described in Note 4.

	For the Year Ended December 31, 2017			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	$ 154,512,384	$ 7,984,517	$ (6,375,116)	$ 156,121,785
Operation profit and losses	$ 7,909,490	$ 916,670	$ -	$ 8,826,160
Interest revenue				210,264
Investments income accounted for using the equity method				536,236
Revenue				626,533
Financial costs				(1,346,801)
Expenses				(5,328,429)
Profit before income tax				$ 3,523,963
Identifiable assets	$ 147,311,342	$ 8,381,813		$ 155,693,155
Investments accounted for using the equity method				2,507,346
Assets				67,699,131
Total assets				$ 225,899,632

	For the Year Ended December 31, 2016			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	$ 139,471,090	$ 7,873,653	$ (6,265,636)	$ 141,079,107
Operation profit and losses	$ 3,614,617	$ 950,070	$ -	$ 4,564,687
Interest revenue				242,801
Investments income accounted for using the equity method				536,986
Revenue				535,162
Financial costs				(1,292,865)
Expenses				(2,706,920)
Profit before income tax				$ 1,879,851
Identifiable assets	$ 132,546,517	$ 9,666,123		$ 142,212,640
Investments accounted for using the equity method				2,866,431
Assets				79,421,688
Total assets				$ 224,500,759

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2017 and 2016 are listed below:

	For the Year Ended December 31, 2017								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 43,823,702	$ 32,933,348	$ 34,290,529	$ 13,226,468	$ 4,727,678	$ 18,990,132	$ 14,505,044	$ (6,375,116)	$ 156,121,785
Operation profit and losses	$ 2,066,002	$ 2,498,885	$ (932,071)	$ 818,324	$ (272,090)	$ 2,503,460	$ 2,143,650	$ -	$ 8,826,160
Interest revenue									210,264
Investments income accounted for using the equity method									536,236
Revenue									626,533
Interest expenses									(1,346,801)
Expenses									(5,328,429)
Profit before income tax									$ 3,523,963
Identifiable assets	$ 1,324,134	$ 18,838	$ 91,893	$ 4,407	$ 3,616	$ 9,178	$ 154,241,089	$ -	$ 155,693,155
Investments accounted for using the equity method									2,507,346
Assets									67,699,131
Total assets									$ 225,899,632

	For the Year Ended December 31, 2016								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 40,063,516	$ 27,017,443	$ 30,470,044	$ 11,770,672	$ 5,047,106	$ 19,267,568	$ 13,708,394	$ (6,265,636)	$ 141,079,107
Operation profit and losses	$ 1,305,147	$ (215,992)	$ (429,148)	$ (19,411)	$ 89,410	$ 1,560,699	$ 2,273,982	$ -	$ 4,564,687
Interest revenue									242,801
Investments income accounted for using the equity method									536,986
Revenue									535,162
Interest expenses									(1,292,865)
Expenses									(2,706,920)
Profit before income tax									$ 1,879,851
Identifiable assets	$ 1,434,169	$ 17,785	$ 98,711	$ 5,160	$ 3,026	$ 13,740	$ 140,640,049	$ -	$ 142,212,640
Investments accounted for using the equity method									2,866,431
Assets									79,421,688
Total assets									$ 224,500,759

TABLE 1

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counter-party		Limit on Each Counter-party's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	$ 11,404,647	$ 3,850,000	$ 3,850,000	$ 2,850,000	-	6.75	$ 28,511,619	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,404,647	1,080,000	1,080,000	318,611	-	1.89	28,511,619	Y	N	N
		Cal Hotel	100% subsidiary	11,404,647	180,000	-	-	-	-	28,511,619	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,404,647	1,079,101	1,055,604	405,998	-	1.85	28,511,619	Y	N	N

Note 1: Based on the Company's guidelines, the maximum amount of guarantee to an individual counterparty is up to 20% of the Company's shareholders' equity.

Note 2: Based on the Company's guidelines, the allowable aggregate amount of collateral guarantee is up to 50% of the Company's shareholders' equity.

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
China Airlines ("Parent company")	Shares							
	Everest Investment Holdings Ltd. - common shares	-	Financial assets carried at cost - noncurrent	1,359,368	$ 52,704	13.59	$ 60,524	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	27,960	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	-	15.00	9,167	-
Mandarin Airlines	Shares							
	China Airlines	Parent company	Available-for-sale financial assets - current	2,074,628	24,169	-	24,169	-
	Beneficiary certificates							
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	30,030	-	30,030	-
Cal-Asia Investment	Shares							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	-	2.59	31,152	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	19,898	5.45	25,434	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,709,255	68,926	-	68,926	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,664,992	86,148	-	86,148	-
	Allianz Global Investors Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,368,495	66,869	-	66,869	-
Taiwan Airport Services	Shares							
	TransAsia Airways	-	Available-for-sale financial assets - noncurrent	2,277,786	-	0.40	-	-
	Beneficial certificates							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	4,568,824	50,166	-	50,166	-
Hwa Hsia	Shares							
	China Airlines	Parent company	Available-for-sale financial assets - current	814,152	9,485	-	9,485	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,700	-	4,700	-

Note 1: The subsidiary's net asset value was $60,524 thousand, which included common shares and preference shares as of and for the year ended December 31, 2017.

Note 2: The Company does not issue shares because it is a limited company.

TABLE 3

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
China Airlines, Ltd.	Shares													
	Science Park Logistics	Investments accounted for using the equity method	HCT Logistics Co., Ltd.	Non-related party	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Investments accounted for using the equity method	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Subsidiary	-	-	-	-	-	-	-	-	-	-

Note 1: The marketable securities in this table refer to shares, bonds, beneficial certificates and the securities derived from the above items.

Note 2: Marketable securities which are recognized as investments accounts for using the equity method are required to be filled in the second column.

Note 3 The cumulative amount of acquired and disposed of marketable securities are required to be calculated separately to determine whether they are at least NT$300 million or 20% of the paid-in capital.

Note 4 Paid-in capital refers to paid-in capital of the indicated parent company. If the shares issued by an issuer have no par value or a par value other than NT$10 per share, the threshold of 20% of paid-in capital, as set out in the preceding item, shall be replaced by 10% of equity attributable to owners of the indicated parent company, as stated in the respective balance sheet.

TABLE 4

CHINA AIRLINES, LTD. AND INVESTEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. (“China Airlines”)	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 507,489	0.42	30 days	$ -	-	$ (48,735)	(3.34)	-
	Hua Hsia	Subsidiary	Purchase	334,375	0.27	2 months	-	-	(49,140)	(3.37)	-
	Mandarin Airlines	Subsidiary	Sale	(2,495,101)	(1.78)	2 months	-	-	452,488	4.99	-
	Mandarin Airlines	Subsidiary	Purchase	147,914	0.12	2 months	-	-	(339,274)	(23.28)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,737,819	1.43	90 days	-	-	(440,739)	(30.24)	-
	Cal Park	Subsidiary	Purchase	228,942	0.19	2 months	-	-	-	-	-
	Taiwan Airport Services	Subsidiary	Purchase	375,579	0.31	40 days	-	-	(67,871)	(4.66)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,193,551	0.98	40 days	-	-	(355,885)	(24.42)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	376,678	0.31	60 days	-	-	(70,948)	(4.87)	-
	China Aircraft Services	Equity-method investee	Purchase	197,713	0.16	30 days	-	-	(30,260)	(2.08)	-
	Cal Hotel	Subsidiary	Purchase	136,681	0.11	1 month	-	-	(10,140)	(0.70)	-
	Tigerair Taiwan	Subsidiary	Sale	(288,954)	(0.21)	1 month	-	-	38,796	0.43	-
	China Pacific Laundry Services	Equity-method investee	Purchase	119,865	0.10	2 months	-	-	(29,088)	(2.00)	-
	Eastern United International Logistics	Equity-method investee	Purchase	138,905	0.11	2 months	-	-	(14,769)	(1.01)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	152,384	2.59	30 days	-	-	(30,344)	(4.79)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	121,505	1.78	1 month	-	-	(17,825)	(1.42)	-

TABLE 5

CHINA AIRLINES, LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	$ 452,488	Note	$ -	-	$ 271,899	$ -
Mandarin Airlines	China Airlines	Parent company	339,274	Note	-	-	307,390	-
China Pacific Catering Services	China Airlines	Parent company	440,739	4.08	-	-	440,698	-
Taoyuan International Airport Service	China Airlines	Parent company	355,885	3.51	-	-	355,764	-

Note: Accounts receivable and revenue were not directly correlated because of the particular industry characteristics, and therefore the turnover rate was not applicable.

TABLE 6

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2017
(New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount: December 31, 2017	Investment Amount: December 31, 2016	Balance as of December 31, 2017: Number of Shares/Units	Balance as of December 31, 2017: Percentage of Ownership (%)	Balance as of December 31, 2017: Carrying Amount	Net Income (Loss) of the Investee	Investment Income (Loss)	Note
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	$ 1,500,000	$ 1,500,000	150,000,000	100.00	$ 1,522,696	$ 10,017	$ 10,017	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,211,739	125,570	118,023	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,339,450	190,444	102,840	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,185,323	34,695	34,695	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	756,965	472,248	235,871	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	654,104	248,207	121,622	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	478,933	31,191	31,191	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	450,600	182,046	171,004	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	493,077	122,349	24,470	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	3,704	77,322	370,440	-	-	363,033	88,943	Note 5
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	259,459	108,331	51,295	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	300,400	242,473	86,757	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	435,965	48,590	48,590	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	-	214,745	-	-	-	83,919	21,819	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	171,229	42,461	23,354	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	83,014	11,280	11,280	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,904	440	440	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	25,992	(4,725)	(2,410)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,437	6,876	1,719	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ -	US$ 1	-	-	-	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	-	US$ 1	-	-	-	-	-	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	915,135	572,953	514,897	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	160,000	135,000,000	100.00	1,231,548	(68,580)	(68,580)	Note 4
	Nordam Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	2,450	-	245,000	49.00	2,399	(104)	(51)	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	101,682	572,953	57,295	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	5,902	108,330	1,167	-
Cal-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK$ 3,329	HK$ 3,329	1,050,000	35.00	43,171	13,726	4,804	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	370,322	25,143	25,143	Note 3

Note 1: Adopted the treasury shares method in recognizing investment income or loss.

Note 2: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 3: The Company does not issue shares because it is a limited company.

Note 4: Taiwan Aircraft Maintenance and Engineering Co., Ltd. invested capital in the amount of $490,000 thousand and $700,000 thousand in April 2017 and November 2017, respectively.

Note 5: The Company signed a contract to sell all of its holding in Asian Compressor Technology Services and reclassified it as noncurrent assets held for sale at book value.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(New Taiwan Dollars/Renminibi/U.S. Dollars In Thousands, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,028,781 (RMB 224,480)	Indirect (Note 1)	$ 124,955 (US$ 4,186)	$ -	$ -	$ 124,955 (US$ 4,186)	$ 79,880 (RMB 17,741)	14.00	$ 12,098 (RMB 2,484)	$ 242,549 (RMB 52,924)	$ 83,634 (US$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 1)	58,133 (US$ 1,947)	-	-	58,133 (US$ 1,947)	99,528 (RMB 22,105)	14.00	13,952 (RMB 3,095)	128,035 (RMB 27,937)	$ 26,129 (US$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,101,194 (US$ 36,890)	Indirect (Note 1)	64,215 (US$ 2,151)	-	-	64,215 (US$ 2,151)	-	2.59	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	348,149 (US$ 11,663)	Indirect (Note 1)	18,985 (US$ 636)	-	-	18,985 (US$ 636)	-	5.45	-	19,898 (RMB 4,342)	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$266,287 (US$8,920)	$647,805 (Note 3)	$34,213,942 (Note 4)

(Continued)

Taiwan Airport Services

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,028,781 (RMB 224,480)	Indirect (Note 5)	$ 119,951 (US$ 4,018)	$ -	$ -	$ 119,951 (US$ 4,018)	$ 79,880 (RMB 17,741)	14.00	$ 11,183 (RMB 2,484)	$ 241,265 (RMB 52,644)	$ 113,622 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 5)	57,515 (US$ 1,927)	-	-	57,515 (US$ 1,927)	99,528 (RMB 22,105)	14.00	13,934 (RMB 3,095)	128,256 (RMB 27,985)	41,988 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$177,466 (US$5,945)	$177,466 (US$5,945)	$328,776 (Note 4)

Note 1: China Airlines, Ltd. the “Company” invested in Cal-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: The inward remittance of earnings in 2017 amounted to US$2,801,749 and US$875,330.

Note 3: The amount comprised US$19,828,324, RMB4,200,000 and NT$36,666,667.

Note 4: The limit stated in the Investment Commission’s regulation, “Investment or Technical Cooperation in Mainland China Adjustment Rule,” is the larger of the Company’s net asset value or 60% of the consolidated net asset value.

Note 5: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 6: The RMB and U.S. dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)

TABLE 8

CHINA AIRLINES, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND IMPORTANT TRANSACTIONS BETWEEN CHINA AIRLINES, LTD. AND ITS SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
0	China Airlines, Ltd.	Mandarin Airlines	a	Passenger revenue	$ 2,184,703	The same as ordinary transactions	1.40
		Mandarin Airlines	a	Other operating revenue	310,398	The same as ordinary transactions	0.20
		Tigerair Taiwan Co., Ltd.	a	Other operating revenue	288,954	The same as ordinary transactions	0.19
		Taoyuan International Airport Services	a	Airport service costs	1,193,551	The same as ordinary transactions	0.76
		Taiwan Airport Service	a	Airport service costs	375,579	The same as ordinary transactions	0.24
		Hwa Hsia	a	Airport service costs	334,375	The same as ordinary transactions	0.21
		Mandarin Airlines	a	Passenger costs	147,914	The same as ordinary transactions	0.09
		Taiwan Air Cargo Terminal	a	Other operating costs	507,489	The same as ordinary transactions	0.33
		Cal Park	a	Other operating costs	228,942	The same as ordinary transactions	0.15
		Cal Hotel Co., Ltd.	a	Other operating costs	136,681	The same as ordinary transactions	0.09
		Mandarin Airlines	a	Accounts receivable - related parties	452,488	The same as ordinary transactions	0.20
		Mandarin Airlines	a	Accounts payable - related parties	339,274	The same as ordinary transactions	0.15
		Taoyuan International Airport Services	a	Accounts payable - related parties	355,885	The same as ordinary transactions	0.16
		Mandarin Airlines	a	Bonds payable	250,000	The same as ordinary transactions	0.11
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	507,489	The same as ordinary transactions	0.33
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger revenue	147,914	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Passenger costs	2,184,703	The same as ordinary transactions	1.40
		Taiwan Airport Service	c	Airport service costs	121,505	The same as ordinary transactions	0.08
		China Airlines, Ltd.	b	Operating expenses	310,398	The same as ordinary transactions	0.20
		China Airlines, Ltd.	b	Accounts receivable - related parties	339,274	The same as ordinary transactions	0.15
		China Airlines, Ltd.	b	Held-to-maturity financial assets	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes payable - related parties	452,488	The same as ordinary transactions	0.20
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	1,193,551	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Accounts receivable - related parties	355,885	The same as ordinary transactions	0.16
		Tigerair Taiwan Co., Ltd.	c	Airport service revenue	152,384	The same as ordinary transactions	0.76
4	Taiwan Airport Service	China Airlines, Ltd.	b	Operating revenue	375,579	The same as ordinary transactions	0.24
		Mandarin Airlines	c	Operating revenue	121,505	The same as ordinary transactions	0.08
5	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	334,375	The same as ordinary transactions	0.21
6	Cal Park	China Airlines, Ltd.	b	Operating revenue	228,942	The same as ordinary transactions	0.15

(Continued)

No.	Company Name	Related Party	Natural of Relationship (Note 1)	Intercompany Transactions			
				Financial Statement Account	Amount	Transaction Criteria	% of Total Consolidated Total Revenue or Assets
7	Cal Hotel Co., Ltd.	China Airlines, Ltd.	b	Operating revenue	$ 136,681	The same as ordinary transactions	0.09
8	Tigerair Taiwan Co., Ltd.	China Airlines, Ltd.	b	Operating expenses	288,954	The same as ordinary transactions	0.19
		Taoyuan International Airport Services	c	Airport service costs	152,384	The same as ordinary transactions	0.07

Note 1: The three directional types for transactions by business relationship between China Airlines, Ltd. and its subsidiaries are as follows:

a. Parent to subsidiaries.
b. Subsidiaries to parent.
c. Subsidiaries to subsidiaries.

