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CHINA AIRLINES

2018 ANNUAL REPORT

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Wuxi Station	Room A207, No.18 Airport Second Road, New District, Wuxi City, Jiangsu Province, China	86-0510-8522-8710
Yancheng Station	Room B1207, East Building High-End Business Office (Hbo), Ren Min South Road No.1 , Yancheng, Jiangsu, China	86-515-8996-6950
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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

The operating environment for the aviation industry is closely related to the global economic atmosphere. In recent years, economic growth has stimulated overall air transport demand. The demand growth rate in the Asia-Pacific region is higher than the global level and has become momentum driving global growth. With advantages including increasing opening of traffic rights and the new southbound policy, the air transport market is also flourishing.

Looking at 2018, the passenger flight business and cargo flight business of China Airlines both showed spectacular performance, with a total number of 91,000 flights, carrying 15.61 million passengers and 1.51 million tons of cargo. In terms of passenger business, after the introduction of the 14th Airbus A350-900 in October, 24 next-generation long-haul passenger aircrafts are in use. Through the increase of flights on European routes, such as Vienna and Rome, and next-generation passenger aircraft taking over New Zealand/Australia markets, we continue to leverage our product strengths to enhance our competitiveness and overall profitability. For regional markets, flights have been increased on existing routes, such as Taoyuan-Nagoya and Taoyuan-Hanoi; Kaohsiung and Taichung have also increased transportation capacity to optimize the efficiency of the flight network. We have also strengthened inter-airline cooperation, increased code-sharing cooperation with Royal Brunei Airlines and other airlines, to reinforce our market layout. In terms of cargo business, benefiting from the recovery of economy, the warming of the freight market, the continued growth of demand for e-commerce goods, and the shipping boom at the end of the year driven by the tense trade relations between China and the United States, revenue has increased. In September, the 11th United States cargo aircraft destination, Columbus, Ohio, began with three flights a week, providing more options for shippers.

Providing safe services is a top priority of operation in the aviation industry. China Airlines was awarded the Operational Safety Audit (IOSA) of the International Air Transport Association (IATA) for the eighth time in 2018, ensuring flight safety through basic actions in line with international standards. In addition, the launch of the on-board service In-flight Medical Project provides high-quality and reliable journeys and one more protection for passengers.

In addition to its commitment to the operation of the aviation industry, China Airlines has also taken advantage of the Group's diversified operations to promote e-commerce sales and aerospace maintenance business. The e-commerce platform Dynasty Miles Go was officially launched. Also, the re-invested Taiwanese aircraft maintenance company has passed the certification of the Civil Aeronautics Administration of the Ministry of Transportation and Communications. The new hangar will be officially opened in March 2019, and the Company will sign the Airbus MRO Alliance (AMA) contract with Airbus. The advantages of maintenance technology and aviation material resources will be fully enhanced, bringing in entirely new opportunities for profit.

Corporate governance is the cornerstone of a company's sustainable operation. China Airlines is committed to promoting corporate governance and enhancing its operational synergy. It also focuses on aspects of “safeguarding shareholders' rights and interests,” “equal treatment of shareholders,” “strengthening Board structure and operations,” “improving information transparency,” and “implementing corporate social responsibility.” In 2018, China Airlines was awarded the high honor of ranking in the top 5% in corporate governance evaluations held by the Taiwan Stock Exchange.

Looking ahead to 2019, air transport demand continues to grow, but there are still underlying concerns, such as the trade war between China and the US, oil price fluctuations, and fierce market competition. China Airlines will continue to optimize its operating efficiency as it enters its 60th anniversary, with an optimistic but cautious mindset.

1.1 Operating Performance in 2018

Operating revenue in NT dollars (same hereafter) was NT$150.264 billion, a 7.47% increase over the last year after-tax net profit was NT$1.79 billion, for a basic after-tax net profit of NT$0.33 per share.

1.1.1 Results of the business strategy

• Fleet:

As of the end of December, the Company held 73 passenger aircraft (including leased aircraft) and 21 cargo aircraft, for a total of 94. In 2018, China Airlines introduced four Airbus A350-900 self-owned passenger aircrafts. Seven 747-400 and three A340-300 passenger planes were sold.

• Passenger flights:

Revenue from passenger business was NT$94.248 billion, a 4.07% increase over the last year, accounting for 62.72% of total operating revenue. As of the end of 2018, the China Airlines Group flew to 23 countries and 78 passenger destinations, spanning Asia, Europe, the Americas and Oceania. On average, there are 718 round-trip flights per week.

• Cargo flights:

Cargo business income was NT$49.422 billion, a 15.02% increase over the last year, accounting for 32.89% of total operating revenue. As of the end of 2018, the China Airlines group flew 18 cargo planes in cargo operations, flying to 15 countries and 34 destinations. Each week, there were an average of 97 cargo flights.

• Other operating income:

Other operating revenue included in-flight duty-free sales revenue, a total of NT$6.594 billion, a 4.92% increase over the last year, accounting for 4.39% of total operating revenue.

• Investments and earnings:

As of the end of December, the Company had investment in a total of 32 companies, in areas of business such as air business, ground services, logistics, aircraft maintenance, air cargo station business, etc., which contributed NT$1.919 billion in revenue over the year.

1.1.2 Business cash flow budget and profitability analysis

• Cash flow:

Operating revenue was NT$150.264 billion, up 10.449 billion from last year.

Operating costs and expenses were NT$148.417 billion, up NT$15.96 billion from last year.

Pre-tax net profit was NT$2.315 billion, down NT$0.773 billion from last year.
After-tax net profit was NT$1.79 billion, down NT$0.418 billion from last year.

• Budget execution:

Projected operating revenue was NT$144.545 billion, and actual operating revenue was NT$150.264 billion, for a 103.96% attainment; projected operating costs and fees were NT$139.126 billion, and actual operating costs were NT$148.417 billion, for a spend rate of 106.68%. Projected losses from non-operating activities were NT$2.504 billion, with actual losses from non-operating activities at NT$0.468 billion. Actual annual pre-tax net profit was NT$2.315 billion, for a budget-achieving rate of 79.42%.

• Profitability:

Return on assets 1.33%
Return on equity 3.14%
After-tax profit margin 1.19%
After-tax earnings per share NT$0.33

1.1.3 Research and development

In view of the rise of the e-service era, China Airlines is committed to the development of website functions and the optimization of the ticket purchasing system, which will provide a better website experience and convenient services. In terms of payment, the China Airlines official website supports a multi-currency payment function to make it more convenient for passengers; in addition, in response to the fact that mobile phones have become mainstream for modern people to collect information and make transactions, the mobile phone ticket purchasing process has been revised to make the operations more convenient for passengers and to provide passengers with experience consistent with the experience on desktop web pages. In recent years, revenue from additional services has become increasingly important in the aviation industry. The Company provides travel insurance purchase function in South Korea, Hong Kong, and other markets, to provide more value-added services for passengers. At the same time, China Airlines also continues to promote advance customs clearance, going paperless, Electronic Airway Bill (e-AWB) and other solutions, to achieve the sustainable goal of low carbon emissions and energy conservation.

The Company's information strategy development in 2018 had seven major directions: going mobile, big data, artificial intelligence, cloud services, information security, virtual and augmented reality, and Internet of Things. We continued to grasp the pulse of the industry and utilize digital technology to understand customer value, master profit-earing trends, find opportunities for innovation, strengthen information security risk management, and enhance the Company's operational competitiveness.

1.2 Business Plan for 2019

The aviation industry operating environment is deeply affected by global political and economic factors. Based on the International Monetary Fund (IMF) projections, affected by the trade war, China's economic growth slowdown and the Brexit, the overall global economic growth rate in 2019 will be 3.5%, slightly lower than 3.7% in 2018; and according to IATA projections, in terms of passenger transport, the global and Asia-Pacific growth rate in passenger volume will be 6.0% and 7.5%, respectively, and the growth rate of transport capacity will be 5.8% and 7.1%, respectively, in 2019, both slightly lower than last year's growth rate. Supply and demand will gradually become balanced, and market competition will continue to be fierce. In terms of cargo business, IATA estimates that the growth rate in 2019 will be 3.7%, which is slightly lower than last year by 0.4%. It is estimated that the market situation of oversupply will continue. The prospects of global air transport market is cautiously optimistic. China Airlines will continue to combine the advantages of passenger and cargo aircrafts to meet the challenges.

(Note: IATA will update the above growth rate prediction data each quarter)

1.2.1 Passenger Service

China Airlines has continuously evaluated the market development of the Southeast Asian routes, the long-haul route markets of New Zealand, Australia, Europe and America, and strengthened the transit hub position of Taoyuan Airport; as for the cross-strait route, China Airlines has closely followed market movements and adjusted the transport capacity in a timely manner.

• Cross-Strait Routes:

Limited by the slowdown in cross-strait travel demand and affected by the traffic rights restrictions, China Airlines launched the Taoyuan-Chongqing route at the end of October 2018. In order to continuously optimize the efficiency of the aviation network and actively increase the revenue contribution of each route, China Airlines actively responds to market movements and maintains the profit rate of the routes through the adjustment of the aircraft models and the flexible regulation of the transportation capacity based on travel demand and passenger composition. In the future, we will continue to adjust the transportation capacity depending on cross-strait policy development and market conditions. In addition, in cooperation with the slot time progress of Shanghai’s Hongqiao and Pudong Airports, we will launch new routes, such as Songshan-Hongqiao and Taichung-Pudong, to increase profit.

• Northeast Asian Routes:

Japan and South Korea are still the top choices for Taiwanese tourists. In order to actively win over increasing market demand, China Airlines has increased its Taoyuan-Nagoya route from 11 flights per week to 12 flights per week from the end of October 2018; this will be increased to 14 flights per week beginning at the end of March 2019. Moreover, in order to meet the needs of people traveling to Japan from central and southern Taiwan, the new Taichung-Tokyo Narita route was launched in June 2018. In July, flights of Taichung-Ryukyu route were increased from 4 flights per week to 5 flights per week. At the end of October 2018, the flights on the Kaohsiung-Osaka route were increased from 9 flights per week to 11 flights per week. Seasonal, holiday/festival, and thematic charter flights were specially arranged for seasonal demand to strengthen the market share and competitiveness of China Airlines in Taiwan.

• European Routes:

In order to enhance the efficiency of its aviation network extension in Europe, expand the market scale, and secure its leading position in the Taiwan-Europe market, from the end of March 2018, China Airlines has increased the flights on the Taoyuan-Vienna route from 3 flights per week to 5 flights per week. And in July 2018, the flights on the Taoyuan-Rome route were increased from 2 flights per week to 3 flights per week. In the future, a more tightly-woven and convenient European aviation network will be provided.

• Australia and New Zealand Routes

To increase contribution to the New Zealand and Australia aviation network and take the initiative to grasp the opportunity for increasing revenue, China Airlines specially adjusted aircraft models for Brisbane, Auckland, and Melbourne during the peak travel seasons to New Zealand and Australia, enhancing the supply of seats through the designation of peak seasons. In addition to securing its market share, China Airlines will also actively expand bidirectional connections market among New Zealand, Australia, Europe and Northeast Asia, strengthening China Airlines' travel services.

• Southeast Asian Routes:

In cooperation with the government's new Southbound Policy, from the end of March 2018, China Airlines has increased flights on the

Taoyuan-Bangkok route from 23 flights per week to 28 flights per week, and increased the flights on the Kaohsiung-Bangkok route from 5 flights per week to 7 flights per week. In July of the same year, flights on the Taoyuan-Penang route were increased from 6 flights per week to 7 flights per week, and the Kaohsiung-Hong Kong-Jakarta route was launched with 7 flights per week. At the end of October 2018, flights on the Taoyuan-Hanoi route were increased from 7 flights per week to 14 flights per week. Beginning at the end of March 2019, flights on the Taoyuan-Phnom Penh route will be increased from 5 flights per week to 7 flights per week. China Airlines will continue to pay attention to the various market movements in the region and evaluate in a timely manner the feasibility of additional transportation capacity input.

- Long-Haul Routes:

In order to actively increase the efficiency of the new destination Ontario, California, in China Airlines' aviation network and to expand on costumer sources, the flight schedule of Ontario has been especially optimized from September 2018. The main adjustment was the time of the return flight from the US to Taiwan. Moreover, from the end of October 2018, the aircraft model will be changed to the Airbus A350-900 from the original Boeing 777-300ER; also, in order to continue to stimulate the North American tourism market, flights on the Taoyuan-Honolulu route will be increased beginning May 2019, from 2 flights per week to 3 flights per week, providing a variety of choices for visitors to the United States.

1.2.2 Cargo Service

The global trade boom has slowed down since the end of 2018. IATA assesses that the growth of freight demand will slow down in 2019 and the overall market will remain similar to 2018, which is predicted to be a year where the market supply exceeds demand, and the air transport market will continue to be full of challenges. However, as the Company actively expands the passenger and cargo destinations, under the mutual support of passenger and cargo aircrafts and efficient revenue management, the margins for profitability will have the opportunity to continue to grow. Furthermore, while continuously optimizing the efficiency of the passenger and cargo aviation network, expanding potential markets, strengthening cooperation with express delivery companies and other airlines, continuous development of special products, such as e-commerce goods, precision machinery, and cold chain products, improvement of service quality, and strengthening of freight information development are also major development strategies for China Airlines; strategies in response to the market of 2019 are described as follows:

- Long-Haul Routes

At the end of March 2019, the number of flights will be maintained at 37 per week, and we will continue to cooperate with customer needs to discuss customized services, with a view to increasing the 4th flight per week of the scheduled and chartered cargo flights to Columbus, Ohio, United States, and to actively strive for opportunities of annual chartered flight cooperation. As for inter-airline cooperation, we will continue to strengthen the expansion of emerging markets, such as Central and South America, through close cooperation with United Airlines. In addition to extending the service of the aviation network, belly-hold capacity of the passenger aircrafts will also be increased.

- European Routes:

Currently, 6 cargo flights per week have been planned, and we will continue to evaluate the most suitable relay station for European cargo flights; also, we are actively evaluating the 7th Europe route cargo flight per week to meet market demand and secure revenue for the aviation network. In line with the resuming of passenger flights to England, we will continue to develop e-commerce express delivery and postal delivery, fresh goods, and collaboration with United Airlines to make full use of the belly-hold capacity of Airbus A350-900.

- Regional routes:

54 flights are planned every week. In response to the growth of sources of goods in Asia, the transportation capacity of cargo flights in Singapore, Penang, Ho Chi Minh City, and Hanoi will be increased as part of the Southeast Asia layout. The number flights will be gradually increased from 48 per week in 2016 to 54 in the 2019 summer schedule. Through the increase in the proportion of sources of goods within the region, the profitability of Southeast Asian cargo flights will be effectively improved. In addition, for the cross-strait cargo flight routes, potential destinations will continue to be evaluated to strengthen the layout of cross-strait routes. As for Hong Kong and Northeast Asia, in addition to maintaining 15 flights and 5 flights per week, respectively, we will also strive for non-scheduled chartered flight business and join forces to develop high-priced sources of goods.

- Improving revenue management and expending chartered flight business and high-growth source of goods:

In 2019, we will continue to improve revenue management. Regarding the different transportation needs of special cargo, such as time limit, volume, and special ground treatment, we will continue to enhance price differentiation and increase the added value of transportation services by utilizing the large cargo loading advantages and professional services of our Boeing 747-400 all-cargo aircrafts; we will also strengthen the promotion of bidding mechanisms for shipping space in peak seasons to enhance unit revenue.

In 2018, the chartered flight business achieved brilliant results. In response to customer demand, a total number of 159 scheduled and non-scheduled customized chartered flights businesses were promoted. In 2019, we will continue to deepen our development of emerging markets, such as Southeast Asia, flexibly adjust the aviation network in response to market changes, promote the customized chartered flight business, and maximize the benefits of the cargo fleet.

The Company continues to grasp the pulse of the market and expand potential markets for high-growth source of goods, such as semiconductor precision machinery, engine and aviation materials, temperature-controlled cold chain, biotechnology and pharmaceuticals, and other special cargo. In addition, to respond to the development of cross-border e-commerce, besides strengthening cooperation with express delivery companies and other airlines, the air and marine transport of e-commerce postal delivery has also achieved multiple growth in quantity in 2018. In 2019, the Company will continue to grasp the logistics trend and expand our business territory.

1.3 Development Strategies

In recent years, benefiting from the rapid economic growth of developing countries, which has driven the demand of the overall air transport market, while the countries gradually loosen their air traffic rights policies, the development of aviation industry has been accelerated. However, the rapid development has also led to the congestion of airports in major cities around the world; with the saturation of airlines' aviation network layout, the aviation market competition will continue to be fierce, which will cause an impact on the overall revenue.

In the future, China Airlines will develop by adopting a balanced and stable strategy. In terms of passenger transportation, we will continue to work with multiple brands and capture market share along with Mandarin Airlines and Tiger Air by differentiating target customers, to maintain the Group's dominant position. We will also pay close attention to market changes to adjust transportation capacity, consolidate, and deepen market cultivation, continue to develop potential destinations, strengthen inter-airline cooperation, optimize the layout of aviation network, and continuously improve the product quality of the fleet. In the future, we will cooperate with the construction plan of Taoyuan Airport and start arranging the development plan of China Airlines Group after it is stationed in Terminal 3, strengthening overall development momentum. In terms of cargo transport, we will strengthen the development of freight information, promote customized services and charter business, and solicit high-yield special goods to improve revenue management performance and enhance service quality.

China Airlines will continue to improve its operations, and strengthen its external competitiveness through optimizing its products, aviation network and service quality. We will also continue to integrate Group's internal resources to achieve the synergy of diversified operations, and to realize our vision of "becoming the top airline choice in Taiwan."

Chairman: Hsieh, Su-Chien

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

2.1 Date 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, Germany. 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; Taipei-Guam, Taipei-Manila, Kaohsiung-Manila, Hakodate charter, and Taipei-Penang passenger flights; 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. Once 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; earned ISO 14001 Environment Management System Expansion Certification and ISO 50001 Energy Management System Setup Certification. Once 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 outbound 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, becoming 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: The new US destination Taipei-Ontario, California, route formally went into operation. Served as one of the ten major members in the IATA Nominating Committee in 2018. Launched Kaohsiung-Hong Kong-Jakarta and Taipei-Chongqing passenger transportation routes. Developed the cargo transport destination in Columbus, Ohio, United States. Joined hands with Japan Airlines in developing the new destinations of Japan inland routes, including Sapporo-Niigata, Sapporo-Hanamaki, Fukuoka-Miyazaki, Fukuoka-Hanamaki, Fukuoka-Amami, Kagoshima-Amami and Kagoshima-Tokunoshima.

- Brand Service:
  Selected as *Cheers* magazine's "2018 Top 20 Employers of the New Generation." CAL Park was awarded the Diamond Level of Green Building Label, with an annual electricity savings of 23,000 kWh. Ranked among top 5% in the 4th Corporate Governance Review China Airlines' in-flight magazine *Dynasty* received the 2018 APEX Awards for Publication Excellence in the US.

- Corporate Social Responsibility:
  China Airlines Group donated 10 million NT$ in disaster relief for the Hualien earthquake. The second airline worldwide to be certified by dual systems, ISO 14001 and ISO 50001, maintaining the highest standards for environmental risk management. Cooperated with ClimateCare, a British professional environmental facility, to launch the "ECO Travel" carbon exchange program.

- Product Design:
  Awarded the "Best Premium Economy Class Amenities Kit" of the Onboard Hospitality Award by OBH Magazine.

- Other:
  Selected as a constituent stock in the Dow Jones Sustainability Index (DJSI). Awarded the Taiwan Corporate Sustainability Award.

2019: Added new flights to Taipei-Palau route. Developed cargo transport destination in Nagoya, Japan. Signed a letter of intent with Chung Yuan Christian University to jointly cultivate aviation talents. Approved by the US Transportation Security Administration to join the precheck program. Evaluated as role-model company for global airlines by the International Carbon Disclosure Project. Selected as a constituent stock in the "TW ESG Index." The first cold chain transportation of pharmaceuticals in Taiwan to achieve international certification.

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

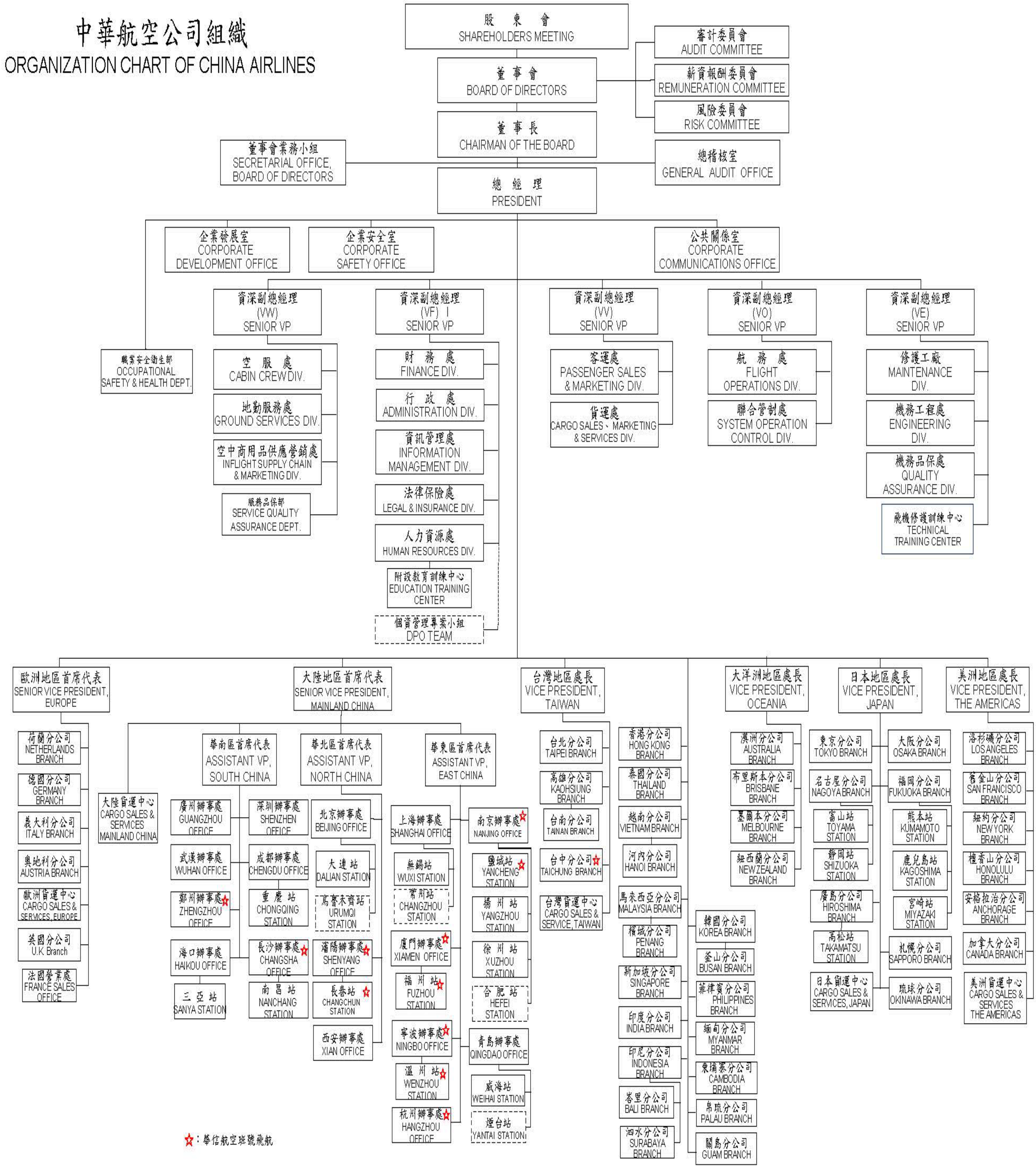
3.8 Relationships among the Top Ten Shareholders

3.9 Ownership of Shares in Affiliated Enterprises

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart (APR 27, 2019)



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, 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 Chain & Marketing Div.	Responsible for the research and development, marketing and planning of various in-flight service supplies and products for sale; planning and supply management of meals and beverages in all flights of the entire route; supervising and controlling the logistics and supply management such as the purchasing, warehousing, preparation and loading of various in-flight service supplies; working on improving the quality of in-flight service products based on customer feedbacks 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 & Marketing Div.	Responsible for supervising the passenger transport network planning and route management of the entire route, seat control, business promotion, digital marketing, customer relationship maintenance, membership marketing and inter-airline cooperation, cross-industry collaboration, determination of passenger transport rates and various quotas, performance evaluation, and developing and maintaining revenue management systems and passenger transport business trainings at all levels.
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.
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

Department	Functions
	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 27, 2019

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	06/27/2018	3	1,867,341,935	34.13%	1,867,341,935	34.45%	-	-	-	-	-	-	-	-	-
	Representative: Hsieh, Su-Chien	R.O.C.	Male	07/06/2016	06/27/2018	3	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	Chairman & 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
Director	China Aviation Development Foundation	R.O.C.	-	07/07/1988	06/27/2018	3	1,867,341,935	34.13%	1,867,341,935	34.45%	-	-	-	-	-	-	-	-	-
	Representative: Charles C.Y., Chen	R.O.C.	Male	07/01/2000	06/27/2018	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

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: Ting, Kwang-Hung	R.O.C.	Male	01/28/2008	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Chairman, Central Trading & Development Corp. BA in Finance, Boston University, U.S.A.	Member, Risk Committee, China Airlines Ltd. Group Chairman, Phu My Hung Holdings Group 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: Chen, Han-Ming	R.O.C.	Male	07/26/2016	06/27/2018	3	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
	Representative: Ko, Sun-ta	R.O.C.	Male	06/27/2018	06/27/2018	3	3,737	0.00%	3,737	0.00%	0	0.00%	0	0.00%	PT Lecturer, National Open University PT Lecturer, National Open College President, Keelung Found for Children & Families MBA, Keio University Japan	Chairman, K Hotes Group Chairman, Kodak Trading Co., Ltd. Chairman, Kota Enterprise Co., Ltd.	None	None	None
	Representative: Wei, Yung-yeh	R.O.C.	Male	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Jet Airplane Maintenance Group, Air Force Technical School	Member of Council, China Airlines Employees Union Foreman, Line Maintenance Department, Engineering & Maintenance Division, China Airlines	None	None	None
Director	National Development Fund, Executive Yuan	R.O.C.	-	06/15/2012	06/27/2018	3	519,750,519	9.50%	519,750,519	9.59%	-	-	-	-	-	-	-	-	-
	Representative: Lin, Su-Ming	R.O.C.	Male	06/15/2012	06/27/2018	3	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

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: Wang, Shih-szu	R.O.C	Female	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Director General, Tourism Bureau of Tainan City Government Chairperson, Research, Development and Evaluation Commission of Tainan City Government Director General, Ketagalan Foundation Director General, Information Department of Kaohsiung City Government Director General, Judicial Reform Foundation Director General, Taiwan Association for Human Rights Master, International Development Policy, Duke University	Deputy Mayor, Tainan City Government	None	None	None
Independent Director	Chung, Lo-Min	R.O.C.	Male	06/15/2012	06/27/2018	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, Risk Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd.	None	None	None
Independent Director	Chang, Hsieh Gen-sen	R.O.C.	Female	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Consultant, Legislative Council Office Director, Shian CPA Firm Adjunct Asso. Professor, Chinese Culture University Controller, Amagic Holographics, Inc. Senior Associated CPA, Wu, Liang, and Huang CPAs Staff Accountant, AAA (Auto Club of S. California) MBA, University of California, Irvine, U.S.A.	Chairman, Audit Committee, China Airlines Ltd. Member, Remuneration Committee, China Airlines Ltd. Member, Risk Committee, China Airlines Ltd. Member, Foundation Management Committee, Environmental Protection Administration Independent Director, K Laser Technology Inc.	None	None	None
Independent Director	Shen, Hui-Ya	R.O.C.	Female	06/27/2018	06/27/2018	3	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Independent Director of First Financial Holding Co., Ltd. Independent Director of Taiwan Fertilizer Co., Ltd. Committee of Securities and Futures Investors Protection Center Master of Laws, National Chung Hsing University	Chairman, Remuneration Committee, China Airlines Ltd. Member, Audit Committee, China Airlines Ltd. Member, Risk Committee, China Airlines Ltd. Consultant of Public Service Pension Fund Management Board, Ministry of Civil Service, Examination Yuan Lawyer of Lian Yung Law Office Independent Director of Formosa Advanced Technologies Co., Ltd. Independent Director of Hua Nan Securities Co., Ltd.	None	None	None

Note 1: The average term of the members of the 21st Board of Directors as Directors of the Company was 5 years.
Note 2: The three Independent Directors of the 21st Board of Directors have not been appointed for more than 9 consecutive 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	
Hsieh, Su-Chien	-	-	✓	-	-	✓	✓	-	-	✓	✓	✓	-	0
Charles C.Y.,Chen	✓	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	0
Ting, Kwang-Hung	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	0
Chen, Han-Ming	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	0
Ko, Sun-ta	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	0
Wei, Yung-yeh	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	-	0
Lin, Su-Ming	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	1
Wang, Shih-szu	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-	0
Chung, Lo-Min	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0
Chang, Hsieh Gen-sen	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Shen, Hui-Ya	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2

Note: 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 Act.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

3.2.2 Management Team

APR 27, 2019

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 & President, China Airlines Ltd. 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	Fang, Juo-Ling	R.O.C.	Female	01/01/2018	8,000	0.00%	0	0.00%	0	0.00%	Vice President, Administration Div. Deputy Auditor General, General Audit Office Master's Degree from Georgia State University, U.S.A.	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, Sabre Travel Network (Taiwan) Ltd. Supervisor, Taiwan Air Cargo Terminal 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
Senior Vice President (VV)	Wang, Chen-Min	R.O.C.	Male	01/01/2019	35,621	0.00%	0	0.00%	0	0.00%	Vice President, Passenger Sales Div. & Passenger Marketing Div. General Manager, Korea Branch Bachelor's Degree from Feng Chia University	Director, CAL Hotel Co., Ltd. Director, Mandarin Airlines, Ltd. Director, Taiwan Air Cargo Terminal Ltd. Director, Tigerair Taiwan Co., Ltd. Director, 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	
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	Chairman, 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, Haeco Composite Structures (Jinjiang) 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	Wu, Hsiao-Sui	R.O.C.	Male	07/21/2018	0	0.00%	52	0.00%	0	0.00%	General Manager, Korea Branch General Manager, Honolulu Branch Master's Degree from Cranfield University, UK	None	None	None	None	None
Vice President, Human Resources Div.	Yeah, Shao-Ting	R.O.C.	Male	04/01/2019	868	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Human Resources Div. General Manager, Human Resources & Administration Department, Maintenance Div. Bachelor's Degree from Chinese Culture University	None	None	None	None	None
Assistant Vice President, Human Resources Div.	Lee, Pei-Chen	R.O.C.	Female	04/01/2019	11,975	0.00%	7,144	0.00%	0	0.00%	General Manager, Human Resources Development Dept., Human Resources Div. General Manager, Administration Dept., Ground Services Div. Master's Degree from National Taiwan Normal 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

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, Flight Operations Div.	Chen, Chwen-Der	R.O.C.	Male	08/01/2018	19,299	0.00%	0	0.00%	0	0.00%	General Manager, Flight Operations Training Dept., Flight Operations Div. General Manager, Planning & Development Dept., Flight Operations Div. Master's Degree from National Cheng Chi 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 & Passenger Marketing Div.	Peng, Pao Chu	R.O.C.	Female	01/01/2019	8,434	0.00%	0	0.00%	0	0.00%	Vice President, Corporate Development Office Assistant Vice President, Passenger Sales Div. Bachelor's Degree from National Taiwan University	Director, Sabre Travel Network (Taiwan) Ltd. Director, Everest Investment Holdings Ltd. Director, Yestrip Co., Ltd. Director, Tigerair Taiwan Co., Ltd.	None	None	None	None
Assistant Vice President, Passenger Sales & Passenger Marketing Div.	Chen, Pei-Ti	R.O.C.	Female	11/01/2018	0	0.00%	0	0.00%	0	0.00%	Assistant Vice President, Passenger Sales & Marketing Div. General Manager, Sales Management Deparment Bachelor's Degree from National Taiwan University	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.	Yen, Yang	R.O.C.	Female	05/01/2018	0	0.00%	0	0.00%	0	0.00%	General Manager, Finance & Treasury Department, Finance Div. General Manager Economics Analysis Department, Finance Div. Master's Degree from The City University of New York, U.S.A.	Supervisor, Taiwan Aircraft Maintenance And Engineering Co., Ltd. Supervisor, Kaohsiung Airport Catering Services 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, 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	Yu, Yueh Han	R.O.C.	Male	12/06/2018	0	0.00%	0	0.00%	0	0.00%	General Manager, Safety Department Corporate Safety Office Vice President Of Safety, Security, Quality & Environment, Tigerair Taiwan Co., Ltd. Master's Degree from National Sun Yat-sen University	None	None	None	None	None
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	Liu, Tsao-Yang	R.O.C.	Male	11/05/2018	60,488	0.00%	0	0.00%	0	0.00%	Vice President, Ground Services Div. Chief Representative, South China Concurrently, General Manager, Guangzhou Office Bachelor's Degree from Chinese Culture University	None	None	None	None	None
Assistant Vice President Corporate Communications Office	Fang, Heng-Ru	R.O.C.	Male	10/20/2018	1,656	0.00%	0	0.00%	0	0.00%	General Manager, Anchorage Branch Assistant Vice President, Flight Operations Div. Master's Degree from Washington State University, U.S.A.	None	None	None	None	None
Assistant Vice President Corporate Communications Office	Lin, Herng Shan	R.O.C.	Male	04/16/2019	0	0.00%	0	0.00%	0	0.00%	General Manager, Corporate Affairs Department, Corporate Communications Office General Manager Employee Relations Department, Human Resources Div. Master's Degree from RMIT University, AU	None	None	None	None	None
Vice President, Administration Div.	Chung, Ming-Jyh	R.O.C.	Male	07/21/2018	638	0.00%	0	0.00%	0	0.00%	Deputy Auditor General, General Audit Office President Taiwan Airport Services Co. Ltd. Master's Degree from National Taiwan University	Director, Dynasty Aerotech International Corp.	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, 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
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.	Fang, Yuan-Hua	R.O.C.	Male	08/04/2018	30,348	0.00%	0	0.00%	0	0.00%	President, Dynasty Hotel Of Hawaii, Inc General Manager, Qingdao Office Master's Degree from RMIT University, AU	None	None	None	None	None
Vice President, Corporate Development Office	Chang, Cheng-Hao	R.O.C.	Male	01/21/2019	11,803	0.00%	0	0.00%	0	0.00%	Vice President, Cargo Sales & Marketing Cargo Sales, Marketing & Services Div. President, Taiwan Air Cargo Terminal Ltd. Master's Degree from Cranfield University, UK	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. Director, Taiwan Air Cargo Terminal Ltd.	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. Director, Kaohsiung Airport Catering Services Ltd.	None	None	None	None
Assistant Vice President, Corporate Development Office	Liu, Shou-Shu	R.O.C.	Female	12/01/2018	0	0.00%	0	0.00%	0	0.00%	Special Assistant of President Office, Mandarin Airlines Bachelor's Degree from National Taiwan University	None	None	None	None	None
Vice President, In-Flight Service Supply Chain & Marketing 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 Chain & Marketing 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

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, In-Flight Service Supply Chain & Marketing Div.	Yu, Yau	R.O.C.	Female	11/01/2018	34,154	0.00%	0	0.00%	0	0.00%	Assistant Vice President Corporate Communications Office General Manager, Corporate Affairs Department, Corporate Communications Office Master's Degree from National Sun Yat-Sen University	None	None	None	None	None
Vice President, Ground Services Div.	Chen, Wei-Tau	R.O.C.	Male	11/07/2018	36,165	0.00%	2,196	0.00%	0	0.00%	General Manager, Hiroshima Branch President, Taiwan Airport Services Co. Ltd. Bachelor's Degree from Fu Jen Catholic 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
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.	Sheu, Yuh-Shy	R.O.C.	Male	10/01/2016	328	0.00%	0	0.00%	0	0.00%	General Manager, Cargo Sales & Services, Mainland China General Manager, Cargo Sales Management Department, Cargo Sales, Marketing & Services Div. Bachelor's Degree from Feng Chia University	None	None	None	None	None
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
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.	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	Director, 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%	Senior Vice President President, Mandarin Airlines Co., Ltd. Master's Degree, Business of Administration, University of Pittsburgh	None	None	None	None	None
Vice President, Mainland China	Chang, Chih-Chieh	R.O.C.	Male	10/08/2018	96,553	0.00%	0	0.00%	0	0.00%	Senior Vice President, President Office Vice President, Passenger Sales Div. Bachelor'S Degree from Tunghai University	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="18">6,432</td><td rowspan="18">6,432</td><td rowspan="18">0</td><td rowspan="18">0</td><td rowspan="18">0</td><td rowspan="18">0</td><td rowspan="18">5,757</td><td rowspan="18">7,375</td><td rowspan="18">0.68%</td><td rowspan="18">0.77%</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>Chen, Han-Ming</td></tr>
<tr><td>Director</td><td>Ko, Sun-Ta</td></tr>
<tr><td>Director</td><td>Wei, Yung-Yeh</td></tr>
<tr><td>Director</td><td>Lin, Su-Ming</td></tr>
<tr><td>Director</td><td>Wang, Shih-Szu</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>Huang, Hsiu-Gu</td></tr>
<tr><td>Independent Director</td><td>Chung, Lo-Min</td></tr>
<tr><td>Independent Director</td><td>Chang, Hsieh Gen-Sen</td></tr>
<tr><td>Independent Director</td><td>Shen, Hui-Ya</td></tr>
<tr><td>Independent Director</td><td>Luo, Hsiao-Hsien</td></tr>
<tr><td>Independent Director</td><td>Ting, Tin-Yu</td></tr>
<tr><td colspan="12">*Except as disclosed in the above table, the remuneration received by the Directors of the Company for the services provided for all companies in the financial report (such as serving as a consultant who is not an employee) in the most recent year: None</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. Mr. Ho, Nuan-Hsuan was dismissed as Chairman on April 2, 2019; Mr. Hsieh, Su-Chien has been elected as Chairman on April 2, 2019; Chunghwa Telecom Co., Ltd., juridical person director, and Mr. Huang, Hsiu-Gu, its representative, resigned as Director on January 19, 2018; Mr. Cheng, Chuan-Yi resigned as Director on May 7, 2018; Terms of Directors of Mr. Jong, Jia-shi, Mr. Lee, Kuo-Fu, Mr. Luo, Hsiao-Hsi and Mr. Ting, Tin-Yu expired on June 27, 2018.

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$1,000,000.

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$693,000. 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 31,2018

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			
8,997	9,986	0	0	0	0	0	0	1.18%	1.33%	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 March 20, 2019, the Company's Board of Directors approved the 2018 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 2018 individual financial statement net income (after tax) totaled NT$1,790,361,000.

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 Lee, Kuo- Fu, Director Ting, Kwang-Hu, and Director Wei, Yung-Yeh were partially or fully donated to the China Airlines Employee Union.
(3) Directors who also serve as employees of the Company are Director Hsieh, Su-Chien; Director Wei, Yung-Yeh; 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; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh; Lin, Su-Ming; Wang, Shih-Szu; Jong, Jia-shi; Lee, Kuo-Fu; Cheng, Chuan-Yi; Huang, Hsiu-Gu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya; Luo, Hsiao-Hsi; Ting, Tin-Yu	Hsieh, Su-Chien; Charles C.Y., Chen; Ting, Kwang-Hu; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh; Lin, Su-Ming; Wang, Shih-Szu; Jong, Jia-shi; Lee, Kuo-Fu; Cheng, Chuan-Yi; Huang, Hsiu-Gu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh; Lin, Su-Ming; Wang, Shih-Szu; Jong, Jia-shi; Cheng, Chuan-Yi; Huang, Hsiu-Gu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya; Luo, Hsiao-Hsi; Ting, Tin-Yu	Charles C.Y., Chen; Ting, Kwang-Hu; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh; Lin, Su-Ming; Wang, Shih-Szu; Jong, Jia-shi; Cheng, Chuan-Yi; Huang, Hsiu-Gu; Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya; Luo, Hsiao-Hsi; Ting, Tin-Yu
NT$2,000,001-NT$5,000,000	-	-	Lee, Kuo-Fu	Lee, Kuo-Fu
NT$5,000,001-NT$10,000,000	Ho, Nuan-Hsuan	Ho, Nuan-Hsuan	Ho, Nuan-Hsuan; Hsieh, Su-Chien	Ho, Nuan-Hsuan; Hsieh, Su-Chien
Total	18	18	18	18

President and Senior Vice President Remuneration

Title	Name (Note 1)	Salary (A) (Note 2)		Severance Pay (B)		Bonuses and Allowances (C) (Note 3)	
		CAL	Consolidated Subsidiaries of CAL (Note 5)	CAL	Consolidated Subsidiaries of CAL (Note 5)	CAL	Consolidated Subsidiaries of CAL (Note 5)
President	Hsieh, Su-Chien	18,997	18,997	0	0	9,284	13,553
Senior Vice President	Lo, Ya-Mei						
Senior Vice President	Kao, Shing-Hwang						
Senior Vice President	Chang, Chih-Chieh (Note 10)						
Senior Vice President	Wang, Houng						
Senior Vice President	Chang, Young						

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	-	-
NT$2,000,001 - NT$5,000,000	Lo, Ya-Mei; Chang, Chih-Chieh; Wang, Houng; Chang, Young	Lo, Ya-Mei; Chang, Chih-Chieh; Wang, Houng
NT$5,000,001 - NT$10,000,000	Hsieh, Su-Chien; Kao, Shing-Hwang	Hsieh, Su-Chien; Kao, Shing-Hwang; Chang, Young
Total	6	6

Note 1:President Hsieh, Su-Chien concurrently serves as director. 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$4,646,000. 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 March 20, 2019, the Company's Board of Directors approved the 2018 Employee Compensation Proposal.

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

Unit: NT$ thousands December 31, 2018

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			
57	0	57	0	1.58%	1.82%	0

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 2018 individual financial statement net income (after tax) totaled NT$1,790,361,000.

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

Note 10: Mr. Chang, Chih-Chieh was dismissed from the position of Senior Vice President on October 8, 2018.

Employees’ Compensation of the Management Team

Unit: NT$ thousands Dec 31, 2018

Title	Name	Employees’ Compensation in Stocks	Employees’ Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
President	Hsieh, Su-Chien	0	477	477	0.92%
Senior Vice President	Lo, Ya-Mei				
Senior Vice President	Kao, Shing-Hwang				
Senior Vice President	Wang, Houng				
Senior Vice President	Chang, Young				
Auditor General	Fang, Juo-Ling				
Data Protection Officer	Wu, Hsiao-Sui (Assumed Post on 07/21/2018)				
Vice President	Chien, Feng-Nien				
Vice President	Chen, I-Ko				
Vice President	Lai, Ming-Hui				
Vice President	Wang, Chen-Min				
Vice President	Liu, Der-Chuan				
Vice President	Liu, Tsao-Yang				
Vice President	Chen, Kang-Reuy				
Vice President	Chung, Ming-Jyh				
Vice President	Chen, I-Chieh				
Vice President	Hong, Tsu-Kuang				
Vice President	Chiu, Chang-Hsin				
Vice President	Chou, Jyh-Shyan				
Vice President	Chen, Wei-Tau (Assumed Post on 11/07/2018)				
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	Ho, Hui-Fen				
Assistant Vice President	Yu, Yueh Han (Assumed Post on 12/06/2018)				
Assistant Vice President	Chen, Chwen-Der (Assumed Post on 08/01/2018)				
Assistant Vice President	Tung, Hsing-Hua (Assumed Post on 03/16/2018)				
Assistant Vice President	Huang, Hsiang-Piao				
Assistant Vice President	Jeng, Jong-Shinn				
Assistant Vice President	Chen, Pei-Ti (Assumed Post on 05/16/2018)				
Assistant Vice President	Ouyang, John				
Assistant Vice President	Wei, Shi Jong (Assumed Post on 03/31/2018)				

Title	Name	Employees' Compensation in Stocks	Employees' Compensation in Cash	Total	Ratio of Total Amount to Net Income (%)
Assistant Vice President	Shann, Da-Sin (Assumed Post on 01/01/2018)				
Assistant Vice President	Fang, Cheng-Ru (Assumed Post on 10/20/2018)				
Assistant Vice President	Yeah, Shao-Ting				
Assistant Vice President	Chen, Jo-Ching				
Assistant Vice President	Yen, Yang (Assumed Post on 05/01/2018)				
Assistant Vice President	Huang, Hui Na				
Assistant Vice President	Fang, Yuan-Hua (Assumed Post on 08/04/2018)				
Assistant Vice President	Kao, Shu-Chuan				
Assistant Vice President	Yu, Yau				
Assistant Vice President	Hsiao, Kuo Chih				
Assistant Vice President	Hung, I-Lan				
Assistant Vice President	Wang, Wei				
Assistant Vice President	Liu, Shou-Shu (Assumed Post on 12/01/2018)				
Assistant Vice President	Liu, Duan-Shiuh				
Assistant Vice President	Hsiao, Jui-Fu				
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)				
Auditor General	Chung, Chuar-Duan (Dismissed on 04/30/2018)				
Assistant Vice President	Hsueh, Po-Wen (Dismissed on 07/01/2018)				
Assistant Vice President	Lu, Shwu-Huoy (Dismissed on 07/17/2018)				
Assistant Vice President	Pan, Wen-Tsung (Dismissed on 07/30/2018)				
Assistant Vice President	Lai, Hsiang-Kuang (Dismissed on 09/25/2018)				
Senior Vice President	Chang, Chih-Chieh (Dismissed on 10/08/2018)				
Vice President	Peng, Long-Min (Dismissed on 11/05/2018)				
Assistant Vice President	Tsai, Chih Hung (Dismissed on 12/06/2018)				

Note 1: Individual names and titles are disclosed, but the distributed compensation is disclosed as a grand total.
Note 2: On March 20, 2019, the Company's Board of Directors approved the 2018 Employee Compensation Proposal.
Note 3: The management team includes:
(1) Presidents and their equivalent
(2) Vice presidents and their equivalent
(3) Assistant vice presidents and their 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	2017		2018	
	CAL	Consolidated Subsidiaries of CAL	CAL	Consolidated Subsidiaries of CAL
Directors	1.11%	1.21%	1.18%	1.33%
Presidents and Senior Vice Presidents	1.38%	1.54%	1.58%	1.82%

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.

E. 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; specifically, the salaries and remuneration of the chairman of the board, the president, and senior vice presidents are 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, 2018, through April 27, 2019, a total of thirteen meetings of the Board of Directors were held. Average attendance rate was 92%. 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	12	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on June 27, 2018; Dismissed on April 2, 2019.
Chairman	Hsieh, Su-Chien	13	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on June 27, 2018; elected as Chairman on April 2, 2019.
Director	Charles C.Y., Chen	12	1	92%	China Aviation Development Foundation	Reappointed as juridical person director representative on June 27, 2018.
Director	Ting, Kwang-Hung	8	5	62%	China Aviation Development Foundation	Reappointed as juridical person director representative on June 27, 2018.
Director	Chen, Han-Ming	13	0	100%	China Aviation Development Foundation	Reappointed as juridical person director representative on June 27, 2018.
Director	Ko, Sun-Ta	10	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on June 27, 2018.
Director	Wei, Yung-Yeh	9	1	90%	China Aviation Development Foundation	Newly appointed as juridical person director representative on June 27, 2018.
Director	Lin, Su-Ming	12	1	92%	National Development Fund (Executive Yuan)	Reappointed as juridical person director representative on June 27, 2018.
Director	Wang, Shih-Szu	6	4	60%	National Development Fund (Executive Yuan)	Newly appointed as juridical person director representative on June 27, 2018.
Director	Lee, Kuo- Fu	3	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on July 13, 2015; Dismissed on June 27, 2018.
Director	Cheng, Chuan-Yi	2	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on July 26, 2016; resigned on May 7, 2018.
Director	Jong, Jia-shi	3	0	100%	China Aviation Development Foundation	Newly appointed as juridical person director representative on August 9, 2016; dismissed on June 27, 2018.
Director	Huang, Hsiu-Gu	0	0	-	Chunghwa Telecom Co., Ltd.	Reappointed as juridical person director representative on June 26, 2015; resigned on January 19, 2018.
Independent Director	Chung, Lo-Min	13	0	100%	-	Reappointed as Independent Director on June 27, 2018.
Independent Director	Chang, Hsieh Gen-Sen	10	0	100%	-	Newly appointed as Independent Director on June 27, 2018.
Independent Director	Shen, Hui-Ya	9	1	90%	-	Newly appointed as Independent Director on June 27, 2018.
Independent Director	Luo, Hsiao-Hsien	3	0	100%	-	Reappointed as Independent Director on June 26, 2015; Dismissed on June 27, 2018.
Independent Director	Ting, Tin-Yu	3	0	100%	-	Newly appointed as Independent Director on June 26, 2015; Dismissed on June 27, 2018.

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	Whether Independent Director Had a Dissenting Opinion or Qualified Opinion
January 24, 2018: 14th meeting of the 20th Board of Directors	"Kaohsiung Airport Catering Services Ltd." share acquisition proposal	Unanimously passed by all independent Directors
March 22, 2018: 15th meeting of the 20th Board of Directors	General Audit Office, General Auditor, retirement due to age 2018 CPA Appointment and Remuneration	
May 10, 2018: 16th meeting of the 20th Board of Directors	Review of Qualifications of the 21st Director Nominees Lifting of Non-compete Restriction on the 21st Directors-elect Position Change of Auditor General in the General Audit Office	
June 27, 2018: 1st meeting of the 21st Board of Directors	Election of the Chairman of the 21st Board of Directors Appointment of President	
July 11, 2018: 1st temporary meeting of the 21st Board of Directors	Appointment of Risk Management Committee Members of the 21st Board of Directors Appointment of Remuneration Committee Members of the 21st Board of Directors	
August 9, 2018: 2nd meeting of the 21st Board of Directors	Issuance of Domestic Unsecured Ordinary Corporate Bonds Share Buy-back of the Company	
Novenber 8, 2018: 3rd meeting of the 21st Board of Directors	Revision of "Operational Procedures for Loaning Funds to Others"	
January 21, 2019: 4th meeting of the 21st Board of Directors	Lifting of Non-compete Restriction on Holding Concurrent Posts for Wang, Chen-Min, Senior Vice President	
March 20, 2019: 5th meeting of the 21st Board of Directors	2019 CPA Appointment and Remuneration Revision of "Procedures for the Acquisition or Disposal of Assets" Revision of "Procedures Governing Derivatives Trading"	
April 2, 2019: 5th temporary meeting of the 21st Board of Directors	Election of new Chairman	

(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 24, 2018: 14th meeting of the 20th Board of Directors	Chairman and Managers' 2017 Year-end Bonus, 2018 Lunar New Year Incentive and 2018 Salary Adjustment	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien	Personal interest in this matter	Other than Chairman Ho, Nuan-Hsuan and 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 10, 2018: 16th meeting of the 20th Board of Directors	Review of Qualifications of the 21st Director Nominees	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien; Director Chen, Han-Ming; Director Charles C.Y. ,Chen; Director Lin, Su-Ming	Personal interest in this matter	The Directors recused due to interests involved left the meeting in turn and did not participate in the discussion and voting of the related matters. The review was conducted by the remaining attending Directors. Except for Mr. Liu, Hui-Tsung, who did not provide relevant evidencing documents required by Article 192-1, Paragraph 4 of the Company Act and was not included in the candidates of Directors according to the law, the remaining 12 nominees have been approved to be listed in the roster of candidates for the 21st Board of Directors.
	Lifting of Non-compete Restriction on the 21st Directors-elect	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien; Director Charles C.Y. ,Chen; Director Chen, Han-Ming; Director Lee, Kuo- Fu; Director Jong, Jia-Shi; Director Lin, Su-Ming	Personal interest in this matter	Other than the three Independent Directors Chung, Lo-Min, Luo, Hsiao-Hsien and Ting, Tin-Yu, the remaining attending Directors recused themselves due to interests involved. The Independent Director Chung, Lo-Min proceeded with the discussion and voting on behalf of the Chairman, and the matter has been approved after the review.
June 27, 2018: 1st meeting of the 21st Board of Directors	Appointment of President	Director Hsieh, Su-Chien	Personal interest in this matter	Except for Director Hsieh, Su-Chien, who recused according to the law and did not participate in discussion or voting, the remaining 11 attending Directors approved to re-appoint Mr. Hsieh, Su-Chien as President.
August 9, 2018: 2nd meeting of the 21st Board of Directors	2017 Employee Compensation (Bonus) of the Chairman and Managers	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien	Personal interest in this matter	Chairman Ho, Nuan-Hsuan and Director Hsieh, Su-Chien recused due to interests involved and did not participate in discussion or voting; the meeting was chaired by Independent Director Shen, Hui-Ya, and the remaining 10 attending Directors approved the matter.

	Traveling Expense Standards for Military, Civil or Teaching Personnel Serving as Part-time Directors of the Company	Director Wang, Shih-Szu	Personal interest in this matter	Except for Director Wang, Shih-Szu, who recused according to the law due to interests involved and did not participate in discussion or voting, the remaining 11 attending Directors approved the matter.
January 21, 2019: 4th meeting of the 21st Board of Directors	Chairman and Managers' 2018 Year-end Bonus and 2019 Lunar New Year Incentive	Chairman Ho, Nuan-Hsuan; Director Hsieh, Su-Chien	Personal interest in this matter	Chairman Ho, Nuan-Hsuan and Director Hsieh, Su-Chien recused due to interests involved; the meeting was chaired by Independent Director Chung, Lo-Min and the remaining 10 attending Directors approved the matter.

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, namely the Remuneration Committee, Audit Committee, and Risk Committee, were set up under the Board of Directors. Each is convened based on its charter, and the charters 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 2018 through April 27, 2019:

Dates / Name	01/24/2018	03/22/2018	05/10/2018	06/27/2018	07/11/2018	08/09/2018	08/23/2018	10/03/2018	11/08/2018	12/21/2018	01/21/2019	03/20/2019	04/02/2019
Chung, Lo-Min	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chang, Hsieh Gen-Sen	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shen, Hui-Ya	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	○
Luo, Hsiao-Hsien	✓	✓	✓	-	-	-	-	-	-	-	-	-	-
Ting, Tin-Yu	✓	✓	✓	-	-	-	-	-	-	-	-	-	-

Note: ✓ Indicates attendance in person. ○ indicates attendance by proxy. × indicates the director 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, 2018 through April 27, 2019. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director (Chairman)	Chang, Hsieh Gen-Sen	6	0	100%	Newly appointed as Independent Director on June 27, 2018.
Independent Director	Chung, Lo-Min	9	0	100%	Appointed as Independent Director on June 26, 2015, and reappointed on June 27, 2018.
Independent Director	Shen, Hui-Ya	6	0	100%	Newly appointed as Independent Director on June 27, 2018.
Independent Director	Luo, Hsiao-Hsien	3	0	100%	Appointed as Independent Director on June 26, 2015, and Dismissed on June 27, 2018.
Independent Director	Ting, Tin-Yu	3	0	100%	Appointed as Independent Director on June 26, 2015, and Dismissed on June 27, 2018.

Other mentionable items:

1. Key functions of the Audit Committee:
   The Committee consists of three Independent Directors. The key functions of the year is to assist the Board of Directors in supervising the Company on the fair presentation of the relevant financial statements (annual and semi-annual financial reports), the appointment (dismissal) of a CPA and its independence and performance, the auditing of Company's internal control system, the compliance with related laws, regulations and rules of the Company (such as: internal control system, acquisition or disposal of assets, derivative commodity transactions, loaning funds to others, providing endorsements or guarantees for others), and other matters included in its statutory functions (appointment and dismissal of financial supervisors or internal chief audit executive, mergers and acquisitions related matters).
2. 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:

Meeting Dates	Agenda content	Results of the vote by the Board of Auditors and company's handling of the Board's opinion	Results of Board of Directors decision
January 24, 2018 4th Extraordinary Meeting of the Audit Committee of the 20th Board of Directors	Acquisition of Shares in "Kaohsiung Airport Catering Services Ltd."	Passed to the Board of Directors upon unanimous approval by all members in attendance.	Approved by all attending Directors in the 14th meeting of the 20th Board of Directors on January 24, 2018.
March 22, 2018 11th Meeting of the Audit Committee of the 20th Board of Directors	2017 Financial Report and Consolidated Financial Report 2018 CPA Appointment and Remuneration 2017 Surplus Earnings Distribution Provision of Financing Endorsement and Guarantee to Taiwan Aircraft Maintenance and Engineering Co., Ltd. with a limit of 2 billion NT$ 2017 Internal Control System Effectiveness Audit and Statement		Approved by all attending Directors in the 15th meeting of the 20th Board of Directors on March 22, 2018.
May 10, 2018 12th Meeting of the Audit Committee of the 20th Board of Directors	Position Change of Auditor General in the General Audit Office		Approved by all attending Directors in the 16th meeting of the 20th Board of Directors on May 10, 2018.
August 9, 2018 1st Meeting of the Audit Committee of the 21st Board of Directors	Q2 2018 (Including First Half of the Year) Consolidated Financial Report		Approved by all attending Directors in the 2nd meeting of the 21st Board of Directors on August 9, 2018.
November 8, 2018 2nd Meeting of the Audit Committee of the 21st Board of Directors	Amendment of "Operational Procedures for Loaning Funds to Others" Change of CPA by Deloitte & Touche		Approved by all attending Directors in the 3rd meeting of the 21st Board of Directors on November 8, 2018.
January 21, 2019 3rd Extraordinary Meeting of the Audit Committee of the 21st Board of Directors	Listing Application Plan of Tigerair Taiwan		Approved by all attending Directors in the 4th meeting of the 21st Board of Directors on January 21, 2019.
March 20, 2019 3rd Meeting of the Audit Committee of	2018 Financial Report and Consolidated Financial Report		Approved by all attending Directors in

the 21st Board of Directors	2018 Surplus Earnings Distribution 2019 CPA Appointment and Remuneration Revision of "Procedures for the Acquisition or Disposal of Assets" Revision of "Procedures Governing Derivatives Trading" 2018 Internal Control System Effectiveness Audit and Statement		the 5th meeting of the 21st Board of Directors on March 20, 2019.

(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.

3. 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.

4. 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 managers 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	Communication matters		Communication results	
	Primary matter	Proposal by independent director	Results	Company's processing status
March 22, 2018 Audit Committee	Accountant to explain audit results of the 2017 financial report, and take questions from the attendees of the meeting for discussion.	As the Taiwan Aircraft Maintenance and Engineering Co., Ltd. has not commenced operations, please pay attention to the capitalization of its related expenses.	Approved by all attending Independent Directors	1. The managerial department has provided the explanation and response forthwith during the meeting. 2. Continued to submit for the Board of Directors' approval, and completed the 2017 financial report announcement and declaration on March 31, 2018.
	The adoption of introduction plan and schedule in IFRS 16 Leases	None	Noted by all attending Independent Directors	None
May 10, 2018 Audit Committee	Accountant to explain the audit results of Q1 2018 financial report and the amendments to the laws and regulations, and take questions from the attendees of the meeting for discussion.	Please pay attention to the coming into effect of 2019 new IFRS 16 Lease and its influence on the compilation of 2018 annual report.	Noted by all attending Independent Directors	1.The managerial department has provided the explanation and response forthwith during the meeting. 2. Announcement and declaration of Q1 2018 financial report was completed on May 15, 2018.
	The adoption of progress report in IFRS 16 Leases	None	Noted by all attending Independent Directors	None
August 9, 2018 Audit Committee	Accountant to explain the audit results of Q2 2018 financial report and the impact of new IFRS on financial reports, and take questions from the attendees of the meeting for discussion.	To pay attention to operation performance of the first half year, and the impact of changes in fuel costs on airline profit and loss and cost analysis. For explanation related to the advanced payment for aircraft purchasing in the financial report, please indicate that the ATR aircraft purchasing case belongs to Mandarin Airlines.	Approved by all attending Independent Directors	1.The managerial department has provided the explanation and response forthwith during the meeting. 2.Continued to report to the Board of Directors, and completed the Q2 2018 financial report announcement and declaration on August 14, 2018.
	The adoption of progress report in IFRS 16 Leases	None	Noted by all attending Independent Directors	None
November 8, 2018 Audit Committee	Accountant to explain the audit results of Q3 2018 financial report, amendments to the laws and regulations, and description of the 2018 financial report audit plan and key audit matters, and take questions from the attendees of the meeting for discussion.	To pay attention to changes in the accounts payables and other receivables in the balance sheet and the statement of comprehensive income, that is, the contents of the customer relationship in other none-type asset items, and ask the managerial department to provide explanation.	Noted by all attending Independent Directors	1.The managerial department has provided the explanation and response forthwith during the meeting. 2.Continued to report to the Board of Directors, and completed the Q3 2018 financial report announcement and declaration on November 14, 2018.
	The adoption of progress report in IFRS 16 Leases	None	Noted by all attending Independent Directors	None

March 20, 2019 Audit Committee	Accountant to explain audit results of the 2017 financial report, and take questions from the attendees of the meeting for discussion.	To pay attention to the impact of rising oil prices on the operational aspect and the reasons for changes in operating expenses for two quarters; it is also recommended to adjust the expression of some financial statements according to the principle of consistency.	Noted by all attending Independent Directors	1.The managerial department has provided the explanation and response forthwith during the meeting. 2.Continued to submit for the Board of Directors' approval, and completed the 2018 financial report announcement and declaration on April 1, 2019.
	The adoption of progress report in IFRS 16 Leases	None	Noted by all attending Independent Directors	None

• 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 22, 2018 Audit Committee	2017 Internal Control System Effectiveness Audit and Statement	None	Approved by all attending members and reported to the Board of Directors.	Resolved by the Board of Directors on March 22, 2018. The 2017 Statement of Internal Control was announced and declared on March 23 and disclosed in the 2017 annual report.
	Internal audit business report for the second half of 2017	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on March 22, 2018.
May 10, 2018 Audit Committee	Internal audit business report for Q1 2018	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on May 10, 2018.
August 9, 2018 Audit Committee	Internal audit business report for the first half of 2018	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on August 9, 2018.
November 8, 2018 Audit Committee	Internal audit business report for Q3 2018	To ask the managerial department to provide relevant regulations regarding the financial derivatives trading for the purpose of hedging after the meeting.	Approved by all attending members and reported to the Board of Directors.	1. The managerial department has provided relevant materials of financial derivatives trading procedures of the Company after the meeting. 2. Reported to the Board of Directors on November 8, 2018.
	2019 audit plan	To pay attention to whether there is articulation between the risk of internal operations reported by the Risk Management Committee and the audit plan	1. Explained by the managerial department. 2. Discussed and voted by all attending members and approved to report to the Board of Directors.	Resolved by the Board of Directors on November 8, 2018, and completed the announcement and declaration of 2019 internal audit plan on December 4.
January 21, 2018 Audit Committee	Internal audit business report for Q4 2018	To pay attention to whether there is a control mechanism for online sales.	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on January 21, 2019.
March 22, 2018 Audit Committee	2018 Internal Control System Effectiveness Audit and Statement	None	Approved by all attending members and reported to the Board of Directors.	Resolved by the Board of Directors on March 20, 2019, and the 2018 Statement of Internal Control was announced and declared on March 22 and disclosed in the 2018 annual report.
	Internal audit business report for January and February 2019	None	Approved by all attending members and reported to the Board of Directors.	Reported to the Board of Directors on March 20, 2019.

3.3.3 Risk Committee:

The Risk Committee convened five meetings from January 1, 2018, through April 27, 2019. Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director (Chairman)	Chung, Lo-Min	3	0	100%	Appointed on July 11, 2018.
Independent Director	Chang, Hsieh Gen-Sen	3	0	100%	Appointed on July 11, 2018.
Independent Director	Shen, Hui-Ya	3	0	100%	Appointed on July 11, 2018.
Director	Ting, Kwang-Hung	5	0	100%	Appointed on May 6, 2014; reappointed on July 11, 2018.
Director	Lin, Su-Ming	4	1	80%	Appointed on May 6, 2014; reappointed on July 11, 2018.
Director	Charles C.Y. ,Chen	1	1	50%	Appointed on August 11, 2016; Dismissed on June 27, 2018.
Director	Huang, Hsiu-Gu	0	0	-	Appointed on May 6, 2014; resigned on January 19, 2018.
Independent Director	Luo, Hsiao-Hsien	2	0	100%	Appointed on May 6, 2014; Dismissed on June 27, 2018.

Other mentionable items:

1. Key functions of the Risk Committee:
   The Committee answers to the Board of Directors and assists the Board of Directors in reviewing the establishment, implementation results, and response measures of Company's management strategies for overall finance, economy, flight safety, and other risks, and submits its conclusions and recommendations to be resolved by the Board of Directors. Good operational effectiveness has been achieved.