Note 2: Intercompany transactions were written off in the consolidated financial statements.

Note 3: The Company only discloses transaction amounts or balances of more than $100,000 thousand.

(Concluded)

China Airlines, Ltd.

**Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
China Airlines, Ltd.

Opinion

We have audited the accompanying financial statements of China Airlines, Ltd. (the Company), which comprise the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and other regulations.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the audit of the financial statement of the Company are stated below:

<u>Deferred Income Tax Assets</u>

Due to suffering tax losses in previous years, the Company was granted loss carryforwards which can be used against taxable income in a certain period. The Company recognized the loss carryforwards as deferred tax assets to the extent that the taxable profit in the future will be available against the loss carryforwards. As of December 31, 2017, the Company recognized tax losses as deferred tax assets, in New Taiwan dollars (NT$), in the amount of NT$779,769 thousand. Refer to Notes 4, 5 and 27 in the accompanying financial statement for the related detailed information.

The difference between the amount representative of the Company's financial position and its tax base are material to the financial statements as a whole in the aviation industry. Moreover, deferred tax assets arising from tax losses are dependent on future taxable income and the reversal of existing taxable temporary differences, which involve management's judgment when assessing the realization of tax losses. As there is a significant level of judgment involved in valuing the deferred tax assets, we have deemed this to be a key audit matter.

The following are the main audit procedures for the key audit matter mentioned above:

1. Acquiring the internal financial forecasts and the estimate of future taxable income, and reviewing the rationality of management's assumptions.

2. Acquiring information about the differences between the Company's financial position and its tax base, and assessing the rationality of reconciliations and the realization schedule of temporary differences to verify whether they are consistent with management's financial forecasts.

Impairment Loss of Noncurrent Assets Held for Sale

The board of directors of the Company resolved to dispose of several aircrafts. According to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", impairment losses from the disposal of aircrafts were recognized as the differences between the expected transaction value and the carrying amount of the aircrafts, and then the aircrafts were reclassified as noncurrent assets held for sale. As of December 31, 2017, the carrying amount of the aircrafts held for sale was NT$309,330 thousand, and the Company recognized an impairment loss of NT$3,571,301 thousand. Refer to Notes 4, 5 and 12 in the accompanying financial statements for the related detailed information.

Due to the lack of an open trading market for aircrafts, the range of disposal prices for aircrafts varies significantly, and the expected transaction value of aircrafts reflecting the carrying amount of noncurrent assets held for sale was difficult to evaluate. Therefore, we identified noncurrent assets held for sale as a key audit matter.

The following were the main audit procedures for the key audit matter mentioned above:

1. Reviewing the rationality of an assessment on the transaction value by obtaining reference prices from authoritative publications recognized within the aviation industry, historical selling prices of similar types of aircrafts, and the suggested price proposed by a broker and observing the subsequent transactions.

2. Discussing the status of the transaction with the department accountable for disposing of aircrafts, and reviewing whether the correspondences and the latest quote were consistent with the market value estimated by management.

Acquisition Costs of a New Fleet

In accordance with IAS 16 "Property, Plant and Equipment", acquisition costs of aircrafts should be allocated into several significant components, including airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and should be depreciated over different useful lives. As of December 31, 2017, the carrying amount of flight equipment was NT$125,442,997 thousand. Refer to Notes 4, 5 and 14 in the accompanying financial statements for the related detailed information.

Since the Company introduced a brand new fleet of A350-900 this year, the adjusted allocation base should be applied. Moreover, the carrying amount of flight equipment and the amount of depreciation expense recognized would be subject to the allocation of acquisition costs and the applied useful life, which were made in accordance with management's judgment. Therefore, we identified the acquisition costs of the new fleet as a key audit matter.

The following were the main audit procedures for the key audit matter mentioned above:

1. Reviewing the certificates issued by the aircraft and engine manufacturers, the suggested operating cost of the aircraft manufacturer, and the historical experience of the maintenance department to assess the rationale used to determine the division amount by management.

2. Conducting an assessment on the rationality of useful life on the basis of fleet performance in the industry, historical experience of fleet operations, and documents that described the basis used by management to determine the useful life of its new fleet.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chen-Hsin Yang and Li-Chi Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2018

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

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

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

CHINA AIRLINES, LTD.

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

ASSETS	2017 Amount	%	2016 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 30)	$ 16,563,559	8	$ 19,734,590	9
Financial assets at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	-	-	1,200	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 30)	293	-	51,403	-
Receivables:				
Notes and accounts, net (Notes 4, 5, 10 and 30)	8,044,940	4	7,825,504	4
Notes and accounts - related parties (Notes 30 and 31)	510,588	-	439,509	-
Other receivables	532,974	-	833,754	1
Current tax assets (Notes 4 and 27)	24,096	-	21,652	-
Inventories, net (Notes 4 and 11)	8,610,958	4	8,338,980	4
Noncurrent assets held for sale (Notes 4, 5 and 12)	426,553	-	185,100	-
Other current assets (Note 17)	3,219,735	2	2,476,800	1
Total current assets	37,933,696	18	39,908,492	19
NONCURRENT ASSETS				
Derivative financial assets for hedging - noncurrent (Notes 4, 5, 8 and 30)	-	-	3,268	-
Financial assets carried at cost - noncurrent, net of current portion (Notes 9 and 30)	64,177	-	120,200	-
Investments accounted for using the equity method (Notes 4 and 13)	11,551,369	5	10,051,325	5
Property, plant and equipment (Notes 4, 5, 14 and 32)	142,265,548	67	129,121,632	61
Investment properties (Notes 4 and 15)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 16)	989,327	1	1,115,101	-
Deferred tax assets (Notes 4, 5 and 27)	4,974,941	2	5,749,714	3
Other noncurrent assets (Notes 17, 20, 30, 32 and 33)	12,091,486	6	23,422,263	11
Total noncurrent assets	173,984,296	82	171,630,951	81
TOTAL	$ 211,917,992	100	$ 211,539,443	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 30)	$ 8,655	-	$ -	-
Short-term bills payable (Note 18)	-	-	900,000	1
Derivative financial liabilities for hedging - current (Notes 4, 5, 8 and 30)	77,639	-	20,854	-
Notes and accounts payable (Note 30)	297,952	-	638,876	-
Notes and accounts payable - related parties (Notes 30 and 31)	1,494,006	1	1,347,007	1
Other payables (Notes 21 and 26)	10,908,752	5	9,634,022	5
Current tax liabilities (Notes 4 and 27)	2	-	2	-
Provisions - current (Notes 4, 5 and 23)	406,457	-	-	-
Deferred revenue - current (Notes 4, 5 and 22)	14,048,025	7	13,404,227	6
Bonds payable and put option of convertible bonds - current portion (Notes 4, 19, 25, 30 and 31)	4,367,100	2	2,700,000	1
Loans and debts - current (Notes 18, 30 and 32)	18,814,633	9	31,816,140	15
Capital lease obligations - current portion (Notes 4, 20, 30 and 32)	1,580,000	1	1,254,000	1
Other current liabilities (Note 30)	2,922,143	1	2,624,677	1
Total current liabilities	54,925,364	26	64,339,805	31
NONCURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - noncurrent (Notes 4, 5, 7 and 30)	926	-	-	-
Derivative financial liabilities for hedging - noncurrent (Notes 4, 5, 8 and 30)	6,994	-	2,775	-
Bonds payable - noncurrent (Notes 4, 19, 25, 30 and 31)	21,350,000	10	19,838,044	9
Loans and debts - noncurrent (Notes 18, 30 and 32)	61,907,978	29	52,833,478	25
Provisions - noncurrent (Notes 4, 5 and 23)	7,352,194	4	6,770,951	3
Deferred tax liabilities (Notes 4 and 27)	38,946	-	114,772	-
Capital lease obligations - noncurrent (Notes 4, 20, 30 and 32)	596,000	-	3,562,000	2
Deferred revenue - noncurrent (Notes 4, 5 and 22)	1,818,265	1	1,808,903	1
Accrued pension costs (Notes 4, 5 and 24)	6,158,744	3	6,217,346	3
Other noncurrent liabilities (Note 30)	739,344	-	267,552	-
Total noncurrent liabilities	99,969,391	47	91,415,821	43
Total liabilities	154,894,755	73	155,755,626	74
EQUITY (Notes 19 and 25)				
Share capital	54,709,846	26	54,708,901	26
Capital surplus	799,999	-	799,932	-
Retained earnings				
Legal reserve	206,092	-	287,224	-
Special reserve	-	-	76,486	-
Unappropriated retained earnings (accumulated deficit)	1,458,313	1	(157,618)	-
Total retained earnings	1,664,405	1	206,092	-
Other equity	(107,641)	-	112,264	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	57,023,237	27	55,783,817	26
TOTAL	$ 211,917,992	100	$ 211,539,443	100

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

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017 Amount	%	2016 Amount	%
REVENUE (Notes 4, 26 and 31)	$ 139,815,211	100	$ 127,524,864	100
COSTS (Notes 4, 8, 11, 24, 26 and 31)	121,848,814	87	112,248,884	88
GROSS PROFIT	17,966,397	13	15,275,980	12
OPERATING EXPENSES (Notes 4, 24, 26 and 31)	10,608,283	8	10,800,273	9
OPERATING PROFIT	7,358,114	5	4,475,707	3
NONOPERATING INCOME AND EXPENSES				
Other income (Notes 9 and 26)	360,980	-	593,451	1
Other gains and losses (Notes 8, 9, 12, 13, 14 and 26)	(4,980,870)	(3)	(2,410,921)	(2)
Finance cost (Notes 8, 26 and 31)	(1,277,807)	(1)	(1,221,588)	(1)
Share of the profit of associates and joint ventures (Note 13)	1,627,786	1	100,602	-
Total nonoperating income and expenses	(4,269,911)	(3)	(2,938,456)	(2)
PROFIT BEFORE INCOME TAX	3,088,203	2	1,537,251	1
INCOME TAX EXPENSE (Notes 4, 5 and 27)	880,137	-	965,711	1
NET INCOME	2,208,066	2	571,540	-
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 24)	(645,219)	(1)	(589,382)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(211,952)	-	(234,797)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 27)	109,687	-	100,195	-

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 25)	$ (134,857)	-	$ (80,104)	-
Cash flow hedges (Notes 4 and 25)	(116,580)	-	300,109	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 25)	(11,212)	-	(4,057)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 25 and 27)	42,744	-	(37,401)	-
Other comprehensive loss for the year, net of income tax	(967,389)	(1)	(545,437)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,240,677	1	$ 26,103	-
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic	$ 0.40		$ 0.10	
Diluted	$ 0.39		$ 0.10	

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

CHINA AIRLINES, LTD.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity				
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares Held by Subsidiaries	Total Equity
BALANCE AT JANUARY 1, 2016	$ 54,708,901	$ 798,415	$ -	$ -	$ 2,872,235	$ 157,959	$ 1,755	$ (225,997)	$ (43,372)	$ 58,269,896
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	-	-	-	(1,638)	-	-	-	-	(1,638)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(3,536)	-	-	-	-	(3,536)
Appropriation of 2015 earnings										
Legal reserve	-	-	287,224	-	(287,224)	-	-	-	-	-
Special reserve	-	-	-	76,486	(76,486)	-	-	-	-	-
Cash dividends - $0.458522382 per share	-	-	-	-	(2,508,525)	-	-	-	-	(2,508,525)
Change in capital surplus from dividends distributed to subsidiaries	-	1,517	-	-	-	-	-	-	-	1,517
Net income for the year ended December 31, 2016	-	-	-	-	571,540	-	-	-	-	571,540
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(723,984)	(79,395)	(41)	257,983	-	(545,437)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	(152,444)	(79,395)	(41)	257,983	-	26,103
BALANCE AT DECEMBER 31, 2016	54,708,901	799,932	287,224	76,486	(157,618)	78,564	1,714	31,986	(43,372)	55,783,817
Compensation of deficit - capital surplus	-	-	(81,132)	(76,486)	157,618	-	-	-	-	-
Convertible bonds converted to common shares	945	131	-	-	-	-	-	-	-	1,076
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	(64)	-	-	-	-	-	-	-	(64)
Difference between cost of the acquisition of subsidiaries and net value	-	-	-	-	(2,269)	-	-	-	-	(2,269)
Net income for the year ended December 31, 2017	-	-	-	-	2,208,066	-	-	-	-	2,208,066
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(747,484)	(113,550)	60	(106,415)	-	(967,389)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	1,460,582	(113,550)	60	(106,415)	-	1,240,677
BALANCE AT DECEMBER 31, 2017	$ 54,709,846	$ 799,999	$ 206,092	$ -	$ 1,458,313	$ (34,986)	$ 1,774	$ (74,429)	$ (43,372)	$ 57,023,237