2. The operation of the Risk Committee:

Meeting Dates	Agenda content	Risk Committee resolution results and company action on Risk Committee opinions	Results of Board of Directors decision
January 31, 2018 11th Meeting of the Risk Management Committee of the 20th Board of Directors	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 19, 2018 12th Meeting of the Risk Management Committee of the 20th Board of Directors	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		
August 9, 2018 1st Meeting of the Risk Management Committee of the 21st Board of Directors	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		
November 7, 2018 2nd Meeting of the Risk Management Committee of the 21st Board of Directors	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		
March 20, 2019 3rd Meeting of the Risk Management Committee of the 21st Board of Directors	Safety management report 2019Q1-Q2 Operations risk management analysis Financial status report Operations outlook and financing, crude oil market analysis Financial risk hedging strategy Oil risk hedging strategy		

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 "Corporate Governance Principles" of the Company has been established in compliance with the "Corporate Governance Best-Practice Principles for TSEC/TPEx Listed Companies"; its amendment has been approved in the 6th meeting of the 21st Board of Directors on May 8, 2019 and disclosed under the "Important Company Regulations" on the Company's website.	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 website has a portal for shareholder services 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
3. Structure and responsibilities of the Board of Directors (1)Has the Company established policies calling for diversity among members of the	✓		(1) China Airlines advocates and respects the director diversity policy, and is convinced that 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, birth date and cultural background, 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. In order to strengthen the Board's functions to achieve the ideal goals of corporate governance, the Company has established the "Corporate Governance Principles," Article 20 of which specifies the overall abilities the Board of Directors shall be equipped with, which are as follows:	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>Board of Directors and put said policies into practice?</td><td></td><td></td><td>

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 27, 2019
<table>
<tr><th>Diversified Core / Name of board member</th><th>Gender</th><th>Operations Management</th><th>Perform Accounting And Financial Analysis</th><th>Conduct Management Administration</th><th>Conduct Crisis Management</th><th>Industrial Knowledge</th><th>Perspective of the International Market</th><th>Lead</th><th>Make Decisions</th></tr>
<tr><td>Hsieh, Su-Chien</td><td>Male</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Charles C.Y. ,Chen</td><td>Male</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Ting, Kwang-Hung</td><td>Male</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Chen, Han-Ming</td><td>Male</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Ko, Sun-Ta</td><td>Male</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Wei, Yung-Yeh</td><td>Male</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Lin, Su-Ming</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Wang, Shih-Szu</td><td>Female</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Chang, Hsieh Gen-Sen</td><td>Female</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Chung, Lo-Min</td><td>Male</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>Shen, Hui-Ya</td><td>Female</td><td>✓</td><td>O</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
</table>
Note: ✓Indicates the director has the capability O indicates the director has some capability.

Reviewing the list of 11 Directors of the 21st Board of Directors of the Company, there are 3 female members (2 of whom are Independent Directors) and 1 Representative Director of the laborers recommended by the Company's labor union. The entire Board of Directors has the ability to perform business judgments, leadership and decision making, operation and management, crisis handling, and has industrial knowledge and outlook on professional fields and international markets; Charles C.Y., Chen and Ting, Kwang-Hu have contributed to public welfare; Shen, Hui-Ya has expertise in legal affairs; Wang, Shih-Szu is the current deputy mayor of Tainan City Government; and the three Independent Directors, Chang, Hsieh Gen-Sen, Chung, Lo-Min, and Shen, Hui-Ya, have expertise in financial, accounting and legal affairs, respectively.
18% of Directors and 27% of Independent Directors of the Company are employees; the average term of Directors is 5 years; among them, the experience of 2 Independent Directors is below 2 years and 1 Independent Director has experience of 7 years; as for the age distribution of Board members: 2 Directors aged between 65 to 70 years, 4 Directors aged between 56 to 64 years, 3 Directors aged between 55 to 55 years, and 2 Directors aged between 40 to 45 years. Moreover, the Company also focuses on gender equality in the composition of the Board of Directors; the ratio of female Directors has reached 27%.

</td><td></td></tr>
<tr><td>(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?</td><td>✓</td><td></td><td>(2) In addition to setting up the Audit Committee and the Remuneration Committee according to law, in order to improve the risk management of the Company, the Company has voluntarily set up a “Risk Management Committee,” with five Directors (including three Independent Directors) as members. Meetings are held on a quarterly basis according to the organization regulations approved by the Board of Directors. The Committee answers to the Board of Directors and assists the Board of Directors in reviewing the establishment, implementation results, and response measures of Company's management strategies for overall finance, economy, flight safety, and other risks, and submits its conclusions and recommendations to be resolved by the Board of Directors. Good operational effectiveness has been achieved.</td><td>No Difference</td></tr>
<tr><td>(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?</td><td>✓</td><td></td><td>(3) The Company approved the “Regulations Governing the Board Performance Evaluation” in the 4th meeting of the 21st Board of Directors on January 21, 2019, and it has been disclosed on the Company's official website. The internal evaluation of Board performance shall be performed at the end of each year. The evaluation is divided into the performance evaluation of the entire Board of Directors and the performance evaluation of individual Board members. The evaluation shall be completed by the end of January of the following year, and the results of which shall be submitted by the Human Resources Division to be reported in the Board meeting held by the end of March.
In January 2019, the Company completed the 2018 Board Performance Evaluation in accordance with the above regulations, and reported the self-evaluation results at the 5th meeting of the 21st Board of Directors on March 20, 2019 as follows:

Entire Board of Directors
i Evaluation items:
10 items in total, including 5 major aspects, i.e., the degree of participation in the Company's operations, the improvement of Board of Directors’ decision-making quality, the composition and structure of the Board of Directors, the continuing education of Directors, and internal control.
ii Results of self-evaluation: Above standards.

</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></td><td></td><td></td><td>• Individual Board members
i Evaluation items:
18 items in total, including 6 major aspects, i.e., mastery of Company’s goals and tasks, recognition of Directors' responsibilities, participation in Company’s operations, internal relationship management and communication, Director's expertise and continuing education, and internal control.
ii Results of self-evaluation: Above standards.
In addition, the implementation of the performance evaluation of the Board of Directors of the Company may be performed by an external professional independent institution or a team of external experts and scholars every three years.</td><td></td></tr>
<tr><td>(4)Does the Company periodically assess the independence of external CPAs?</td><td>✓</td><td></td><td>(4) The Audit Committee and the Board of Directors of the Company regularly assess the independence and competence of the accountants each year in accordance with the Company's “Corporate Governance Principles,” completing the “Accountant Independence Evaluation Form,” and acquiring the “Accountant Independence Declaration.” The evaluation results are as follows:
<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. Has 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 Huang, Jui-Chan and Cheng, Shiuh-Ran of Deloitte & Touche both conform to the above assessment standards for independence, and are suitable to act as CPAs for this company. After the 3rd meeting of the 21st Audit Committee on March 20, 2019, a report will be made to the 5th meeting of the 21st 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 approved the establishment of the “Chief Corporate Governance Officer” in the 6th meeting of the 21st Board of Directors on May 8, 2019, which is served by the Vice President, Chien, Feng-Nien, who has the professional qualifications and conducts lega related affairs as head of department for more than three years. The Chief Corporate Governance Officer’s main duties include handling relevant meeting affairs of the Board of Directors and Shareholders Meetings in accordance with the law, producing meeting minutes of the Board meetings and Shareholders’ Meetings, assisting Directors in assuming their positions and continuing education, providing Directors with information required to perform their duties, assisting Directors in complying with the laws and regulations, and other matters provided in laws, regulations, the Company’s articles of association, or contracts.
“Chief Corporate Governance Officer” supervises the relevant units carrying out corporate governance matters:
(1)In 2019, Chief Corporate Governance Officer concentrates on the following matters are handled by the personnel of the Board of Directors Business Task Force when conducting matters related to the Board of Directors and Committees (including the production meeting minutes), assisting Directors in assuming their positions, legal compliance and continuing education, and providing Directors with the information required to conduct business:
i.Notifying respective members of meetings 7 days prior to the convening of meetings of Board of Directors and Committees, with cause(s) or subject(s) of the meeting and sufficient meeting materials attached; having the minutes of each meeting signed or sealed by the Chairman and recorder of each meeting, and be distributed to the members of the meeting within 20 days after the meeting.
ii.Providing new Director training to first-time Directors, introducing the Company's business, organization and other matters needing attention, and providing newly-elected Directors with regulatory guidance manuals regarding insiders and directors to assist Directors in taking office and legal compliance; also, assisting Directors in completing annual training courses in accordance with the Company's business characteristics and Directors' requirements.
iii.Providing necessary Company information for the Directors, maintaining smooth communication and exchange between the Directors and supervisors, and assisting in arranging communication meetings between Independent Directors and chief audit executive, CPAs, or other internal units to facilitate conducting of business by Independent Directors.
iv.Amending internal regulations related to corporate governance in cooperation with the latest laws and regulations relevant to the Company's field of business and corporate governance, and submitting the amendments to be resolved by the Board of Directors.
(2)As for the Company’s registration and change of registration, the Administration Division shall be responsible for completing the relevant registration with the competent authority within the time limit for matters required to be registered or changes to registered matters of the Company.
(3)In addition, the Finance Division shall be responsible for the handling of matters related to the shareholders' meetings (the planning and convening of the shareholders' meetings, the production of meeting minutes and other stock affairs related business). It shall provide sufficient information to the shareholders to ensure that the shareholders' rights and interests are well protected.
From January 1, 2018 through April 27, 2019, Chief Corporate Governance Officer hasn’t attended any course yet.</td><td>No Difference</td></tr>
<tr><td>5. Has the Company established communication channels with stakeholders (including but not limited to</td><td>✓</td><td></td><td>The Company has contact information of the spokesperson and responsible unit of each issue on the Company's official website, which facilitates stakeholders contacting the corresponding contact person according to different issues. In addition, a “Stakeholders Section” is set up on the website and the communication channels (including contact person, E-mail, and telephone number) for different stakeholders are provided therein, to appropriately respond to various issues, including corporate social responsibility. See below for details:</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>shareholders, employees, customers, and suppliers) and set up an area dedicated to stakeholders on the Company website? Does the Company respond appropriately to corporate social responsibility issues that stakeholders consider important?</td><td></td><td></td><td>
<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="4">Employees</td><td rowspan="4">Employee feedback and satisfaction rates</td><td rowspan="4">Human Resource Div.
Miss Chi
Tel: +886(0)-3-3998917</td><td>Labor-Management Conference</td><td>Quarterly</td></tr>
<tr><td>Union</td><td>Real time</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>
<tr><td rowspan="7">Customers</td><td rowspan="7">Customer thoughts and feelings</td><td rowspan="7">Passenger Service
Passenger dedicated phone line: +886(0)-2-412-9000

Cargo Service
Mr. Lin
Tel: +886(0)-3-3998263

Aircraft Maintenance
Mr. Chou
Tel: +886(0)-3-3987215</td><td>Customer satisfaction surveys</td><td>Real time</td></tr>
<tr><td>Global business meetings</td><td>Annually</td></tr>
<tr><td>Taiwan district business meetings</td><td>Annually</td></tr>
<tr><td>Discussions with travel agencies</td><td>Quarterly</td></tr>
<tr><td>Company website, industry social responsibility network, Facebook, email, and message</td><td>Real time</td></tr>
<tr><td>Customer-service hotline</td><td>Real time</td></tr>
<tr><td>Corporate customer visits</td><td>Occasional</td></tr>
<tr><td rowspan="4">Investors</td><td rowspan="4">Reports on operating results, maintaining good communication</td><td rowspan="4">Finance Div.
Mr. Yang
Tel: +886(0)-3-3998331

Finance Div.
Mr. Lin
Tel: +886(0)-3-3998361</td><td>Shareholders meeting</td><td>Annually</td></tr>
<tr><td>Shareholder hotline/mailbox</td><td>Real time</td></tr>
<tr><td>Corporate customer hotline</td><td>Real time</td></tr>
<tr><td>Corporate information meeting</td><td>Once every three years (once a year since 2018)</td></tr>
<tr><td rowspan="4">Partners (Suppliers)</td><td rowspan="4">Status of supplier supply/shipment and sustainable risk</td><td rowspan="4">General Products Administration Div.
Miss Xiao
Tel: +886(0)-3-3999136

Aircraft Parts Engineering Div.
Mr. Tsai
Tel: +886(0)-3-3834251 Ext.7507

e-Shopping / Duty Free In-Flight Service Supply Chain & Marketing Div.
Miss Lee
Tel: +886(0)-3-3993871</td><td>Telephone, email</td><td>Occasional</td></tr>
<tr><td>Consultative conferences</td><td>Occasional</td></tr>
<tr><td>Business visits</td><td>Occasional</td></tr>
<tr><td>Site inspections</td><td>At least once every 6 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>
</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>
</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	
7. Information disclosure (1)Has the Company established a public website to disclose financial, operational, and corporate governance information?	✓		(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.	No Difference
(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 who is responsible for gathering and disclosing company information on a monthly basis and for announcing corporate information to the outside world, 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; 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 13 were handled in 2018. 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 website, establishing a transparent and open process with a fair competitive environment for transactions. In addition, according to the Company's "Regulations Governing the Management of Ordinary Goods Suppliers," reviews and evaluations of suppliers' qualification, credit, and ability must be carried out for suppliers' operational risks at different stages. Reviews of 97 suppliers in total were completed in 2018. According to the operation of Collaborative Value Task Force under the CSR policy of the Company, risk assessment of "Supply Chain Sustainability Questionnaire (SAQ)" is conducted annually for key first-tier suppliers. The questionnaire includes aspects like legal, environmental, social and quality, and information security. The legal aspect includes questions concerning ethics, legal compliance and compliance practices. If high-risk vendors are identified, on-site inspection will be conducted and guidance will be given to reduce potential risks and improve existing impact. In 2018, the Company surveyed 72 suppliers (mainly key first-tier suppliers) according to the supplier's sustainable supply chain mechanism. The questionnaire response rate was nearly 60%, and the average supply chain sustainability performance score was 91.79 points, showing that most of the Company's suppliers have internalized the concept of sustainability in their management mechanisms. In addition, in accordance with the "Sustainable Supply Chain Management Policy Statement" of the Company, since 2016, we have	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	
			requested that every supplier sign the "Supplier Code of Conduct" when bidding, and to jointly undertake to create a sustainable industrial environment. In the future, we will continue to promote the procurement of Green Mark certified products. By the end of 2018, we have completed green procurement of approximately NT$4,490,000 in total. 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 P.65 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 as to further improve the risk management system mechanism and reduce the effect created by interplay among risks; the Company 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, and results and adaptive measures related to company risk management strategies. See P.42 for operation details. 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 2018, a total of 803 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: The Company purchased liability insurance for all Directors in both 2018 and 2019 to reduce and diversify the Directors' legal liability risks. Important contents, such as Directors' liability insurance insured amount, coverage and premium rate, have been reported in the 16th meeting of the 20th Board of Directors on May 10, 2018 and the 5th meeting of the 21st Board of Directors on March 20, 2019, respectively.	
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: Except when establishing functional committee (Risk Management Committee) not required by laws, the number of Company's members is no fewer than three, and more than half of the members are Independent Directors. In addition, on January 21, 2019, the Board of Directors approved the "Regulations Governing the Board Performance Evaluation" and completed the 2018 performance self-evaluation of the Board of Directors. The evaluation results have been published in the annual report and on the website of the Company. In addition, on the Company's website and the corporate social responsibility website, the communication situation between the Independent Directors and the chief audit executive and accountants; the Board members diversification policy and its implementation; the operation status of functional committees other than those required by laws; and the implementation status of ethical corporate management, etc., have also been disclosed.				

3.3.5 Composition, Responsibilities, and Operations of the Remuneration Committee

The objective of the Remuneration Committee is to assist the Board in implementing and assessing 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 a 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 (Chairman)	Shen, Hui-Ya	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
Independent Director	Chang, Hsieh Gen-sen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	-
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 of the conditions defined in Article 30 of the Company Act.

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 Company's Remuneration Committee has a total of 3 members, and the term of the current Committee members: June 27, 2018, to June 26, 2021.

The Remuneration Committee convened three meetings over the past year (from January 1, 2018 through April 27, 2019). Committee member attendance is detailed below:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Independent Director (Chairman)	Shen, Hui-Ya	4	0	100%	Appointed on July 11, 2018; new appointment.
Independent Director	Luo, Hsiao-Hsien	1	0	100%	Appointed on July 24, 2015, and dismissed on June 27, 2018.
Independent Director	Chang, Hsieh Gen-sen	4	0	100%	Appointed on July 11, 2018; new appointment.
Other	He, Jyun-Huei	5	0	100%	Appointed on July 11, 2018; reappointment.
Independent Director	Ting, Tin-Yu	1	0	100%	Appointed on July 24, 2015, and dismissed on June 27, 2018.

Other mentionable items:

1. The members of the Committee shall exercise the due care of a good administrator, perform the following functions and duties faithfully, and shall be responsible to the Board of Directors and submit their recommendations to the Board of Directors for discussion:
   (1)Establishment and regularly review of policies, systems, standards, and structures for performance evaluation and salary and compensation for Directors and managers.
   (2)Regular evaluation and setting up of salary and compensation for Directors and managers.
   (3)Regular review of matters related to the organization regulations for the Board of Directors' revision.
   (4)Other matters handed over for discussion by the Board of Directors.
2. 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 recorded): None.
3. 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:

Meeting dates of the Remuneration Committee	Matters discussed	Resolution	Handling of members' opinions by the Company
January 24, 2018 10th Meeting of the Remuneration Committee of the 20th Board of Directors	Chairman and Managers' 2017 Year-end Bonus, 2018 Lunar New Year Incentive and 2018 Salary Adjustment	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business
July 26, 2018 1st Meeting of the Remuneration Committee of the 21st Board of Directors	2017 Employee Compensation (Bonus) of the Chairman and Managers Traveling Expense Standards for Military, Civil or Teaching Personnel Serving as Part-time Directors of the Company Flight and Cabin Allowance Adjustment for Senior Vice President (VO)	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business
October 26, 2018 2nd Meeting of the Remuneration Committee of the 21st Board of Directors	Regular Review of Policies, Systems, Standards and Structures for Performance Evaluation, Salary and Compensation of Directors and Managers	Regarding the regular review of policies, systems, standards, and structures for performance evaluation, salary, and compensation of Directors and Managers, the business management unit was asked to review the overall appropriateness by the end of the year, and submit it for the Committee's discussion before submitting it to the Board of Directors.	After reviewing the overall appropriateness, the business management unit has submitted it for discussion in the 3rd Meeting of the Remuneration Committee of the 21st Board of Directors on December 27, 2018.
	Increase of Traveling Expense Standards for Military, Civil or Teaching Personnel Serving as Part-time Directors of the Company	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business
December 27, 2018 3rd Meeting of the Remuneration Committee of the 21st Board of Directors	Regular Review of Policies, Systems, Standards and Structures for Performance Evaluation, Salary and Compensation of Directors and Managers Proposal of Salary and Compensation for the New Senior Vice President (VV)	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business
January 21, 2019 4th Meeting of the Remuneration Committee of the 21st Board of Directors	Chairman and Managers' 2018 Year-end Bonus and 2019 Lunar New Year Incentive	Approved by all attending members to be reported to the Board of Directors for discussion.	No further business

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 as the highest guiding principle in the Company's implementation of CSR. The Corporate Sustainability Committee is the Company's highest governing body to promote sustainability; it is responsible for planning sustainable development direction, strategy and target setting. The Committee holds at least two meetings per year regularly to review the target implementation rate and follow up on subsequent improvement; it also reports the results of annual sustainable governance to the Board of Directors according to “Corporate Social Responsibility and Sustainable Development Best Practice Principles.” The results of sustainable implementation for 2018 are as follows: • Continued to implement the Sustainable Development Goals (SDGs) and set short-term, medium-term and long-term sustainability goals for the task force of each value based on the Company's sustainability strategy. • Connected with the international community and supported the diversification of Directors. Three new female Directors from the fields of industry, the public sector, and academia have joined the Board, enhancing the overall decision-making quality of the Board of Directors of China Airlines. • Revised internal sustainable related regulations in accordance with international standards and trends, and improved the promotion results and quality of sustainable governance. • Participated in the aviation industry's sustainability related conferences, mastered latest promotion trends, and gave back to the relevant responsible task force of each value to improve the relevant sustainability improvement results. • Entered into the 2018 Dow Jones Sustainability Index (DJSI) and the FTSE4Good Emerging Index; scored leadership level in the global aviation industry by CDP, and won the Taiwan Corporate Sustainability Awards. • Published and compiled the Company's sustainable corporate governance commitments, annual CSR KPIs, implementation results, and the Chinese and English version of Corporate Social Responsibility (CSR) Report planned for the future, which were disclosed on the Company's official website and the corporate social responsibility website.	No Difference
(2)Does the Company regularly hold CSR training?	✓		(2) The Company organizes sustainability related education and training irregularly every year. In 2018, two batches of CSR education and training were implemented. The promotion of the first batch started in September 2018 and its training rate reached 100%. The second batch of education and training was planned for implementation in 2019, which will continue to cultivate the Company's sustainability DNA and shape its corporate sustainable culture.	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 in 2014, which is solely responsible for the promotion of sustainability and is the highest governance organization for sustainability governance promotion, with the President sitting as its Chairman. There are six major task forces in the Committee, based on different aspects of sustainability, which are “Trust Value Team, Manpower Value Team, Joint Creation Value Team, Environmental Value Team, Social Value Team, and Sustainable Development Foundation Team.” Their main responsibilities are strategy formulation, business planning, and promotion of different aspects of sustainability; the teams report the implementation status to the Board of Directors on a regular basis every year in accordance with the Corporate Social Responsibility and Sustainable Development Best Practice Principles. The results of the 2018 CSR operation and the 2019 CSR operation plan were reported in the 4th meeting of the 21st Board of Directors on January 21, 2019.	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) According to the Company's Articles of Association, if the Company is profitable in the year, no less than 3% of the profit shall be appropriated for employee compensation. However, if the Company still has accumulated losses, the offset amount shall be retained in advance. In addition to the relevant operational regulations (including performance appraisal, year-end bonus, rewards and punishments, salary and allowance) specified in the manual of personnel department, the Company also provides reasonable remuneration, related benefits and insurance every year according to the overall salary policy and income. Also, there are performance salary adjustments and promotion salary adjustment regulations in place. The performance of employees is regularly evaluated three times each year. In addition to assessing common core functions, different function evaluating indicators and assessment methods are also	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>designed according to professional characteristics, so as to truly reflect the actual work situation of employees. In 2018, the actual average salary adjustment for all employees was 3%.</td><td></td></tr>
<tr><td>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?</td><td>✓</td><td></td><td>(1) China Airlines is committed to improving the efficiency of the use of various resources; multiple actions to that end are described below:
1. Following its reception of "Diamond Grade" Green Building Mark awarded by the Ministry of the Interior in 2017 for the introduction of the "Elevator Power Regeneration Device" with a number of power-saving measures in the Executive Center Building, the Company has continued to strengthen waste and water resource management in 2018 and received the highest "diamond grade" certification for the crew training building.
2. Moreover, in order to continue to achieve the goal of low-carbon operation and support the government's renewable energy policy, China Airlines launched the assessment operation of building solar photovoltaic equipment at China Airlines Headquarters in 2016, inviting relevant units of the industry and public sector to participate in the negotiation of relevant issues to eliminate safety concerns, such as worries over solar photovoltaic equipment affecting aircrafts' take-off and landing. After such worries were alleviated, the relevant units consented. It is expected a solar photovoltaic system of approximately 99KW will be installed in the CAL Park's flight simulator building, and construction will be finished and the system will be activated in 2019.
3. In order to maintain the goal of "zero carbon growth" after 2020 and increase the use of renewable energy, the Company took the lead in the domestic aviation industry by using sustainable alternative aviation fuels to refuel the new A350-900 aircrafts for the return flights to Taiwan since November 2017. By the end of 2018, the refueling operations of 5 flights have been completed.
4.Implementation of environmental management and carbon management strategies
<table>
<tr><th>Concepts</th><th>Policies</th><th>Promotion strategies</th><th>Plans of action</th></tr>
<tr><td>Complying with environmental laws and regulations</td><td>Performing compliance obligations and fulfilling environmental protection and energy conservation responsibilities.</td><td>(1)Understanding environmental protection trends in Taiwan and abroad, and improving the negotiation channel and platform for stakeholders.
(2)Actively participating in international cooperation and understanding mainstream issues.
(3)Perfecting management / supervision and evaluation mechanism</td><td>(1)Regular regulatory requirements checks and self-commitment reviews
(2)Actively participating in domestic and foreign industry and government meetings to grasp the trends of regulations.
(3)Implementation of checking mechanism for management system compliance obligation
(4)Participation in DJSI, CDP, and other leading international evaluations</td></tr>
</table>
</td><td>No Difference</td></tr>
</table>

Evaluation Item	Implementation Status: Yes	No	Brief Explanation				Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
			Conserving the Earth's resources	Establishing environmental and energy management systems, and management performance indicators.	(1)Continuously improving the operational quality of the corporate environmental and energy management system (2)Developing and implementing environmental performance and carbon reduction targets	(1)Understanding updates to ISO standards, implementing and perfecting the improvement of enterprise Environmental Management System, EMS. (2)Improving the checking, oversight and evaluation mechanism for environmental, energy, and carbon emission risks (3)Establishing and implementing various energy conservation, carbon reduction and environmental performance targets. (4)Implementing internal audit and management review mechanisms and conducting third party verification. (5)Establishing a Task Force on Climate-Related Financial Disclosures (TCFD) system (6)Establishing a corporate "Environmental Management Information System" to understand and document historical environmental performance.	
			Improving eco-efficiency	Implementing environmental and energy conservation education to foster employees' environmental awareness.	(1)Creating diversified guidance and communication channels (2)Establishing incentive programs to motivate colleagues to practice and develop environmental protection ideas.	(1)Implementing environmental and energy-saving education for all employees (2)Organizing an annual "environmental protection education seminar" and "environmental protection competition" (3)Establishing a platform to promote new knowledge of environmental protection and energy	

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Brief Explanation	
			(see table below)	

			(4)Establishing a reward system for proposals
	Implementing green supply chain management to enhance overall eco-efficiency.	(1)Establishing a supply chain risk assessment and management system (2)Establishing environment and energy management capacity for companies of the Group	(1)Cultivating the Group’s and key suppliers’ environmental talent (2)Holding value chain environmental protection and energy saving education and training (3)Performing supply chain risk assessment operation (4)Organizing conferences and regular meetings for contractors and suppliers to communicate China Airlines' sustainability and environmental protection requirements.
Fulfilling social responsibility	Creating a low-carbon operating environment to establish continual improvement of energy and environmental performance.	(1)Optimizing devices performance (2)Promoting energy-saving education and establishing corporate energy-saving culture. (3)Introducing low-carbon and renewable energy facilities	(1)Checking and optimizing energy equipment and management measures (2)Establishing and implementing energy conservation management and educational programs (3)Mastering technology and regulatory trends, and introducing renewable energy equipment in a timely manner

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

	Supporting green design and procurement to promote environmental sustainability.	(1)Deepening the awareness of planners in environmental protection and energy conservation (2)Promoting green procurement and green consumer culture	(1)Including service procedures in the EMS operation, and strengthening personnel training. (2)Including environmental protection and energy saving effects as the key considerations for procurement (3)Establishing and promoting “Green Fares-Carbon Exchange Service” (4)Using environment-friendly certified on-board spare products and selling environment-friendly duty-free products (5)Diversifying the promotion of green consumer awareness

5. Energy savings and carbon reduction

In order to be able to contribute to environmental conservation, the Company has actively participated in and responded to environmentally relevant organizations and initiatives at home and abroad, in addition to complying with the requirements of civil aviation and environmental protection regulations and self-improvement of risk management mechanisms; this strengthens and optimizes the power of our actions in environmental protection, reduces pollution to the environment, cherishes the limited resources of the Earth, while at the same time leading the aviation industry to jointly protect our homeland through the Company’s influence. Since 2012, energy conservation and carbon reduction measures have been implemented. In 2018, a total of 59 environmental management KPIs were promoted, with 56,940 metric tons of aircraft fuel conserved, 123 metric tons of fuel reduced for ground vehicles, 837,000 kWh of electricity conserved, 3,000 metric tons of water conserved, and 150 metric tons of waste reduced. The total annual carbon reduction was approximately 144,882 metric tons of CO2e. The various categories of data are as follows:

Item	Amount conserved	Unit	Carbon (metric tons CO_2e)	Note: CO_2e conversion factor
Aircraft fuel savings	56,940	Metric tons	144,114	2.523
Ground fuel savings	123	Kiloliters	326	2.263 (gasoline); 2.606 (diesel)
Electricity conserved	837	MWh	442	0.554
Water conservation	3	1,000 metric tons	-	0.162
Waste reduction	150	Kiloliters	-	-
Annual carbon reduction			144,882	(Metric tons CO_2e)

6. Water conservation and wastewater treatment

The Company's total water usage in 2018 was 148,216 units, up 4.93% from 2017. The main reason was rupture and leakage of water pipelines caused by the construction around the maintenance facility; it was repaired immediately after discovery; the water use ratio of air conditioning was higher due to the continuous high temperature in summer. In order to continuously improve the management of water resources, and to understand the current status of China Airlines' overall water use situation, it was proposed to strengthen relevant management and supervision measures to track the current status of various water usage and implement water resource risk and opportunity identification operations.

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

The waste water generated during the maintenance work of the aircrafts will impose a burden on the environment, so it needs to be properly processed before it can be discharged into natural water. The Company's maintenance park has two sewage treatment plants set up and in operation under the principle of “full recycling,” to treat the electroplating wastewater generated from engine repair operations (including: chromium, cadmium, and other heavy metals) and organic wastewater generated from aircraft maintenance operations, respectively. The wastewater was discharged to the Taoyuan Airport drainage system after three stages of treatment. Its management is performed on the first-line and front-line control by dedicated handling personnel who have passed the training and verification; regularly checking the water temperature, hydrogen ion, electrical conductivity, grease, and hexavalent chromium of the discharged water; and conducting close monitoring by incorporating it into the enterprise environmental risk level 2 and 3 supervision and evaluation checking mechanism.

Water resource information				
Item	2015	2016	2017	2018
Heavy metal wastewater (tons)	9,577	10,667	8,579	10,014
Organic wastewater (tons)	8,867	15,518	14,647	10,443
Total volume of wastewater discharge (tons)	18,444	26,185	23,226	20,457
Note 1: Domestic sewage has been taken over according to government environmental protection regulations and collected in the sewage system to the sewage treatment plants in Taoyuan Airport, Taipei City and Kaohsiung City for proper processing. Note 2: The source of water is supplied by the water company				

7. Waste management
The Company processes waste management in accordance with the five following principles: Refuse, Reduce, Reuse, Recycle, Repair. It has set a goal for 100% resource reclamation of waste and has annually increased its waste reuse rate. Recognizing that air cargo is a core business of the airline industry, the Company actively participates in seminars with the IATA cabin waste task group. The Company has collected the total weight of cabin waste and recyclable items since 2017; it has annually expanded its scope of ground services since 2018 to be used as basis for management strategy formulation.

Item (kg)			Operation requirements	2015	2016	2017
				Non-recyclable amount	Non-recyclable amount	Non-recyclable amount
Ground operations	General industrial / domestic waste	General maintenance / domestic use	Contract qualified disposal contractors for periodic disposal, keep record for proof of proper handling, and regularly submit report according to regulatory requirements (physical / incineration / thermal treatment).	380,662	419,689	456,997

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

	Hazardous industrial waste	Aircraft and ground emergency power generation requirements	Contract qualified disposal contractors for periodic disposal, keep record for proof of proper handling, and regularly submit report according to regulatory requirements (chemical treatment / solidification and burial).	12,728	13,430	16,758	
	Chromium-containing batteries	Aircraft and engine maintenance use	Contract qualified disposal contractors for periodic disposal, perform offshore processing, and regularly submit report according to regulatory requirements.	1,445	1,920	1,782	
In-flight services	General industrial / domestic waste	Food and beverage and other in-flight service supplies for in-flight services	The on-board kitchen waste is entrusted to the qualified vendors for clearing, handling, and destroying in full, according to international sanitary regulations; after remaining domestic waste is collected from the aircraft, it is first sorted and categorized, and then sent to the incinerator plant of the airport company for incineration.	-	-	3,417,870	
Total				394,835	435,039	3,893,407	

Evaluation Item	Yes	No	Brief Explanation	Deviations
(2)Has China Airlines established an environmental management system that is specifically designed with the Company's operations in mind?	✓		(2) In order to integrate environmental protection operations into the daily operational risk management operations of the enterprise, the Company has introduced a number of international standard management systems since 2009, and has established and improved the environmental management operation mechanism of the enterprise, covering risk issues such as greenhouse gases, environmental management, and energy management. The Company has formulated management strategies and action measures for relevant risks and opportunities identified in various aspects of the environment. Beginning in 2017, the Company has introduced life cycle thinking and completed control over every link of the organization's operations; also, considering the issues of interest to stakeholders, the Company has further improved the level and perspective of	No Difference

<table>
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<tr><th>Yes</th><th>No</th><th>Brief Explanation</th></tr>
<tr><td></td><td></td><td></td><td>environmental and energy risk management, and become comprehensively in line with the standard thinking of international enterprises’ sustainable development governance. System standards covered by China Airlines’ environmental management mechanism:
<table>
<tr><th>Standard</th><th>ISO 14064-1:2006 Greenhouse gas inventory and management system</th><th>ISO 14001:2015 Environmental management system</th><th>ISO 50001:2011 Energy management system</th></tr>
<tr><td>Time of introduction</td><td>2009</td><td>2012 (Note)</td><td>2013</td></tr>
<tr><td>Scope</td><td>(1)Global aviation fuel
(2)Ground operations in Taiwan, including CAL Park, maintenance facility, Taipei branch (floors B1, 1, 2, and 9), Songshan Park, and Kaohsiung branch.</td><td>(1)Aircraft / engine maintenance operation
(2)Flight operation and management
(3)Cargo service
(4)Passenger transport service</td><td>(1)Aircraft / engine maintenance operation
(2)Flight operation and management</td></tr>
</table>
Note: ISO 14001:2008 was introduced in 2012, and ISO 14001:2015 version transferring operation was completed in 2017

In addition, the Company recognized climate issues’ direct impact on and importance to the aviation industry, in addition to supporting and responding to the voluntary carbon reduction initiative promoted by the International Civil Aviation Organization (ICAO), the International Air Transport Association (IATA) and Civil Aviation of the Republic of China, and setting up the Company’s three major targets of the stage regarding flight and ground operations; the Company further introduced the Task Force on Climate-Related Financial Disclosures (TCFD) guidance structure in 2018, with the plan to set up a TCFD task force to conduct early risk response, opportunity management, and other active managements, and to deepen carbon management operations and climate resilience. In addition, the Company was also invited by TCFD in September 2018 to publicly sign and endorse the TCFD project, becoming the first airline in Taiwan to sign.</td><td></td></tr>
<tr><td>(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?</td><td>✓</td><td></td><td>(3) Since 2009, the Company has actively implemented ISO 14064-1 greenhouse gas management operations, conducted inventory on greenhouse gas emissions from the operation of the organization, and implemented third party verification operations. In 2012, the Company actively established carbon risk management mechanism in response to international trends, and actively responded to the Carbon Disclosure Project (CDP). Later in October 2014, the Company announced its voluntary greenhouse gas reduction targets, actively promoting self-management before the launch of the global carbon management mechanism announced by the ICAO. The Company has been actively supporting and implementing the three-stage targets of the IATA, with 2019 being the base year:
1. An average improvement in fuel efficiency of 1.5% per year before 2020;
2. Achieving carbon-neutral growth in 2020 (CNG2020);
3. Reducing emissions to 50% of the 2005 level by 2050, to facilitate the achievement of targets in the greenhouse gas reduction strategy of Taiwan's civil aviation industry.
The Company's long-term goals of energy saving and carbon reduction are as follows:
<table>
<tr><th>2020</th><th>2025</th><th>2030</th></tr>
<tr><td>(1)To increase aviation fuel efficiency by 1.5% every year
(2)To reduce ground carbon emissions by 38% compared to that in 2009
(3)To reduce the general ground waste output by 2% compared to that in 2018, and to increase the recycling rate of industrial waste to 40%</td><td>(1)To implement the increasing of aviation fuel efficiency by 1.5% every year and the zero growth of carbon emissions for CORSIA CNG2020
(2)To reduce ground carbon emissions by 40.43% compared to that in 2009
(3)To reduce the general ground waste output by 7% compared to that in 2018, and to</td><td>(1)To implement the increasing of aviation fuel efficiency by 1.5% every year and the zero growth of carbon emissions for CORSIA CNG2020
(2)To reduce ground carbon emissions by 42.34% compared to that in 2009
(3)To reduce the general ground waste output by 12% compared to that in 2018, and to</td></tr>
</table></td><td>No Difference</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	
			(continued) | | increase the recycling rate of industrial waste to 45% (4)To reduce ground water consumption by 5% compared to that in 2018 | increase the recycling rate of industrial waste to 50% (4)To reduce ground water consumption by 7% compared to that in 2018 |	
4. 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. Staying up-to-date with international standards through dual certification on April 20, 2016, the Company obtained OHSAS 18001:2007 and CNS 15506:2011 and other occupational safety and health management system verification documents, and passed SGS re-inspection in 2018. At the same time, in order to be in accord with the international practice, the Company introduced the latest occupational safety and health guidelines to build a more complete occupational safety and health system and management system. The Company obtained ISO45001:2018 and TOSHMS qualified certification in April 2019. 2. Occupational safety and health committee for two-way effective communication China Airlines has established an Occupational Safety and Health Committee in accordance with law. The committee is tasked with the objective of preventing occupational hazards and protecting the safety and health of all employees by reviewing, coordinating, and making recommendations pertaining to safety and health related matters. The Chairman is served by the President. There is one vice chairman and one executive secretary under the Chairman. The Committee consists of the head of designated units, occupational safety and health personnel, engineering and technical personnel, medical personnel, and labor representatives appointed by the labor union as members. A meeting is held once every three months to review and analyze the Company's occupational incidents and to report and follow up on subsequent safety and health management plans. A total of 20 safety and health proposals were reviewed, coordinated and provided with suggestion in the meetings in 2018, and all them have been concluded. Relevant meeting minutes were announced on the Company's internal website. 3. Full AQD for comprehensive risk assessment Taking advantage of China Airlines' Aviation Quality Database (AQD) of all personnel to reflect the hidden hazards of the operating environment and implement risk assessment to reduce occupational accidents; in 2018, a total of 107 AQD safety and health related cases were received, and 107 cases were improved and settled, for an improvement rate of 100%. 4. Strengthening safety and health education and popularizing safety and health concepts Strengthening the promotion of safety and health education at all levels. Every three years, each personnel shall receive at least 3 hours of education and training. Education and training for supervisors will be held depending on the promotion and transferring of the supervisors. The members of the Occupational Safety and Health Committee must complete at least three hours of safety and health education and training every three years; assisting in the training of safety and health officers at all levels to disseminate safety and health knowledge; holding the necessary education and training for newly hired labor, transferred labor, safety and health management personnel, special operators, and supervisors to work and prevent disasters, so that each personnel knows how to protect themselves and others. 5. Hierarchical safety and health management, and establishment of safety and health officers at all levels	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	
			Implementing safe and healthy work; Initiating a safety and health hazard identification proposal system to expand the participation in safety and health to all personnel; establishing safety and health officers at all levels to guide the risk assessment of all levels of units and conduct prevention and improvement, building the concept of corporate community. 6. Implementing safety and health education training i. A total of 5 batches of new general personnel's safety and health education and training were implements, with a total of 126 persons. ii. Safety and health E-Learning education and training for new supervisors. iii. Education and training of all members of the Occupational Safety and Health Committee. iv. Occupational safety and health training for in-service employees. v. First-aid personnel training. vi. Safety and health training for special operators. 7. Organizing health promotion activities i. There have been 16 health promotion activities in CAL Park, with a total of 456 participants. ii. There have been 7 health promotion activities at the Taipei branch, with a total of 198 participants. iii. There have been 7 health promotion activities at the Kaohsiung branch, with a total of 153 participants. iv. Free flu shots: A total of 236 people in Taipei, 1,623 people in Taoyuan, and 87 people in Kaohsiung. v. The free MMR vaccine for front-line staff was administered to 1,341 people.	
(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 quarterly 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 2018, a total of 24 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 website or sent to employee mailboxes. Through these multiple channels of communication 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) In order to cultivate the Company's human resources, the Company has a "Training Advisory Committee," which is responsible for the planning of annual education and training for all colleagues, including strategic occupational training, management occupational training, and job training. At the same time, in accordance with the Company's operational development strategy, and to deepen the Company's various levels of management professionals and broaden the horizon of potential talents, strategic and management occupational training was held on a regular basis to refine employees' necessary knowledge and skills. In addition, since 2009, the Company has established a "Management Talent Training and Development System" to cultivate talents with international vision and management capabilities, and to strengthen the management knowledge of management professionals through job experience, management course training, and rigorous assessment systems. As of today, more than 100 outstanding management professionals have been cultivated and are now serving in key units in Taiwan and foreign branches. In 2018, a total of NT$295 million was invested in the training and development. The total number of training hours exceeded 54,584 hours.	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: In addition to the stipulation of service commitments, transportation terms and conditions and disclaimer clause according to the laws, the Company has also established an "Information Security Policy" and disclosed it on the Company's website, committed to protecting the privacy and related rights of all customers' personal information. Moreover, the Company added a personal information management task force in 2018 and introduced an external professional consultant team to assist in the completion of the EU GDPR privacy protection system in 2018 in response to the EU General Data Protection Regulation (GDPR). 2. Consumer complaint procedure: The Company provides consumers channels for complaints about products and services, including: the Company website (including a 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; all complaints receive a response after handling.	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	
(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 had 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.	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
(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?	✓		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:

In order to fully implement the scope of corporate social responsibility, comply with the government's direction of CSR promotion, and accord with international practice, the Company has added to and amended the Company's "Corporate Social Responsibility and Sustainable Development Best Practice Principles" in March 2017 based on the revised "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies"; through this CSR's highest guiding principle, we have comprehensively reviewed the Company's operational constitution, reflected to the management and execution aspects, and striven to fulfill corporate social responsibility from three major aspects: environmental, social, and governance (economic) (ESG); there was no operational difference this year. For related information, please refer to the Company's corporate social responsibility website.

6. Other important information for facilitating the understanding of CSR and its implementation:

(1) Environmental protection: In order to fully implement the scope of corporate social responsibility, comply with the government's direction of CSR promotion and to be in line with the international practice, the Company has added to and amended the Company's "Corporate Social Responsibility and Sustainable Development Best Practice Principles" in March 2017 based on the revised "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies"; through this CSR's highest guiding principle, we have comprehensively reviewed the Company's operational constitution, reflected to the management and execution aspects, and striven to fulfill corporate social responsibility from three major aspects: environmental, social, and governance (economic) (ESG); there has been no operational difference in this year. For related information, please refer to the Company's corporate social responsibility website.

(2) Social welfare: The Company has conducted public welfare teaching activities for a long time, including the "Friendly Campus" education promotion program for remote elementary schools and the "Common Knowledge Platform Public Welfare Project" of *Global Views* magazine. In 2018, volunteer teaching social welfare activities were held in such schools as Chuwei Elementary School, Hsihai Elementary School, Shanfong Elementary School, and Kuolin Elementary School in Dayuan District. In 2018, 12 volunteer teaching sessions were conducted with the participation of 66 volunteers and benefiting more than 900 children. In addition, the public welfare event "Love All Around," which was held on the initiative of the Company's cabin crew; in 2018 activities were held in New Taipei City Wulai Elementary School, 4 elementary and junior high schools in Pingxi District of New Taipei City, and 3 times in Hualien County Sioulin Elementary School, with the participation of 183 volunteers, benefiting more than 420 children.

(3) A disastrous earthquake occurred on February 6, 2018 in Hualien. The Company immediately donated NT$10 million in the name of the Group to assist in disaster relief and subsequent reconstruction, and encouraged the local residents and friends from police and fire departments who joined in disaster relief. The Company also invited NBA star point guard Jeremy Lin to give a public welfare speech to internal employees, and share his mental journey while courageously pursuing his dreams with colleagues; the speech is expected to produce more positive energy in colleagues. In addition, we have maintained long-term cooperation with the Huashan Social Welfare Foundation. We regularly sponsor care gifts and assist in organizing holiday banquets for elderly people who are disabled, have dementia, or have no one to rely on. In addition, through "Make-A-Wish Taiwan," we also continue to provide sick children with special in-flight services. We are in the fifth year of expanding sponsorship of our "Common Knowledge Platform Public Welfare Project" with *Global Views* magazine publisher Commonwealth Publishing. We are also engaged in public welfare sponsorships including the "Fisher's Association of Taoyuan District Year-end Dinner," the "Eden Social Welfare Foundation's Fifth Touching Life Festival," "End Violence Against Children (EVAC) of World Vision Taiwan," "Taiwan NGOs for CRC," and "The Children Charity Association's Year-End Charity Concert." In 2018, we cooperated with the Garden of Hope Foundation for the first time, and held the "Abused Children's Dreams-Come-True Public Welfare Delegation." We arranged for 25 teenagers and children to travel to Hong Kong on the launch flight of the Company's A350 Airbus co-branding painted aircraft for a three-day, two-night journey-a dream come true for the children.

(4) Promotion of CSR: Moving towards our vision of becoming the top airline choice in Taiwan, the Company is committed to promoting the tourism industry chain of Taiwan and supporting the government's various tourism programs to enhance Taiwan's international visibility. In 2018, the Company supported and promoted tourism in Taiwan with concrete actions: we participated in various domestic and international travel exhibitions; sponsored the Tourism Bureau and the Taiwan Visitors Association in organizing the 2018 Taiwan Lantern Festival in Chiayi and 2018 Fulong International Sand Sculpture Art Festival; supported a delegation of Taiwanese cooks to participate in the Culinary World Cup in Luxembourg; sponsored the 2018 Taiwan Plus project of The General Association of Chinese Culture; and cooperated with one of Taiwan's eminent hotels, the Grand Mayfull Taipei, in sponsorship.

7. If the Company CSR report has received certification from relevant certification bodies, please detail below:

The limited level verification of the 2018 Corporate Social Responsibility (CSR) Report was completed in May 2019 by KPMG in accordance with the GRI guidelines and the ISAE3000 assurance standard.

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 "Procedures for Ethical Management and Guidelines for 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. Such matters have been reported in the 3rd meeting of the 21st Board of Directors on November 8, 2018.	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 promotes ethical behavior and corporate ethics when new employees assume office, and conducts E-Learning online courses for supervisors dispatched in Taiwan and abroad. The "Ethical Corporate Management Best Practice Principles," the "Procedures and Guidelines of Conduct for Ethical Management" and other documents have been disclosed on the Company's internal and official website for the reference of internal and external personnel. In order to strengthen employees' understanding of the Company's corporate culture of ethical management, employees have been receiving training since 2017 through the E-learning system. The training situation for the last two years is as follows: 1. 2017: i.Trainee(s): The Company's domestic units, except for flight and cabin crew members. ii.Number of trainees: 6,473 persons. iii.Number of completions: 6,230 persons. iv.Completion rate: 96.25%。	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	
			2. 2018: i.Trainee(s): Current foreign branch office/agency staff (excluding foreign cabin crew members and personnel on leave of absence during training). Number of trainees: 1,596 persons. Number of completions: 1,356 persons. Completion rate: 85% 。 ii.Trainee(s): Taiwanese and foreign cabin crew members (excluding personnel on leave of absence during training). Number of trainees: 3,439 persons. Number of completions: 3,439 persons. Completion rate: 100%	
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 "Procedures and Guidelines of Conduct for Ethical Management" expressly provides and discloses the rules of reporting, the reporting channel, and the processing procedures; the reporting mailbox auditor@china-airlines.com is disclosed and announced on the Company's website and internal website for the use of Company's internal personnel and external personnel. The reported cases will be handled by the General Audit Office of the Company and the circumstances of the report, its handling methods, follow-up review, and improvement measures will be reported 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, an 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 established 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”; it has formed 3 committees under the Board of Directors for “Audit”, “Remuneration”, and “Risk”, and has set various organizational rules. The relevant rules listed above are all made public on the Company's website (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:

April 27, 2019

Title	Name	Date of Appointment	Date of Dismissal	Reason for Resignation or Dismissal
Auditor General	Chung, Huar-Duan	12/26/2015	04/30/2018	Retirement due to age
Chairman	Ho, Nuan-Hsuan	06/24/2016	04/02/2019	Removal of juridical person

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:

International Internal Auditor Certificate: 1 person, Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate: 1 person, R.O.C. Certified Public Accountant License: 2 people, R.O.C. Securities (Senior) Specialist: 1 person, R.O.C. Futures Specialist: 1 person, R.O.C. Financial Planning Personnel Proficiency Test Passing Certificate: 1 person, R.O.C. Stock Affairs Specialist Proficiency Test Passing Certificate: 1 person.

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

International Internal Auditor Certificate: 6 people, Institute of Internal Auditors-Chinese Taiwan Internal Auditor Certificate: 4 people, R.O.C. Certified Public Accountant License: 2 people, R.O.C. Securities (Senior) Specialist: 6 people, R.O.C. Securities Investment Trust and Consulting Professional: 5 people, R.O.C. Futures Specialist: 3 people, R.O.C. Financial Planning Personnel Proficiency Test Passing Certificate: 4 people, R.O.C. Stock Affairs Specialist Proficiency Test Passing Certificate: 6 people, USA Certified Public Accountant License: 1 person, R.O.C. Basic Enterprise Internal Audit Proficiency Test Passing Certificate: 5 people.

D. Company Director Continuing Education:

From January 1, 2018, through April 27, 2019

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
Chairman	Hsieh, Su-Chien	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Director	Charles C.Y., Chen	3hr	01/08/2018	Taiwan Institute of Directors	Digital Transformation - Starting from Strengthening the Digital Skills of the Board of Directors
		3hr	07/03/2018	Taiwan Institute of Directors	2018 Annual Forum of Taiwan Institute of Directors
		3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
		3hr	11/09/2018	Taian Insurance Co. Ltd.	Training on Anti-Money Laundering and Counter-Financing of Terrorism for Directors and Senior Management
Director	Ting, Kwang-Hung	3hr	09/28/2018	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainability Management Workshop
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Director	Chen, Han-Ming	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Director	Ko, Sun-Ta	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	10/04/2018	Wbcsd Global Network Partner	Corporate Social Responsibility and Trade Links - Sustainable Supply Chain Management
		3hr	10/15/2018	Financial Supervisory Commission, R.O.C.	Taipei Corporate Governance Forum
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Director	Wei, Yung-Yeh	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	10/04/2018	Wbcsd Global Network Partner	Corporate Social Responsibility and Trade Links - Sustainable Supply Chain Management
		3hr	10/15/2018	Financial Supervisory Commission, R.O.C.	Taipei Corporate Governance Forum
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Director	Lin, Su-Ming	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View

Title	Name	Training hours	Date(s)	Sponsoring Organization	Course
		2hr	09/29/2018	Taiwan Insurance Institute	Analysis of Laws and Regulations related to Anti-Money Laundering and Counter-Financing of Terrorism
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Director	Wang, Shih-Szu	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	08/24/2018	Wbcsd Global Network Partner	Corporate Social Responsibility and Trade Links - Sustainable Supply Chain Management
		3hr	10/15/2018	Financial Supervisory Commission, R.O.C.	Taipei Corporate Governance Forum
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Independent Director	Chang, Hsieh Gen-Sen	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	09/10/2018	Taiwan Stock Exchange Corporation	New Corporate Governance Roadmap Seminar Series of the Financial Supervisory Commission - the Role and Authority of the Directors
Independent Director	Chung, Lo-Min	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance
Independent Director	Shen, Hui-Ya	3hr	07/11/2018	Training by: Taiwan Corporate Governance Association	Focus of Supervision over Reinvestment Business and Subsidiaries from the Internal Control and Financial Point of View
		3hr	11/08/2018	Training by: Taiwan Corporate Governance Association	Trends, Challenges, and Risks of Information Security Governance

E. Corporate Governance Related Training Attended by Company Managers:

From January 1, 2018 through April 27, 2019

Title	Name	Date(s)	Sponsoring Organization	Course	Training hours
Vice President, Finance Div.	Chen, I-Chieh	10/04/2018-10/05/2018	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
Assistant Vice President, Finance Div.	Yen, Yang	09/06/2018-09/07/2018	Accounting Research and Development Foundation	Continued Education for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hr
Deputy Auditor General, General Audit Office	Fang, Juo-Ling	08/31/2018	Institute of Internal Auditors-Chinese Taiwan	Internal Audit Professional Course - Auditing Practice and Ethics Discussion	6hr
		09/19/2018	Accounting Research and Development Foundation	Internal Control and Audit Series - Analysis of Practical Issues Regarding Legal Compliance Risks in the Age of the Digital Economy	6hr
Deputy Auditor General, General Audit Office	Ho, Hui-Fen	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

F. Succession plan for the Board of Directors and key management of the Company:

In the succession plan for the Board of Directors of China Airlines, the candidates of the Board of Directors are nominated by the major shareholders and then elected by the shareholders' meeting, and the Board of Directors as a whole shall have the abilities of management judgment, leadership and decision-making, operation and management, and crisis management, and shall possess knowledge of the industry, professional fields, and international market outlook. Refer to P.44 for the diversification situation. The independence of all Board members shall be ensured according to law. The successors of the Board members are selected by the major shareholders. The succeeding director representatives shall meet qualifications for the aviation business, such as possessing abundant knowledge and experience in business management and expertise, and the results of annual appraisal are important references for continued nomination; in order to enhance the expertise and continuous enrichment of new knowledge for new or reappointed Directors, China Airlines has formulated the annual Directors' continuing education program and arranged various training courses for Directors.

Furthermore, regarding the succession plan for important management, in addition to having excellent professional management ability, its behavior, ethics, and instructions shall be based on the resolutions of the Board of Directors, and be handled in accordance with the "China Airlines Executives Code of Ethical Conduct" and related laws and regulations to maintain the best interests of the Company, employees and shareholders.

In the training plan for the Company's important management, regular senior management lectures are held every year, where there are invited personages from the fields of industry, public sector, and academia to give special lectures on the state of the global market and the development of the aviation industry, so that the Company's supervisors can better understand the state of the market and that the height and breadth of professional competence development may be improved. Periodic inter-agency transfers shall be handled according to the Company's rules to comprehensively cultivate diversified management capabilities of important management. In addition, to deepen the Company's various levels of management professionals and broaden the horizon of potential talent, strategic and management occupational training sessions are held on a regular basis and talent training programs have been established to refine the necessary knowledge and skills of mid-level supervisors, cultivate talent with international vision and management capabilities, and strengthen the management knowledge of management professionals through job experience, management course training, and rigorous assessment systems. As of today, more than 100 outstanding management professionals have been thus cultivated and are now serving in key units in Taiwan and foreign branches.

G. 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 20, 2019

The Company states the following with regard to our internal control system during the period of fiscal year 2018 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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No. 1, Hangzhan S. Rd., Dayuan Dist
Taoyuan City 33758, Taiwan, R.O.C.

CHINA AIRLINES

on the date of December 31, 2018 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 20, 2019, where none of the twelve attending directors expressed dissenting opinions, and unanimously affirmed the content of this Statement.

Chairman: N.H. Ho

President: S.C. 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.	On January 5, 2018, due to aircraft malfunction, flight and cabin crew members worked overtime, which was in violation of Article 32, Paragraph 2 of the Labor Standards Act.	1. In this case, the overtime work was due to mechanical problems of the aircraft which resulted in the aircraft being unable to depart at the scheduled time; this constituted a force majeure factor. 2. The case underwent subsequent labor inspection. The cabin crew members filed an administrative appeal to safeguard Company's rights and interests because the delay was due to temporary mechanical failure of the outstation aircraft, which then resulted in the change of plane and overtime work. 3. The Company reviewed the cause of this malfunction and strengthened the inspection of the aircraft to improve the availability.
2	A fine of NT$300,000.	On March 22, 2018, the Company underwent labor inspection. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act because female workers' nighttime work in the Ground Services Division had not been approved by the labor union.	1. In this case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the results of the treatment are unfair since the competent authority was biased towards the union's claim and imposed the penalty. 2. An administrative appeal has been filed for this case to protect the Company's rights and interests. 3. The Company and the Company union have initiated negotiation of a collective agreement in March 2018, and will reconfirm the provisions allowing female workers' nighttime work.
3	A fine of NT$20,000.	On May 10, 2018, the Company underwent labor inspection. There was a violation of Article 34, Paragraph 2 of the Labor Standards Act because the rest period for out-stationed rotation did not reach eleven hours.	1. The cabin crew member worked on mission CI112, which was connected to CI113; although the return trip was on the next day, it should still be recognized as the same mission. Also, the crew members' rest period and on-duty hours did not violate the AOR regulations of the Civil Aeronautics Administration. 2. This case, due to the particularity of the flight and cabin crew work, the Company finds the competent authority's restriction based on the hard-and-fast rule that is inconsistent with hours between the shifts unreasonable. Administrative appeal has been filed according to the law for remedy.
4	A fine of NT$1,020,000.	On May 10, 2018, the Company underwent labor inspection. There was a violation of Article 38, Paragraph 4 of the Labor Standards Act because remaining annual paid leave of the Ground Services Division employees have not been bought back; There was a violation of Article 49, Paragraph 1 of the Labor Standards Act because female workers' nighttime work in the Ground Services Division between May and June 2018 had not been approved by the labor union.	1. In this case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the results of the treatment are unfair since the competent authority was biased towards the union's claim and imposed the penalty. 2. The administrative appeal of this case was dismissed, the Company will continue to file an administrative litigation for remedy. 3. The Company and the Company union have initiated negotiation of a collective agreement in March 2018, and will reconfirm the provisions allowing female workers' nighttime work.
5	A fine of NT$1,020,000.	On August 31, 2018, the Company underwent labor inspection. There was a violation of Article 32, Paragraph 2 of the Labor Standards Act because cabin crew members performed more than 12 hours of work; and a violation of Article 35 of the Labor Standards Act because flight deck crew members did not have in-flight relief and cabin crew members did not have a sufficient rest period (30 minutes of rest shall be given for every four hours).	1. In this case, there was overtime because the plane was unable to take off according to the scheduled time, which was due to the decision of Air Traffic Control (ATC) after a natural disaster at the out station; this constituted a force majeure factor. 2. An administrative appeal has been filed for this case to protect the Company's rights and interests. 3. From time to time, the Company reviews the factors causing flight delays and includes them as reference when planning the dispatching of crew members.

No.	Penalty	Deficiency	Improvement
6	A fine of NT$1,000,000.	On November 6, 2018, the Company underwent labor inspection. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act because female workers' nighttime work in the Ground Services Division in October 2018 had not been approved by the labor union.	1. In this case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the results of the treatment are unfair since the competent authority was biased towards the union's claim and imposed the penalty. 2. An administrative appeal has been filed for this case to protect the Company's rights and interests. 3. The Company and the Company union have initiated negotiation of a collective agreement in March 2018, and will reconfirm the provisions allowing female workers' nighttime work.
7	A fine of NT$1,000,000.	On December 10, 2018, the Company underwent labor inspection. There was a violation of Article 49, Paragraph 1 of the Labor Standards Act because female workers' nighttime work in the Cargo Services Division in December 2018 had not been approved by the labor union.	1. In this case of female workers' nighttime work, the Company union refused to acknowledge the provisions of the collective agreement; the Company believes that the results of the treatment are unfair since the competent authority was biased towards the union's claim and imposed the penalty. 2. An administrative appeal has been filed for this case to protect the Company's rights and interests. 3. The Company and the Company union have initiated negotiation of a collective agreement in March 2018, and will reconfirm the provisions allowing female workers' nighttime work.

In addition, due to several labor disputes between the Company and the labor union in 2018, the Company was successively fined from NT$30,000 to NT$120,000 by the Board for Decision on the Unfair Labor Practices of the Ministry of Labor. Up till now, the total imposed fine has reached more than NT$500,000, and we continue to seek administrative remedies. The relevant statistics of cases and content of the disputes are as follows:

Number of cases	Main dispute	Total amount of fines
9	1. Dispute regarding granting of leave for union related business of the union's cadre 2. Dispute regarding Company's internal disciplinary power 3. Dispute regarding whether the operation of labor union was hindered 4. Dispute regarding change of internal regulations of the Company	NT$540,000

3.3.13 Major Resolutions of Shareholders' Meeting and Board Meetings

A. Major Resolutions of Shareholders' Meeting in 2018

Item	Major resolutions	Execution
1. Business Report and Financial Statements for the year 2017	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 27, 2018
2. 2017 Surplus Earnings Distribution	This resolution was passed as proposed upon voting.	Announcement was made after resolution of Shareholders' Meeting on June 27, 2018
3. Election of the 21st Board of Directors	This resolution was passed as proposed upon voting.	Elected Directors are as follows: Seven juridical person director representatives of the "China Aviation Development Foundation": Ho, Nuan-Hsuan; Hsieh, Su-Chien; Charles C.Y., Chen; Ting, Kwang-Hu; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh. Two juridical person director representatives of the "National Development Fund of Executive Yuan": Lin, Su-Ming; Wang, Shih-Szu. Three Independent Directors: Chung, Lo-Min; Chang, Hsieh Gen-Sen; Shen, Hui-Ya.
4. Lifting of Non-competition Restriction on Holding Concurrent Posts for the 21st Board of Directors	This resolution was passed as proposed upon voting.	The non-competition restriction on the 21st Board of Directors was lifted based on the resolution of Shareholders' Meeting on June 27, 2018, which was subsequently announced.

B. Major Resolutions of Board Meetings (January 1, 2018 to April 27, 2019)

20^{th} Board	Date	Item	Major resolutions	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
14th meeting	2018/01/24	1. 2017 Corporate Social Responsibility (CSR) Operation Results of the Company 2. 2017 Employee Salary and 2018 Lunar New Year Incentive 3. Chairman and Managers' 2017 Year-end Bonus, 2018 Lunar New Year Incentive and 2018 Salary Adjustment 4. 2018 Employee Salary Adjustment 5. Acquisition of Shares in "Kaohsiung Airport Catering Services Ltd."	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved.	1. None. 2. It is suggested that the labor union's improper statement and claims be properly explained and clarified. 3.(1) Careful study and evaluation of the performance-related salary adjustment method for senior management is recommended. (2) Senior managers will also face the pressure of salary reduction due to Company's losses, so the inclusion of a performance bonus is still recommended. 4. None. 5. None.	1. None. 2. Prompt and proper response and external clarification have been made. 3. Based on the opinions of a number of Independent Directors, it is planned that current operations will be maintained. 4. None. 5. None.
15th meeting	2018/03/22	1. The Adoption of Introduction Plan and Schedule in IFRS 16 Leases by the Company 2. Internal Audit Business Report for the Second Half of 2017 3. Dismissal of Auditor General in the General Audit Office who is retiring due to age 4. The Convening of the 2018 Annual General Meeting 5. 2017 Internal Control System Effectiveness Audit and Statement 6. 2017 Financial Report and Consolidated Financial Report 7. 2017 Business Report 8. 2017 Surplus Earnings Distribution 9. 2018 CPA Appointment and Remuneration 10. Provision of Financing Endorsement and Guarantee to Taiwan Aircraft Maintenance and Engineering Co., Ltd. with a limit of 2 billion NT$	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.
16th meeting	2018/05/10	1. Review of Qualifications of the 21st Director Nominees	1. Except for Mr. Liu, Hui-Tsung, who did not provide relevant evidencing documents required by	1. None.	1. None.

20th Board	Date	Item	Major resolutions	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
			Article 192-1, Paragraph 4 of the Company Act and was not included in the candidates of Directors according to the law, the remaining 12 nominees have been approved to be listed in the roster of candidates for the 21st Board of Directors.		
		2. Lifting of Non-compete Restriction on the 21st Directors-elect	2. Approved.	2. None.	2. None.
		3. Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Three Financial Institutions, Including Bank SinoPac	3. Approved.	3. None.	3. None.
		4. Position Change of Auditor General in the General Audit Office	4. Approved.	4. None.	4. None.

21st Board	Date	Item	Major resolutions	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
1st meeting	2018/06/27	1. Election of the Chairman of the 21st Board of Directors	1. Election of Director Ho, Nuan-Hsuan as Chairman of the 21st Board of Directors.	1. None.	1. None.
		2. Appointment of President	2. The reappointment of Mr. Hsieh, Su-Chien as President has been approved.	2. None.	2. None.
1st Extraordinary Meeting	2018/07/11	1. Appointment of Risk Management Committee Members of the 21st Board of Directors	1. Approval of the appointment of Independent Director Chung, Lo-Min, Independent Director Chang, Hsieh Gen-Sen, Independent Director Shen, Hui-Ya, Director Lin, Su-Ming, and Director Ting, Kwang-Hu as members of the Risk Management Committee of the 21st Board of Directors.	1. None.	1. None.

21st Board	Date	Item	Major resolutions	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
		2. Appointment of Remuneration Committee Members of the 21st Board of Directors 3. Set the Record Date for Related Matters of the 2017 Cash Dividend Distribution	2. Approval of the appointment of Independent Director Chang, Hsieh Gen-Sen, Independent Director Shen, Hui-Ya, and Mr. He, Jyun-Huei as members of the Remuneration Committee of the 21st Board of Directors. 3. Approved.	2. None. 3. None.	2. None. 3. None.
2nd meeting	2018/08/09	1. 2017 Employee Compensation (Bonus) of the Chairman and Managers 2. Traveling Expense Standards for Military, Civil or Teaching Personnel Serving as Part-time Directors of the Company 3. Flight and Cabin Allowance Adjustment for Senior Vice President (VO) 4. Change in Personnel 5. Issuance of Domestic Unsecured Ordinary Corporate Bonds 6. Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Five Financial Institutions, Including First Commercial Bank 7. Share Buyback of the Company	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved. 6. Approved. 7. Approved.	1. None. 2. According to the recommendation of Remuneration Committee member He, Jyun-Huei on July 26, the managerial unit is requested to remind the Directors in a timely manner. 3. None. 4. None. 5. None. 6. None. 7. None.	1. None. 2. Directors have been reminded in a timely manner. 3. None. 4. None. 5. None. 6. None. 7. None.
3rd Extraordinary Meeting	2018/10/03	Position Change of Senior Vice President (VV)	Approved.	None.	None.
3rd meeting	2018/11/08	1. 2019 Audit Plan 2. 2019 Business Plan and Budget 3. Revision of "Operational Procedures for Loaning Funds to Others" 4. Setting of Capital Reduction Record Date for the Cancellation of Shares in the Present Buyback 5. Change of CPA by Deloitte&Touche 6. Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Two Financial Institutions, Including CTBC Bank 7. Traveling Expense Standards for Military, Civil or Teaching Personnel Serving as Part-time Directors of the Company	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved. 6. Approved. 7. Approved.	1. None. 2. None. 3. None. 4. None. 5. None. 6. None. 7. None.	1. None. 2. None. 3. None. 4. None. 5. None. 6. None. 7. None.
4th Extraordinary Meeting	2018/12/21	Position Change of Senior Vice President (VV)	Approved.	None.	None.