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,088,203	$ 1,537,251
Adjustments to reconcile pretax profit to net cash generated from (used in) operating activities:		
Bad-debt expenses	50,000	49,878
Depreciation expenses	17,375,194	16,588,758
Amortization expenses	247,725	138,554
Net loss on fair value change of financial assets and liabilities held for trading	33,385	29,909
Interest income	(176,329)	(188,006)
Dividend income	(9,564)	(59,099)
Share of profit of associates and joint ventures	(1,627,786)	(100,602)
Loss on disposal of financial assets carried at cost	-	346
Gain on disposal of property, plant and equipment	(5,839)	(80,617)
Gain on disposal of investments accounted for using the equity method	(101,105)	-
(Gain) loss on disposal of noncurrent assets held for sale	(252,467)	26,429
Loss on inventories and property, plant and equipment	642,423	207,019
Impairment loss recognized on property, plant and equipment	690,579	717,758
Net gain on foreign currency exchange	(343,681)	(10,773)
Loss on repurchase of bonds payable	-	41,943
Finance costs	1,277,807	1,221,588
Recognition of provisions	2,524,079	2,011,115
Amortization of unrealized gain on sale-leasebacks	(14,512)	(14,512)
Impairment loss recognized on financial assets carried at cost	56,023	-
Impairment loss recognized on noncurrent assets held for sale	3,571,301	347,868
Changes in operating assets and liabilities		
Financial assets held for trading	(32,185)	134,448
Financial liabilities held for trading	9,580	-
Derivative financial assets for hedging	-	13,096
Notes and accounts receivable	(271,309)	(785,159)
Accounts receivable - related parties	(71,079)	106,633
Other receivables	266,338	(61,401)
Inventories	(591,043)	(359,928)
Other current assets	(733,731)	(355,393)
Notes and accounts payable	(305,161)	(353,373)
Accounts payable - related parties	146,999	(668)
Other payables	2,073,621	(1,490,845)
Deferred revenue	653,161	1,398,073
Provisions	(1,138,140)	(366,218)
Other current liabilities	157,417	275,042
Accrued pension liabilities	(703,821)	(3,337,565)
Cash generated from operations	26,486,083	17,281,549
Interest received	192,138	178,640
Dividends received	639,454	893,380

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Interest paid	$ (1,245,421)	$ (1,121,355)
Income tax paid	(31,203)	(44,606)
Net cash generated from operating activities	26,041,051	17,187,608
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the sale of financial assets carried at cost	-	5,579
Acquisition of investments accounted for by the equity method	(1,240,837)	(100,000)
Payments for property, plant and equipment	(953,218)	(2,196,021)
Proceeds from disposal of property, plant and equipment	82,534	514,561
Proceeds from disposal of noncurrent assets held for sale	1,128,472	384,285
Proceeds from disposal of investments accounted for using the equity method	380,850	-
Increase in refundable deposits	(107,935)	(146,408)
Decrease in refundable deposits	180,381	167,312
Increase in prepayments for equipment	(24,215,469)	(24,724,783)
Refunds of prepayments for aircraft	-	5,693,791
Increase in computer software costs	(121,951)	(265,615)
Decrease in restricted assets	-	206,714
Net cash used in investing activities	(24,867,173)	(20,460,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bills payable	(900,000)	900,000
Proceeds from issue of bonds payable	5,850,000	10,000,000
Exercise of put options of bonds payable	-	(994,705)
Repayments of bonds payable	(2,700,000)	(2,400,000)
Proceeds from long-term debts	30,380,000	34,499,000
Repayments of long-term debts and capital lease obligations	(36,947,007)	(35,052,725)
Proceeds of guarantee deposits received	233,015	98,282
Refunds of guarantee deposits received	(192,672)	(76,477)
Dividends paid to owners of the Company	-	(2,508,525)
Net cash (used in) generated from financing activities	(4,276,664)	4,464,850
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(68,245)	35,288
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,171,031)	1,227,161
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	19,734,590	18,507,429
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 16,563,559	$ 19,734,590

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

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

China Airlines, Ltd. (the “Company”) was founded in 1959 and its shares have been listed on the Taiwan Stock Exchange since February 26, 1993. The Company primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) sale of aircraft parts, equipment and entire aircraft; and (f) leasing of aircrafts.

The major shareholders of the Company are the China Aviation Development Foundation (CADF) and the National Development Fund (NDF), Executive Yuan. As of both December 31, 2017 and 2016, CADF and NDF held a combined 43.63% of the Company’s shares. As of December 31, 2017 and 2016, the Company had 12,654 and 12,657 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 22, 2018.

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

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

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

Amendments to IAS 36 “Impairment of Assets”

The amendment “Disclosures for Non-financial Assets” clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is the fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendment should be applied retrospectively starting from January 1, 2017. Refer to Notes 12 and 14 for the related disclosures.

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Company, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Company has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Company’s respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and the impairment of goodwill are enhanced. Refer to Note 31 for related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS)

New, Amended or Revised Standards and Interpretations (the “New IFRSs”)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments”

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Company’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss using the effective interest method; and

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

Unlisted shares measured at cost will be measured at fair value instead.

IFRS 9 requires impairment loss on financial assets to be recognized using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Company elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

Impact on Assets and Equity	**Carrying Amount as of December 31, 2017**	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2018**
December 31, 2017			
Noncurrent assets			
Financial assets at fair value through other comprehensive income	$ -	$ 107,196	$ 107,196
Financial assets carried at cost	64,177	(64,177)	-
Investments accounted for using the equity method	11,551,369	4,491	11,555,860
Total effect on assets	211,917,992	47,510	211,965,502
Equity			
Unappropriated retained earnings	1,458,313	60	1,458,373
Other equity	(107,641)	47,450	(60,191)
Total effect on equity	57,023,237	47,510	57,070,747

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity’s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risk eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

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

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, the Company recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Company satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Company regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

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

New IFRSs	Effective Date Announced by IASB (Note)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

IFRS 16 "Leases"

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

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Company should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

Except for the above impact, as of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described 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 an 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 an asset or liability.

When preparing these parent company only financial statements, the Company used the equity method to account for its investments in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owners of the Company in its consolidated financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the consolidated basis were made to investments accounted for using the equity method, the share of profit or loss of subsidiaries, associates and joint ventures, the share of other comprehensive income of subsidiaries, associates and joint ventures and the related equity items, as appropriate, in these parent company only financial statements.

Current and Noncurrent Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within 12 months after the reporting period; and

c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within 12 months after the reporting period; and

c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

Foreign Currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for:

a. Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

b. Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

For the purposes of presenting financial statements, the assets and liabilities of the Company's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Cash Equivalents

Cash equivalents, consisting of commercial paper and time deposits, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale and are stated at the lower of cost or net realizable value. The costs of inventories sold or consumed are determined using the weighted-average method.

Noncurrent Assets Held for Sale

Noncurrent assets are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the noncurrent asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Noncurrent assets classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Investments Accounted for by the Equity Method

Investments in subsidiaries, associates and jointly controlled entities are accounted for by the equity method.

a. Investment in subsidiaries

   Subsidiaries (including special purpose entities) are the entities controlled by the Company.

   Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. Besides, the Company also recognizes the Company's share of the change in other equity of the subsidiary.

   Changes in the Company's ownership interests in subsidiaries that do not result in the Company's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

   When the Company's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

   The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

   When the Company ceases to have control over a subsidiary, any retained investment is measured at fair value at that date and the difference between the previous carrying amount of the subsidiary attributable to the retained interest and its fair value is included in the determination of the gain or loss. Furthermore, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

   Profits and losses from downstream transactions with a subsidiary are eliminated in full. Profits and losses from upstream with a subsidiary and side stream transactions between subsidiaries are recognized in the Company's financial statements only to the extent of interests in the subsidiary that are not related to the Company.

b. Investments in associates and joint ventures

   An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement and the rights to the net assets of the arrangement.

   The Company uses the equity method to account for its investments in associates and joint ventures.

   Under the equity method, an investment in an associate and jointly controlled entity is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate and jointly ventures. The Company also recognizes the changes in the Company's share of equity of associates and jointly ventures attributable to the Company.

When the Company subscribes for additional new shares of an associate and joint ventures at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint ventures. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the subscription of additional new shares of the associate and jointly controlled entity, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint ventures is reclassified to profit or loss on the same basis as would be required had the investee directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using the equity method is insufficient, the shortage is debited to retained earnings.

When the Company's share of losses of an associate and joint ventures equals or exceeds its interest in that associate and joint ventures which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the associate and joint ventures entity, the Company discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint ventures.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate and joint ventures recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence and joint control. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the jointly controlled entity. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the jointly controlled entity on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Company transacts with its associate and joint ventures, profits and losses resulting from the transactions with the associate are recognized in the Company' financial statements only to the extent of interests in the associate and the jointly controlled entity that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used for more than one period. The cost of an item of property, plant and equipment shall be recognized as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company; and the cost of the item can be measured reliably. Property, plant and equipment are stated at cost less recognized accumulated depreciation and recognized accumulated impairment loss.

Freehold land is not depreciated.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. Assets are depreciated over the shorter of the lease term and their useful lives using the straight-line method.

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.

Investment Properties

Investment properties are properties held to earn rentals or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

Any gain or loss arising on the derecognition of investment properties is calculated as the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the property is derecognized.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lifives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life.

Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis; otherwise, corporate assets are allocated to the smallest Company of cash-generating units on a reasonable and consistent allocation basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company uses the estimated cash flows discounted by the future pre-tax discount rate, and the discount rate reflects current the market time value of money and the specific risks to the asset for estimated future cash flows not yet adjusting to the market.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit 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 for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. All regular way purchases or sales of financial assets means buy or sell financial assets in the period made by regulation or market convention.

1) Measurement category

Financial assets may be classified into the following specified categories: Financial assets at fair value through profit or loss, held-to maturity investments, available-for-sale financial assets and loans and receivables. The classification of financial assets depends on their nature and the purpose identified at their original recognition. The Company's financial assets consist of the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

b) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market, and other receivables are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss and available-for-sale financial assets, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets measured at amortized cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience with collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

For financial assets measured at amortized cost, the amount of the impairment loss recognized is the difference between such an asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment (at the date the impairment is reversed) does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include the following:

a) Significant financial difficulty of the issuer or counterparty;

b) Breach of contract, such as a default or delinquency in interest or principal payments;

c) It becoming probable that the borrower will enter bankruptcy or financial re-organization; or

d) The disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is the residual interest in any contract after all liabilities are deducted from the Company's assets. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except for derivative financial instruments, all the financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The Company derecognizes financial liabilities only when the obligation is discharged, canceled or expired. The difference between the carrying amount of such a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Convertible bonds

The component parts of compound instruments (i.e. convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premiums.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

e. Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate, foreign exchange rate and fuel price risks, including foreign exchange forward contracts, interest rate swaps, currency options and fuel swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rates, foreign exchange rates, fuel prices, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedges. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items which have been hedged, the objective of risk management, the hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period as when the hedged item affects profit or loss. If a hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecasted transaction occurs. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

The Company recognizes provisions when the Company has a present obligation (legal or constructive) arising from past events (legal or constructive obligation), payment for the obligation is probable, and the expenditure for settling the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation, taking into account the risks and uncertainties surrounding the obligation as of the balance sheet date. 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. When the aircraft lease contracts expire and will be returned to lessor, should assess if existing obligations exist and required to recognize as provision when signing of the lease contract.

Revenue Recognition

a. Rendering of services

Passenger fares and cargo revenue are recognized when transport service is provided. The value of unused passenger tickets is recognized as "advance tickets - sales".

b. Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

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

a. Financial leases

The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheets as a finance lease obligation.

Minimum lease payments are apportioned between finance expenses and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case, they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

b. Sales and leasebacks

For a sale and leaseback transaction, if it meets the condition whereby all the risks and rewards of ownership of the leased asset are essentially transferred to the lessee, the sale and leaseback transaction is classified as a finance lease. If part of the significant risks and rewards of ownership of the leased asset remain with the lessor (i.e. the buyer), the sale and leaseback transaction is classified as an operating lease.

1) Financial leases

This transaction does not actually dispose of the assets. The accounting treatment used treats the transaction as if it did not occur, and the assets are continuously recognized at the book value of the asset before sale.

2) Operating leases

If the selling price is equal to the fair value, the transaction gain or loss should be recognized immediately. If the selling price is above fair value, the difference between the fair value and the book value of the gain or loss should be recognized immediately; only the part of the selling price which is above fair value shall be deferred and amortized over the period of the lease.

c. Operating lease

1) The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2) The Company as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as expenses in the period in which they are incurred.

In the event that lease incentives are received when entering into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

b. Retirement benefits

Payments to the defined contribution retirement benefit plan are recognized as expenses when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined contribution retirement benefit plan are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liabilities (assets) are recognized as employee benefits expense in the period in which they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liabilities (assets) represent the actual deficit in the Company's defined benefit plans.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (assets which are substantially ready for their intended use or sale through a fairly long period) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Frequent Flyer Programs

The Company has a "Dynasty Flyer Program" through which program members can convert accumulated mileage to a cabin upgrade, free tickets and other member reward.

A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The entity should recognize this deferred revenue as revenue only when the entity has fulfilled its obligations on the granting of rewards or when the period for converting the mileage to rewards has expired.

Share-based Payment Arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instrument that will eventually vest, with a corresponding increase in capital surplus - employee share options. The fair value determined at the grant date of the equity-settled share-based payments is recognized as an expense in full at the grant date when the granted share options vest immediately.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

a. Current tax

The current tax liabilities are based on current taxable profit. Since part of the income and expenses are taxable or deductible in other periods, or in accordance with the relevant tax laws are taxable or deductible, current taxable profit differs from net profit reported in the statements of comprehensive income.

The Company's current tax liabilities are calculated by the tax rate was legislated or substantially legislated at the balance sheet date.

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

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

b. 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 profit. 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 unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profit against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profit will be available to allow all or part of the assets 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 profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred taxes for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Maintenance and Overhaul Costs

Routine maintenance costs are recognized in profit or loss in the period in which they are incurred.

The overhaul costs of an owned or leased aircraft that meet the criteria for fixed asset capitalization and engines as replacement parts for aircraft and engines are capitalized and amortized over the expected annual overhaul cycle using the straight-line depreciation method.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies shown on Note 4, 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Key Sources of Estimation Uncertainty

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 are discussed below.

Income Taxes

The Company is subject to income taxes in numerous jurisdictions. Where the final tax payable differs from the amounts that were initially recognized, these differences will affect the income tax and deferred tax provisions in the period in which the differences are determined. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be used. When evaluating the realizability of a deferred tax asset, management uses significant accounting judgments and estimates, including expected future revenue growth and profit margins, income tax exemption periods, the use of tax credits, tax planning and certain assumptions. Changes in the industry environment and regulations will result in a material adjustment of the deferred tax asset.

Estimated Impairment of Trade Receivables

The Company assesses the receivables portfolio monthly for impairment. Impairment evidence may include observable changes in debtors' solvency and national or local economic conditions that correlate with defaults on receivables settlement. Management's analysis of expected cash flows is based on past experience of loss on assets with similar credit risk characteristics. The Company periodically reviews the methods of determining, and assumptions on, the expected amount and timing of cash flows to reduce the difference between the estimated and the actual losses.

Fair Value of Derivatives and Other Financial Instruments

The Company's management uses its judgment in selecting an appropriate valuation technique for financial instruments with no quoted market prices in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are based on quoted market rates adjusted for specific features of the instruments. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices, interest rates or oil prices (if applicable). The chosen valuation techniques and assumptions used may affect the fair value of financial instruments.

Depreciation of Property, Plant and Equipment - Flight Equipment

Flight equipment is depreciated on a straight-line basis at rates that can be used to write down their cost to their estimated residual values at the end of their useful lives. The estimates of the useful lives and residual values of the flight equipment are made by the Company on the basis of past experience and fleet operation performance in the industry. Due to changes in the fleet plan, the board of directors of the Company has decided to change the useful lives of four 747-400 (GE) from 20 to 16-17 years since January 1, 2018 in order to meet the economic benefits and number of years of consumption. It is estimated that the depreciation expense will increase by approximately NT$770 million annually.