21st Board	Date	Item	Major resolutions	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
4th meeting	2019/01/21	1. The Selling of Two A340-300 Aircrafts: B-18806 and B-18807 2. Selling of Shares in "Huachuan Travel Agency" 3. Listing Application Plan of Tigerair Taiwan	1. Approved. 2. Approved. 3. Approved.	1. None. 2. None. 3. Managerial Department is Requested to Prepare Materials for Queries and Answers in the 2019 Annual General Meeting.	1. None. 2. None. 3. Materials for queries and answers in the 2019 Annual General Meeting have been prepared according to the suggestion of Independent Directors.
		4. Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Five Financial Institutions, Including Mega International Commercial Bank 5. Regular Review of Performance Evaluation Systems of Directors and Managers 6. Regular Review of Policies, Systems, Standards, and Structures for Salary and Compensation of Directors and Managers	4. Approved. 5. Approved. 6. The supervisory differential pay of Chairman Ho, Nuan-Hsuan and President Hsieh, Su-Chien will not be adjusted during their terms of office. The Directors' traveling expenses or remuneration will be reported to the Board of Directors after referring to the salary and remuneration of Directors and Supervisors designated by the Ministry of Transportation and Communications to its business organizations, with a retrospective effective date of January 1, 2019; this matter was passed after the attending Directors	4. None. 5. None. 6. None.	4. None. 5. None. 6. None.

21st Board	Date	Item	Major resolutions	Opinions of independent directors	Handling of Independent Directors' opinions by the Company
		7. 2018 Employee Salary and 2019 Lunar New Year Incentive 8. 2019 Employee Salary Adjustment 9. Chairman and Managers' 2018 Year-end Bonus and 2019 Lunar New Year Incentive 10. Proposal of Salary and Compensation for the Senior Vice President (VV) Wang, Chen-Min 11. Lifting of Non-competition Restriction on Holding Concurrent Posts for Wang, Chen-Min, Senior Vice President	approved the revision. 7. Approved. 8. Approved. 9. Approved. 10. Approved. 11. Approved.	7. None. 8. None. 9. None. 10. None. 11. None.	7. None. 8. None. 9. None. 10. None. 11. None.
5th meeting	2019/03/20	1. 2018 Internal Control System Effectiveness Audit and Statement 2. The Convening of the 2019 Annual General Meeting 3. Amendment of "Directors Election Regulations" 4. 2018 Financial Report and Consolidated Financial Report 5. 2018 Business Report 6. 2018 Surplus Earnings Distribution 7. 2019 CPA Appointment and Remuneration 8. Amendment of "Company's Articles of Association" 9. Revision of "Procedures for the Acquisition or Disposal of Assets" 10. Revision of "Procedures Governing Derivatives Trading" 11. Provision of General Financing Limit and Financial Commodity Trading Risk Limit by Six Financial Institutions, Including the Bank of Taiwan 12. Revision of Definition of Employee Compensation and 2018 Employee Compensation 13. The handling status of four meetings between the Company and the Taoyuan Union of Pilots at the Ministry of Transportation and Communications and the signing of a collective agreement on February 21, 2019, at the meeting with the Department of Labor, Taoyuan City Government.	1. Approved. 2. Approved. 3. Approved. 4. Approved. 5. Approved. 6. Approved. 7. Approved. 8. Approved. 9. Approved. 10. Approved. 11. Approved. 12. Approved. 13. 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. 13. 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. 13. None.
5th Extraordinary Meeting	2019/04/02	Election of new Chairman	All attending Directors unanimously agreed that Director Hsieh, Su-Chien will serve as the new Chairman, while holding the concurrent position of President.	None.	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	01/01/2018-09/30/2018	Mainly due to the internal rotation of the accounting firm
	Yang, Chen-Hsiu	Huang, Jui-Chan	10/01/2018-12/31/2018	

Unit: NT$ thousands

Fee Range \ Fee Items		Audit Fee	Non-audit Fee	Total
1	Under 2,000			
2	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	5,663	-	-	-	2,861	2,861	01/01/2018-09/30/2018	Others include the business tax audit fee of dual-status business entities adopting direct deduction, the transfer pricing report service fee, the related accountant certification fee for issuance of corporate bond, the US airport Passenger Facility Charge (PFC) tax collection and audit fee, and the consulting fee of General Data Protection Regulation (GDPR).
Deloitte & Touch	Yang, Chen-Hsiu Huang, Jui-Chan	1,887	-	-	-	503	503	10/01/2018-12/31/2018	Others include service fee for master file and country-by-country reporting.

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="4">November 8, 2018</td></tr>
<tr><td>Reason and explanation for change</td><td colspan="4">Due to internal reorganization at the CPA firm, the resolution was passed at the 3rd meeting of the 21st Board of Directors on November 8, 2018 that from the financial report for Q4 of 2018, the CPA would be switched to Yang, Cheng-hsiu and Huang, Jui-Chan.</td></tr>
<tr><td rowspan="3">Explanation was termination of the person or accountant appointed or refusal of appointment</td><td colspan="2">Involved party / Situation</td><td>Accountant</td><td>Appointee</td></tr>
<tr><td colspan="2">Proactive termination of appointment</td><td colspan="2" rowspan="2">None.</td></tr>
<tr><td colspan="2">Did not accept further (continuing) appointment</td></tr>
<tr><td>Newest check report within two years other than one signed and issued without disclaimer and reason</td><td colspan="4">None.</td></tr>
<tr><td rowspan="6">Objection from issuer</td><td rowspan="4">Yes</td><td></td><td colspan="2">Accounting principles or customary practice</td></tr>
<tr><td></td><td colspan="2">Financial report disclosure</td></tr>
<tr><td></td><td colspan="2">Scope of check or steps</td></tr>
<tr><td></td><td colspan="2">Other</td></tr>
<tr><td>None</td><td colspan="3">✓</td></tr>
<tr><td colspan="4">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="4">None.</td></tr>
</table>

3.5.2 On successor accountants

Name of firm	Deloitte & Touche
Accountant Name	Yang, Cheng-hsiu; Huang, Jui-Chan
Date of appointment	November 8, 2018
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	2018		The current year through April 27, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Major Shareholder	China Aviation Development Foundation (Note 1)	0	0	0	0
Chairman	China Aviation Development Foundation Representative: Hsieh, Su-Chien				
Director	China Aviation Development Foundation Representative: Charles C.Y., Chen; Ting, Kwang-Hung; Chen, Han-Ming; Ko, Sun-Ta; Wei, Yung-Yeh				
Director	National Development Fund, Executive Yuan Representative: Lin, Su-Ming; Wang, Shih-Szu	0	0	0	0
Independent Director	Chung, Lo-Min	0	0	0	0
Independent Director	Chang, Hsieh Gen-Sen (Assumed post on 06/27/2018)	0	0	0	0
Independent Director	Shen, Hui-Ya (Assumed post on 06/27/2018)	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	Wang, Chen-Min	0	0	0	0
Senior Vice President	Wang, Houng	0	0	0	0
Senior Vice President	Chang, Young	0	0	0	0
Auditor General	Fang, Juo-Ling	0	0	0	0
Data Protection Officer	Wu, Hsiao-Sui (Assumed post on 07/21/2018)	0	0	0	0
Vice President	Chien, Feng-Nien	0	0	0	0
Vice President	Chen, I-Ko	0	0	0	0
Vice President	Lai, Ming-Hui	0	0	0	0
Vice President	Peng, Pao Chu	0	0	0	0
Vice President	Liu, Der-Chuan	0	0	0	0
Vice President	Liu, Tsao-Yang	0	0	0	0
Vice President	Yeah, Shao-Ting	0	0	0	0
Vice President	Chung, Ming-Jyh	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	0	0	0	0
Vice President	Chou, Jyh-Shyan	0	0	0	0
Vice President	Chen, Wei-Tau (Assumed post on 11/07/2018)	0	0	0	0
Vice President	Chang, Cheng-Hao (Assumed post on 01/21/2019)	0	0	0	0
Vice President	Lu, Shih-Ming	0	0	0	0
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

Title	Name	2018		The current year through April 27, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Deputy Auditor General	Ho, Hui-Fen	0	0	0	0
Assistant Vice President	Yu, Yueh Han (Assumed post on 12/06/2018)	0	0	0	0
Assistant Vice President	Chen, Chwen-Der (Assumed post on 08/01/2018)	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	0	0	0	0
Assistant Vice President	Jeng, Jong-Shinn	0	0	0	0
Assistant Vice President	Chen, Pei-Ti (Assumed post on 05/16/2018)	0	0	0	0
Assistant Vice President	Sheu, Yuh-Shy (Assumed post on 01/22/2019)	0	0	0	0
Assistant Vice President	Shann, Da-Sin (Assumed post on 01/01/2018)	0	0	0	0
Assistant Vice President	Fang, Cheng-Ru (Assumed post on 10/20/2018)	0	0	0	0
Assistant Vice President	Lin, Herng Shan (Assumed post on 04/16/2019)	0	0	0	0
Assistant Vice President	Lee, Pei-Chen (Assumed post on 04/01/2019)	0	0	0	0
Assistant Vice President	Chen, Jo-Ching	0	0	0	0
Assistant Vice President	Yen, Yang (Assumed post on 05/01/2018)	0	0	0	0
Assistant Vice President	Huang, Hui Na	0	0	0	0
Assistant Vice President	Fang, Yuan-Hua (Assumed post on 08/04/2018)	0	0	0	0
Assistant Vice President	Kao, Shu-Chuan	0	0	0	0
Assistant Vice President	Yu, Yau	0	0	0	0
Assistant Vice President	Hsiao, Kuo Chih	0	0	0	0
Assistant Vice President	Wang, Wei	0	0	0	0
Assistant Vice President	Liu, Shou-Shu (Assumed post on 12/01/2018)	0	0	0	0
Assistant Vice President	Lu, Shwu-Huoy	0	0	0	0
Assistant Vice President	Liu, Duan-Shiuh	0	0	0	0
Assistant Vice President	Hsiao, Jui-Fu	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

Title	Name	2018		The current year through April 27, 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
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
Auditor General	Chung, Chuar-Duan (Dismissed on 04/30/2018)	0	0	0	0
Director	China Aviation Development Foundation Representative: Cheng, Chuan-Yi (Dismissed on 05/07/2018)	0	0	0	0
Director	China Aviation Development Foundation Representative: Jong, Jia-shi; Lee, Kuo-Fu (Dismissed on 06/26/2018)	0	0	0	0
Independent Director	Luo, Hsiao-His (Dismissed on 06/26/2018)	0	0	0	0
Independent Director	Ting, Tin-Yu (Dismissed on 06/26/2018)	0	0	0	0
Assistant Vice President	Hsueh, Po-Wen (Dismissed on 07/01/2018)	0	0	0	0
Assistant Vice President	Lu, Shwu-Huoy (Dismissed on 07/17/2018)	0	0	0	0
Assistant Vice President	Pan, Wen-Tsung (Dismissed on 07/30/2018)	0	0	0	0
Assistant Vice President	Lai, Hsiang-Kuang (Dismissed on 09/25/2018)	0	0	0	0
Senior Vice President	Chang, Chih-Chieh (Dismissed on 10/08/2018)	0	0	0	0
Vice President	Peng, Long-Min (Dismissed on 11/05/2018)	0	0	0	0
Assistant Vice President	Tsai, Chih Hung (Dismissed on 12/06/2018)	0	0	0	0
Assistant Vice President	Wei, Shi Jong (Assumed post on 03/31/2018) (Dismissed on 01/21/2019)	0	0	0	0
Assistant Vice President	Ouyang, John (Dismissed on 01/24/2019)	0	0	0	0
Assistant Vice President	Hung, I-Lan (Dismissed on 03/21/2019)	0	0	0	0
Vice President	Chen, Kang-Reuy (Dismissed on 03/31/2019)	0	0	0	0
Chairman	China Aviation Development Foundation Representative: Ho, Nuan-Hsuan (Dismissed on 04/02/2019)	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 27, 2019

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	34.45%	0	0%	0	0%	None	None	None
National Development Fund, Executive Yuan (Representative: Dr. Chen, Mei-Ling)	519,750,519	9.59%	0	0%	0	0%	None	None	None
Chunghwa Telecom Co., Ltd. (Representative: Sheih, Chi-Mau)	263,622,116	4.86%	0	0%	0	0%	None	None	None
New Labor Pension Fund	102,841,000	1.90%	NA	NA	0	0%	None	None	None
China Airlines Ltd. Employee Stock Ownership Trust Plan	58,077,060	1.07%	NA	NA	0	0%	None	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	47,132,821	0.87%	NA	NA	0	0%	None	None	None
CitiBank (Taiwan) in custody for investor account of Dimensional Emerging Markets Value Fund	43,583,353	0.80%	NA	NA	0	0%	None	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	43,007,050	0.79%	NA	NA	0	0%	None	None	None
JPMorgan in custody for Dimensional Emerging Markets Value Fund	41,627,932	0.77%	NA	NA	0	0%	None	None	None
Sea Investment Co., Ltd. (Representative: Wang,Yun-E)	41,464,000	0.76%	0	0%	0	0%	None	None	None

3.9 Ownership of Shares in Affiliated Enterprises

Dec 31, 2018

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.	-	-	(Note1)	28.00 (Note2)	(Note1)	28.00 (Note2)
2C Arport Air Cargo Service (Xiamen) Co., Ltd.	-	-	(Note1)	28.00 (Note2)	(Note1)	28.00 (Note2)
2D Taikoo (Xiamen) Landing Gear Services Co., Ltd.	-	-	(Note1)	2.59	(Note1)	2.59
2E Haeco Composite Structures (Jinjiang) Co., Ltd.	-	-	(Note1)	5.45	(Note1)	5.45
3. Dynasty Aerotech International Corp. (Note 4)	77,270	100.00	-	-	77,270	100.00
4. Yestrip Co., Ltd.	1,600,000	100.00	-	-	1,600,000	100.00
5. Cal Park Co., Ltd.	150,000,000	100.00	-	-	150,000,000	100.00
6. Cal Hotel Co., Ltd.	46,500,000	100.00	-	-	46,500,000	100.00
7. Taiwan Aircraft Maintenance And Engineering Co., Ltd.	135,000,000	100.00	-	-	135,000,000	100.00
8. Mandarin Airlines, Ltd.	188,154,025	93.99	-	-	188,154,025	93.99
9. Sabre Travel Network (Taiwan) Ltd.	13,021,042	93.93	-	-	13,021,042	93.93
10. Tigerair Taiwan Co., Ltd.	180,000,000	90.00	20,000,000	10.00	200,000,000	100.00
11. China Pacific Laundry Services Ltd.	13,750,000	55.00	-	-	13,750,000	55.00
12. Taiwan Air Cargo Terminal Ltd.	135,000,000	54.00	12,500,000	5.00	147,500,000	59.00
13. Kaohsiung Airport Catering Services	21,494,637	53.67	-	-	21,494,637	53.67
13A Delica International Co., Ltd.	-	-	1,020,000	51.00	1,020,000	51.00
14. Dynasty Holidays, Inc.	408	51.00	-	-	408	51.00
15. China Pacific Catering Services Ltd.	43,911,000	51.00	-	-	43,911,000	51.00
16. Taoyuan International Airport Services Co., Ltd.	34,300,000	49.00	-	-	34,300,000	49.00
17. Taiwan Airport Service Co., Ltd.	20,626,644	47.35	469,755	1.08	21,096,399	48.43
17A Taiwan Airport Service (Samoa) Co., Ltd.	-	-	(Note1)	100.00	(Note1)	100.00
18. NORDAM Asia Ltd.	245,000	49.00	-	-	245,000	49.00
19. Global Sky Express Ltd.	250,000	25.00	-	-	250,000	25.00
20. Asian Compressor Technology Services Co., Ltd.	7,732,200	24.50	-	-	7,732,200	24.50
21. China Aircraft Services Limited.	28,400,000	20.00	-	-	28,400,000	20.00
22. Jardine Air Terminal Services Ltd.	12,000,000	15.00	-	-	12,000,000	15.00
23. Everest Investment Holdings Ltd.	(Note3)	13.59	-	-	(Note3)	13.59
24. 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.

Capital Overview

4.1 Capital and Shares

4.2 Corporate Bonds

4.3 Other Depository Receipts

4.4 Financing Plans and Implementation

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

A. Issued Shares:

APR 27, 2019

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
12/2018	10	6 billion	60 billion	5.42 billion	54.2 billion	Treasury Stock Retired NT$500,000,000	Jing Shou Shang No. 10701157330, December 18, 2018

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

B. Type of Stock:

APR 27, 2019; Unit: Thousand shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares (Note)	
Common Stock Inscribed	5,420,985	579,015	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 27, 2019; Unit: shares

Item	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	4	25	230	749	119,609	120,617
Shareholding	519,750,824	103,222,119	2,541,645,307	1,003,016,819	1,253,349,581	5,420,984,650
%	9.59%	1.90%	46.89%	18.50%	23.12	100.00%

4.1.3 Shareholding Distribution Status

APR 27, 2019; Unit: shares

Class of Shareholding	Number of Shareholders	Shareholding	Percentage (%)
1-999	33,803	11,080,737	0.20%
1,000-5,000	52,627	126,173,253	2.33%
5,001-10,000	14,679	117,592,031	2.17%
10,001-15,000	5,279	65,808,963	1.21%
15,001-20,000	3,823	70,884,098	1.31%
20,001-30,000	3,401	86,665,273	1.60%
30,001-40,000	1,686	60,081,046	1.11%
40,001-50,000	1,197	56,006,487	1.03%
50,001-100,000	2,165	157,243,859	2.90%
100,001-200,000	975	140,882,076	2.60%
200,001-400,000	425	119,824,001	2.21%
400,001-600,000	148	72,857,178	1.34%
600,001-800,000	69	47,357,996	0.87%
800,001-1,000,000	73	66,538,167	1.23%
1,000,001 or over	267	4,221,989,485	77.89%
Total	120,617	5,420,984,650	100.00%

4.1.4 List of Major Shareholders:

APR 27, 2019; Unit: shares

Shareholding / Shareholder's Name	Shares	Percentage
China Aviation Development Foundation	1,867,341,935	34.45%
National Development Fund, Executive Yuan	519,750,519	9.59%

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

Unit: Thousand shares; NT$

Items / Year			2017 (Distributed in 2018)	2018 (Distributed in 2019)	2019 (As of APR 27)(Note 9)
Market Price per Share (Note 1)	Highest Market Price		13.40	12.90	11.20
	Lowest Market Price		9.02	8.97	9.62
	Average Market Price		10.92	10.44	10.21
Net Worth per Share (Note 2)	Before Distribution		10.43	10.54	10.48
	After Distribution		10.56	-	-
Earnings per Share	Weighted Average Shares		5,468,030	5,456,579	5,418,096
	Diluted Earnings Per Share (Note 3)		0.40	0.33	0.04
Dividends per Share (Note 8)	Cash Dividends		0.2181820086(Note10)	0.20960737(Note11)	-
	Stock Dividends	Dividends from Related Earnings	- (Note10)	- (Note 11)	-
		Dividends from Capital Surplus	- (Note10)	- (Note 11)	-
	Accumulated Undistributed Dividends (Note 4)		- (Note10)	- (Note11)	-
Return on Investment	Price / Earnings Ratio (Note 5)		26.00	31.21	-
	Price / Dividend Ratio (Note 6)		47.67(Note10)	49.14(Note11)	-
	Cash Dividend Yield Rate (Note 7)		2.10%(Note10)	2.04%(Note11)	-

*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 2019 financial information has not yet been reviewed by Deloitte & Touche.

Note 10: 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 11: 2018 surplus allocation plan resolution passed at the 5th meeting of the 21st Board of Directors on March 20, 2019, and it will be sent to the 2019 shareholders' meeting for recognition.

Note 12: The Company's 2018 final daily closing price was NT$11.00.

4.1.6 Dividend Policy and Implementation Status

A. Dividend Policy:

The CAL Articles of Association outlines the following 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 adheres to the following 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 2018 cash dividend distribution at the 5th meeting of the 20th Board of Directors on March 20, 2019, and it will be sent to the 2019 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, differ significantly from the estimated value of employee compensation due to Board of Director resolution prior to the publication date of the annual individual financial statement, 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 2018 Employee Compensation on March 20, 2019, resolving to issue NT$51,656,000 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.

D. The actual employee compensation and director bonuses distributed for the previous year (2017) (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: There is no difference between the proposed employee compensation approved by the Board of Directors and the actual amount paid.

(2) Director bonuses: Not Applicable.

4.1.9 Buyback of Treasury Stock:

APR 27, 2019

No. of buyback period	1st
Purpose of buyback	Performing share buyback and cancellation to safeguard shareholders' rights and interests.
Period of buyback	The approved buyback period was from August 10, 2018, to October 9, 2018.
Price range of buyback	Buyback price per share was between NT$9 and NT$14
Type and quantity of shares bought back	50,000,000 ordinary shares in total
The amount of shares bought back	The total transaction amount was NT$469,526,285, and the average transaction price was NT$9.39 per share.
Number of shares canceled and transferred	The cancellation of 50,000,000 ordinary shares bought back was completed and the approval letter Jing-Shou-Shang-Zi No. 10701157330 made on December 18, 2018, by the Ministry of Economic Affairs was received on December 20, 2018.
Total number of shares of the Company held	The shares bought back have been canceled, so there are no shares of the Company held.
Percentage of total number of shares of the Company held in the total outstanding shares	0%

4.2 Bonds

4.2.1 Corporate Bonds:

APR 27, 2019

Corporate Bond Type	Domestic Unsecured Straight Bond (2013)	Domestic Unsecured Straight Bond (2016-1)	Domestic Unsecured Straight Bond (2016-2)	Domestic Unsecured Straight Bond (2017-1)
Issue date	01/17/2013	05/26/2016	09/27/2016	05/19/2017
Denomination	NT$1,000,000	NT$1,000,000	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$5,000,000,000	NT$5,000,000,000	NT$2,350,000,000
Coupon rate	Tranche A: 1.60% p.a.; Tranche B: 1.85% p.a.	1.19% p.a.	1.08% p.a.	A: 1.20% per annum B: 1.75% per annum
Tenor	Tranche A: 5 years Maturity: 01/17/2018 Tranche B: 7 years Maturity: 01/17/2020	5 year maturity: 05/26/2021	5 year maturity: 09/27/2021	Tranche A: 3 years (May 19, 2017 to May 19, 2020); Tranche B: 7 years (May 19, 2017 to May 19, 2024)
Guarantee agency	Not applicable	Not applicable	Not applicable	Not applicable
Consignee	CTBC Bank Trust Department	Hua Nan Commercial Bank	Hua Nan Commercial Bank	Huanan Commercial Bank
Underwriting institution	Not applicable	YuanTa Securities	MasterLink Securities	Masterlink Securities Corporation
Certified lawyer	Kuo, Hui-Chi (Hsi Endai Lawyer Office)	Kuo, Hui-Chi (Ture Honesty International Law Office)	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)	Huang, Jui-chan (Deloitte & Touche)	Yang, Chen-Hsiu (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	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	One-time repayment of capital upon maturity.
Outstanding principal	NT$5,500,000,000	NT$5,000,000,000	NT$5,000,000,000	NT$2,350,000,000
Terms of redemption or advance repayment	None.	None.	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 Issuance and conversion (exchange or subscription) method	Not applicable	Not applicable	Not applicable	Not applicable
Issuance and conversion, exchange or subscription method, issuing condition dilution, and impact on existing shareholders' equity	Not applicable	Not applicable	Not applicable	Not applicable
Transfer agent	None.	None.	None.	None.

APR 27, 2019

Corporate Bond Type	Domestic Unsecured Straight Bond (2017-2)	Domestic Unsecured 6th Convertible Bond (2018)	Domestic Unsecured Ordinary Corporate Bonds (2018-1)
Issue date	10/12/2017	01/30/2018	10/30/2018
Denomination	NT$1,000,000	NT$100,000 per	NT$1,000,000 per unit
Issuing and transaction location	Republic of China	Republic of China	Republic of China
Issue price	Par	Issued at 100.2% of par value	Par
Total price	NT$3,500,000,000	NT$6,012,000,000	NT$450,000,000
Coupon rate	A: 1.14% per annum B: 1.45% per annum 0.00% per annum	0.00% p.a.	A: 1.32% per annum B: 1.45% per annum
Tenor	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)	A: 5 years (November 30, 2018, to November 30, 2023) B: 7 years (November 30, 2018, to November 30, 2025)
Guarantee agency	Not applicable	Not applicable	Not applicable
Consignee	Huanan Commercial Bank	Chinatrust Commercial Bank Trust Department	Huanan Commercial Bank
Underwriting institution	Fubon Integrated Securities Ltd.	Taihsin Integrated Securities Ltd.	Fubon Integrated Securities Ltd.
Certified lawyer	Kuo, Hui-Chi (Ture Honesty International Law Office)	Chiu, Ya-Wen (Handsome Attorney-at-Law)	Ture Honesty International Law Office Kuo, Hui-Chi, Attorney At Law
CPA	Yang, Chen-Hsiu (Deloitte & Touche)	Not applicable	Yang, Cheng-Hsiu (Deloitte & Touche)
Repayment method	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	Tranche A: Repayment of 50% of the principal at the end of the fourth year and the remaining 50% at the end of the fifth year; Tranche B: Repayment of 50% of the principal at the end of the sixth year and the remaining 50% at the end of the seventh year
Outstanding principal	NT$3,500,000,000	NT$6,000,000,000	NT$4,500,000,000
Terms of redemption or advance repayment	None	According to the offering of Domestic Unsecured 6th convertible bond (2018) section 18 and 19	None
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 yet converted	Not applicable
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	(Note)	Not applicable
Transfer agent	None	None	None

Note: As of April 27, 2019, according to the conversion price NT$12.90 of the sixth unsecured convertible bonds, and assuming the convertible bonds have been fully converted, the shareholdings percentage of the three major shareholders, namely China Aviation Development Foundation, National Development Fund, and Chunghwa Telecom, will be reduced from 48.90% to 45.03%, but there will be no significant change in the shareholding structure, thus it has little effect on shareholder equity.

4.2.2 Corporate Bonds Undergoing Private Placement: None.

4.2.3 Convertible Bonds:

Unit: NT$

Types of Corporate Bonds		Domestic Unsecured 6th convertible bond (2018)	
Item \ Year		2018	The current year through April 27, 2019
Convertible Bond Market Price	Highest	102.15	102.00
	Lowest	101.13	100.60
	Average	99.05	100.00
Conversion Price		12.90	12.90
Issuance date and conversion price at the time of issue		The convertible bonds were listed on the Taipei Exchange on January 30, 2018; the conversion price upon issuance was NT$13.20. Due to the distribution of 2017 cash dividends, according to the provisions of the sixth unsecured convertible bonds' issuance and conversion regulations, the conversion price shall be adjusted. The conversion price was thus reduced from NT$13.20 to NT$12.90.	
Conversion method		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 27, 2019, the use of funds earned through previously issued securities are progressing as planned and are in accordance with expected results.

Operational Highlights

5.1 Business Activities

5.2 Market and Sales Overview

5.3 Human Resources

5.4 Environmental Protection Expenditure

5.5 Labor Relations

5.6 Important Contracts

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

Proportion of Overall Business / Item	2018	
	Net Revenue	Proportion of Revenue
Passenger Revenue	108,345,648	64%
Cargo Revenue	49,847,065	29%
Other	12,518,894	7%
Total	170,711,607	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 holding 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) Optimizing ground services for the passengers in cooperation with the new construction of Taoyuan Airport

In order to provide passengers with faster and more convenient services, the Company cooperated with Taoyuan Airport and launched 26 Self Bag Drop (SBD facilities) counters on October 1, 2018, in terminal 2 to relieve the pressure of people crowding at the manual check-in counters and increase passengers' customs clearance and check-in efficiency; moreover, important changes such as the “New Construction of the Outbound Baggage Conveying System in Terminal 1," the “Terminal 2 Expansion Project” and the “Terminal 3 Building Project” are all continuing. Through new construction projects, such as going automated, mobile, and paperless at the Taoyuan International Airport Corporation, it is expected that the boarding process will be even more simplified. We will be stationed in the terminal 3 together with our SkyTeam partners in the future to optimize the overall service quality.

(2) Steadying aviation network layout and strengthening bidirectional transfer hub

In addition to the continuous introduction of the long-haul fleet, the Company is in the process of selecting new-generation narrow body aircrafts to meet market growth needs, which will help the Company improve its transportation capacity in aviation networks in North America, Europe, Southeast Asia and Northeast Asia. The Company will not only be able to provide more diversified flight choices to people in Taiwan, but also increase the convenience of connecting transportation capacity, strengthening Taiwan's position as the transfer hub for air transportation in Eastern Asia.

(3) Expanding the scope of use of the accumulated mileage and establishing the e-commerce platform Dynasty Miles Go

At the end of 2018, the Company's new type e-commerce platform Dynasty Miles Go was officially launched. Its greatest feature differentiating it from general e-commerce platforms is that millage can be used to offset the price of products, so that the passengers can fully utilize their accumulated mileage. Also, the platform covers diversified products. The Company can take advantage of being stationed in foreign countries to increase the number of special products; also, in the future, we will also continue to launch from time to time China Airlines' exclusive special products, so as to meet the needs of members more comprehensively.

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

According to forecast report of the International Monetary Fund (IMF), the global overall economic growth rate in 2019 will be 3.5%, which is slightly lower than the 2018 economic growth rate 3.7%. This is due to the US-China trade war, the slowdown of China's economic growth, and Brexit. The economic growth rate of Japan, among the major countries that have dealings with Taiwan, has slightly increased due to the future increase of the consumption tax. Economic growth in China and other Southeast Asian countries has slowed down due to factors such as the trade situation and the US dollar exchange rates; the overall economic situation has been seeking stability while growth slows.

(2)Oil prices

The cost of oil is a large part of the aviation industry's operating costs. Crude oil prices have gradually recovered since the second half of 2017, and reached a peak in the most recent four years in 2018. Although the growth rate slowed down by the end of the year, IATA expected that, benefiting from US shale oil mining, the overall crude oil market will be oversupplied in 2019. The annual average price is NT$81.3, lowered by 7.2% from the previous year. However, OPEC and other oil-producing countries have made a production reduction agreement, and with the clearing up of the US-China trade war, the market demand will gradually recover and the oil price will still be an uncertainty in the operation of the aviation industry.

The global airline industry outlook report published by the IATA in December 2018 shows:

(1) Air passenger market

The air transportation market grew rapidly from 2013 to 2017. However, due to the gradual impact of the factors such as Brexit and US-China trade war in 2018, the growth rate has slowed down. The Revenue Passenger Kilometer (RPK) has grown by about 6.5%, and the Available Seat Kilometer (ASK) has a growth rate of 6.0%. The IATA forecasted that in 2019, the previously mentioned situation will continue, RPK and ASK growth rates will fall to 6.0% and 5.8%, respectively, and the slowdown trend will manifest in the Asia-Pacific, with a growth rate of supply and demand of 7.1% and 7.5%, respectively, which are both lower than those in the same period of last year. The reduction ratio of demand growth in the overall market is higher than that of supply, and market competition will become more and more intense. It is expected that the overall passenger load factor will show a declining trend.

(2) Air cargo market

In 2018, the global aviation Freight Tonne Kilometer (FTK) grew 3.5% from 2017, while the Available Freight Tonne Kilometers (AFTK) grew 5.4%. Looking back at the international economic situation in 2018, in the first half of the year, global trade continued to heat up and international oil prices remained at a higher level, which made the economic and trade performance of major countries continue to be strong, as in the previous year. However, as the United States gradually adjusted its trade strategy and tightened monetary policy, and the impact of China-US trade disputes spread from corporate confidence to the real economy, the global market experienced significant volatility in the fourth quarter, and manufacturers' demand turned conservative, indicating that global economic growth may face a slowdown trend starting from 2019.

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, 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 in 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, plans for Terminal 3 and a 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)Optimizing cargo aviation network and customizing charter service

In 2018, charter business was fruitful. Customized charter business was expanded in alignment with customer demand. A total of 159 charter flights were completed during the year, which was an increase of 43 flights compared with 2017, including 3 regular charter flights per week between Taipei and Columbus Ohio, United States, taking full advantage of the transportation strength of the Company's Boeing 747 cargo fleet; in addition, in response to the growth of the Asian region's supply of goods, and considering the continuous optimization of the Company's aviation network, in the Southeast Asian deployment, cargo flights' transportation capacity in Singapore, Penang, Ho Chi Minh City, Hanoi, and others, have been increased. Also, the Company effectively optimized the performance of the overall cargo flight operation through the raising the proportion of goods supplies in the Asian region and the promotion of central products of the overseas routes.