Defined Benefit Obligations

The present value of defined benefit obligations at the end of the reporting period are calculated using actuarial assumptions. Those assumptions, which are based on management's judgment and estimates, comprise the discount rate and expected return on plan assets. Changes in actuarial assumptions may have a material impact on the amount of defined benefit obligations.

Maintenance Reserve for Operating Lease Aircrafts

Maintenance reserve is based on the requirement under lease contracts to reflect maintenance costs that may arise on lease expirations. Estimation of this reserve is based on the past maintenance experience with the same or similar type of aircraft; incurred overhaul costs; and historical operating performance data. Changes in judgment or estimations may have a material impact on the amount of maintenance reserve.

Frequent Flyer Programs

As stated in Note 4, "Frequent Flyer Programs", a portion of passenger revenue attributable to the awarding of frequent flyer benefits is deferred until the awards are given out. The deferment of the revenue is estimated on the basis of historical trends of breakage and redemption, which is then used to project the expected claiming of these benefits. Changes in fair value per mileage or the redemption rate may have a material impact on deferred revenue.

Impairment of Flight Equipment

The impairment of flight equipment was based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to the recognition of additional or reversal of impairment losses.

Impairment of Noncurrent Assets Held for Sale

When the carrying amount of noncurrent assets held for sale is lower than fair value, the difference between the carrying amount and fair value is recognized as impairment loss, and the fair value was determined based on the quote of potential buyers, the market price of similar assets, etc.

6. CASH AND CASH EQUIVALENTS

	December 31 2017	December 31 2016
Cash on hand and revolving funds	$ 46,287	$ 34,129
Checking accounts and demand deposits	8,284,609	7,208,550
Cash equivalents		
Time deposits with original maturities of less than three months	3,098,063	3,078,150
Repurchase agreements collateralized by bonds	5,134,600	9,413,761
	$ 16,563,559	$ 19,734,590

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

	December 31 2017	December 31 2016
Bank balance	0%-2%	0.08%-2%
Time deposits with original maturities of less than three months	0.59%-4.2%	1.3%-12.9%
Repurchase agreements collateralized by bonds	0.38%-2.2%	0.42%-1.40%

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

	December 31 2017	December 31 2016
Financial assets held for trading - current		
Derivative financial instruments (not under hedge accounting)		
Foreign exchange forward contracts	$ -	$ 1,200
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
Current	$ 8,655	$ -
Noncurrent	926	-
	$ 9,581	$ -

At the end of the reporting period, outstanding foreign exchange forward contracts not under hedge accounting were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.13-2019.01.31	NTD194,030/USD6,500
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.26	NTD32,258/USD1,000

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31 2017	December 31 2016
Derivative financial assets under hedge accounting		
Cash flow hedges		
Foreign exchange forward contracts	$ 293	$ 54,671
Current	$ 293	$ 51,403
Noncurrent	-	3,268
	$ 293	$ 54,671
Derivative financial liabilities under hedge accounting		
Cash flow hedges		
Interest rate swaps	$ -	$ 3,855
Foreign exchange forward contracts	84,633	19,774
	$ 84,633	$ 23,629
Current	$ 77,639	$ 20,854
Noncurrent	6,994	2,775
	$ 84,633	$ 23,629

The fair value of each derivative contract is determined using quotes from financial institutions.

a. Interest rate swaps

The Company entered into interest rate swap contracts to mitigate the risk of changes in interest rates on the cash flow exposure related to the outstanding floating rate debt. All swapped fixed interest rate swap out the floating rate interest rate swap contracts are designated as cash flow hedges.

The outstanding interest rate swap contracts at the end of the reporting period were as follows:

Notional Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2016			
NT$ 2,500,000	2017.03.09-2017.06.22	1.01%-1.14%	TAIBOR rate

The interest rate swaps settle on a quarterly basis. The Company will settle the difference between the fixed and floating interest rates on a net basis.

b. Foreign exchange forward contracts

The Company entered into foreign exchange forward contracts to minimize the risk of changes in foreign currency rates on the cash flow exposure related to fuel payments and aircraft payments, which will be paid in U.S. dollars.

The outstanding foreign exchange forward contracts at the end of the reporting period were as follows:

	Currency	Maturity Date	Notional Amount (In Thousands)
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.16-2019.06.21	NTD6,649,254/USD222,750
December 31, 2016			
Buy forward contracts	NTD/USD	2017.01.13-2018.10.25	NTD5,019,355/USD155,600

Gains and losses on hedging instruments reclassified from equity to profit or loss were included in the following line items in the statements of comprehensive income:

	For the Year Ended December 31	
	2017	2016
Increase in operating costs	$ (52,034)	$ (345,675)
Increase in finance costs	(2,814)	(10,390)
Other foreign exchange losses	(11,654)	(71,630)
	$ (66,502)	$ (427,695)

The amount of gains and losses on hedging instruments for the year ended 2017 and 2016 reclassified from profit or loss to prepayments for equipment was $100,367 thousand and $154,970 thousand, respectively.

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2017		2016	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Unlisted common shares				
Everest Investment Holdings Ltd. (AH)	$ 52,704	14	$ 52,704	14
Jardine Air Terminal Services	-	15	56,023	15
Chung Hwa Express Co.	11,000	11	11,000	11
	63,704		119,727	
Unlisted preference shares				
Everest Investment Holdings Ltd. (AH)	473	-	473	-
	$ 64,177		$ 120,200	
Classified according to financial asset measurement categories				
Available-for-sale financial assets	$ 64,177		$ 120,200	

On the reporting date, the above unlisted share investments held by the Company were measured at cost after deducting impairment losses because their ranges of reasonable fair value estimates were significant and unable to be reasonably evaluated. Thus, the management considered their fair values unable to be measured.

10. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2017	2016
Notes receivable	$ 361,910	$ 522,523
Accounts receivable		
Accounts receivable	7,825,667	7,450,185
Less: Allowance for impairment loss	(142,637)	(147,204)
	7,683,030	7,302,981
	$ 8,044,940	$ 7,825,504

The average credit period was 7 to 45 days. In determining the recoverability of an account receivable, the Company considered any change in the credit quality of the account receivable since the date credit was initially granted to the end of the reporting period, and the allowance for impairment loss was based on the estimated irrecoverable amounts determined by reference to the Company's past default experience with the respective counterparties and analyses of their current financial positions.

Movements in the allowance for impairment loss recognized on notes receivable and accounts receivable were as follow:

	For the Year Ended December 31	
	2017	2016
Beginning balance	$ 147,204	$ 99,788
Impairment loss recognized on receivables	50,000	49,878
Amounts written off during current period	(54,567)	(2,462)
Ending Balance	$ 142,637	$ 147,204

11. INVENTORIES

	December 31	
	2017	2016
Aircraft spare parts	$ 7,970,618	$ 7,625,731
Items for in-flight sale	569,294	546,565
Work in process - maintenance services	71,046	166,684
	$ 8,610,958	$ 8,338,980

The operating costs for the years ended December 31, 2017 and 2016 included losses from inventory write-downs of $324,447 thousand and $196,000 thousand, respectively.

12. NONCURRENT ASSETS HELD FOR SALE

	December 31	
	2017	2016
Aircrafts held for sale	$ 309,330	$ 185,100
Long-term equity investments held for sale - Asian Compressor technology services	117,223	-
	$ 426,553	$ 185,100

To enhance its competitiveness, the Company plans to introduce new aircrafts and retire old aircrafts according to a planned schedule. Such aircrafts, classified as noncurrent assets held for sale, had an original book value which was higher than the expected sale price and which was recognized as an impairment loss. However, the actual loss shall be identified by the actual sale price.

In 2017 and 2016, the Company recognized impairment losses of $3,571,301 thousand and $347,868 thousand, respectively. In 2017 and 2016, the Company recognized disposal gains and losses of $252,467 thousand and $(26,429) thousand, respectively. The fair value was determined by transactions of the related market, and the proposed sale price was based on the current status of the aircrafts. The fair value is classified as level 3.

Long-term equity investments in Asian Compressor Technology Services were reclassified to noncurrent assets held for sale. For related information, refer to Note 13,b.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2017	2016
Investments in subsidiaries	$ 9,827,299	$ 7,925,771
Investments in associates	793,477	1,319,526
Investments in jointly controlled entities	930,593	806,028
	$ 11,551,369	$ 10,051,325

a. Investment in subsidiaries

	December 31	
	2017	2016
Unlisted companies		
Cal Park	$ 1,522,696	$ 1,529,375
Mandarin Airlines	1,211,739	1,125,057
Cal-Dynasty International	1,185,323	1,244,328
Taiwan Air Cargo Terminal	1,339,450	1,261,894
Tigerair Taiwan Co., Ltd.	915,135	362,861
Taoyuan International Airport Services	654,104	649,189
Cal-Asia Investment	478,933	450,305
Sabre Travel Network (Taiwan)	450,600	438,502
Cal Hotel	435,965	387,375
Taiwan Airport Services	259,459	231,316
Hwa Hsia	83,014	71,534

(Continued)

	December 31	
	2017	2016
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	$ 1,231,548	$ 110,128
Yestrip	25,904	25,464
Dynasty Holidays	25,992	30,961
Global Sky Express	7,437	7,418
Freighter Princess Ltd.	-	32
Freighter Prince Ltd.	-	32
	$ 9,827,299	$ 7,925,771

(Continued)

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Company were as follows:

	December 31	
	2017	2016
Tigerair Taiwan Co., Ltd.	90%	80%
Taiwan Air Cargo Terminal	54%	54%
Cal Park	100%	100%
Mandarin Airlines	94%	94%
Cal-Dynasty International	100%	100%
Taoyuan International Airport Services	49%	49%
Cal-Asia Investment	100%	100%
Sabre Travel Network (Taiwan)	94%	94%
Taiwan Airport Services	47%	47%
Cal Hotel	100%	100%
Hwa Hsia	100%	100%
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	100%	100%
Dynasty Holidays	51%	51%
Yestrip	100%	100%
Global Sky Express	25%	25%
Freighter Princess Ltd.	-	100%
Freighter Prince Ltd.	-	100%

Each of the Company's holdings of the issued share capital of Taoyuan International Airport Service, Taiwan Airport Service and Global Sky Express did not exceed 50%, but since the Company had control over these investees, they were listed as subsidiaries.

The Company liquidated Freighter Princess Ltd. and Freighter Prince Ltd., because the lease contracts related to these subsidiaries expired. A disposal loss of $61 thousand was recognized.

The Company increased its investment in Taiwan Aircraft Maintenance and Engineering Co., Ltd., with payments of $490,000 thousand, $700,000 thousand and $100,000 thousand in April and November 2017 and October 2016, respectively, for the purpose of building hangars.

The board of directors reached an agreement to purchase 10% of the shares of Tigerair Taiwan Co., Ltd., which was held by Roar Aviation III Pte. Ltd., in December 2016. The transaction was completed in January 2017.

The share of profit or loss of subsidiaries recognized under the equity method was as follows:

	2017	2016
The share of profit or loss	$ 1,146,623	$ (391,718)

b. Investments in associates

	December 31	
	2017	2016
Unlisted companies		
China Aircraft Services	$ 493,077	$ 515,051
Kaohsiung Catering Services	300,400	267,371
Asian Compressor Technology Services	-	279,176
Science Park Logistics	-	257,928
	$ 793,477	$ 1,319,526

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Company were as follows:

	December 31	
	2017	2016
China Aircraft Services	20%	20%
Kaohsiung Catering Services	36%	36%
Asian Compressor Technology Services	-	25%
Science Park Logistics	-	26%

The recognized investment income of associates accounted for using the equity method were as follows:

	2017	2016
China Aircraft Services	$ 24,470	$ 51,028
Kaohsiung Catering Services	86,757	75,674
Asian Compressor Technology Services	88,943	109,815
Science Park Logistics	21,819	26,136
	$ 221,989	$ 262,653

In August 2017, the Company sold all of its holdings of Science Park Logistics to a non-related party, HCT Logistics Co., Ltd. The agreed upon price was $380,850 thousand, and a disposal gain of $101,166 thousand was recognized.

In October 2017, the Company signed a contract with a non-related party, MB Aerospace, to sell all of its holdings of Asian Compressor Technology Services, and the Company reclassified its holdings of Asian Compressor Technology Services as noncurrent assets held for sale at book value. The transaction was completed and all payments were settled in January 2018.

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31	
	2017	2016
China Pacific Catering Services	$ 756,965	$ 638,980
China Pacific Laundry Services	171,229	167,048
Nordam Asia	2,399	-
	$ 930,593	$ 806,028

At the end of the reporting period, the percentages of ownership and voting rights in jointly controlled entities held by the Company were as follows:

	December 31	
	2017	2016
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
Nordam Asia	49%	-

The Company signed a joint venture agreement with the Taikoo Company to invest in China Pacific Catering Services and China Pacific Laundry Services. According to the agreement, both parties have the majority power in the board of directors to pose a motion for veto, and therefore the Company does not have control.

To enhance the Company's maintenance capabilities, the Company established a joint venture with the US Nordam Aerospace Company in December 2017 to provide thrust reversers and composite repair services in Asia under the Nordam brand.

Details of the investment income attributable to investments in jointly controlled entities were as follows:

	December 31	
	2017	2016
China Pacific Catering Services	$ 235,871	$ 208,039
China Pacific Laundry Services	23,354	21,628
Nordam Asia	(51)	-
	$ 259,174	$ 229,667

The Company’s shares of other comprehensive income of subsidiaries, associates and jointly controlled entities were losses of $(223,164) thousand and $(238,854) thousand in 2017 and 2016, respectively.

The financial statements used as a basis of the amounts of and related information on the investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2017 and 2016 were all independently audited, except of China Aircraft Services and Nordam Asia Limited. However, the management determined that there would have been no significant adjustments had this investee’s financial statements been independently audited.

For details on services, major business offices and the country where the above associates and jointly controlled entities are registered, refer to Table 6, "Names, Locations, And Other Information of Investees Over Which the Company Exercises Significant Influence" and, Table 7, "Investments In Mainland China", following the Notes to Financial Statements.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2016	$ 193,013	$ 7,323,803	$ 228,454,181	$ 27,481,679	$ 5,892,037	$ 269,344,713
Additions	-	61,704	1,814,211	-	320,106	2,196,021
Disposals	-	(108,160)	(6,336,888)	(393,403)	(158,177)	(6,996,628)
Reclassification	-	406	22,377,045	1,218,979	22,261	23,618,691
Balance at December 31, 2016	$ 193,013	$ 7,277,753	$ 246,308,549	$ 28,307,255	$ 6,076,227	$ 288,162,797
Accumulated depreciation and impairment						
Balance at January 1, 2016	$ -	$ (3,449,160)	$ (128,886,336)	$ (13,715,235)	$ (4,847,510)	$ (150,898,241)
Depreciation expense	-	(174,689)	(14,058,579)	(2,031,998)	(323,492)	(16,588,758)
Disposals	-	73,847	5,609,896	393,403	155,518	6,232,664
Impairment losses	-	-	(717,758)	-	-	(717,758)
Reclassification	-	-	2,923,255	6,690	983	2,930,928
Balance at December 31, 2016	$ -	$ (3,550,002)	$ (135,129,522)	$ (15,347,140)	$ (5,014,501)	$ (159,041,165)
Cost						
Balance at January 1, 2017	$ 193,013	$ 7,277,753	$ 246,308,549	$ 28,307,255	$ 6,076,227	$ 288,162,797
Additions	-	32,517	662,706	-	257,995	953,218
Disposals	-	(5,942)	(4,549,486)	(479,936)	(211,216)	(5,246,580)
Reclassification	-	-	18,692,862	(2,232,883)	40,430	16,500,409
Balance at December 31, 2017	$ 193,013	$ 7,304,328	$ 261,114,631	$ 25,594,436	$ 6,163,436	$ 300,369,844
Accumulated depreciation and impairment						
Balance at January 1, 2017	$ -	$ (3,550,002)	$ (135,129,522)	$ (15,347,140)	$ (5,014,501)	$ (159,041,165)
Depreciation expense	-	(170,979)	(15,017,928)	(1,889,207)	(297,080)	(17,375,194)
Disposals	-	3,926	4,022,065	619,775	200,761	4,846,527
Impairment losses	-	-	(690,579)	-	-	(690,579)
Reclassification	-	-	11,144,330	3,003,549	8,236	14,156,115
Balance at December 31, 2017	$ -	$ (3,717,055)	$ (135,671,634)	$ (13,613,023)	$ (5,102,584)	$ (158,104,296)

Reclassification is mainly from prepaid equipment.

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

Building	
Main buildings	45-55 years
Others	10-25 years
Machinery and equipment	
Electro-mechanical equipment	25 years
Others	3-13 years
Office equipment	3-15 years
Leasehold improvements	
Building improvements	5 years
Others	3-5 years
Flight equipment and equipment under finance leases	
Airframes	18-25 years
Aircraft cabins	10-20 years
Engines	12-20 years
Heavy maintenance on aircrafts	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	8-12 years
Repairable spare parts	3-15 years
Improvement of aircrafts	5-12 years

Regarding changes in fleet composition, current and forecasted market values, and other technical factors, the Company recognized impairment losses on a part of aircraft equipment of $690,579 thousand and $717,758 thousand in 2017 and 2016, respectively.

Refer to Note 32 for the carrying amounts of property, plant and equipment pledged by the Company.

Based on the particularity of risk in the aviation industry, all of the Company's assets such as aircrafts, real estate, and movable property are adequately insured to diversify the potential risk related to operations.

15. INVESTMENT PROPERTIES

	December 31	
	2017	2016
Carrying amount		
Investment properties	$ 2,047,448	$ 2,047,448

The investment properties (land) held by the Company located in Nankan were leased to others.

The fair value of the investment properties held by the Company are $2,473,771 thousand and $2,316,300 thousand as of December 31, 2017 and 2016, respectively. The fair value valuation was performed by independent qualified professional valuers, and the future income evaluated by management was based on market transactions.

All of the Company's investment properties were held under freehold interest.

16. OTHER INTANGIBLE ASSETS

	Computer Software Costs	Accumulated Amortization	Net Value
Balance at January 1, 2016	$ 1,520,055	$ (529,748)	$ 990,307
Additions	265,615	-	265,615
Amortization expense	-	(138,554)	(138,554)
Reclassification	(2,267)	-	(2,267)
Balance at December 31, 2016	$ 1,783,403	$ (668,302)	$ 1,115,101
Balance at January 1, 2017	$ 1,783,403	$ (668,302)	$ 1,115,101
Additions	121,951	-	121,951
Amortization expense	-	(247,725)	(247,725)
Balance at December 31, 2017	$ 1,905,354	$ (916,027)	$ 989,327

The above items of other intangible assets were amortized on a straight-line basis over 2-10 years.

17. OTHER ASSETS

	December 31	
	2017	2016
Current		
Temporary payments	$ 315,372	$ 166,236
Prepayments	2,391,132	2,091,371
Others	513,231	219,193
	$ 3,219,735	$ 2,476,800
Noncurrent		
Prepayments for aircrafts	$ 10,578,892	$ 21,845,682
Prepayments - long-term	1,069,595	1,036,525
Refundable deposits	424,196	521,229
Other financial assets	18,803	18,827
	$ 12,091,486	$ 23,422,263

The prepayments for aircrafts comprised the prepaid deposits and capitalized interest from the purchase of A350-900 aircrafts. For details of the A350-900 aircrafts purchase contracts, refer to Note 33. The rights to purchase the six confirmed orders of 777-300ER aircrafts were transferred to the aircraft leasing company upon delivery of the aircrafts. Then, all six aircrafts were leased back. As of May 2016, all the aircrafts had been delivered, and the Company was refunded with deposits for the aircraft purchases.

18. BORROWINGS

a. Short-term bills payable

	December 31	
	2017	2016
Commercial paper	$ -	$ 900,000
Less: Unamortized discount on bills payable	-	-
	$ -	$ 900,000
Annual discount rate	-	0.758%

b. Long-term debts

	December 31	
	2017	2016
Unsecured bank loans	$ 23,949,000	$ 31,183,999
Secured bank loans	30,711,508	16,329,805
Commercial paper		
Proceeds from issue	26,100,000	37,200,000
Less: Unamortized discount	37,897	64,186
	80,722,611	84,649,618
Less: Current portion	18,814,633	31,816,140
	$ 61,907,978	$ 52,833,478

For information on secured bank loans which were secured by buildings, machinery equipment and flight equipment, refer to Note 32.

Bank loans (New Taiwan dollars and U.S. dollars) are repayable quarterly, semiannually or in lump sum upon maturity. Related information is summarized as follows:

	Currency	
	New Taiwan Dollars	U.S. Dollars
Original currency		
December 31, 2017	$ 54,660,508	$ -
December 31, 2016	46,464,267	32,536
Translated to New Taiwan dollars		
December 31, 2017	54,660,508	-
December 31, 2016	46,464,267	1,049,537
Interest rates		
December 31, 2017	0.92%-1.56%	-
December 31, 2016	0.92%-1.60%	0.8539%-4.39%

(Continued)

	Currency	
	New Taiwan Dollars	U.S. Dollars
Periods		
December 31, 2017	2007/5/24-2029/11/9	-
December 31, 2016	2005/3/4-2028/10/18	2005/1/18-2017/9/21

(Concluded)

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until December 2021, were used by the Company to guarantee commercial paper which it issued. The commercial paper was issued at discount rates of 0.9983%-1.2897% in 2017 and 1.0510%-1.4580% in 2016.

19. BONDS PAYABLE

	December 31 2017	December 31 2016
Unsecured corporate bonds first-time issued in 2013	$ 8,200,000	$ 10,900,000
Unsecured corporate bonds first-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds second-time issued in 2016	5,000,000	5,000,000
Unsecured corporate bonds first-time issued in 2017	2,350,000	-
Unsecured corporate bonds second-time issued in 2017	3,500,000	-
Convertible bonds - fifth issue	1,667,100	1,638,044
	25,717,100	22,538,044
Less: Current portion and put option of convertible bonds	4,367,100	2,700,000
	$ 21,350,000	$ 19,838,044

Related issuance conditions were as follows:

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in January 2013; repayable in January 2017 and 2018; 1.6% interest p.a., payable annually	2013.01.17-2018.01.17	Principal repayable in January of 2017 and 2018; indicator rate; payable annually	1.6
Seven-year private unsecured bonds - issued at par in January 2013; repayable in January 2019 and 2020; 1.85% interest p.a., payable annually	2013.01.17-2020.01.17	Principal repayable in January of 2019 and 2020; indicator rate; payable annually	1.85
Five-year unsecured bonds - issued at par in May 2016; repayable in May 2020 and 2021; 1.19% interest p.a., payable annually	2016.05.26-2021.05.26	Principal repayable in May of 2020 and 2021; interest p.a. payable annually	1.19

(Continued)

Category	Period	Conditions	Rate (%)
Five-year unsecured bonds - issued at par in September 2016; repayable in September 2020 and 2021; 1.08% interest p.a., payable annually	2016.09.27-2021.09.27	Principal repayable in September of 2020 and 2021; interest p.a. payable annually	1.08
Three-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.2% p.a., payable annually	2017.5.19-2020.5.19	Principal repayable on due date; indicator rate; payable annually	1.20
Seven-year private unsecured bonds - issued at par in May 2017; repayable on due date; interest of 1.75% p.a., payable annually	2017.5.19-2024.5.19	Principal repayable on due date; indicator rate; payable annually	1.75
Three-year private unsecured bonds - issued at par in October 2017; repayable on due date; interest of 1.14% p.a., payable annually	2017.10.12-2020.10.12	Principal repayable on due date; indicator rate; payable annually	1.14
Five-year private unsecured bonds - issued at par in October 2017; repayable in October 2021 and 2022; 1.45% interest p.a., payable annually	2017.10.12-2022.10.12	Principal repayable in October of 2021 and 2022; indicator rate; payable annually	1.45
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.8245% discount rate p.a.	2013.12.26-2018.12.26	Except for converting to share capital or buying back, principal repayable in December of 2018	-

(Concluded)

The Company issued its 2016 first unsecured corporate bonds with a face value of $5,000,000 thousand, and the purchasers of the bonds included Mandarin Airlines Co., Ltd. and Sabre Travel Network (Taiwan) Co., Ltd., who held a face value of $300,000 thousand which were eliminated in the Company's consolidated financial statements.

The Company issued the fifth issue of unsecured convertible bonds, and the issuance conditions were as follows:

a. The holders may demand a lump-sum payment for the bonds upon maturity.

b. The holders can request that the Company repurchase their bonds at 100.75% face value on the third anniversary of the offering date. Because the holders can exercise selling rights on December 26, 2016, the Company reclassified the bonds payable to "current portion of bonds payable" in December 2015. The Company paid $994,705 thousand to the holders of the bonds payable who exercised the put options, and the difference between the payment amount and carrying amount recognized was a loss on the bonds payable buy back of $41,943 thousand, for which the Company reclassified the remaining face value to noncurrent assets.

c. The Company may redeem the bonds at face value between March 26, 2014 and November 16, 2018 under certain conditions.

d. Between January 26, 2014 and December 16, 2018 (except for the period between the former dividend date and the date of the dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT$12.24, which is subject to adjustment if there is a capital injection by cash, share dividend distribution, and the proportion of cash dividends per share in market price exceeding 1.5%. Because the Company distributed cash dividends as of July 31, 2016, there was adjustment the conversion price to NT$11.64, corporate bonds with a face value of $3,316,800 thousand had been converted to 270,985 thousand units of common shares.

The convertible bonds contain both liability and equity components. The equity component was presented in equity under the heading of capital surplus - options. The effective interest rate of the liability component was 1.8245% per annum on initial recognition.

Proceeds from issuance	$ 6,000,000
Equity component	(518,621)
Liability component at the date of issuance	$ 5,481,379

On November 5, 2017, the Company's board of directors resolved to issue its 2018 second, five-year unsecured convertible bonds for $6,012,000 thousand, at a coupon rate of 100.2% and a conversion price set at NT$13.2, on January 30, 2018.

20. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2017	2016
Minimum lease payments - flight equipment		
Within one year	$ 1,580,000	$ 1,254,000
Beyond one year and within five years	596,000	3,562,000
Present value of minimum lease payments	$ 2,176,000	$ 4,816,000
Current	$ 1,580,000	$ 1,254,000
Noncurrent	596,000	3,562,000
	$ 2,176,000	$ 4,816,000
Interest rate	1.0617%-1.1317%	1.0323%-1.0980%

The Company had leased A330-300 aircrafts, totaling three aircrafts, under sale-leaseback finance leases as of December 31, 2017. The lease terms are from June 2006 to April 2019. During the lease term, the Company retained all risks and rewards attached to the aircrafts and engines and enjoyed the same substantive rights as were enjoyed prior to the transaction. Interest rate underlying all obligations under finance leases were floated. Therefore, the minimum lease payments under the sale-leaseback aircraft contracts are not inclusive of interest expense.

b. Operating leases (including sale-leasebacks - operating leases)

The Company rented planes, headquarters, and hangars under various operating lease contracts expiring on various dates until May 2028. The Company does not have a bargain purchase option to acquire the leased planes and hangars at the expiration of the lease periods.

The rental rates stated in the aircraft lease agreements are fixed or floated. If the agreed-upon rental rate is floating and will be revised monthly or semiannually. Subleasing is not allowed for all the lease arrangements. As of December 31, 2017, the Company has rented eleven A330-300 aircrafts, fifteen 737-800 aircrafts and ten 777-300ER aircrafts under operating contracts; the lease terms range from 8 to 12 years.

As of December 31, 2017 and 2016, the refundable deposits paid by the Company under operating lease contracts were $208,995 thousand and $293,188 thousand, respectively. Part of the refundable deposits is secured by credit guarantees. The credit guarantees were $1,394,791 thousand and $1,459,935 thousand, respectively.

The minimum lease payments in the future for the non-cancelable operating lease commitments were as follows:

	December 31	
	2017	2016
Up to 1 year	$ 10,145,139	$ 9,889,910
Over 1 year to 5 years	39,313,550	38,106,256
Over 5 years	26,841,927	33,266,660
	$ 76,300,616	$ 81,262,826

The lease payments recognized in profit or loss for the current period were as follows:

	For the Year Ended December 31	
	2017	2016
Minimum lease payments	$ 9,989,732	$ 9,662,625

21. OTHER PAYABLES

	December 31	
	2017	2016
Fuel costs	$ 3,243,742	$ 2,490,290
Ground service expenses	1,089,306	1,158,563
Repair expenses	842,845	848,200
Interest expenses	290,902	288,038
Short-term employee benefits	2,332,644	1,668,366
Terminal surcharges	659,454	668,710
Commission expenses	407,109	391,857
Others	2,042,750	2,119,998
	$ 10,908,752	$ 9,634,022

22. DEFERRED REVENUE

	December 31 2017	December 31 2016
Frequent flyer programs	$ 2,450,702	$ 2,427,565
Advance ticket sales	13,415,588	12,785,565
	$ 15,866,290	$ 15,213,130
Current	$ 14,048,025	$ 13,404,227
Noncurrent	1,818,265	1,808,903
	$ 15,866,290	$ 15,213,130

23. PROVISIONS

	December 31 2017	December 31 2016
Operating leases - aircrafts	$ 7,758,651	$ 6,770,951
Current	$ 406,457	$ -
Noncurrent	7,352,194	6,770,951
	$ 7,758,651	$ 6,770,951

The Company rented flight equipment under operating lease agreements. Under the contracts (some of the leased flight equipment's lease payments are calculated monthly), when the lease expires and the equipment is returned to the lessor, the flight equipment has to be repaired according to the expected years of use, number of flight hours, flight cycle and the number of engine revolutions. The Company had existing obligations to recognize provisions when signing a lease or during the lease term.