(4)Grasping logistics trends and expanding the map of operation

The Company continues to grasp pulse of the market and expand potential markets for high-growth source of goods, such as semiconductor precision machinery, aircraft engine materials, temperature-controlled cold chain, biotechnology and pharmaceutical and other special cargo, which have all been continuously developed by the Company; in addition, to respond to the development of cross-border e-commerce, besides strengthening cooperation with express delivery companies and other airlines, the air and marine transport of e-commerce postal delivery has also achieved multiple factors of growth in quantity in 2018. The Company will continue to grasp the logistics trend and potential markets, develop multiple supplies of goods, and expand our business territory.

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 2018, the IATA 2017 international passenger and cargo capacity rankings showed that China Airlines was 33rd in the world and 13rd in the Asia-Pacific region for passenger air transport with 39.822 billion Revenue Passenger Kilometers (RPK), while cargo capacity reached 5.741 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 2018

Airline	Passenger	Cargo
China Airlines	24.23%	38.60%
EVA Air	22.13%	24.44%
Mandarin Airlines	2.34%	0.71%
UNI Air	1.52%	0.52%
Far Eastern Air Transport	0.40%	-
Tigerair Taiwan	4.52%	0.05%
Other-Foreign Carriers	44.87%	35.69%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2018-Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

IATA Global International Route Passenger and Cargo Rankings 2017

Passenger (Passenger-Kilometers) Rankings Unit: 1 million			Cargo (Ton-Kilometer) Rankings Unit: 1 million		
1	Emirates	288,886	1	Emirates	12,715
2	Ryanair(5)	157,114	2	Qatar Airways	10,999
3	Lufthansa(4)	147,168	3	Cathay Pacific Airways	10,772
4	United Airlines	146,582	4	Federal Express	8,040
5	Qatar Airways	143,930	5	Korean Air	7,986
6	British Airways(4)	142,804	6	Cargolux	7,322
7	Delta Air Lines	134,175	7	Lufthansa(4)	7,313
8	Air France(4)	133,877	8	Singapore Airlines	6,592
9	American Airlines	119,865	9	United Parcel Service	5,894
10	Turkish Airlines(4)	114,063	10	China Airlines	5,741
11	Cathay Pacific Airways	111,760	11	AirBridgeCargo Airlines	5,543
12	KLM(4)	103,487	12	Air China	5,522
13	Singapore Airlines	95,533	13	China Southern Airlines	4,871
14	Etihad Airways	90,241	14	Turkish Airlines	4,701
15	easyJet(1)(4)(5)	83,625	15	British Airways	4,358
16	Air Canada	76,802	16	Polar Air Cargo	4,348
17	Korean Air	74,423	17	Etihad Airways	4,303
18	Thai Airways International	66,129	18	All Nippon Airways(4)	4,275
19	LATAM Airlines Group(4)	65,959	19	Asiana Airlines	3,992
20	Air China	65,939	20	Atlas Air	3,917
21	Aeroflot Russian Airlines	60,649	21	United Airlines	3,834
22	Norwegian(1)(4)(5)	59,117	22	Air France(4)	3,611
23	China Southern Airlines(1)	56,910	23	EVA Air	3,609
24	China Eastern Airlines	56,534	24	KLM(4)	3,603
25	Qantas Airways	56,424	25	American Airlines	3,375
26	Saudi Arabian Airlines	48,799	26	Nippon Cargo Airlines	3,229
27	All Nippon Airways(4)	48,462	27	LATAM Airlines Group(4)	2,874
28	Iberia	46,815	28	China Cargo Airlines	2,631
29	EVA Air	45,770	29	AeroLogic	2,617
30	Asiana Airlines	41,561	30	Saudi Arabian Airlines	2,487
31	Japan Airlines	41,363	31	Silk Way West Airlines	2,429
32	Wizz Air(1)(5)	40,464	32	Delta Air Lines	2,381
33	China Airlines	39,822	33	Thai Airways International	2,352

Source: IATA WATS 2018

5.1.3 Research and Development

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

From January 1, 2018 through the publication date of this report, the Company invested approximately NT$98 million in research and development. The following table summarizes the technologies and products developed:

Project	R&D Project Description
Establishment of new generation flight operation control system	Introducing the new generation flight operation control system to allow flight control personnel to make timely flight control decisions with greater efficiency and lower cost in response to the ever-changing operating environment through streamlined flight control dispatching operations, precise abnormality control, proactive decision-making support, and other system functions. The establishment and launching of the system were completed in October 2018.
Establishment of New Distribution Capability (NDC) system	NDC is a distribution standard actively promoted by the IATA in recent years. China Airlines obtained the IATA NDC Level 3 system standard specification certification from the IATA on June 27, 2018. We continued to plan the self-built China Airlines NDC distribution system and direct sales cooperation with the channels to achieve a new distribution business model for the aviation tourism industry. We completed e-commerce and distribution channels in 2018 to provide customers with more products and service options in a timely and accurate manner.
Establishment of major operational indicator system	Integrating information relevant to business, marketing, operations, safety, and finance of all units of the Company, providing a single and clear dashboard analysis interface, effectively providing the function of decision-making support system, and providing a mobile user interface to enable senior executives to effectively master the important indicators of the Company's operations. The establishment and launching of the system were completed in October 2018.
Establishment of apron operation mobile platform	Establishing apron mobile operation, providing labeling operations for unit load, cargo delivery, loading and scanning operations for passenger and cargo flights, and establishing the real-time management function of the aircraft apron, to effectively control the progress of the unit load adjustment, ensure the loading accuracy, and strengthen the two-way communication between load balancing operation (in-house) and the apron loading supervision (field) of the Loading Control Department. The establishment and launching of the platform were completed in September 2018.
Establishment of carbon emission management system for international routes	In order to comply with International Civil Aviation Organization (ICAO)'s promotion of the global aviation industry carbon exchange and reduction mechanism, establish the Company's carbon emissions and carbon footprint systematic calculation and management capacity, so to accurately and efficiently conduct carbon emissions monitoring, verification, and declaration operations of the international routes. The establishment and launching of the system were completed in September 2018.
Establishment of mobile version of the apron work order system	In order to improve the quality of aircraft maintenance and improve the efficiency of maintenance work, the work orders of current apron pre-departure and transit inspection have gone mobile. The Company streamlined and upgraded the maintenance work of the apron through digitalization from the establishment of work order parent files to actual execution records of the work orders; it has aligned these improvements with the current apron dispatch operation and has provided apron staff with mobile devices to input the work order execution results. The establishment and launching of which were completed in October 2018.
Establishment of new financial liability management system	In order to improve decision-making regarding the use of funds, the new financial liability management system was established. Its functions include the asset and debt transaction online sign-off template and management information, which improve the efficiency of the operation processes and financial accounting analyses, and facilitate decision making analysis. The system went online in January 2019.
Establishment of new generation e Shopping App system	Current passenger shopping is dominated by e-commerce platform; in response, the "Sky Boutique APP" revision program was conducted and officially went online in October 2018 to provide various functions according to the passengers' usage scenarios, add promotional activities to enhance passengers' willingness to pre-order, and increase the revenue of duty-free products.

B. Future R&D Projects

(1) In order to meet future development needs, China Airlines will continue to invest in R&D projects. Over 2019, we plan to invest a total of NT$95 million into R&D. The following table summarizes future projects:

Project	Future R&D Project Description	Estimated Completion Date
Establishment of new generation crew member shift arrangement system	In response to the substantial growth in the number of Company's flights and crew members, as well as the needs of passenger and cargo flight dispatch, we planned to build a new generation crew member dispatch system, to quickly meet the requirements of civil aviation regulations, optimize manpower dispatch, and fairly and efficiently allocate crew members' shifts, ensuring crew members' dispatch quality.	June 2019 The implementation progress was 82% as of the annual report printing date
Establishment of Flight Control & Monitoring System (FCMS)	Through the automated analysis of the system, the flight operation decision-making supplementary information, such as flight on-time, late departure or arrival status, current and estimated flight transportation capacity, airport airworthiness, flight schedule surveillance and real-time flight trajectory were generated, so that flight control personnel can fully grasp the Company's flight transportation capacity and flight status, and produce the most appropriate flight operation decisions. In addition to taking into account the flight operation cost and service quality, emergencies can be responded to at all times to ensure that flights arrive on time and safely.	December 2019 The implementation progress was 13% as of the annual report printing date

Establishment of new sub-accounting system	Establishing an inter-airline sub-accounting system to follow the trend of IATA sub-accounting. The sub-accounting system interfaces with the passenger business operation revenue system to improve system maintenance and save manpower.	September 2019 The implementation progress was 45% as of the annual report printing date
Establishment of new revenue management system	Introducing Amadeus' new revenue management system to upgrade the current revenue management calculation from a segmentation basis to an O&D basis, and add functionality for dynamic fare grabbing database and real-time booking information calculation, which can increase turnover.	June 2020 The implementation progress was 33% as of the annual report printing date
Establishment of AI in-flight service training assistant system	Taking advantage of intelligent robots to assist in in-flight service training. Training includes safety procedures, service terms, and other in-flight service related matters. If employees need to be familiar with cabin in-flight announcement, students can enhance their sense of presence through situational dialogs in the classroom. Also, increasing the number of exercises performed by the students improves training results.	December 2019 The implementation progress was 10% as of the annual report printing date
Establishment of robotic process automation system	In order to improve the efficiency of duplication, fixed rules, and cross-platform operations, and use manpower for work of high output value, a robotic process automation platform was built for personnel change account management of heterogeneous systems, among other operations, to improve system maintenance time and save manpower.	May 2019 The implementation progress was 85% as of the annual report printing date
Establishment of In-Flight Equipment Management System (IEMS)	Responding to the complexity and dispersion of the overall cabin loading and space management, and providing the latest loading information for the user units (Cabin Crew Division, ground station agents) to follow. The system was built to implement the systematic management of the cabin in-flight service supplies data, promptly provide external agents with complete and accurate loading information, and use data analysis to further improve the loading efficiency and operation quality.	August 2019 Implementation progress was 60% as of the annual report printing date
Establishment of cargo business management system	Introducing the cargo business management system, strengthening the business management operations such as freight rate management, revenue and flight revenue estimation, and using the revenue management system with the expectation of improving the efficiency of freight operations and increasing the revenue of overall cargo business.	December 2019 The implementation progress was 20% as of the annual report printing date
Establishment of ticket purchasing instant marketing platform	In the online ticket purchasing completion phase, collecting and tracking usage records, instantly grasping online user activities and conducting customer analysis, and cooperating with online sales activities to achieve marketing models such as precision marketing and remarketing. In the future, we plan to expand and integrate with artificial intelligence, big data technology, and other systems.	June 2019 The implementation progress was 69% as of the annual report printing date
Establishment of e-commerce consumer behavior analysis system	The digital track model captured and labeled a plethora of information, such as passengers' consumption preferences and behaviors, so as to better understand the current and potential needs of customers; this further allowed for the Company to conduct timely and accurate marketing, and was provided for the use of managers in decision-making and forecasting.	October 2019 The implementation progress was 30% as of the annual report printing date

(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 increased the number of flights for respective potential destinations (such as Bangkok and Penang); with the government's provision of entry visa preferential measures for Southeast Asian countries, it is expected to drive the demand for traveling between the two places; at the same time, for the destinations with market potential, we have initially been cultivating customers by means of inter-airline cooperation (such as code-sharing and signing SPA contract).

- Improving passenger composition to enhance the overall profitability of the route

  The Company is now working to increase the percentage of FIT passengers in each route, and to improve the overall profitability of the route by changing the composition of passengers.

(2) Cargo

- Improving revenue management and promoting customized service

  We will continue to improve revenue management. Regarding the different transportation needs of special cargo, such as time limit, volume, and special loading treatment, we will continue to enhance the price differentiation and increase the added value of transportation services by utilizing the large cargo loading advantages and professional services of our Boeing 747-400 all-cargo aircrafts. We will also continue to promote the bidding mechanisms for shipping space in peak seasons to enhance unit revenue. In addition, in recent years, the promotion of the charter business has been strengthened. Customized charter services have been tailored to meet the needs of individual customers, which has contributed significantly to the increase in revenue. In 2019, we will continue to deepen our development of emerging markets, such as Southeast Asia, secure the efficiency of the overall aviation network in response to market changes, promote the customized routine and regular chartered flight business, and maximize the benefits of the cargo fleet.

B. Long-term Development

(1) Passenger

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

  In conjunction with the introduction of the A350-900 long haul new aircrafts, China Airlines has continued to expand its European and American aviation network deployment since 2018 and offers passengers more convenient flight options by expanding flights to Vienna, Rome, London and Ontario, California, USA. In addition, China Airlines has been expanding its Oceania aviation network since 2017. Cooperating with the new southbound policy, in 2018, flights to and from Hanoi and Bangkok were increased, enabling passengers from New Zealand, Australia, and Southeast Asia to travel to and from destinations in Europe, the United States, and Asia through Taiwan and provide a higher-quality service hub. We will also pay close attention to market changes, adjust our transportation capacity, consolidate and deepen development of the market, continue to develop potential destinations, strengthen inter-airline cooperation, and intensively cultivate respective bread winning markets, to provide passengers with convenient and detailed flight services.

- Strengthening the competitiveness of the Group by division of labor and market segmentation with the subsidiary Tigerair Taiwan to respond to competition from low-cost carriers

  According to the statistics of the Civil Aeronautics Administration, the market share of Low Cost Carriers (LCC) in the Taiwan market in 2018 was 19%, an increase of 3ppt from the previous year, indicating that LCC continued to grow in the Taiwan market. Given the fierce competition in the market, the Company and its subsidiary Tigerair Taiwan will continue to carry out Group cooperation and provide suitable products for different customer groups based on market positioning and passenger composition to strengthen the overall competitiveness of China Airlines Group.

- Continue bringing in new model passenger aircraft, improving passenger service quality

  With the subsequent delivery of the last four A350 aircrafts in 2018, the long-haul routes of Europe, the United States, and Australia have completed the planning of all flights using new generation aircraft models, improving the long-haul service quality. Now, in order to meet the trend of the Asia-Pacific market and cooperate with the development strategy of the regional aviation network, the selection of narrow body aircrafts has been launched and the A320neo series or 737MAX series will be continuously researched. In the future, one of the current 737-800 aircrafts will be replaced to provide better product quality and the most comfortable flight experience for passengers.

(2) Cargo

- Expanding project and e-commerce postal business revenue to develop high-growth sources of supply

Under the new southbound policy and the sustained economic development of Southeast Asian countries, the market for consumer electronics, textiles, and cross-border e-commerce sources of supply are expected to grow. The Company continues to cultivate business in Japan, Singapore, Malaysia, Indonesia, Vietnam, the Philippines and Thailand, in order to compete for the north-south supply of goods in the Asian region. The Company will also optimize the cargo flights' destination combination in Southeast Asia, develop and research the change of multi-legged flights to non-stop flights depending on the needs to increase the transportation capacity, and fully support the development of the Southeast Asian region to improve the overall revenue efficiency. In addition, semiconductor precision machinery, aircraft engine materials, temperature-controlled cold chain, biotechnology and pharmaceutical and other special cargo will all be continuously developed by the Company.

- Deepening the inter-airline cooperation and strengthening the development of freight information

Since the launching of the Shenzhen cargo flights in 2015, the Company has been working closely with UPS on the fixed space of each destination and the American route charter flights; cooperation with DHL, Fedex, and SF EXPRESS has continued to grow. The scope of cooperation with Nippon Cargo Airlines (NCA) and ANA (NH) has also been steadily deepened. Thus far, the Company has cooperated with a total of 165 global airlines and will create a mutually beneficial situation through inter-airline cooperation and reciprocity of aviation networks. In addition, the promotion of e-cargo business and the upgrading of the cargo business operation/service information system are also the focus of the Company's strategic development. Through the integration of various systems and the provision of real-time information on mobile devices, in addition to improving internal operational efficiency, customer service quality and satisfaction have also been improved.

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	2017			2018		
	No. of Passengers	No. of Passengers	No. of Passengers	No. of Passengers	RPK (Million)	Revenue (NT$ Million)
Trans-Pacific	1,370,384	12,461	17,829	984,161	10,404	14,478
Europe	462,491	4,322	7,688	603,342	5,678	9,661
South-East Asia	3,692,451	9,126	17,516	3,769,593	9,334	18,396
Domestic	1,222,213	295	1,939	1,239,130	292	1,967
Hong Kong/Macau	2,969,871	2,322	8,075	2,687,782	2,136	7,730
North-East Asia	6,161,837	10,863	30,518	6,805,685	12,129	35,454
Oceania	510,978	2,703	4,272	662,302	3,808	5,954
Mainland China	2,675,925	2,576	14,379	2,642,732	2,475	14,706
Total	19,066,150	44,668	102,216	19,394,727	46,256	108,346

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	2017		2018	
	FRTK (Million)	Revenue (NT$ Million)	FRTK (Million)	Revenue (NT$ Million)
Trans-Pacific	3,724	24,912	3,764	27,742
Europe	793	5,451	779	6,106
South-East Asia	817	7,549	814	8,879
North-East Asia	204	2,156	255	3,250
Oceania	73	435	156	794
Mainland China	142	2,833	147	3,076
Total	5,753	43,336	5,915	49,847

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	
	2017	2018	2017	2018
China Airlines	25.09%	24.23%	38.03%	38.60%
EVA Air	22.27%	22.13%	24.72%	24.44%
Mandarin Airlines	2.51%	2.34%	0.76%	0.71%
UNI Air	1.52%	1.52%	0.46%	0.52%
Far Eastern Air Transport	0.33%	0.40%	-	-
Tigerair Taiwan	3.93%	4.52%	0.05%	0.05%
Other – Foreign Carriers	44.35%	44.86%	35.97%	35.68%

Source: Civil Aeronautics Administration Monthly Statistics from January to December 2017 and 2018-Taiwan National Airlines International and Cross-Strait Market Share for Passengers and Cargo

C. Market Analysis of Major Product Categories

(1) Passenger

According to the statistics of the Tourism Bureau of the Ministry of Transportation and Communications, in the passenger transport market of Taiwan in 2018, approximately 11.07 million foreigners entered Taiwan (a growth rate of 3.1%) and 16.64 million Taiwanese people went abroad (a growth rate of 6.3%), with an overall growth rate of 5%, showing that Taiwan’s tourism market still has development potential. It is estimated that the impact of the restriction policy for travelers from China will gradually slow down in 2019, and the demand for cross-strait routes will show a steady trend; in terms of regional routes, the Asia-Pacific region is still the momentum for market demand growth; with the development of emerging economies and LCC expansion, competition will be more intense; in the long-haul market, the US-China trade war and Brexit increased the uncertainty of the market; but in the future, domestic and foreign companies will continue to increase transportation capacity, which is expected to push up market demand.

(2) Cargo

The global trade boom has slowed down since the end of 2018. According to IATA’s estimation, the growth of global air transport demand in 2019 will be 3.7%, and the overall market will remain as it was in 2018. With the protectionism of countries and US-China tariff disputes, it is predicted to be a year where the market supply exceeds demand, thus the air transport market will still be full of challenges. However, as the Company actively expands the passenger and cargo destinations, under the mutual support of passenger and cargo aircraft and the efficient revenue management, and with the optimizing of aviation network and development of potential markets, the margins of profitability have opportunity for continued growth.

D. Competitive Niche

(1) Next Generation Long-Haul Fleet Taking Shape

The 10 Boeing 777-300ER fleet and 14 Airbus A350-900 fleets introduced by China Airlines' new generation product project were fully delivered at the end of 2018. The Company will then make the deployment of long-haul aviation network in the European, American, New Zealand and Australia markets more dense, improve effectiveness of the operation, and implement the younger fleet strategy; and through the new generation product project, the Company will improve the quality of hardware and software equipment, and optimize long-haul route products.

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

The Company has been operating in the transport industry for 59 years. Its passenger and cargo business serves in a total of 29 countries and at 174 destinations. Passenger transport services are available at 78 destinations in 23 countries, covering four continents (Europe, America, Asia and Australia). Pure cargo flight services are available at 34 destinations (as of December 31, 2018), forming a complete passenger and cargo flight network. The Company adopts a stable layout strategy. At present, China Airlines Group's regional aviation network covers a wider range, and our market share is the highest among all Taiwanese airlines.

(3) A Leader in Collaboration

In addition to self-owned routes, China Airlines is the first company in Taiwan to join the global aviation alliance. It is also the first Taiwanese company to conduct code-sharing cooperation. Currently, it has cooperated with 22 airlines in code-sharing, ranking first among all Taiwanese airlines. The Company is actively deploying in the global market by providing more convenient and comprehensive services to passengers to allow passengers to travel between Taiwan and major cities around the world through the tightly-woven aviation network of China Airlines.

(4) Integrating Group resources to exert synergy

The Company and Tigerair Taiwan, its LCC subsidiary, differentiated their markets based on different customer groups to strengthen the breadth and competitiveness of product lines, provide consumers with diversified product choices, and maintain the dominant position of China Airlines Group in the market. In addition, in order to establish a complete aviation service network, China Airlines Group has a total of 32 re-investment businesses. The industry scopes of such businesses cover seven major categories, including air transportation, ground services, air transportation assistance, aerospace technology, warehousing and logistics, tourism and leisure, and holding and leasing, deepening the cooperation linkage among one another to strengthen the competitiveness of the whole Group.

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 2018, for the third 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 for the fifth times the Taiwan Corporate Sustainability award.

(3) Environmental Sustainability Management

China Airlines adheres to the belief of “developing a sustainable environment” and regards “Green Energy Environmental Protection” as an important element of corporate sustainability. It was the first in the industry to establish the concept of environmental and energy management since 2007. In 2011, it set up a dedicated Environmental Department and an Environmental Committee. Each quarter, the President reviews the corporate environmental and energy management performance and sets incentive measures. In 2013, a statement of corporate environmental and energy policy was released, a corporate environmental and energy management system was promoted, and the third-party international standard certification has been passed. China Airlines is the first in the transportation service industry in Taiwan to have established environmental risk governance structure, set up dedicated organization, formulated policies, and established environmental and climate change risk management mechanisms.

(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 uses four major steps, identification, risk analysis, risk assessment, and risk management”. The Company identifies potential risks in these three areas and, based on frequency of occurrence and seriousness of the risk, performs 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

- At present, in the traffic rights agreements signed by Taiwan with major countries, except for restrictions on traffic rights of cross-strait routes, open skies agreements have been signed with the United States, Australia, Singapore, Malaysia, and Thailand. In addition to offering existing airlines to add more flights, new airlines are offered to join, providing consumers with more diverse options. In addition, the execution of ASEAN Multilateral Agreement on Air Service is being actively negotiated with ASEAN countries to move towards a single aviation market model, significantly reducing the operational restrictions of civil air transport enterprises in the ASEAN countries and promoting the growth of the Asia Pacific aviation market.
- The Asia-Pacific region has recently benefited from the growth of emerging economies and the middle class, and the demand for air transport has soared. IATA estimates that the demand for passenger and cargo transport in the Asia-Pacific region is higher than the global average. Although there are concerns about the tension in the trade relations between US and China, with the easing of fiscal and currency policies of the countries, global air transport will continue to grow in the future, and the Asia-Pacific region will remain the momentum driving the global market.
- Facing regional economic integration and the adjustment of the country's foreign economic and trade strategy, the Taiwan government has been promoting the “New Southbound Policy Promotion Plan” since 2016, whereby it strengthens strategic partnerships with 18 countries, including 10 countries in ASEAN, 6 countries in South Asia, as well as New Zealand and Australia, in order to enhance Taiwan's economic and tourist appeal to southern countries, and expand the diversified foreign economic layout.
- Internet technology matured in the 2000s, and major Internet giants grew from portals and search engine platforms to e-commerce models like “business-to-business” (B2B), “business-to-consumer” (B2C), and “consumer-to-consumer” (C2C), along with the popularization of mobile Internet access; in that context, consumers are encouraged to use virtual channels to shop. The cross-border e-commerce is growing rapidly, replacing the position of traditional physical channels.

(2) Unfavorable Factors

- After the global financial crisis in 2008, protectionism emerged in various countries, causing tension in trade relations between US and China and the levying of punitive tariffs; Europe also faced Brexit disputes, all of which affected the global supply chain layout. In the long run, protectionism is likely to cause risks like shrinkage in international trade and reduction in the demand for cross-border business, and is a potential risk factor for the development of cargo and passenger air transport.
- The price of oil is one of the uncontrollable costs of airlines taking up a large proportion of operating costs; it is also an uncontrollable and extremely sensitive cost. In 2019, US shale oil will continue to be extracted in response to the OPEC production reduction agreement, and IATA estimates that oil prices in 2019 will be lower than that in the previous year. However, compared with the past four years, it is still at a high level and still poses uncertainty for the aviation industry in the future.
- According to IATA statistics, in the past five years, global passenger transportation capacity has grown at an average annual rate of 6.3%, and at an average annual rate of 8.4% in the Asia-Pacific region. Apart from the continued expansion of aviation networks by existing companies, the increase is mainly due to the rapid rise of emerging companies; among which, Asia-Pacific regional routes are subject to the competition of LCCs, and the Asia-Pacific to North America and European routes are facing the sudden rise of airlines in the Middle East, China and Southeast Asia. With innovative business models and the creation of operating cost advantages, in addition to stimulating new demand, existing customer bases are also being eroded.
- According to IATA statistics, 204 airports in the world were classified as level-3 overcrowded airports in the summer of 2019; 61 of which were in the Asia-Pacific and North Asia, including Taoyuan Airport and major airports in the Asia-Pacific, highlighting the lack of infrastructure resources for air transport in the Asia-Pacific. The airport slot time is closely related to the expansion of airlines' aviation networks and routes. Due to the long construction period of airports, it is difficult to obtain a solution in a short time, which limits the development of the air transport industry, and seriously affects the long-term development of airlines.

(3) Response Measures

- Keeping abreast of global political and economic movements through information gathering and management; to adapt to the unpredictable operating market at all times by enhancing the passenger load factor and profit rate of the routes through the regulation of transportation capacity by flexible adjustment of flights and deployment of aircrafts.
- In response to the changes in trip structure and the popularization of mobile devices, the Company will adapt to the changing needs of passengers and launch various occasional marketing activities, while continuously optimizing various e-services and accurately marketing to target customers; such actions will boost the Company's competitiveness.
- The Company will take advantage of open skies business opportunities, develop new destinations/routes in a timely manner, secure its leading position in the regional aviation network, and deepen and optimize the long-haul aviation network; use Taiwan's geographic location advantage in the Asia-Pacific region to build the East Asia transfer hub, while expanding the cooperation with United Airlines to expand the global aviation network and generate 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	2017				2018				2019 (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	13,875,830	10.34	None	CPC Corporation	18,413,016	12.00	None	CPC Corporation	3,885,414	10.74	None
2	Formosa Petrochemical Corporation	4,083,732	3.05	None	Formosa Petrochemical Corporation	5,372,889	3.50	None	Chevron Corporation	1,169,036	3.23	None
3	Chevron Corporation	3,373,214	2.51	None	Chevron Corporation	5,117,227	3.33	None	Formosa Petrochemical Corporation	1,095,814	3.02	None
Other		112,816,598	84.10		Other	127,600,944	81.17		Other	30,041,645	83.01	
Net Total		134,149,374	100.00		Net Total	153,504,076	100.00		Net Total	36,191,909	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

Year / Capacity and Traffic	2017	2018	Rate of Increase (Decrease)
Available Seat Kilometers (ASK)	55,723,852	58,043,562	4.16%
Revenue Passenger Kilometers (RPK)	44,668,163	46,256,379	3.56%
Load Factor (%)	80.16%	79.69%	-0.47 ppt
Freight Available Ton Kilometers (FATK)	7,960,873	8,290,378	4.14%
Freight Revenue Ton Kilometers (FRTK)	5,752,743	5,914,889	2.82%
Load Factor (%)	72.26%	71.35%	-0.91 ppt
Available Ton Kilometers (ATK)	12,962,698	13,498,780	4.14%
Revenue Ton Kilometers (RTK)	9,762,044	10,065,315	3.11%
Load Factor (%)	75.31%	74.56%	-0.75 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 2018, the Company had new transportation capacity of passenger transport put into the market, and the available seat kilometer (thousand) and the revenue passenger kilometer (thousand) increased compared with 2017; in response to the increase in demand for cargo transport, the FTK (thousand) of FRTK (thousand) also increased compared with 2017.

5.2.6 Shipments and Sales in the Last Two Years

Unit: thousand kilometers; NT$ thousands

Item	2017		2018	
	RPK/FRTK	Amount	RPK/FRTK	Amount
Passenger Revenue	44,668,163	102,216,106	46,256,379	108,345,648
Cargo Revenue	5,752,743	43,336,068	5,914,889	49,847,065
Other Operating Revenue	-	10,569,611	-	12,518,894
Total	-	156,121,785	-	170,711,607

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 sales volume of both Company's passenger and cargo business in 2018 increased compared to 2017, mainly due to the introduction of new passenger transportation capacity into the market in 2018, which led to the increase in Revenue Passenger Kilometer (RPK) and sales; in addition, in 2018, due to the steady recovery from the economic recession, international trade demand boomed and freight rates increased, causing cargo business revenue to continue to grow for the whole year of 2018.

5.3 Human Resources

Year		2017	2018	APR 27, 2019
Number of Employees	Male	6,476	6,379	6,302
	Female	6,169	6,030	5,937
	Total	12,645	12,409	12,239
Average Age		40.60	41.10	41.40
Average Years of Service		13.30	13.90	14.00
Education	PhDs	0.11%	0.10%	0.09%
	Master's Degrees	10.64%	10.94%	11.10%
	Bachelor's Degrees	82.66%	82.71%	82.64%
	Senior High School	6.22%	5.94%	5.89%
	Below Senior High School	0.37%	0.31%	0.29%

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

In order to integrate environmental protection operations into the daily operational risk management operations of the enterprise, China Airlines has introduced a number of international standard management systems (ISO 14064-1, ISO 14001, ISO 50001) since 2009, and has established and improved the environmental management operation mechanism of the enterprise, covering risk issues such as greenhouse gases, environmental management and energy management. The Company has formulated management strategies and action measures for relevant risks and opportunities identified in various aspects of the environment. Beginning in 2017, the Company introduced life cycle thinking, completed control over every links of organization's operations; also, considering the issues of interest to stakeholders, the Company has further improved the level and perspective of environmental and energy risk management, and become comprehensively in line with the standard thinking of international enterprises' sustainable development governance. The Company also completed the third party audit operation of ISO 14001 and ISO 50001 on December 20, 2018. China Airlines is the second airline in the world and the first in the domestic air transport service industry to pass both ISO14001 and ISO50001 certification. It is also the airline with the most complete scope of certification in the domestic service industry.

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 2018, a total of 59 KPI were completed and carbon emissions were reduced by 144,882 tons of CO_2e through conservation of aviation fuel, energy, and vehicle fuel. In 2019, we set up a further 70 KPI and expect to reduce emissions by 132,818 tons of CO_2e over the year.

C. Environmental Management Inspection Mechanism

The Company promotes environmental management supervision mechanisms. Each unit independently implements the first-level audit of environmental management; second-level audit of environmental management is implemented by the headquarters. The double audit mechanism ensures that environmental management is implemented in the basic level operations of all units.

The second-level audit (including cause/corrective measures and review operation) was completed in the second and fourth quarters of 2018. The audit project was carried out according to the established checklist. It also included the review of the previous audit, the implementation progress of environmental and energy KPIs, and review of the implementation status of the corrective measures for the inspection results by the Department of Environmental Protection of Taoyuan City.

D. Employee Environmental Education and Training

To implement the statement of environmental and energy policy of “implementing environmental and energy conservation education to foster employees’ environmental awareness,” and to achieve the goal of “environmental protection by all employees,” China Airlines plans an “environmental education campaign series” every year to implement online or in-class environmental management education and training in Taiwan to cultivate an environmentally friendly attitude and actions in its employees. In 2018, regarding the management and update operation of the new version of the environmental management system, education and training was conducted for all members (including personnel stationed in affiliated companies); a total of 6,181 people completed the training. In addition, through the “China Airlines and Me” course, new employees are informed of the Company's environmental protection and energy conservation policies and practices, and the consensus of all employees is achieved. Implementation rate is 100%.

In addition to environmental education, China Airlines also publishes new environmental protection information through employees’ e-mail and the internal promotion platform. In 2018, 6 special topics and 1 eco-care operation highlight reports were released.

In 2018, a contest calling for ideas on the theme of “designing environmental protection icon” and voting activities were conducted for all members. A total of 57 submissions were received, and 1,288 colleagues participated in the voting.

E. Carbon Inventory and Reduction Project, in Accordance with International Management Trends

(1) A solid response to ICAO CORSIA

ICAO plans to promote the “Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA),” which will be officially launched in 2019. The Company has participated in the IATA environmental committee and the AAPA environmental protection task force, actively grasping the progress and regulations of CORSIA, establishing the internal operation momentum of the Group companies, and simultaneously providing related information to the relevant competent authorities in Taiwan for reference, while also cooperating with government policies to establish a response strategy. On the other hand, through the industry and government platform of the Flight Safety Foundation, China Airlines assists in handling relevant work meetings of CORSIA, so that domestic government, industry, universities, institutes, and other relevant units can understand the contents of 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; third-party certification was performed.

In April, 2019, the Company completed the third-party (DNV GL) certification process for 2018, and obtained a certificate of “Reasonable Assurance”. In 2018, greenhouse gas emissions were certified at 7,253,362.76 metric tons CO_2e.

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

According to the EU regulations, because the carbon emissions of the Company's 2018 Intra-EU Flights totaled less than 3,000 metric tons, carbon emissions may be calculated by the EUROCONTROL simple auxiliary tool; calculation results are as follows: 2018: CO2 emissions of 2,511 tons from 81 flights. The carbon credit limit alloted to the Company by the EU are 7,157 metric tons per year from 2017 to 2020; the balance for 2018 was 4,646 metric tons.

F. Actively Participate In International Environmental Protection Initiatives

Our company works with the Environmental Protection Administration, National Central University, and the European Union environmental protection unit IAGOS-ERI to carry out the Pacific Greenhouse Gases Measurement (PGGM) plan. IAGOS instruments were installed on B-18806, B-18317, and B-18316 aircrafts of the Company in June 2012, July 2016, and July 2017, respectively, enabling automatic collection of gas data in the atmosphere during flights from then on for domestic and international research units to detect and understand the change of gas at high altitudes, for the purpose of conducting ecological conservation research. During the period from July 1, 2012, to December 31, 2018, atmospheric data for a total of 9,143 flights was collected, contributing to the image of Earth's ecology and Taiwan's environmental protection.

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 incorporated fuel-efficient Boeing 777-300ER and Airbus A350-900 aircraft, and by the end of 2018, had a total of 10 777-300ERs and 14 A350-900s in the fleet.

In addition to effectively improving fuel efficiency, the introduction of the new fleet can also reduce the amount of air pollution emitted during take-off and landing of aircraft, taking into account service efficiency and environmental protection at the same time.

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 environmenta-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 impact. 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 review 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 table below) and supports related education campaigns implemented by the authorities.

5.4.3 Countermeasures

Unit: NT$ thousands

Item / Year	2018	2019	2020	2021
Environmental protection equipment and maintenance costs (does not include depreciation)	14,483	20,000	14,000	14,000
Fees for wastewater equipment regular sampling inspections by inspection agencies and permitting	90	100	100	100
Waste disposal costs	4,536	4,000	4,000	4,000
Aviation noise control fees (paid to the terminal based on airplane model and number of flights)	190,357	194,925	194,925	194,925
Fees for establishment of an environmental control system and strategic research project	4,483	4,000	4,000	4,000
Green procurement	27,598	20,000	20,000	20,000

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 implementation, and labor-management agreements and protection 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:

The Labor Pension Reserve Supervisory Committee of the Company was established in June 1987 in compliance with letter Bei-Shi-She-II-Zi No. 43791 from the Taipei City Government. In past years, the appropriation and payment of pensions in the old system of the Labor Standards Act were handled according to the Labor Standards Act. Employees who may claim from the old system pension account accounts for approximately 51.5% of the employees of the Company (37.4% of Company employees are subject to both new and old systems). The monthly appropriation rate of old system pensions has been increasing year by year since 2014 and has risen to 15% since January 2016, reaching the statutory limit. For employees who meet the retirement qualifications of Labor Standards Act and whose retirement has taken effect, the responsible unit shall take initiative to settle the pension, and shall apply to the local government for expenditure approval and reference or submit to the Taiwan Bank for payment application according to the relevant regulations of the government; it shall notify the employees to receive the payment once the check is produced. The deposit of pension reserve funds is supervised by the Labor Pension Reserve Supervisory Committee of the Company. The business unit regularly holds a pension supervision committee meeting every three months to report the use of the pension reserve funds to the members, including the estimated result of the next year's appropriation, number of retirements of each quarter, and designated pension reserve funds account balance, and exchange of retirement related issues.

(2) Labor Pension Act New Pension System:

According to the Labor Pension Statutes promulgated by the government on June 30, 2004, in order Zong-Tong-Hua-Zong-(I)-Yi-Zi No. 09300121821, for employees who are subject to the statutes, new system pensions shall be appropriated on a monthly basis to the Bureau of Labor Insurance according to the statutes starting from July 2005. Employees who may claim from the new system pension account accounts for approximately 66.5% of the employees of the Company (29% of Company employees are subject to both new and old systems). The new system pension appropriation rate is 6% per month, and is deposited into the employee's designated personal pension account at the Bureau of Labor Insurance. After the retirement conditions are met, the employee shall apply for payment to the Bureau of Labor Insurance.

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 union representatives attend regular 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 24 written complaints were handled in 2018.

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, in which employees are free to participate. The amount, depending on employee position, is deducted directly from their monthly salary. Through the end of 2018, a total of 1,994 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 compliance with occupational safety standards, gender equality.

E. Signing of Collective Agreement

The Company and Taoyuan Pilots Union signed a Collective Agreement on February 14 and February 21, 2019, effective on the same day; the Union issued a letter to the competent authority for reference according to the law. The two parties will fulfill the contents of this Agreement, agreeing that no strikes or industrial actions will be called within the effective period of the Agreement (3 years and 6 months). The Collective Agreement signed with the China Airlines' company union has been announced on the Company's "CAL Enterprise Management 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 2018, there was a total of 96 counseling visits totaling 164.5 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 an organization for learning. 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, the self-pay portions of the costs for such courses will be subsidized by the Company after work-relate courses successfully completed by an employee (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) Obtained the ROC Ministry of Labor Workforce Development Agency's 2018 training subsidy of NT$398,776.

(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 209 in-person classes and 73 e-classes, and total of 17,680 people trained.
- Professional technical classes: including enterprise safety/inspection work, flight services, joint management and EMO, with a total of 3,268 in-person classes and 338 e-classes, and a total of 68,205 people trained.
- Service: including service quality assurance, introduction to public relations, service business, ground services operations and in-flight products, with a total of 616 in-person classes and 255 e-classes, and a total of 20,169 people trained.
- Other: including investment management unit business, law and insurance, financial, information technology, and human resources management, with a total of 188 in-person classes and 57 e-classes, and a total of 26,992 people trained.

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

From 2018 to April 27, 2019, the Company was fined a total of NT$4.66 million by the government labor authorities for labor disputes or imperfections after labor inspections. In addition, the derivative compensation for customers' losses and various expenses from the strike incident called by the Taoyuan Pilots Union in February 2019 was preliminarily estimated to be NT$154 million; from February 8 to February 14, a total of 214 flights were canceled, and the accumulated revenue loss was estimated to be around NT$500 million. In the end, according to the fifth appeal of the Agreement between the two parties, it was promised that the full salary of the 13th month would be changed to a flight safety bonus. The amount of the bonus was agreed at the negotiation meeting on February 21. It was estimated that the annual expenditure will increase by around NT$190 million.

In view of the losses in the Company's operation and goodwill caused by this labor dispute, the Company will continue to conduct positive communication and negotiation with the union, and hope to achieve the goal of caring for employees' welfare and improving the quality work environment by maintaining a genial interaction mechanism between the parties, and, through comprehensive improvement of the satisfaction of employees in all categories, eliminating the issues that may arise from unnecessary labor disputes.

5.6 Major Contracts

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	SASOFIV Aviation Ireland DAC	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	SASOFIV Aviation Ireland DAC	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	AerCap Ireland Limited	05/2008-05/2024	Aircraft Type:A330-300/No.:B-18353	-
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	AS Air Lease 83 Ireland Limited	10/2012-10/2024	Aircraft Type:A330-300/No.:B-18358	-
Lease	AS Air Lease 83 Ireland 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	Jade Aviation (Ireland) AOE 5 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	Flip No. 196 Co., Ltd./Flip No. 197 Co., Ltd.	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	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Lease	Sky High XXXVIII Leasing Company Limited	01/2016-01/2028	Aircraft Type:777-300ER/No.:B-18006	-
Lease	UMB Bank N.A.	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	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	Taiwan Business Bank	04/2011-04/2018	Test Cell	-
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	Bank of Taiwan	03/2014-03/2019	Unsecured Loan	-
Loan	Hua Nan Commercial Bank	06/2014-06/2019	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	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	08/2016-11/2018	Unsecured Loan	-
Loan	Land Bank of Taiwan	09/2016-09/2018	Unsecured Loan	-
Loan	KGI Bank	09/2016-12/2018	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	03/2017-11/2018	Unsecured Loan	-
Loan	Bank SinoPac	03/2017-12/2018	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	07/2017-11/2018	Unsecured Loan	-
Loan	China Construction Bank Corporation	11/2017-11/2029	Aircraft Type:A350-900/No.:B-18903	-
Loan	Bank of Taiwan	04/2018-04/2030	Aircraft Type:A350-900/No.:B-18907	-
Bills	Union Bank of Taiwan	01/2015-02/2018	FRCP	-
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,	-

Agreement	Counterparty	Period	Major Contents	Restrictions
Bills	China Bills Finance Corporation and syndicate	10/2017-04/2022	FRCP Joint Underwriting,	-
Surface Rights Registration Contract of Taipei CAL Building	Northern Region Branch of National Property Administration of the Ministry of Finance	2016/12/31-2026/12/30	According to the original contract, it was agreed that the contract would be renewed for 10 years (the third period); rent is adjusted according to the government assessed land value and government published land value of the land authority, and is collected at an annual rent rate of 5%.	-
Taipei CAL Building Lease Contract	FX Hotels Taiwan	99/09/01-2026/12/30	Leasing premises: Part of floor B1 of the CAL Building, which is located at No. 131, Sec. 3, Nanjing E. Rd., Taipei City, the area is 169.6 ping (approximately 561 square meters); 1st floor, an area of 142.5 ping (approximately 471 square meters); 4 floors from the 10th floor to 13th floor, a total area of 2,145 ping (approximately 7,091 square meters). The total area of the above-mentioned is 2,457.1 ping (approximately 8,123 square meters). Leasing of 11 parking spaces on the 1st floor and floor B1.	-
Taipei CAL Building Lease Contract	OEC Freight Worldwide Co., Ltd. of the OEC Group	2016/03/01-115/12/31	Leasing premises: Entire are of the 7th floor of the CAL Building, which is located at No.131, Sec. 3, Nanjing E. Rd., Taipei City; the total area is 543.54 ping (approximately 1,797 square meters); part of floor B1, an area of 15.25 ping (approximately 50 square meters); 1 parking space on floor B1 and 12 parking spaces on floor B2.	-
Nankan CAL Park Land Lease Contract	Costco President Taiwan Inc.	Construction period: 2012/01-2012/07 Leasing start date: The day the lessee opens business to the public in the leased building, or the day after the expiration of one year from the date of commencement of construction. Period of leasing: 20 years since the leasing start date.	Leasing premises: One land at Jinzhong Section, Luzhu District, Taoyuan City with parcel number of 705, and one land used for road facing Nankan Road with parcel number 705-1 and total area of 8,382.05 ping (27,709.21 square meters).	In accordance with notarized text
Kaohsiung CAL Building Lease Contract	FX Hotels Taiwan	2012/12/31-2032/12/30	Leasing premises: CAL Building, which is located at No.81, Zhonghua 3rd Rd., Qianjin Dist., Kaohsiung City Floor B1, an area of 115.91 ping (approximately 471 square meters); 1st floor, an area of 101.89 ping (approximately 337 square meters); double layer of 24.07 ping (approximately 80 square meters); 11 floors from 2nd floor to 12th floor, total area of 1,083.94 ping (approximately 3,583 square meters); penthouse of 35.45 ping (approximately 117 square meters). The total area of the aforementioned is 1,361.26 ping (approximately 4,500 square meters).	-
CAL Park Building Lease Contract	Cal Park Co., Ltd.	2019/01/01-2021/12/31 The contract will be automatically renewed for 1 year upon expiration of this period and contract renewal shall be made every two years.	Leasing premises: Administration Center Building of the corporate headquarters, Crew Center Building, Flight Training Center Building, Basement (Parking Lot). The total area is 25,140 ping (approximately 83,107 square meters).	-
Engineering consulting company commissioned technical service category	T.Y.Lin Taiwan Consulting Engineers. inc.	2019/03/01-2020/11/30	Operating space requirements and interface management for China Airlines Group's stationing in the terminal 3 area of Taoyuan.	-

Financial Information

6.1 Five-Year Financial Summary

6.2 Five-Year Financial Analysis

6.3 Consolidated Financial Statements for the Years Ending December 31, 2018 and 2017, and Independent Auditors’ Report

6.4 Parent Company Only Financial Statements for the Years Ending December 31, 2018 and 2017 and Independent Auditors’ Report

6.5 Audit Committee’s Review Report

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Consolidated Condensed Balance Sheet – Based on IFRS

Unit: NT$ thousands

Item \ Year		Financial Summary for the Last Five Years (Note 1)					2019 (As of March 31) (Note 3)
		2014(Note 4)	2015 (Note 5)	2016 (Note 6)	2017 (Note 7)	2018 (Note 8)	
Current assets		40,910,490	45,642,615	47,338,201	47,411,834	52,827,560	45,785,380
Property, Plant and Equipment		142,655,066	129,628,866	140,136,737	153,617,531	163,107,718	160,105,308
Intangible assets		670,997	1,009,678	1,137,115	1,019,345	1,210,796	1,180,239
Other assets		44,837,474	45,645,150	35,888,706	23,850,922	12,990,508	88,548,771
Total assets		229,074,027	221,926,309	224,500,759	225,899,632	230,136,582	295,619,698
Current liabilities	Before distribution	61,357,995	68,220,452	68,605,724	60,289,113	60,949,892	64,730,022
	After distribution	61,357,995	70,728,977	68,605,724	61,482,783	-	Not yet allocated
Non-current liabilities		116,730,020	93,149,314	98,027,837	106,453,000	109,139,606	171,070,496
Total liabilities	Before distribution	178,088,015	161,369,766	166,633,561	166,742,113	170,089,498	235,800,518
	After distribution	178,088,015	163,878,291	166,633,561	167,935,783	-	Not yet allocated
Equity attributable to shareholders of the parent		48,664,275	58,269,896	55,783,817	57,023,237	57,081,572	56,777,688
Capital stock		52,491,666	54,708,901	54,708,901	54,709,846	54,209,846	54,209,846
Capital surplus (Note 4)		480,462	798,415	799,932	799,999	1,241,214	1,241,214
Retained earnings	Before distribution	(3,870,736)	2,872,235	206,092	1,664,405	1,615,661	1,371,957
	After distribution	(2,358,783)	363,710	206,092	470,735	-	Not yet allocated
Other equity interest		(1,905,698)	(66,283)	112,264	(107,641)	58,223	(1,957)
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	(43,372)
Non-controlling interest		2,321,737	2,286,647	2,083,381	2,134,282	2,965,512	3,041,492
Total equity	Before distribution	50,986,012	60,556,543	57,867,198	59,157,519	60,047,084	59,819,180
	After distribution	50,986,012	58,048,018	57,867,198	57,963,849	-	Not yet allocated

Note 1: 2014 - 2018 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, 2019 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: For the matter of 2017 surplus earnings distribution, after approved by the resolution of the general meeting on June 27, 2018, the legal reserve appropriated was NT$145,831,000, the special reserve appropriated was NT$118,810,000 and the cash dividend distributed was NT$1,193,670,000.

Note 8: The 2018 Surplus Distribution Proposal resolution was passed at the 5th meeting of the 21st Board of Directors on March 20, 2019, 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)					2019 (As of March 31)
	2014	2015	2016	2017	2018	(Note 3)
Revenue	150,581,742	145,056,217	141,079,107	156,121,785	170,711,607	40,405,348
Gross profit	13,631,370	20,268,374	18,005,906	21,972,411	17,207,531	4,213,439
Operating Profit	2,518,747	8,129,197	4,564,687	8,826,160	4,022,383	761,473
Non-operating Income and Expenses	(2,156,321)	(994,312)	(2,684,836)	(5,302,197)	(941,134)	(719,112)
Pretax Profit (Loss)	362,426	7,134,885	1,879,851	3,523,963	3,081,249	42,361
Income from operations of continued segments - after tax	(597,488)	5,926,210	710,940	2,490,792	2,272,684	(146,876)
Income from discontinued operations	-	-	-	-	-	-
Net Income (Loss)	(597,488)	5,926,210	710,940	2,490,792	2,272,684	(146,876)
Other comprehensive income (Income/Loss after taxes)	(1,947,078)	1,269,760	(681,669)	(1,113,176)	(578,363)	(64,544)
Total Comprehensive Gain (Loss) for the Year	(2,544,566)	7,195,970	29,271	1,377,616	1,694,321	(211,420)
Net income attributable to shareholders of the parent	(749,073)	5,763,714	571,540	2,208,066	1,790,361	(243,704)
Net income attributable to non-controlling interest	151,585	162,496	139,400	282,726	482,323	96,828
Comprehensive income attributable to Shareholders of the parent	(2,693,811)	7,072,042	26,103	1,240,677	1,258,035	(312,357)
Comprehensive income attributable to non-controlling interest	149,245	123,928	3,168	136,939	436,286	100,937
Earnings (Loss) per share	(0.14)	1.06	0.10	0.40	0.33	(0.04)

Note 1: 2014 - 2018 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 2019 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)					2019 (As of March 31) (Note 3)
		2014(Note 4)	2015 (Note 5)	2016 (Note 6)	2017 (Note 7)	2018 (Note 8)	
Current assets		34,477,533	37,904,039	39,908,492	37,933,696	42,932,859	-
Property, Plant and Equipment		131,178,428	118,446,472	129,121,632	142,265,548	149,029,054	-
Intangible assets		649,614	990,307	1,115,101	989,327	979,708	-
Other assets		51,594,035	51,802,032	41,394,218	30,729,421	21,972,600	-
Total assets		217,899,610	209,142,850	211,539,443	211,917,992	214,914,221	-
Current liabilities	Before distribution	59,079,846	64,725,525	64,339,805	54,925,364	55,179,834	-
	After distribution	59,079,846	67,234,050	64,339,805	56,119,034	-	-
Non-current liabilities		110,155,489	86,147,429	91,415,821	99,969,391	102,652,815	-
Total liabilities	Before distribution	169,235,335	150,872,954	155,755,626	154,894,755	157,832,649	-
	After distribution	169,235,335	153,381,479	155,755,626	156,088,425	-	-
Equity attributable to shareholders of the parent		48,664,275	58,269,896	55,783,817	57,023,237	57,081,572	-
Capital stock		52,491,666	54,708,901	54,708,901	54,709,846	54,209,846	-
Capital surplus (Note 4)		480,462	798,415	799,932	799,999	1,241,214	-
Retained earnings	Before distribution	(3,870,736)	2,872,235	206,092	1,664,405	1,615,661	-
	After distribution	(2,358,783)	363,710	206,092	470,735	-	-
Other equity interest		(1,905,698)	(66,283)	112,264	(107,641)	58,223	-
Treasury shares		(43,372)	(43,372)	(43,372)	(43,372)	(43,372)	-
Non-controlling interest		-	-	-	-	-	-
Total equity	Before distribution	48,664,275	58,269,896	55,783,817	57,023,237	57,081,572	-
	After distribution	48,664,275	55,761,371	55,783,817	55,829,567	-	-

Note 1: 2014 - 2018 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 2019.

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: For the matter of 2017 surplus earnings distribution, after approved by the resolution of the general meeting on June 27, 2018, the legal reserve appropriated was NT$145,831,000, the special reserve appropriated was NT$118,810,000 and the cash dividend distributed was NT$1,193,670,000.

Note 8: The 2018 Surplus Distribution Proposal resolution was passed at the 5th meeting of the 21st Board of Directors on March 20, 2019, but has 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)					2019 (As of March 31) (Note 3)
	2014	2015	2016	2017	2018	
Revenue	139,726,168	133,441,725	127,524,864	139,815,211	150,264,792	-
Gross profit	10,917,174	17,623,801	15,275,980	17,966,397	12,649,836	-
Operating Profit	1,870,191	7,885,097	4,475,707	7,358,114	1,847,567	-
Non-operating Income and Expenses	(1,820,766)	(1,047,275)	(2,938,456)	(4,269,911)	468,064	-
Pretax Profit(Loss)	49,425	6,837,822	1,537,251	3,088,203	2,315,631	-
Income from operations of continued segments - after tax	(749,073)	5,763,714	571,540	2,208,066	1,790,361	-
Income from discontinued operations	-	-	-	-	-	-
Net Income(Loss)	(749,073)	5,763,714	571,540	2,208,066	1,790,361	-
Other comprehensive income (income/Loss after tax)	(1,944,738)	1,308,328	(545,437)	(967,389)	(532,326)	-
Total Comprehensive Gain (Loss) For The Year	(2,693,811)	7,072,042	26,103	1,240,677	1,258,035	-
Net income attributable to shareholders of the parent	(0.14)	1.06	0.10	0.40	0.33	-

Note 1: 2014 - 2018 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 2019.

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 2014 to 2018

Year	Accounting Firm	Name of CPA	Audit 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
2018	Deloitte & Touche	Yang, Chen-Hsiu; Huang, Jui-chan	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

Item (Note 4) / Year		Financial Summary for The Last Five Years (Note 1)					2019 (As of March 31) (Note 3)
		2014	2015	2016	2017	2018	
(%)	Debt Ratio	77.74	72.71	74.22	73.81	73.91	79.76
	Ratio of long-term capital to property, plant and equipment	117.57	118.57	111.24	107.81	103.73	144.21
Solvency (%)	Current ratio	66.68	66.90	69.00	78.64	86.67	70.73
	Quick ratio	53.49	53.06	53.16	59.46	67.50	54.97
	Interest earned ratio (times)	115.55	496.25	265.40	369.02	338.05	100.88
Operating performance	Accounts receivable turnover (times)	17.45	16.98	17.67	18.40	18.30	16.84
	Average collection period	20.91	21.49	20.66	19.84	19.95	21.67
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Property, plant and equipment turnover (times)	1.03	1.07	1.05	1.06	1.08	1.00
	Total assets turnover (times)	0.67	0.64	0.63	0.69	0.75	0.61
Profitability	Return on total assets (%)	0.48	3.28	0.80	1.60	1.48	0.84
	Return on stockholders' equity (%)	(1.15)	10.63	1.20	4.26	3.81	(0.98)
	Pre-tax income to paid-in capital (%)	0.69	13.04	3.44	6.44	5.68	0.31
	Profit ratio (%)	(0.40)	4.09	0.50	1.60	1.33	(0.36)
	Earnings per share (NT$)	(0.14)	1.06	0.10	0.40	0.33	(0.04)
Cash flow	Cash flow ratio (%)	27.56	46.60	25.71	47.35	41.33	69.95
	Cash flow adequacy ratio (%)	207.19	233.25	303.17	351.58	361.41	562.77
	Cash reinvestment ratio (%)	5.48	10.56	4.83	8.82	7.59	14.81
Leverage	Operating leverage	8.19	3.21	4.99	3.16	6.00	11.93
	Financial leverage	5.04	1.28	1.40	1.18	1.52	(6.66)

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

1. Degree of operating leverage: Mainly due to the decrease in operating profit in 2018 compared with the same period of last year, resulting in the increased degree of operating leverage.
2. Degree of financial leverage: Mainly due to the decrease in operating profit in 2018 compared with the same period of last year, resulting in the increased degree of financial leverage.
3. In 2019, the Company began using the financial reporting standards (IFRS 16) and new accounting code like right-of-use asset and leased liability, so the standard has been applied results the increased degree of financial structure and cash flow.

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

Item (Note 4)	Year	Financial Summary for the Last Five Years (Note 1) 2014	2015	2016	2017	2018	2019 (As of March 31) (Note 3)
Financial structure (%)	Debt Ratio	77.67	72.14	73.63	73.09	73.44	-
	Ratio of long-term capital to fixed assets	121.07	121.93	114.00	110.35	107.18	-
Solvency (%)	Current ratio	58.36	58.56	62.03	69.06	77.81	-
	Quick ratio	45.32	44.54	45.82	49.03	57.87	-
	Interest earned ratio (times)	100.38	495.43	246.03	350.56	292.02	-
Operating performance	Accounts receivable turnover (times)	16.23	15.56	15.92	16.62	16.57	-
	Average collection period	22.49	23.46	22.92	21.96	22.46	-
	Inventory turnover (times)	-	-	-	-	-	-
	Accounts payable turnover (times)	-	-	-	-	-	-
	Average days in sales	-	-	-	-	-	-
	Fixed assets turnover (times)	1.03	1.07	1.03	1.03	1.03	-
	Total assets turnover (times)	0.65	0.62	0.61	0.66	0.70	-
Profitability	Return on total assets (%)	0.41	3.36	0.75	1.54	1.33	-
	Return on stockholders' equity (%)	(1.51)	10.78	1.00	3.91	3.14	-
	Pre-tax income to paid-in capital (%)	0.09	12.50	2.81	5.64	4.27	-
	Profit ratio (%)	(0.54)	4.32	0.45	1.58	1.19	-
	Earnings per share (NT$)	(0.14)	1.06	0.10	0.40	0.33	-
Cash flow	Cash flow ratio (%)	25.44	47.38	26.71	47.41	39.42	-
	Cash flow adequacy ratio (%)	209.68	232.93	309.01	357.86	373.29	-
	Cash reinvestment ratio (%)	5.10	10.74	4.94	8.48	6.90	-
Leverage	Operating leverage	10.21	3.15	4.85	3.46	11.25	-
	Financial leverage	(19.66)	1.28	1.38	1.21	3.45	-

Analysis of financial ratio differences for the last two years. (Not required if the difference does not exceed 20%)
1. Profitability As the net profit after tax in 2018 decreased compared with the same period of last year, each item of profitability also decreased.
2. Degree of operating leverage: Mainly due to the decrease in operating profit in 2018 compared with the same period of last year, resulting in the increased degree of operating leverage.
3. Degree of financial leverage: Mainly due to the decrease in operating profit in 2018 compared with the same period of last year, resulting in the increased degree of financial leverage.

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, 2018 and 2017, and Independent Auditors' Report: Please refer to Appendix 1.

6.4 Parent Company Only Financial Statements for the Years Ended December 31, 2018 and 2017, 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 2018 consolidated financial statement and individual financial statement that have been jointly audited by Deloitte CPAs Yang, Chen-Hsiu and Huang, Jui-chan who released an official unqualified opinion by March 20, 2019, and (2) the 2018 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: Chang, Hsieh Gen-Sen

March 20, 2019

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	2018	2017	Difference	
			Amount	%
Current Assets	52,827,560	47,411,834	5,415,726	11.42
Property, Plant and Equipment	163,107,718	153,617,531	9,490,187	6.18
Intangible Assets	1,210,796	1,019,345	191,451	18.78
Other Assets	12,990,508	23,850,922	(10,860,414)	(45.53)
Total Assets	230,136,582	225,899,632	4,236,950	1.88
Current Liabilities	60,949,892	60,289,113	660,779	1.10
Non-Current Liabilities	109,139,606	106,453,000	2,686,606	2.52
Total Liabilities	170,089,498	166,742,113	3,347,385	2.01
Capital stock	54,209,846	54,709,846	(500,000)	(0.91)
Capital surplus	1,241,214	799,999	441,215	55.15
Retained Earnings	1,615,661	1,664,405	(48,744)	(2.93)
Other Equity	58,223	(107,641)	165,864	154.09
Treasury shares	(43,372)	(43,372)	-	-
Non-Controlling Interests	2,965,512	2,134,282	831,230	38.95
Total Equity	60,047,084	59,157,519	889,565	1.50

Analysis of changes in financial ratios:

1. Other assets: Mainly due to the delivery of 4 A350 aircrafts in 2018, aircraft purchasing advance payment was reclassified as Property, Plant and Equipment.
2. Retained earnings: In 2018, the sixth domestic convertible bond was issued, increasing the additional paid-in capital by NT$410 million.
3. Other equity: Mainly due to the changes in the fair value of financial assets and hedging instruments measured by fair value of other comprehensive profit and loss cases.
4. Non-controlling interest: Shareholdings in Kaohsiung Airport Catering Services Ltd. were increased in 2018; it became a consolidated entity, resulting in an increase in non-controlling interests.

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

7.2 Analysis of Financial Performance (Consolidated)

Financial Performance Analysis Table

Unit: NT$ thousands

Item / Year	2018	2017	Difference	
			Amount	%
Revenue	170,711,607	156,121,785	14,589,822	9.35
Cost	153,504,076	134,149,374	19,354,702	14.43
Gross Profit	17,207,531	21,972,411	(4,764,880)	(21.69)
Operating Expenses	13,185,148	13,146,251	38,897	0.30
Operating Income	4,022,383	8,826,160	(4,803,777)	(54.43)
Non-operating Income and Expenses	(941,134)	(5,302,197)	4,361,063	82.25
Pretax Profit	3,081,249	3,523,963	(442,714)	(12.56)
Income Tax Expense	808,565	1,033,171	(224,606)	(21.74)
Net Income (Loss)	2,272,684	2,490,792	(218,108)	(8.76)
Other Comprehensive Income	(578,363)	(1,113,176)	534,813	48.04
Total Comprehensive Gain (Loss) for the Year	1,694,321	1,377,616	316,705	22.99

Analysis of changes in financial ratios:

1. Operating income, pretax profit, and net income for the period: Each profit item of 2018 was lower than those of 2017, mainly due to the substantial increase in fuel costs.
2. Non-operating income and expenses: In 2018 and 2017, affected by the elimination of fleet, impairment losses of NT$125 million and NT$4,262 million were recognized, respectively.
3. Other comprehensive income (net): Mainly due to the changes in the fair value of financial assets and hedging instruments measured by fair value of other comprehensive profit and loss cases.
4. Total comprehensive income for the period: The combined effects of the above descriptions 1, 2, and 3.

7.3 Analysis of Cash Flow (Consolidated)

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT$ thousands

Item / Year	2018	2017	Difference	
			Amount	%
Cash and Cash Equivalents, Beginning of Year	22,585,332	24,267,197	(1,681,865)	(6.93)
Net Cash Flow from Operating Activities	25,188,007	28,547,018	(3,359,011)	(11.77)
Net Cash Flow from Investing Activities	(18,440,662)	(25,792,340)	7,351,678	28.50
Net Cash Flow from Financing Activities	(4,386,909)	(4,669,431)	282,522	6.05
Exchange Rate Adjustment	(8,231)	232,888	(241,119)	(103.53)
Cash and Cash Equivalents, End of Year	24,937,537	22,585,332	2,352,205	10.41

Analysis of change in cash flow in the current year: The difference in cash flow of the investing activities was mainly due to the decrease in aircraft purchasing advance payment in 2018 compared with that of the same period in 2017.

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$18.69 billion and estimated net cash flow from operating activity for the year is NT$25.78 billion. Cash flow from investment and financing activities are estimated to total NT$8.96 billion and NT$31 billion respectively. The cash shortfall was made up through corporate bond issuance, and medium-term unsecured loans of NT$12 billion and the cash and cash equivalents at the end of the year totaled NT$16.51 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 2018 totaled NT$1.919 billion.

In the coming year, for the Company's re-investment businesses, we will continue to carry out the hangar construction of the Taiwan Aircraft Maintenance and Engineering Co., Ltd. We will also evaluate various potential investment possibilities in aspects such as passenger transport, cargo transport, aircraft maintenance, and aviation 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 remain aware of economic and financial developments both in Taiwan and overseas to develop a hedging strategy, evaluate performance of derivatives, and set an 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 100.

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

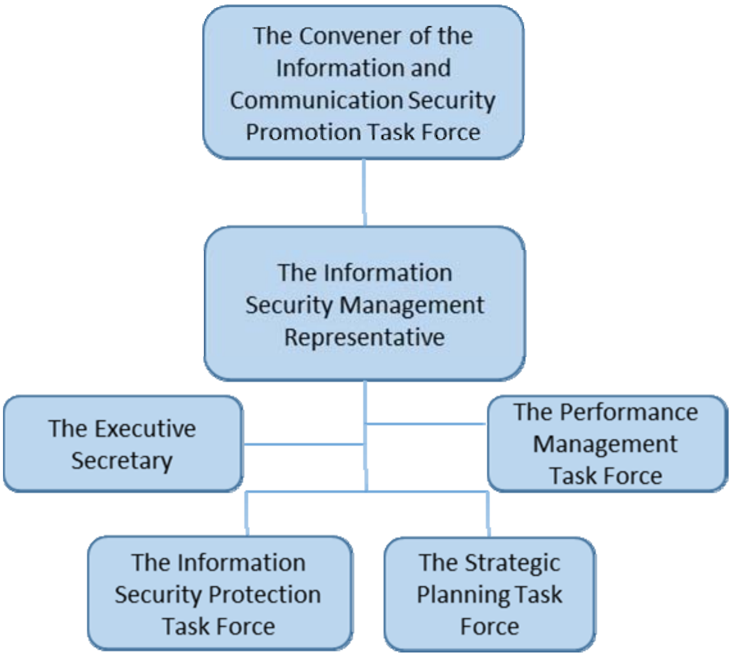
7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Sales:

1.Information Security

In order to construct a comprehensive information security protection capability and cultivate good information security awareness among colleagues, the Company has established relevant maintenance plans and operating procedures in accordance with the Cyber Security Management Act. It has also implemented the establishment of various protection measures and supervised the operation situation of information security management according to the law to ensure that the confidentiality, integrity, availability and compliance of the Company's information and communication system and assets are in compliance with the requirements of relevant laws and regulations, while also being protected from internal or external, intentional or accidental threats.