	Aircraft Lease Contract
Balance at January 1, 2016	$ 5,033,257
Additional provisions recognized	2,011,115
Usage	(366,218)
Effect of exchange rate changes	92,797
Balance at December 31, 2016	$ 6,770,951
Balance at January 1, 2017	$ 6,770,951
Additional provisions recognized	2,524,079
Usage	(1,138,140)
Effect of exchange rate changes	(398,239)
Balance at December 31, 2017	$ 7,758,651

24. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

The Company adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contribute amounts equal to 15% 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 committee's name.

Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31 2017	December 31 2016
Present value of defined benefit obligation	$ 11,956,223	$ 11,176,204
Fair value of plan assets	(5,797,479)	(4,958,858)
Net defined benefit liabilities	$ 6,158,744	$ 6,217,346

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	$ 10,769,419	$ (1,803,890)	$ 8,965,529
Service cost			
Current service cost	639,972	-	639,972
Net interest expense (income)	114,773	(18,079)	96,694
Recognized in profit or loss	754,745	(18,079)	736,666
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(4,826)	(4,826)
Actuarial gain - changes in financial assumptions	(147,479)	-	(147,479)
Actuarial loss - experience adjustments	741,687	-	741,687
Recognized in other comprehensive income	594,208	(4,826)	589,382

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Contributions from the employer	$ -	$ (3,908,253)	$ (3,908,253)
Benefits paid	(776,190)	776,190	-
Payment to employees direct from the employer	(165,978)	-	(165,978)
Balance at December 31, 2016	11,176,204	(4,958,858)	6,217,346
Service cost			
Current service cost	832,125	-	832,125
Net interest expense (income)	126,826	(61,568)	65,258
Recognized in profit or loss	958,951	(61,568)	897,383
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	15,362	15,362
Actuarial gain - changes in financial assumptions	372,284	-	372,284
Actuarial loss - experience adjustments	257,573	-	257,573
Recognized in other comprehensive income	629,857	15,362	645,219
Contributions from the employer	-	(1,482,710)	(1,482,710)
Benefits paid	(690,295)	690,295	-
Payment to employees direct from the employer	(118,494)	-	(118,494)
Balance at December 31, 2017	$ 11,956,223	$ (5,797,479)	$ 6,158,744

(Concluded)

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. Based on relevant regulations, the return generated by plan assets should not be below the interest rate for a two-year time deposit with local banks.

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

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. Thus, an increase in the salaries of the plan participants will increase the present value of the defined benefit obligations.

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

	December 31	
	2017	2016
Discount rate	1.01%	1.29%
Expected rate of salary increase	1.00%	1.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2017	2016
Discount rate		
0.5% increase	$ (534,890)	$ (496,081)
0.5% decrease	$ 580,412	$ 538,301
Expected rate of salary increase		
0.5% increase	$ 557,651	$ 517,191
0.5% decrease	$ (523,509)	$ (485,527)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2017	2016
The expected contributions to the plan for the next year	$ 688,096	$ 691,530
The average duration of the defined benefit obligation	10 years	10 years

25. EQUITY

a. Share capital

Common shares

	December 31	
	2017	2016
Numbers of shares authorized (in thousands)	6,000,000	6,000,000
Amount of shares authorized	$ 60,000,000	$ 60,000,000
Amount of shares issued	$ 54,709,846	$ 54,708,901

For the years ended December 31, 2017, the Company issued the 5th domestic unsecured convertible bonds, and holders of such bonds amounting to $1,100 thousand applied for conversion, for which 95 thousand of the Company's common shares were exchanged. In accordance with the law, the Company may apply for a change of registration after issuing new shares.

b. Capital surplus

	December 31 2017	December 31 2016
Issue of shares in excess of par value and conversion premium	$ 552,696	$ 552,470
Distribution of cash dividends to treasury shares held by subsidiaries	2,673	2,673
Expired employee share options	11,747	11,747
Long-term investments	955	1,019
Bonds payable equity component	146,589	146,684
Others	85,339	85,339
	$ 799,999	$ 799,932

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company's paid-in capital).

The capital surplus from long-term investments and employee shares options expired and dividends distributed to subsidiaries may not be used for any purpose, expect for offsetting a deficit. As for capital surplus from conversion of convertible bonds payable may not be used for any purpose.

c. Appropriation of earnings and dividend policy

According to amended Company Act, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan with due consideration of any future aircraft acquisition plans and fund demand, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders by cash or shares (cash dividends cannot be less than 30% of total dividends distributed). However, if the Company's profit before tax in a fiscal year after deductions for the abovementioned items is not sufficient for earnings distribution, retained earnings can be used as a supplement for the deficiency. If the Company has no deficit in a fiscal year, the Company can distribute all or part of the capital surplus by cash or shares with due consideration of finance, marketing and management requirements in accordance with the laws and regulations.

The distribution of profit surplus shall be approved in the annual shareholders' meeting held in the following year and shall be accounted for in that year.

1) Appropriation of earnings and dividends per share in 2015

The appropriation and dividends per share resolved in the shareholders' meeting on June 24, 2016 were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 287,224	
Special reserve	76,486	
Cash dividends	2,508,525	$0.458522382

2) Appropriation of earnings in 2016

The legal reserve of $81,132 thousand and special reserve of $76,486 thousand used to offset deficits was resolved by the shareholders in their meeting on June 22, 2017.

3) Appropriation of earnings and dividends per share in 2017

The appropriation of earnings for 2017 should be resolved in the board of directors meeting to be held on March 22, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 145,831	
Special reserve	118,810	
Cash dividends	1,193,670	$0.2181820086

The appropriation of earnings should be resolved in the shareholders' meeting to be held on June 27, 2018.

When the Company distributes undistributed earnings for the years after 1998, except for non-ROC residents shareholders, all shareholders can receive an imputation tax credit calculated according to the Tax Deduction Ratio on the distribution date.

d. Other equity items

The movement of other equity items is as follows:

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total
Balance at January 1, 2016	$ 157,959	$ 1,755	$ (225,997)	$ (66,283)
Exchange differences on translating the foreign operations	(80,104)	-	-	(80,104)
Cumulative loss arising on changes in fair value of hedging instruments	-	-	(282,556)	(282,556)
Cumulative gain arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	582,665	582,665
Share of associates accounted for using the equity method	(12,909)	(41)	8,893	(4,057)
Effect of income tax	13,618	-	(51,019)	(37,401)
Balance at December 31, 2016	$ 78,564	$ 1,714	$ 31,986	$ 112,264

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Total
Balance at January 1, 2017	$ 78,564	$ 1,714	$ 31,986	$ 112,264
Exchange differences arising on translating the foreign operations	(134,857)	-	-	(134,857)
Cumulative loss arising on changes in fair value of hedging instruments	-	-	(283,449)	(283,449)
Cumulative gain arising on changes in fair value of hedging instruments reclassified to profit or loss	-	-	166,869	166,869
Share of associates accounted for using the equity method	(1,619)	60	(9,653)	(11,212)
Effect of income tax	22,926	-	19,818	42,744
Balance at December 31, 2017	$ (34,986)	$ 1,774	$ (74,429)	$ (107,641)

(Concluded)

e. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries, as of December 31, 2017 and 2016 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Number of Shares, Beginning of Year	Reduction During the Year	Number of Shares, End of Year
For the year ended December 31, 2017			
Company's shares held by its subsidiaries reclassified from investment in shares to treasury shares	2,889	-	2,889
For the year ended December 31, 2016			
Company's shares held by its subsidiaries reclassified from investment in shares to treasury shares	2,889	-	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2017			
Mandarin Airlines	2,075	$ 24,169	$ 24,169
Hwa Hsia	814	9,485	9,485
		$ 33,654	$ 33,654
December 31, 2016			
Mandarin Airlines	2,075	$ 19,294	$ 19,294
Hwa Hsia	814	7,572	7,572
		$ 26,866	$ 26,866

The above acquisitions by subsidiaries of the Company's shares in previous years was due to investment planning. The shares of the Company held by its subsidiaries were treated as treasury shares. The subsidiaries can exercise shareholders' rights on these treasury shares, except for the rights to subscribe for the Company's new shares and voting rights.

26. NET INCOME

a. Revenue

	For the Year Ended December 31 2017	2016
Passenger	$ 90,560,375	$ 86,298,238
Cargo	42,970,102	35,353,349
Others	6,284,734	5,873,277
	$ 139,815,211	$ 127,524,864

b. Other income

	For the Year Ended December 31 2017	2016
Interest income	$ 176,329	$ 188,006
Subsidy income	32,332	168,377
Dividend income	9,564	59,099
Others	142,755	177,969
	$ 360,980	$ 593,451

c. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Gain on disposal property, plant and equipment and noncurrent assets held for sale	$ 258,306	$ 54,188
Net loss on financial assets as held for trading	(33,385)	(29,909)
Gain (loss) on disposal of investment	101,105	(164)
Gain (loss) on foreign exchange, net	4,920	(495,350)
Impairment loss recognized on noncurrent assets held for sale	(3,571,301)	(347,868)
Impairment loss recognized on flight equipment	(690,579)	(717,758)
Impairment loss on financial assets carried at cost	(56,023)	-
Others	(993,913)	(874,060)
	$ (4,980,870)	$ (2,410,921)

The Company has been named as a defendant, together with other airline members of the Association of Asia Pacific Airlines, in a civil class action lawsuit filed at the U.S. Northern District Court of California by a group of passengers who alleged that there was an antitrust violation in December 2007. After consulting with the lawyers and considering the cost of litigation, the Company settled with the plaintiff in the amount of US$19,500 thousand, and the settlement was recognized in 2017 financial statement. The settlement funds will be divided into four-phase payments in three years.

d. Finance costs

	For the Year Ended December 31	
	2017	2016
Interest expense		
Bonds payable	$ 321,457	$ 297,032
Bank loans	907,915	845,987
Interest on obligations under finance leases	45,621	68,179
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	2,814	10,390
	$ 1,277,807	$ 1,221,588

Information about capitalized interest was as follows:

Capitalization interest	$ 212,557	$ 419,593
Capitalization rate	1.31%-1.41%	1.45%-1.73%

e. Depreciation and amortization expenses

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 17,375,194	$ 16,588,758
Intangible assets	247,725	138,554
	$ 17,622,919	$ 16,727,312

(Continued)

	For the Year Ended December 31	
	2017	2016
An analysis of deprecation by function		
Operating costs	$ 17,097,228	$ 16,290,250
Operating expenses	277,966	298,508
	$ 17,375,194	$ 16,588,758
An analysis of amortization by function		
Operating expenses	$ 247,725	$ 138,554

(Concluded)

f. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Post-employment benefits		
Defined contribution plans	$ 344,228	$ 312,512
Defined benefit plans	897,383	736,666
	$ 1,241,611	$ 1,049,178
Other employee benefits		
Salary expenses	$ 15,179,456	$ 14,176,230
Labor and health insurance	1,167,348	1,175,417
Personnel service expenses	3,636,354	3,318,811
	$ 19,983,158	$ 18,670,458
An analysis of employee benefits expense by function		
Operating costs	$ 17,376,793	$ 15,901,818
Operating expenses	3,847,976	3,817,818
	$ 21,224,769	$ 19,719,636

The Company distributes employees' compensation at rates of no less than 3% of net profit before income tax and employees' compensation. For the years ended December 31, 2017 and 2016, employees' compensation was $799,768 thousand and $382,318 thousand, respectively, of the base net profit.

Material differences between such estimated amounts and the amounts proposed by the board of directors on or before the date the annual financial statements are authorized for issue are adjusted in the year that the bonus and remuneration were recognized. If there is a change in the proposed amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

27. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31 2017	2016
Current tax		
Current year	$ 27,142	$ 19,624
Prior year adjustment	1,617	(116)
Deferred tax		
Current year	851,378	946,203
Income tax expense recognized in profit or loss	$ 880,137	$ 965,711

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31 2017	2016
Profit before tax	$ 3,088,203	$ 1,537,251
Income tax expense calculated at the statutory rate (17%)	$ 524,995	$ 261,333
Add (deduct) tax effects of:		
Nondeductible expenses in determining taxable income	5,122	142,079
Temporary differences	691,804	(393,931)
Tax-exempt income	(283,157)	(9,481)
Loss carryforwards - current used	(938,764)	-
Overseas income tax expense	17,236	19,624
Additional income tax under the Alternative Minimum Tax Act	9,906	-
Deferred tax		
Temporary differences	239,378	470,203
Unrecognized loss carryforwards and investment tax credits	612,000	476,000
Adjustments for prior years' tax	1,617	(116)
Income tax expense recognized in profit or loss	$ 880,137	$ 965,711

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31 2017	2016
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 22,926	$ 13,618
Fair value revaluation of hedging instruments for cash flow hedges	19,818	(51,019)
Actuarial gain or loss on defined benefit plan	109,687	100,195
Total income tax recognized in other comprehensive income	$ 152,431	$ 62,794

c. Deferred tax assets and liabilities

For the year ended December 31, 2017

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plans	$ 1,061,207	$ (114,922)	$ 109,687	$ 1,055,972
Frequent flyer programs	421,695	4,411	-	426,106
Maintenance reserves	1,151,061	244,744	-	1,395,805
Allowance for reduction of inventory	199,092	38,274	-	237,366
Others	593,708	465,069	21,146	1,079,923
Loss carryforwards	2,322,951	(1,543,182)	-	779,769
	$ 5,749,714	$ (905,606)	$ 130,833	$ 4,974,941
Deferred tax liabilities				
Temporary differences				
Depreciation difference from fixed assets	$ 85,949	$ (54,939)	$ -	$ 31,010
Unrealized exchange gains	-	915	-	915
Others	28,823	(204)	(21,598)	7,021
	$ 114,772	$ (54,228)	$ (21,598)	$ 38,946

For the year ended December 31, 2016

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plans	$ 1,525,482	$ (564,470)	$ 100,195	$ 1,061,207
Frequent flyer programs	452,949	(31,254)	-	421,695
Maintenance reserve	855,653	295,408	-	1,151,061
Allowance for reduction of inventory	172,901	26,191	-	199,092
Others	849,476	(210,207)	(45,561)	593,708
Loss carryforwards	2,834,341	(511,390)	-	2,322,951
	$ 6,690,802	$ (995,722)	$ 54,634	$ 5,749,714

(Continued)

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax liabilities				
Temporary differences				
Depreciation difference from fixed assets	$ 125,008	$ (39,059)	$ -	$ 85,949
Others	47,443	(10,460)	(8,160)	28,823
	$ 172,451	$ (49,519)	$ (8,160)	$ 114,772

(Concluded)

In February 2018, the President of the Republic of China announced the amendment of the Income Tax Law, which adjusted the income tax rate from 17% to 20%, and it will be implemented in 2018. In addition, the tax rate applicable to undistributed earnings in 2018 will be reduced from 10% to 5%. Deferred tax assets and liabilities that were recognized on December 31, 2017 are expected to increase by $877,931 thousand and $6,873 thousand, respectively, due to changes in tax rates.

Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the balance sheets are as follows:

	December 31	
	2017	2016
Loss carryforwards		
Expiry in 2019	$ 10,900,000	$ 7,300,000

d. Unused tax loss carryforwards as of December 31, 2017 were as follows:

Expiry Year	Unused Amount
2019	$ 11,764,885
2021	2,899,496
2022	619,799
2026	202,699
	$ 15,486,879

e. Integrated income tax

	December 31	
	2017	2016
Imputation credit accounts	$ 195,252	$ 102,527

The Company accumulated deficit as of December 31, 2016; thus, there were no expected creditable tax ratios.

Due to the amendment of Income Tax Law promulgated in February 2018, which repeals integrated income tax, the Company expect that there were no creditable tax ratios when distributing earnings in 2018.

f. Income tax returns

The income tax returns of the Company through 2015 have been examined by the tax authorities.

28. EARNINGS PER SHARE

	For the Year Ended December 31	
	2017	2016
Basic earnings per share	$ 0.40	$ 0.10
Diluted earnings per share	$ 0.39	$ 0.10

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic earnings per share	$ 2,208,066	$ 571,540
Effect of potentially dilutive common shares:		
Interest on convertible bonds (after tax)	24,801	-
Earnings used in the computation of diluted earnings per share	$ 2,232,867	$ 571,540
Weighted average number of common shares in computation of basic earnings per share	5,468,030	5,468,002
Effect of potentially dilutive common shares:		
Convertible bonds	145,763	-
Employees' compensation or bonuses issued to employees	70,259	47,337
Weighted average number of common shares used in the computation of diluted earnings per share	5,684,052	5,515,339

If the Company offers to settle compensation or bonuses paid to employees in cash or shares, the Company assumes the entire amount of the compensation or bonuses would be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

29. CAPITAL MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of net debt (borrowings offset by cash and cash equivalents) and equity of the Company comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

To support its operating activities and purchase of aircraft, the Company needs to maintain sufficient capital. Therefore, the goal of capital management is to ensure financial resources and operating plan is able to support the future working capital, capital expenditures, debt repayment and dividend expenses and other needs.

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

1) Fair value of financial instruments not carried at fair value

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 25,717,100	$ 25,818,511	$ 22,538,044	$ 22,580,069
Bank loans	80,722,611	82,735,255	84,649,618	86,734,531

Some long-term debts and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. The fair values of long-term debts and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.75% in 2017 and 1.191% in 2016 prevailing in the market for long-term debts (Level 2). The fair values of bonds payable are based on those which are traded in the stock exchange and based on quoted market prices (Level 1).

2) Fair value measurements recognized in the balance sheets

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

a) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

b) Level 2 fair value measurements are those derived from 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 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	$ -	$ 9,581	$ -	$ 9,581
Derivative financial assets for hedging	$ -	$ 293	$ -	$ 293
Derivative financial liabilities for hedging	$ -	$ 84,633	$ -	$ 84,633

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivative instruments	$ -	$ 1,200	$ -	$ 1,200
Derivative financial assets for hedging	$ -	$ 54,671	$ -	$ 54,671
Derivative financial liabilities for hedging	$ -	$ 23,629	$ -	$ 23,629

There were no transfers between Level 2 and 3 in the current and prior periods.

d) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Derivatives - foreign exchange forward contracts and interest rate swaps	The fair values of derivatives (except options) have been determined based on discounted cash flow analyses using interest yield curves applicable for the duration of the derivatives. The estimates and assumptions that the Company used to determine the fair values are identical to those used in the pricing of financial instruments for market participants.

e) Valuation techniques and inputs applied for Level 3 fair value measurement

The fair values of currency options and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. An increase in the implied fluctuation used in isolation would result in a decrease in the fair value of currency options and fuel options.

Because the individual fair values of some financial instruments and non-financial instruments need not be disclosed, the total fair value disclosed is not the total value of the Company's financial and non-financial instruments.

b. Categories of financial instruments

	December 31	
	2017	2016
Financial assets		
Financial assets at FVTPL	$ -	$ 1,200
Available-for-sale financial assets (Note 3)	64,177	120,200
Derivative financial assets for hedging	293	54,671
Loans and receivables (Note 1)	26,095,060	29,522,622
Financial liabilities		
Financial liabilities at FVTPL	9,581	-
Derivative financial liabilities for hedging	84,633	23,629
Financial liabilities at amortized cost (Note 2)	121,598,470	122,866,720

Note 1: The balances of loans and receivables measured at amortized cost comprised cash and cash equivalents, notes and accounts receivable, accounts receivable - related parties, other receivables, refundable deposits, other financial assets and other restricted financial assets.

Note 2: The balances of financial liabilities measured at amortized cost comprised short-term loans, short-term notes payable, notes and accounts payable, accounts payable - related parties, other payables, bonds payable and long-term loans, capital lease obligations, provisions, part of other current liabilities, part of other noncurrent liabilities and guarantee deposits.

Note 3: The balances include financial assets measured at cost.

c. Financial risk management objectives and policies

The Company has risk management and hedging strategies to respond to changes in the economic, financial environment and in the fuel market. To reduce the financial risks from changes in interest rates, in exchange rates and in fuel prices, the Company has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by Company shareholders to reduce the impact of market price on earnings. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

In addition, the Company has a risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging portion. This committee informs the Company of global economic and financial conditions, controls the Company's entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the assistance of financial risk experts to effect risk management.

1) Market risk

The Company is primarily exposed to the financial risks of changes in foreign currency exchange rates and interest rates. The Company entered into derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

The Company enters into forward contracts, foreign currency option contracts, and interest swap contracts with fair values that are highly negatively correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

a) Foreign currency risk

The Company enters into currency option to hedge against the risks of changes in related exchange rates, and enters into foreign exchange forward contracts to hedge against the risks of changes in the related exchange rates of foreign-currency assets, liabilities and commitments.

Sensitivity analysis

The Company is mainly exposed to the U.S. dollar.

The following details the Company's sensitivity to a one dollar increase and decrease in the New Taiwan dollar (i.e. the functional currency) against the U.S. dollar. The sensitivity amount used when reporting foreign currency risk internally to key management personnel and which represents management's assessment of the reasonably possible change in foreign exchange rates is one dollar. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign exchange forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for the New Taiwan dollar strengthening or weakening one dollar against the U.S. dollar.

When the New Taiwan dollar increases one dollar against the U.S. dollar and all other variables are held constant, there will be an increase in pre-tax profit in 2017 of $109,319 thousand and an increase in pre-tax profit in 2016 of $9,026 thousand.

b) Interest rate risk

The Company enters into interest swap contracts to hedge against the risks on change in net liabilities interest rates.

The risk is managed by the Company through maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts and forward interest rate contracts.

The carrying amount of the Company's financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	December 31	
	2017	2016
Fair value interest rate risk	$ 27,717,100	$ 26,258,421
Cash flow interest rate risk	80,898,611	86,645,240

Sensitivity analysis

The sensitivity analyses below were determined based on the Company's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. One yard (25 basis) increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates increased one yard (25 basis) and had all other variables been held constant, the Company's pre-tax profit for the year ended December 31, 2017 would have decreased by $202,247 thousand.

Had interest rates increased one yard (25 basis) and had all other variables been held constant, the Company's pre-tax profit for the year ended December 31, 2016 would have decreased by $216,613 thousand.

c) Other price risk

The Company is exposed to fuel price risk on its purchase of aviation fuel.

After considering the fuel market conditions and the cost of hedging, the Company will set fuel options contracts with financial institution to avoid the risk of fuel price fluctuations. The Company has not signed contracts still not settling as of December 31, 2017.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk, primarily comes from accounts receivable generated from operating activities and bank deposits generated from investing activities, fixed investment income and other financial instruments, operation related credit risk and financial credit risk are managed separately.

Operation - related credit risk

The Company has established procedures to management operations related credit risk to maintain the quality of accounts receivable.

To assess individual customers, the Company consider into the financial condition of the customers, the credit rating agency rating, the Company's internal credit rating, transaction history and current economic conditions and many other factors that may affect the repayment. Sometimes, the Company uses certain credit enhancement tools to reduce the credit risk of specific customers.

Since the customers of the industry is dispersed and non-related, the credit risk concentration is not critical aviation.

Financial credit risk

Credit risk on bank deposits, investments income and other financial instruments are measured and monitor by the Company's finance department. The Company's trading partners and other parties were well-performing banks and financial institutions, corporations, and government agencies, and so the risk of counterparties failing to discharge an obligation is low; therefore, there is no significant credit risk.

Endorsements given by the Company on behalf of its subsidiaries can be found in Note 31,g.

3) Liquidity risk

The objective of the Company's management of liquidity is to maintain cash and cash equivalents sufficient for operating purposes, marketable securities with high liquidity and loan commitments that are sufficient to ensure that the Group has adequate financial flexibility.

Liquidity and interest risk rate table

The following table shows the remaining contractual maturity analysis of the Company's financial liabilities with agreed-upon repayment periods, which were based on the date the Company may be required to pay the first repayment and financial liabilities is evaluated based on undiscounted cash flows, including cash flows of interest and principal.

Bank loans with a repayment on demand clause were included in the second column of the table below regardless of whether or not the banks would choose to exercise early their rights to repayment. The maturity dates for other non-derivative financial liabilities were based on the agreed-upon repayment dates. The Company's liquidity analysis for its derivative financial instruments is also shown in the following table. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross cash inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by yield curves at the end of the reporting period.

December 31, 2017

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Capital lease obligations	1.0789	$ 225,869	$ 1,375,827	$ 154,430	$ 452,833	$ -
Floating interest rate liabilities	1.1084	7,069,453	12,558,373	17,915,408	27,019,287	16,291,168
Fixed interest rate liabilities	1.1800	5,900	17,700	2,023,600	-	-
Derivative instruments	-	26,922	50,717	6,994	-	-
Bonds payable	1.4142	2,790,923	1,911,231	301,932	20,651,932	1,014,142
		$ 10,119,067	$ 15,913,848	$ 20,402,364	$ 48,124,052	$ 17,305,310

December 31, 2016

	The Weighted Average Effective Interest Rate (%)	1-3 Months	3 Months to 1 Year	1-2 Years	2-5 Years	5+ Years
Capital lease obligations	1.0508	$ 326,152	$ 975,984	$ 3,003,429	$ 602,263	$ -
Floating interest rate liabilities	1.2477	4,521,325	27,424,092	15,213,937	31,768,363	5,033,023
Fixed interest rate liabilities	0.016	401,382	419,399	2,000,320	-	-
Derivative instruments	-	2,654	18,200	2,775	-	-
Bonds payable	1.3384	75,412	2,926,237	4,603,556	15,707,452	-
		$ 5,326,925	$ 31,763,912	$ 24,824,017	$ 48,078,078	$ 5,033,023

Loan commitments

	December 31	
	2017	2016
Unused bank loan limit (unsecured)	$ 25,181,000	$ 14,424,006

31. RELATED-PARTY TRANSACTIONS

Except for the disclosures stated in other notes, transactions between the Company and its related parties are disclosed below:

a. Related parties' names and relationships

Name	Relationship with the Company
Taiwan Aircargo Terminal Company	Subsidiary
Taoyuan International Airport Service Co., Ltd.	Subsidiary
Sabre Travel Network (Taiwan), Ltd.	Subsidiary
Taiwan Airport Service Co., Ltd.	Subsidiary
Taiwan Airport Service (Samoa)	Subsidiary
Hwa Hsia	Subsidiary

(Continued)

Name	Relationship with the Company
Yestrip	Subsidiary
Global Sky Express	Subsidiary
Mandarin Airlines	Subsidiary
Cal Park	Subsidiary
Cal Hotel Co., Ltd.	Subsidiary
Cal-Asia Investment	Subsidiary
Dynasty Holidays, Inc.	Subsidiary
Cal-Dynasty International Inc.	Subsidiary
Tigerair Taiwan Co., Ltd.	Subsidiary
Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Subsidiary
Kaohsiung Catering Services	Associate
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate
China Aircraft Service	Associate
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Associate
Airport Air Cargo Service (Xiamen) Co., Ltd.	Associate
Eastern United International Logistics (Hong Kong)	Associate
China Pacific Catering Services	Joint venture investment
China Pacific Laundry Services	Joint venture investment
Nordam Asia Ltd.	Joint venture investment
China Aviation Development Foundation	Director of the Company and major shareholder
Others	Director, key management personnel, chairman, general manager of the Company, spouse and second-degree relative

(Concluded)

b. Operating income

Account Items	Related Party Type	For the Year Ended December 31 2017	2016
Other income	Subsidiary	$ 2,937,333	$ 3,051,374
	Major shareholder of the Company	$ 31,971	$ 28,328
	Associate	$ 1,938	$ 2,552
	Joint venture investment	$ 46,461	$ 14,325

c. Purchases

Related Party Type	For the Year Ended December 31 2017	2016
Subsidiary	$ 3,081,697	$ 2,881,974
Major shareholder of the Company	$ 71,852	$ 63,084
Associate	$ 745,686	$ 656,653
Joint venture investment	$ 1,857,684	$ 1,613,899

d. Accounts receivable - related parties (generated by operations)

Related Party Type	December 31 2017	2016
Subsidiary	$ 502,229	$ 435,946
Associate	-	501
Joint venture investment	6,431	1,550
Major shareholder of the Company	1,928	1,512
	$ 510,588	$ 439,509

The receivables are not guaranteed, and there is no allowance for doubtful accounts related to accounts receivable - related parties. The payment periods of such accounts were within 30 to 90 days, and there are no overdue payments.

e. Accounts payable - related parties (generated by operations)

Related Party Type	December 31 2017	2016
Subsidiary	$ 903,200	$ 791,178
Associate	116,525	120,824
Joint venture investment	469,827	431,502
Major shareholder of the Company	4,454	3,503
	$ 1,494,006	$ 1,347,007

The remaining balance of notes and accounts payable - related parties will be paid in cash if they are not secured.

f. Leases of properties (operating leases)

The Company rented out planes to Mandarin Airlines under an operating lease contract. The monthly rent received is based on flight hours. In 2017 and 2016, the rentals received amounted to $1,105,171 thousand and $1,022,817 thousand, respectively.

For fleet scheduling, the Company rented planes from Mandarin Airlines under an operating lease agreements beginning from July 2003. The Company paid the rental by flight hours. The contract was terminated in May 2016. The payments of flight rentals were $17,519 thousand in 2016.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. In 2017 and 2016, the Company paid rentals of about $71,852 thousand and $63,084 thousand, respectively.

In March 2010, the Company signed with CAL Park a yearly renewable operating lease agreement to use the Operating and Aviation Headquarters building of the Taiwan Taoyuan International Airport. In 2017 and 2016, the Company paid rentals of about $228,942 thousand and $217,210 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2017		2016	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
Cal Park	$ 3,850,000	$ 2,850,000	$ 3,850,000	$ 2,783,000
Taiwan Air Cargo Terminal	1,080,000	318,611	1,080,000	436,418
Cal Hotel	-	-	180,000	-
Tigerair Taiwan	1,055,604	405,998	919,742	438,740

h. Bonds payable - related parties

Related parties that invested in the first issue of unsecured bonds in 2016 (Note 19) are summarized as follows:

	December 31, 2016	
Related Party	Units	Aggregate Par/Dollars
The first issue of unsecured bonds in 2016		
Mandarin Airlines	250	$ 250,000
Sabre Travel Network (Taiwan)	50	50,000

In 2017, interest expenses was $3,570 thousand. This bonds payable will be paid off in May 2021. As of December 31, 2017 the interest payable was $2,142 thousand.

i. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 46,805	$ 47,748
Post-employment benefits	4,007	12,269
	$ 50,812	$ 60,017

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

32. PLEDGED ASSETS

The following assets were pledged or mortgaged as collateral for long-term bank loans, lease obligations and business transactions:

	December 31	
	2017	2016
Property, plant and equipment	$ 39,041,679	$ 52,801,264

33. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2017, the Company had commitments and contingent liabilities which were as follows:

In January 2008, the Company entered into a contract to buy fourteen A350-900 aircrafts from Airbus, with the option to buy six more A350-900 aircrafts, with aggregate listing purchase prices of US$3,933,235 thousand and US$1,802,645 thousand, respectively. The expected period of delivery of the aircrafts was from 2016 to 2018. As of December 31, 2017, ten of the aircrafts had been delivered to the Company, and the aggregated listing purchase price of the remaining ten aircrafts was $1,150,984 thousand, which has been paid in the amount of US$287,746 thousand (recognized as prepayments for aircrafts).

34. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Company entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2017

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 290,336	29.8507	$ 8,666,739
EUR	21,347	35.7143	762,410
HKD	293,677	3.8183	1,212,346
JPY	5,164,642	0.2648	1,367,597
RMB	365,624	4.5830	1,675,654
Financial liabilities			
Monetary items			
USD	406,155	29.8507	12,124,021
EUR	5,957	35.7143	212,759
HKD	77,929	3.8183	297,556
JPY	4,848,134	0.2648	1,283,786
RMB	120,472	4.5830	552,123

December 31, 2016

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 240,758	32.2581	$ 7,764,768
EUR	15,642	34.0136	532,068
HKD	273,058	4.1580	1,135,374
JPY	4,799,620	0.2770	1,329,495
RMB	428,196	4.6425	1,987,898
Financial liabilities			
Monetary items			
USD	250,734	32.2581	8,088,204
EUR	6,511	34.0136	221,448
HKD	84,450	4.1580	351,141
JPY	4,408,042	0.2770	1,221,028
RMB	106,305	4.6425	493,520

For the years ended December 31, 2017 and 2016, the Company's net foreign exchange gains (losses) were $4,920 thousand and $(495,350) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions.

35. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:

1) Financing provided: None.

2) Endorsements/guarantees provided: Table 1 (attached).

3) Marketable securities held: Table 2 (attached).

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Table 3 (attached).

5) Acquisitions of individual real estates at costs or price of at least NT$100 million or 20% of the paid-in capital: None.

6) Disposals of individual real estates at costs or prices of at least NT$100 million or 20% of the paid-in capital: None.

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached).

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 5 (attached).

9) Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached).

10) Derivative financial transactions: Notes 7 and 8.

b. Investment in mainland China: Table 7 (attached).

36. SEGMENT INFORMATION

The Company mainly engages in air transportation services for passengers, cargo and others. The major revenue-generating asset is the fleet, which is jointly used for passenger and cargo services. Thus, the Company's sole reportable segment is the flight segment. For operating segment reporting in the financial statements, the Company's reportable segment comprises the flight and the non-flight business departments.

TABLE 1

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/ Guarantee Provider	Counterparty		Limit on Each Counterparty's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Actual Borrowing Amount	Value of Collaterals Property, Plant or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/ Guarantee Amounts Allowable (Note 2)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Name	Nature of Relationship										
0	China Airlines (the "Company")	Cal Park	100% subsidiary	$ 11,404,647	$ 3,850,000	$ 3,850,000	$ 2,850,000	-	6.75	$ 28,511,619	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,404,647	1,080,000	1,080,000	318,611	-	1.89	28,511,619	Y	N	N
		Cal Hotel	100% subsidiary	11,404,647	180,000	-	-	-	-	28,511,619	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,404,647	1,079,101	1,055,604	405,998	-	1.85	28,511,619	Y	N	N

Note 1: Based on the Company's guidelines, the maximum amount of guarantee to an individual counterparty is up to 20% of the Company's shareholders' equity.

Note 2: Based on the Company's guidelines, the allowable aggregate amount of collateral guarantee is up to 50% of the Company's shareholders' equity.

TABLE 2

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer/Name	Relationship with the Holding Company	Financial Statement Account	December 31, 2017 Number of Shares/Units	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
China Airlines ("Parent company")	Shares							
	Everest Investment Holdings Ltd. - common shares	-	Financial assets carried at cost - noncurrent	1,359,368	$ 52,704	13.59	$ 60,524	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets carried at cost - noncurrent	135,937	473	-	-	Note 1
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	1,100,000	11,000	11.00	27,960	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	-	15.00	9,167	-
Mandarin Airlines	Shares							
	China Airlines	Parent company	Available-for-sale financial assets - current	2,074,628	24,169	-	24,169	-
	Beneficiary certificates							
	Barclays America Bonds Fund	-	Financial assets at fair value through profit or loss - current	1,000,000	30,030	-	30,030	-
Cal-Asia Investment	Shares							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets carried at cost - noncurrent	-	-	2.59	31,152	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets carried at cost - noncurrent	-	19,898	5.45	25,434	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,709,255	68,926	-	68,926	-
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,664,992	86,148	-	86,148	-
	Allianz Global Investors Money Market Fund	-	Financial assets at fair value through profit or loss - current	5,368,495	66,869	-	66,869	-
Taiwan Airport Services	Shares							
	TransAsia Airways	-	Available-for-sale financial assets - noncurrent	2,277,786	-	0.40	-	-
	Beneficial certificates							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at fair value through profit or loss - current	4,568,824	50,166	-	50,166	-
Hwa Hsia	Shares							
	China Airlines	Parent company	Available-for-sale financial assets - current	814,152	9,485	-	9,485	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at fair value through profit or loss - current	349,523	4,700	-	4,700	-

Note 1: The subsidiary's net asset value was $60,524 thousand, which included common shares and preference shares as of and for the year ended December 31, 2017.

Note 2: The Company does not issue shares because it is a limited company.

TABLE 3

CHINA AIRLINES, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)				Ending Balance	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares	Amount
China Airlines, Ltd.	Shares													
	Science Park Logistics	Investments accounted for using the equity method	HCT Logistics Co., Ltd.	Non-related party	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Investments accounted for using the equity method	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Subsidiary	-	-	-	-	-	-	-	-	-	-

Note 1: The marketable securities in this table refer to shares, bonds, beneficial certificates and the securities derived from the above items.

Note 2: Marketable securities which are recognized as investments accounts for using the equity method are required to be filled in the second column.

Note 3: The cumulative amount of acquired and disposed of marketable securities are required to be calculated separately to determine whether they are at least NT$300 million or 20% of the paid-in capital.

Note 4: Paid-in capital refers to paid-in capital of the indicated parent company. If the shares issued by an issuer have no par value or a par value other than NT$10 per share, the threshold of 20% of paid-in capital, as set out in the preceding item, shall be replaced by 10% of equity attributable to owners of the indicated parent company, as stated in the respective balance sheet.

TABLE 4

CHINA AIRLINES, LTD. AND INVESTEES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
China Airlines, Ltd. (“China Airlines”)	Taiwan Air Cargo Terminal	Subsidiary	Purchase	$ 507,489	0.42	30 days	$ -	-	$ (48,735)	(3.34)	-
	Hua Hsia	Subsidiary	Purchase	334,375	0.27	2 months	-	-	(49,140)	(3.37)	-
	Mandarin Airlines	Subsidiary	Sale	(2,495,101)	(1.78)	2 months	-	-	452,488	4.99	-
	Mandarin Airlines	Subsidiary	Purchase	147,914	0.12	2 months	-	-	(339,274)	(23.28)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,737,819	1.43	90 days	-	-	(440,739)	(30.24)	-
	Cal Park	Subsidiary	Purchase	228,942	0.19	2 months	-	-	-	-	-
	Taiwan Airport Services	Subsidiary	Purchase	375,579	0.31	40 days	-	-	(67,871)	(4.66)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,193,551	0.98	40 days	-	-	(355,885)	(24.42)	-
	Kaohsiung Catering Services	Equity-method investee	Purchase	376,678	0.31	60 days	-	-	(70,948)	(4.87)	-
	China Aircraft Services	Equity-method investee	Purchase	197,713	0.16	30 days	-	-	(30,260)	(2.08)	-
	Cal Hotel	Subsidiary	Purchase	136,681	0.11	1 month	-	-	(10,140)	(0.70)	-
	Tigerair Taiwan	Subsidiary	Sale	(288,954)	(0.21)	1 month	-	-	38,796	0.43	-
	China Pacific Laundry Services	Equity-method investee	Purchase	119,865	0.10	2 months	-	-	(29,088)	(2.00)	-
	Eastern United International Logistics	Equity-method investee	Purchase	138,905	0.11	2 months	-	-	(14,769)	(1.01)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	152,384	2.59	30 days	-	-	(30,344)	(4.79)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	121,505	1.78	1 month	-	-	(17,825)	(1.42)	-

TABLE 5

CHINA AIRLINES, LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	$ 452,488	Note	$ -	-	$ 271,899	$ -
Mandarin Airlines	China Airlines	Parent company	339,274	Note	-	-	307,390	-
China Pacific Catering Services	China Airlines	Parent company	440,739	4.08	-	-	440,698	-
Taoyuan International Airport Service	China Airlines	Parent company	355,885	3.51	-	-	355,764	-

Note: Accounts receivable and revenue were not directly correlated because of the particular industry characteristics, and therefore the turnover rate was not applicable.

TABLE 6

CHINA AIRLINES, LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2017
(New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount		Balance as of December 31, 2017			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2017	December 31, 2016	Number of Shares/Units	Percentage of Ownership (%)	Carrying Amount			
China Airlines, Ltd.	Cal Park	Taoyuan, Taiwan	Real estate lease and international trade	$ 1,500,000	$ 1,500,000	150,000,000	100.00	$ 1,522,696	$ 10,017	$ 10,017	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,211,739	125,570	118,023	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,339,450	190,444	102,840	-
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,185,323	34,695	34,695	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	756,965	472,248	235,871	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	654,104	248,207	121,622	-
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	478,933	31,191	31,191	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	450,600	182,046	171,004	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	493,077	122,349	24,470	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	3,704	77,322	370,440	-	-	363,033	88,943	Note 5
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	259,459	108,331	51,295	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	140,240	140,240	14,329,759	35.78	300,400	242,473	86,757	-
	Cal Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	435,965	48,590	48,590	-
	Science Park Logistics	Tainan, Taiwan	Storage and customs of services	-	214,745	-	-	-	83,919	21,819	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the towel of airlines, hotels, restaurants and health clubs	137,500	137,500	13,750,000	55.00	171,229	42,461	23,354	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	83,014	11,280	11,280	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	25,904	440	440	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	25,992	(4,725)	(2,410)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	7,437	6,876	1,719	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US$ -	US$ 1	-	-	-	-	-	-
	Freighter Prince Ltd.	Cayman Islands	Aircraft lease	-	US$ 1	-	-	-	-	-	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	915,135	572,953	514,897	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	160,000	135,000,000	100.00	1,231,548	(68,580)	(68,580)	Note 4
	Nordam Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	2,450	-	245,000	49.00	2,399	(104)	(51)	-
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	101,682	572,953	57,295	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	5,902	108,330	1,167	-
Cal-Asia Investment	Eastern United International Logistics	Hong Kong	Forwarding and storage of air cargo	HK$ 3,329	HK$ 3,329	1,050,000	35.00	43,171	13,726	4,804	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	370,322	25,143	25,143	Note 3

Note 1: Adopted the treasury shares method in recognizing investment income or loss.

Note 2: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 3: The Company does not issue shares because it is a limited company.

Note 4: Taiwan Aircraft Maintenance and Engineering Co., Ltd. invested capital in the amount of $490,000 thousand and $700,000 thousand in April 2017 and November 2017, respectively.

Note 5: The Company signed a contract to sell all of its holding in Asian Compressor Technology Services, and reclassified it as noncurrent assets held for sale at book value.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(New Taiwan Dollars/Renminibi/U.S. Dollars In Thousands, Unless Stated Otherwise)

China Airlines

Investee Company Name	Main Business and Product	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,028,781 (RMB 224,480)	Indirect (Note 1)	$ 124,955 (US$ 4,186)	$ -	$ -	$ 124,955 (US$ 4,186)	$ 79,880 (RMB 17,741)	14.00	$ 12,098 (RMB 2,484)	$ 242,549 (RMB 52,924)	$ 83,634 (US$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 1)	58,133 (US$ 1,947)	-	-	58,133 (US$ 1,947)	99,528 (RMB 22,105)	14.00	13,952 (RMB 3,095)	128,035 (RMB 27,937)	$ 26,129 (US$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,101,194 (US$ 36,890)	Indirect (Note 1)	64,215 (US$ 2,151)	-	-	64,215 (US$ 2,151)	-	2.59	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	348,149 (US$ 11,663)	Indirect (Note 1)	18,985 (US$ 636)	-	-	18,985 (US$ 636)	-	5.45	-	19,898 (RMB 4,342)	-

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$266,287 (US$8,920)	$647,805 (Note 3)	$34,213,942 (Note 4)

(Continued)

Taiwan Airport Services

Investee Company	Main Business and Product	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,028,781 (RMB 224,480)	Indirect (Note 5)	$ 119,951 (US$ 4,018)	$ -	$ -	$ 119,951 (US$ 4,018)	$ 79,880 (RMB 17,741)	14.00	$ 11,183 (RMB 2,484)	$ 241,265 (RMB 52,644)	$ 113,622 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	64,161 (RMB 14,000)	Indirect (Note 5)	57,515 (US$ 1,927)	-	-	57,515 (US$ 1,927)	99,528 (RMB 22,105)	14.00	13,934 (RMB 3,095)	128,256 (RMB 27,985)	41,988 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$177,466 (US$5,945)	$177,466 (US$5,945)	$328,776 (Note 4)

Note 1: China Airlines, Ltd. the “Company” invested in Cal-Asia Investment, which, in turn, invested in a company located in mainland China.

Note 2: The inward remittance of earnings in 2017 amounted to US$2,801,749 and US$875,330.

Note 3: The amount comprised US$19,828,324, RMB4,200,000 and NT$36,666,667.

Note 4: The limit stated in the Investment Commission’s regulation, “Investment or Technical Cooperation in Mainland China Adjustment Rule,” is the larger of the Company’s net asset value or 60% of the consolidated net asset value.

Note 5: Taiwan Airport Services invested in Taiwan Airport Services (Samoa), which in return, invested in a company located in mainland China.

Note 6: The RMB and U.S. dollar amounts of assets are translated at year-end rates and those of gains (losses), at the average of the year-end rates of refer for the reporting period.

(Concluded)

China Airlines Co., Ltd.

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