2.Information Security Governance System

In order to strengthen the Company's information and communication security and improve the information and communication security management system, the Company has established the "China Aviation Information and Communication Security Task Force," which is responsible for the development of the Company's information and communication security policy, the implementation of information and communication security education and training, confidential and sensitive information protection, information and communication security for intelligence assessments, handling of emergency notification/response, and regular review of the appropriateness of the information and communication security policy and goals in information and communication security management review meetings.



3.Information Security Management Mechanism

The major directions of Company's information security strategy have been focused on three aspects, including information security governance, daily maintenance and operation, and infrastructure protection, in which there are contained risk management, legal compliance, and corporate policies; the strategy fully enhances the Company's information security protection capabilities from internal systems to external regulations, and from the level of personnel to that of organization.

In view of currently prevalent external attacks and ransomware, the Company communicates with international information security vendors every year, regularly pays attention to the issues of information security, and plans the response measures. Meanwhile, professional information security courses and training sessions have been conducted for designated information security personnel to strengthen their ability to detect and handle such incidents upon occurrence and to respond accordingly.

Furthermore, to strengthen the Company's information security management, in addition to conducting regular information security examinations and external penetration tests, the Company also successively obtained credit card transaction environment PCI-DSS compliance, PIMS personal information management system, ISO27001 compliant data center and other international certifications, to ensure the reduction of information security risk; In terms of program development, secure development operation specifications were also established with reference to international standards, implementing the SDLLC Secure Software Development lifecycle. In the future, we will continue to strengthen information security protection and establish a joint defense mechanism.

4. Personal Information Management
   In 2014, the Company established the “Personal Information Management Committee,” and formulated and disclosed on the Company's official website the “Information Security Policy” to protect the privacy of all customers' personal information. In addition, in 2018, a Data Protection Officer position and a personal information management task force were set up; an external professional consultant team was introduced to establish a systematic management system that links personal information protection with organizational operations by the “PDCA Methodology” in response to the the EU General Data Protection Regulation (GDPR). The implementation report of personal information management project was reported to the Board of Directors on January 21, 2019, and the Committee reports the implementation status to the Board of Directors on a regular basis every year in accordance with the Article 38 of GDPR. In the future, the Company will continue to maintain customer privacy in accordance with high standards.

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

The Company continues to improve its navigational matters and aircraft maintenance, guard flight safety, and implement various service details in the SOP+ spirit; actively invest in social welfare and fulfill the responsibilities of corporate citizenship; incorporate environmental management into our operational focuses. If there is any untrue or negative news, message, or incident that affects the Company’s image, we will respond immediately and explain, clarify, and communicate with the public, and post explanation on our website or social media platform if necessary, to reduce the negative effects.

The Company has faced the challenge of labor disputes turning into petition and protest activities. In order to avoid losses that cannot be estimated in operations and goodwill, the Company will maintain a genial interaction mechanism through diversified communication channels to achieve the goal of caring for employees’ welfare and improving the quality work environment, and through comprehensive improvement of the satisfaction of employees in all categories, eliminating the issues that may arise from unnecessary labor disputes.

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

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.

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 internal and external operating risks including flights, aircraft, in-flight service, and ground handling. Operating risk is controlled to an acceptable level through continuous hazard identification and risk management. In addition, countermeasures are proposed to improve the overall safety performance of the company.
Financial Risk	Finance Div.	The domestic and global economy affects the operating results of the Company. 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

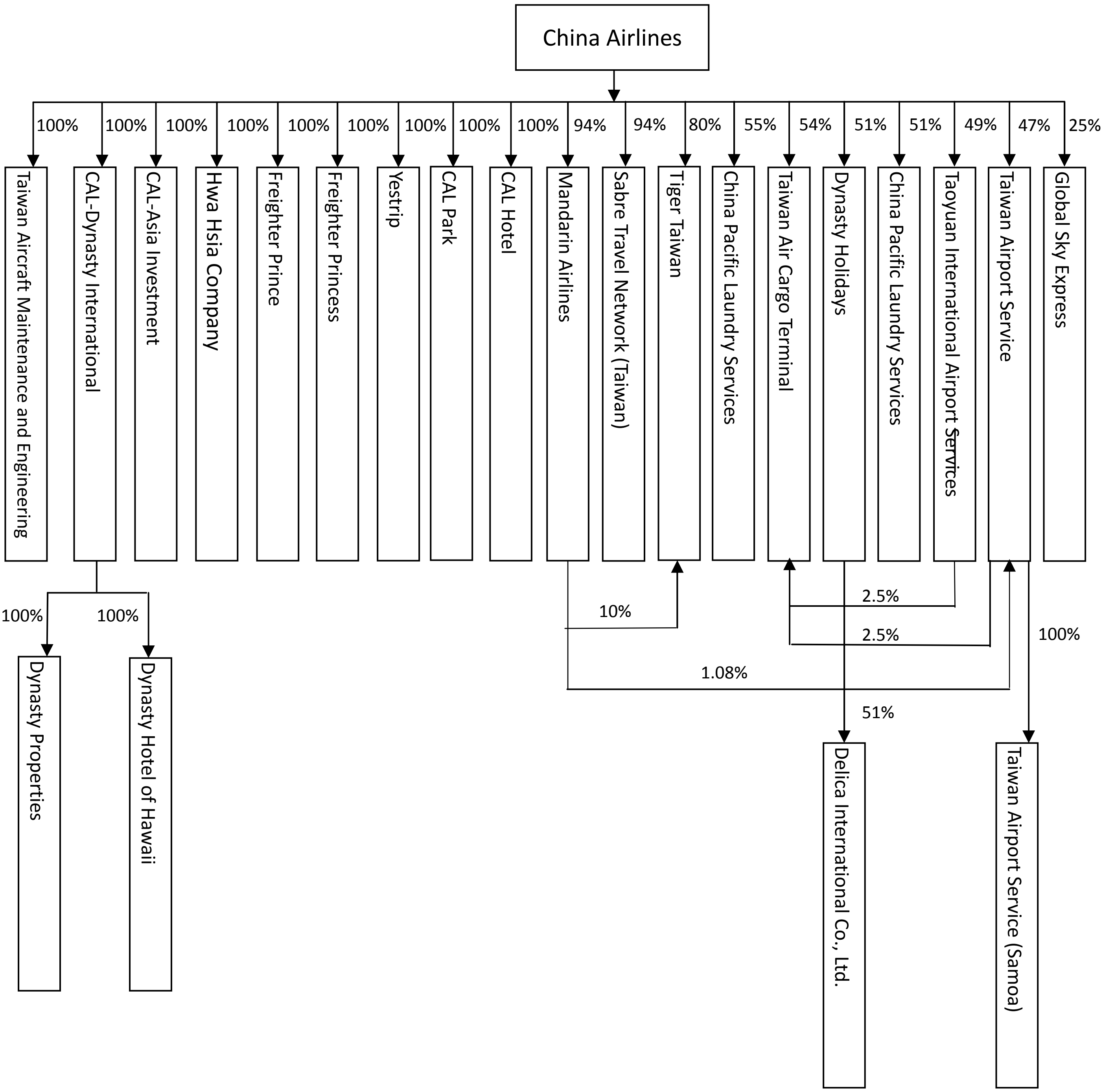
VIII. Special Disclosure

8.1 Summary of Affiliated Companies

8.1.1 Basic information of Affiliated Companies

A. Affiliated Companies Chart

Dec 31, 2018



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

B. Basic information of Affiliated Company

Dec 31, 2018/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.	804,462	Holding & investing
1A Dynasty Properties Co., Ltd.	08/15/1973	200 Continental Blvd. Suite #101 El Segundo, CA90245, U.S.A.	15,385	Real estate investing, property leasing
1B Dynasty Hotel of Hawaii, Inc.	12/10/1973	1830 Ala Moana Blvd. Honolulu, Hawaii 96815, U.S.A.	123,077	Hotel service
2. CAL-Asia Investment Inc.	06/29/1995	Mandar House, 3rd Floor, P.O. Box 2196, Johnson's Ghut, Tortola, VG1110, Virgin Islands, British	220,688	Holding & investing
3.Dynasty Aerotech International Corp. (Note 2)	05/11/1989	No.6, Hangqin South Road, Dayuan District, Taoyuan City	77,270	Aviation ground handling service, cleaning service
4. Yestrip Co., Ltd.	01/18/2001	10F, No.9,Section 3, Nanjing E Rd., Zhongshan District, Taipei City	16,000	Travel service
5. 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
6. CAL Hotel Co., Ltd.	01/03/2007	No.1-1, Hangzhan S Rd., Dayuan District, Taoyuan City	465,000	Hotel business
7. 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
8. 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
9. Sabre Travel Network (Taiwan) Ltd.	10/09/1990	No.57, Fuxing North Road, Songshan District, Taipei City	138,618	IT service & GDS
10. Tigerair Taiwan Co., Ltd.	04/21/2014	No.1, Hangzhan S Rd., Dayuan District, Taoyuan City	2,000,000	Civil air transport
11. China Pacific Laundry Services Ltd.	09/08/1997	No.7, Lane 54, Sande Street, Luzhu District, Taoyuan City	250,000	Laundry service
12. 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
13. Kaohsiung Airport Catering Services Ltd.	09/27/1999	No. 2-10, Zhongshan 4th Rd., Xiaogang District, Kaohsiung City	400,500	Catering service
13A Delica International Co., Ltd.	05/24/2016	No. 2-10, Zhongshan 4th Rd., Xiaogang District, Kaohsiung City	20,000	Catering service
14. Dynasty Holidays, Inc.	10/28/1980	5F, You Ei Ginza Second Building, 9-7, 1Chome, Ginza, Chuo-Ku, Tokyo, Japan	11,114	Travel service
15. China Pacific Catering Services Ltd.	08/19/1994	No.22, Lane 156, Section 2, Haishan Rd., Luzhu District, Taoyuan City	861,000	Catering service
16. NORDAM Asia Ltd.	12/07/2017	No. 15, Hangqin S. Rd., Dayuan Dist., Taoyuan City	5,000	Aircraft maintenance and repair
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	180,830	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 2018: 1TWD=0.0325 USD, 3.5991JPY, 0.2232CNY.
Note 2: 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 holdings 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 has 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. Delica International Co., Ltd. is the subsidiary of Kaohsiung Airport Catering Services. 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 Arport Air Cargo Terminal (Xiamen) Co., Ltd. and Arport Air Cargo Service (Xiamen) Co., Ltd. Logistics services are provided domestically by invested companies Global Sky Express Ltd. and Chung Hwa Express Corp. 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; overseas, the Company invests in Xiamen Taiko Landing Gear Co. in Mainland China, providing and maintaining landing gear, and HAECO Composite Structures (Jinjiang) Co. Ltd. , 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 holdings and Leasing Business Group	Established CAL-Dynasty International, which 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.

D. Directors, Supervisors, and Presidents of Affiliated Companies

Dec 31, 2018

Units: Shares; %

Company	Title	Name	Shareholding	
			Shares	%
1. CAL-Dynasty International, Inc.	Chairman	Ho, Nuan-Hsuan (Note 1)	2,614,500	100
	Director	Hsieh, Su-Chien (Note 1)	(USD10, share)	
	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)	Pan, Wen-Tsung (Note 1)		
2. CAL-Asia Investment Inc.	Chairman	Ho, Nuan-Hsuan (Note 1)	7,172,346	100
	Director	Hsieh, Su-Chien (Note 1)	(USD1, share)	
	Director (President)	Lo, Ya-Mei (Note 1)		
3. Dynasty Aerotech International Corp. (Note 3)	Chairman	Chao, Lin (Note 1)	77,270	100
	Director	Liu, Der-Chuan; Sun, Jia-Min; Chung, Ming-Jyh (Note 1)		
	Supervisor	Chen, I-Chieh (Note 1)		
	Director(President)	Lu, Yung-Nan (Note 1)		
4. 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)		
5. CAL Park Co., Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	150,000,000	100
	Director	Hsieh, Su-Chien; Chang, Young (Note 1)		
	Supervisor	Fang, Juo-Ling (Note 1)		
	Director(President)	Hsieh, Su-Chien (Note 1)		
6. CAL Hotel Co., Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	46,500,000	100
	Director	Hsieh, Su-Chien; Kao, Shing-Hwang; Lo, Ya-Mei (Note 1)		
	Supervisor	Fang, Juo-Ling; Chen, I-Chieh (Note 1)		
7. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Chairman	Wang, Houng (Note 1)	135,000,000	100
	Director	Chang, Young; Sun, Jia-Min; Lee, Jung-Hui (Note 1)		
	Supervisor	Fang, Juo-Ling; Yen, Yang (Note 1)		
	President	Tsai, Chih Hung (Nominated by China Airlines)		
8. Mandarin Airlines, Ltd.	Chairman	Hsieh, Su-Chien (Note 1)	188,154,025	93.99
	Director	Chang, Young; Kao, Shing-Hwang; Wang, Houng; Lo, Ya-Mei (Note 1)		
	Supervisor	Chen, I-Chieh		
	Director(President)	Tsao, Jyh-Fen (Note 1)		
9. 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)		
	Director	Alan Chen (Representing Sabre Travel Network Asia Pacific)	609,000	4.39
	Supervisor	Ho, Hui-Fen		
	President	Chen, Chau-Ling (Nominated by China Airlines)		
10. Tigerair Taiwan Co., Ltd.	Chairman	Chang, Horng-Jong (Note 1)	180,000,000	90
	Director	Chang, Young; Peng, Pao-Chu; Wang, Chen-Min (Note 1)		
	Supervisor	Tsao, Jyh-Fen (Representing Mandarin Airlines)	20,000,000	10
	Supervisor	Chen, I-Chieh		
	President	Chang, Horng-Jong		
11.China Pacific Laundry Services Ltd.	Chairman	Chiu, Chang-Hsin (Note 1)	13,750,000	55
	Director	Hong, Tsu-Kuang; Chen, Wei-Tau (Note 1)		
	Director	Chen, Derrick (Represent Hendriz Holding)	3,750,000	15
	Director	So, Raymond(Representing Heathlee Int'l)	3,750,000	15
	Supervisor	Wong, Andy (Representing Merton Lake)	3,750,000	15
	Supervisor	Chen, I-Chieh		
	President	Lo, Tao-Wei (Nominated by China Airlines)		
12. Taiwan Air Cargo Terminal Ltd.	Chairman	Chen, Chong-Yi (Note 1)	135,000,000	54

Company	Title	Name	Shareholding	
			Shares	%
	Deputy Chairman	Charles C. Y. Chen (Representing Eyon Industrial Co.)	6,000,000	2.4
	Director	Chang, Cheng-Hao; Liu, Der-Chuan (Note 1)		
	Director	UPS	20,000,000	8
	Director	Michael Shea (Representing Hsin Feng Corp.)	7,000,000	2.8
	Supervisor	Fang, Juo-Ling		
	Supervisor	Chen, Jyi-Fu (Representing Express Container Terminal Corp.)	15,000,000	6
	President	Chang, Cheng-Hao (Nominated by China Airlines)		
13. Kaohsiung Airport Catering Services Ltd.	Chairman	Chang, Young (Note 1)	21,494,637	53.67
	Director	Chiu, Chang-Hsin; Wang, Wei (Note 1)		
	Director	Lin, Jyh-Jong; Tsai, Ta-Wei (Representing Uni Airways Corporation)	16,178,945	40.4
	Supervisor	Han, Lan-Ping (Representing Evergreen International Corporation)	10,000	0.02
	Supervisor	Yen, Yang (Note 1)		
	President	Lee, He -Yuan		
13A Delica International Co., Ltd.	Chairman	Lee, He -Yuan(Representing Kaohsiung Airport Catering Services)	1,020,000	51
	Director	Chiu, Chang-Hsin; Lin, Jyh-Jong (Representing Kaohsiung Airport Catering Services)		
	Director	Tokuyama, Keiichi; Tokuyama, Keisuke (Representing F. TEC Co., Ltd.)	980,000	49
	Supervisor	Lai, Li-Chao		
	Supervisor	Araki, Osamu (Representing F.TEC Corp.)		
	President	Eguchi, Kennichi (Nominated by Kaohsiung Airport Catering Services)		
14. Dynasty Holidays, Inc.	Chairman (President)	Chang, Ming-Way (Note 1)	408	51
	Director	Wang, Chen-Min; Chen, Pei-Ti (Note 1)		
	Director	Koizumi Kazuhisa; Yamada Keisuke (Representing Koizumi Group)	392	49
	Supervisor	Yen, Yang (Note 1)		
	Supervisor	Ishihara Tetsu (Representing Koizumi Group)		
15. China Pacific Catering Services Ltd.	Chairman	Yeh, Chu-Lan (Note 1)	43,911,000	51
	Deputy Chairman	Ho, Nuan-Hsuan (Note 1)		
	Director	Chiu, Chang-Hsin (Note 1)		
	Director	Wong, Andy; Yau, Algernon (Representing Aldeburgh Limited)	21,045,500	24.5
	Supervisor	Fang, Juo-Ling		
	Supervisor	Lee, Agatha (Representing Deli Holdings Limited)	21,045,500	24.5
	President	An, Long-Chi (Nominated by China Airlines)		
16. NORDAM Asia Ltd.	Chairman	Ho, Nuan-Hsuan (Note 1)	245,000	49
	Deputy Chairman	T. Hastings Siegfried (Nominated by The NORDAM Group)	255,000	51
	Director	Wang, Houng (Note 1)		
	Director	J.Terrell Siegfried David Whitten (Representing The NORDAM Group)		
	Supervisor	Ralph McDavid		
	Supervisor	Wang, Wei		
17. Taoyuan International Airport Services Co., Ltd.	Chairman	Lin, Hsin-Te (Representing 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; Li, Jun-Xiong (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)	Peng, Long-Min (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 (Representing Goldsun Building Materials)	7,405,200	17
	Supervisor	Fang, Juo-Ling		

Company	Title	Name	Shareholding	
			Shares	%
	Supervisor	Chen, Yao-Ming		
18A Taiwan Airport Service (Samoa) Co., Ltd.	Authorized Signatory	Chang, Young (Representing 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; Hsueh, Po-Wen; 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 (Representing Leader Mutual Freight System)	20,000	2
	Supervisor	Huang, Hui-Na		
	Supervisor	Yeh, Chien-Tien	10,000	1
	Supervisor	Chiang, Ming-Fang (Representing Morrison Express)	50,000	5
	President	Ying, Yung-Chi (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: Hwa Hsia Company Ltd. was renamed "Dynasty Aerotech International Corp." in 2018.

E. Affiliated Company Business Overview

Dec 31, 2018
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.	804,462	1,435,735	168,815	1,266,920	366,416	62,415	43,975	16.82
1A Dynasty Properties Co., Ltd.	15,385	744,373	244,777	499,596	102,439	29,596	18,848	3,769.62
1B Dynasty Hotel of Hawaii, Inc.	123,077	530,295	105,775	424,520	256,214	27,629	18,190	45.48
2. CAL-Asia Investment Inc.	220,688	494,098	0	494,098	0	(1,126)	26,115	3.64
3. Hwa Hsia Company Ltd.	77,270	203,354	105,297	98,057	380,764	19,007	14,616	189.16
4. Yestrip Co., Ltd.	16,000	65,170	38,224	26,946	42,106	1,562	1,437	0.90
5. CAL Park Co., Ltd.	1,500,000	3,860,605	2,353,160	1,507,445	345,569	53,552	3,143	0.02
6. CAL Hotel Co., Ltd.	465,000	542,811	81,573	461,238	578,324	24,619	25,274	0.54
7. Taiwan Aircraft Maintenance and Engineering Co., Ltd.	1,350,000	1,743,414	615,276	1,128,138	1,650	(103,072)	(103,410)	(0.77)
8. Mandarin Airlines, Ltd.	2,001,825	4,630,407	3,329,610	1,300,797	8,330,779	(77,068)	24,824	0.12
9. Sabre Travel Network (Taiwan) Ltd.	138,618	606,885	123,387	483,498	379,779	226,205	188,247	13.58
10. Tigerair Taiwan Co., Ltd.	2,000,000	5,906,785	3,900,206	2,006,579	8,775,354	846,617	981,713	4.91
11. China Pacific Laundry Services Ltd.	250,000	369,640	66,184	303,456	240,287	38,387	30,355	1.21
12. Taiwan Air Cargo Terminal Ltd.	2,500,000	3,435,560	596,219	2,839,341	2,111,210	404,517	359,195	1.44
13. Kaohsiung Airport Catering Services Ltd.	400,500	1,440,107	520,122	919,985	2,151,445	364,044	296,678	7.41
13A Delica International Co., Ltd.	20,000	15,639	218	15,421	0	(1)	3	0.00
14. Dynasty Holidays, Inc.	11,114	126,267	74,731	51,536	526,226	(1,583)	(2,297)	(2,871.84)
15. China Pacific Catering Services Ltd.	861,000	2,983,723	1,412,381	1,571,342	3,081,371	629,191	524,339	6.09
16. Nordam Asia Ltd.	5,000	4,820	7	4,813	0	0	(83)	(0.17)
17. Taoyuan International Airport Services Co., Ltd.	700,000	2,913,474	1,371,395	1,542,079	3,213,111	301,213	282,254	4.03
18. Taiwan Airport Service Co., Ltd.	435,600	1,266,618	703,208	563,410	1,051,958	126,416	133,894	3.07
18A Taiwan Airport Service (Samoa) Co., Ltd.	180,830	388,910	0	388,910	0	0	27,353	4.65
19. Global Sky Express Ltd.	10,000	34,164	6,180	27,984	103,738	6,394	5,137	5.14

Note 1: Capital, total assets, total liabilities, total equity were calculating using the exchange rate at the end of 2018.
Note 2: Operating revenue, operating profit, and income for the period were calculated using the 2018 quarterly average exchange rates.
Note 3: Exchange rates at the end of 2018 were 1TWD=0.0325USD, 3.5991JPY, 0.2232CNY.
Note 4: Quarterly average exchange rates in 2018 were as following:
Q1: 1TWD=0.0340USD, 3.7246JPY, 0.2170CNY.
Q2: 1TWD=0.0338USD, 3.6527JPY, 0.2144CNY.
Q3: 1TWD=0.0327USD, 3.6235JPY, 0.2209CNY.
Q4: 1TWD=0.0325USD, 3.6823JPY, 0.2252CNY.
Note 5: Hwa Hsia Company Ltd. was renamed "Dynasty Aerotech International Corp." in 2018.

(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 27, 2019

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 7,905,000	-
Mandarin Airlines, Ltd.	2,001,825,000	Equity Fund	93.99%	-	-	-	-	2,074,628 shares 20,0145,000	-

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 Impact 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. Chunghwa Telecom Co., Ltd., juridical person director of the Company, resigned on January 19, 2018. The juridical person director representative, Mr. Huang, Hsiu-Gu, was naturally dismissed.

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

C. On April 2, 2019, the Company dismissed Mr. Ho, Nuan-Hsuan as juridical person director representative of the China Aviation Development Foundation in the Company. The Board of Directors of the Company elected Mr. Hsieh, Su-Chien as the new Chairman and concurrently as the President.

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

Since its establishment in 2014, Tigerair Taiwan has developed into an LCC with a stable business model and sound financial structure. Considering the benefits of convenient fund raising in the future, financial autonomy and equity value enhancement, the Board of Directors resolved to execute the listing plan of Tigerair Taiwan.

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

A. The Department of Labor of the Taoyuan City Government performed labor inspection. On September 7, 2018, the Company was fined NT$1 million due to female ground staff's nighttime work, which was in violation of Article 49, Paragraph 1 of the Labor Standards Act.

B. The Department of Labor of the Taoyuan City Government performed the labor inspection at the Company on August 28 and 31, 2018. On October 23, 2018, the Company was fined NT$1 million due to the extension of working hours, which was in violation of Article 32, Paragraph 2 of the Labor Standards Act.

C. The Department of Labor of the Taoyuan City Government performed the labor inspection at the Company on November 6, 2018. On December 11, 2018, the Company was fined for NT$1 million because female workers' nighttime work had not been approved by the labor union, which was in violation of Article 49, Paragraph 1 of the Labor Standards Act.

D. The Taoyuan Union of Pilots announced that it would go on strike at 6 o'clock on February 8, 2018 until February 14. Under the witness of the Executive Yuan, the Ministry of Labor, the Ministry of Transportation and Communications and the Taoyuan City Government, the Company reached an agreement with the Taoyuan Union of Pilots through the labor-management conference and signed the collective agreement. The union immediately announced the termination of the strike. The compensation for customers’ losses and various derivative expenses was preliminarily estimated to be around NT$154 million. According to the fifth appeal of the Agreement between the two parties, was promised that the full salary of the 13th month will be changed to a flight safety bonus. The amount of the bonus was agreed to at the negotiation meeting on February 21. It was estimated that the annual expenditure will increase by around NT$190 million.

E. The Department of Labor of the Taoyuan City Government performed labor inspection. On February 25, 2019, the Company was fined NT$1 million because female workers' nighttime work had not been approved by the labor union, which was in violation of Article 49, Paragraph 1 of the Labor Standards Act.

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, 2018 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 20, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
China Airlines, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of China Airlines, Ltd. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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. (collectively referred to as the "consolidated financial statements")

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, 2018 and 2017, 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, 2018. 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:

Passenger Revenue Recognition

In accordance with IFRS 15 "Revenue from Contracts with Customers", passenger sales are accounted for as contract liabilities before relevant transportation services are provided. After providing the related services, contract liabilities are reclassified to passenger revenue. As of December 31, 2018, passenger revenue was NT$108,345,648 thousand. Refer to Notes 4 and 28 in the accompanying consolidated financial statements for related detailed information.

Since relevant sales can only be recognized as passenger revenue when passengers actually boarded, confirmation from each passenger holding the ticket who actually boarded involves a complicated process; therefore, we identified passenger revenue recognition as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the internal control related to the process of revenue from passenger, including manual and automatic control.

2. We understood and tested the effectiveness of the information system related to the process of passenger revenue.

3. We sampled several flight tickets, which were flown and recognized as revenue, to verify whether the boarding date matched the date recorded on the tickets, from advanced sales tickets.

New Aircraft Acquisition Cost

In accordance with IAS 16 "Property, Plant and Equipment", aircraft acquisition costs were allocated into several significant components, which include airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and are depreciated over different useful lives. As of December 31, 2018, the carrying amount of flight equipment was NT$136,187,473 thousand. Refer to Notes 4, 5 and 16 to the accompanying consolidated financial statements for related detailed information.

Since the Group acquired several A350-900 brand new aircraft this year, the allocation base was adjusted. Moreover, the carrying amount related to the aircraft and the depreciation expense recognized will be subject to the allocation of acquisition costs and the estimated useful life, which were made in accordance with management's judgment. Therefore, we identified new aircraft acquisition cost as a key audit matter.

The main audit procedures that we performed included the following:

1. We reviewed the certificates issued by the aircraft and engine manufacturers, the estimated overhaul cost of the manufacturers, and the historical experience from the maintenance division to assess management's rationale to determine the allocated amount of components.

2. We conducted an assessment on the rationality of the aircraft's useful life based on aircraft performance in the industry, historical experience of aircraft operations, and documents that described the basis used by management to determine the useful life of its new aircraft.

Other Matter Audited by Other Independent Auditors

We did not audit some subsidiaries which were included in the consolidated financial statements. The financial statements and disclosed information were audited by other independent auditors, and our audit opinion is based solely on the audit report of other independent auditors.

As of December 31, 2018, total assets of these subsidiaries amounted to NT$5,864,701 thousand dollars, representing 2.55% of the combined total assets. For the year ended December 31, 2018, revenue from these subsidiaries amounted to NT$8,634,324 thousand dollars, representing 5.06% of the combined total revenue.

Other Matter Parent Company Only Financial Statements

We have also audited the parent company only financial statements of China Airlines, Ltd. as of and for the years ended December 31, 2018 and 2017 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, 2018 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-Hsiu Yang and Jui-Chan Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 2019

<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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018 Amount	2018 %	2017 Amount	2017 %
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6, 19 and 33)	$ 24,937,537	11	$ 22,585,332	10
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 33)	206,001	-	306,839	-
Financial assets at amortized cost (Notes 9 and 33)	3,856,660	2	-	-
Derivative financial assets for hedging - current (Notes 4, 5, 8 and 31)	-	-	293	-
Financial assets for hedging - current (Notes 4 and 33)	32,906	-	-	-
Notes and accounts receivable, net (Notes 4, 11 and 33)	10,038,528	4	8,604,265	4
Notes and accounts receivable - related parties (Notes 31 and 33)	9,043	-	8,359	-
Other receivables (Notes 4 and 33)	879,191	-	714,413	-
Current tax assets (Notes 4 and 29)	18,948	-	32,487	-
Inventories, net (Notes 4 and 12)	8,654,710	4	8,731,755	4
Non-current assets held for sale (Notes 4, 5 and 13)	46,154	-	426,553	-
Other assets - current (Notes 6 and 19)	4,147,882	2	6,001,538	3
Total current assets	52,827,560	23	47,411,834	21
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 8 and 33)	132,191	-	-	-
Financial assets measured at cost - non-current, net of current portion (Notes 3, 10 and 33)	-	-	84,075	-
Investments accounted for using the equity method (Notes 4 and 15)	2,200,149	1	2,507,346	1
Property, plant and equipment (Notes 4, 5, 16 and 35)	163,107,718	71	153,617,531	68
Investment properties (Notes 4 and 17)	2,075,345	1	2,075,624	1
Other intangible assets (Notes 4 and 18)	1,210,796	1	1,019,345	1
Deferred income tax asset (Notes 4, 5 and 29)	5,152,070	2	5,519,332	2
Other assets - non-current (Notes 19, 22, 33 and 34)	3,430,753	1	13,664,545	6
Total non-current assets	177,309,022	77	178,487,798	79
TOTAL	$ 230,136,582	100	$ 225,899,632	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term debts (Note 20)	$ -	-	$ 120,000	-
Financial liabilities at fair value through profit or loss - current (Notes 4, 5, 7 and 33)	221	-	8,655	-
Derivative financial liabilities for hedging - current (Notes 4, 8 and 33)	-	-	82,295	-
Financial liabilities for hedging - current (Notes 4 and 33)	560	-	-	-
Notes and accounts payable (Note 33)	1,594,487	1	483,884	-
Accounts payable - related parties (Notes 33 and 34)	532,815	-	590,806	-
Other payables (Notes 23 and 33)	14,146,198	6	13,033,069	6
Current tax liabilities (Notes 4 and 29)	164,181	-	28,722	-
Provisions - current (Notes 4, 5 and 24)	321,075	-	475,725	-
Contract liabilities - current (Notes 4, 5 and 24)	19,546,455	9	-	-
Deferred revenue - current (Notes 4, 5 and 24)	-	-	16,375,789	7
Bonds payable and put option of convertible bonds - current portion (Notes 4, 21, 27 and 33)	4,445,900	2	4,367,100	2
Loans and debts - current portion (Notes 20, 33 and 35)	15,709,487	7	19,304,674	9
Capital lease obligations - current portion (Notes 4, 22, 33 and 35)	633,398	-	1,617,321	1
Other current liabilities (Note 33)	3,855,115	2	3,801,073	2
Total current liabilities	60,949,892	27	60,289,113	27
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - non-current (Notes 4, 5, 7 and 33)	-	-	926	-
Derivative financial liabilities for hedging - non-current (Notes 4, 5, 8 and 33)	-	-	6,994	-
Bonds payable - non-current (Notes 4, 21, 27 and 33)	28,473,710	12	21,050,000	9
Loans and debts - non-current (Notes 20, 33 and 35)	60,686,148	26	65,753,503	29
Provisions - non-current (Notes 4, 5 and 25)	8,473,464	4	8,013,583	4
Contract liabilities - current (Notes 4, 5 and 24)	1,903,665	1	-	-
Deferred tax liabilities (Notes 4 and 29)	188,447	-	190,682	-
Capital lease obligations - non-current (Notes 4, 22, 33 and 35)	2,945	-	636,222	-
Deferred revenue - non-current (Notes 4, 5 and 24)	-	-	1,818,265	1
Accrued pension costs (Notes 4, 5 and 26)	8,803,382	4	8,101,565	4
Other non-current liabilities (Note 33)	607,845	-	881,260	-
Total non-current liabilities	109,139,606	47	106,453,000	47
Total liabilities	170,089,498	74	166,742,113	74
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Notes 21 and 27)				
Share capital	54,209,846	24	54,709,846	24
Capital surplus	1,241,214	-	799,999	-
Retained earnings				
Legal reserve	351,923	-	206,092	-
Special reserve	118,810	-	-	-
Unappropriated retained earnings (accumulated deficits)	1,144,928	1	1,458,313	1
Total retained earnings	1,615,661	1	1,664,405	1
Other equity	58,223	-	(107,641)	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity attributable to owners of the Company	57,081,572	25	57,023,237	25
NON-CONTROLLING INTERESTS (Note 27)	2,965,512	1	2,134,282	1
Total equity	60,047,084	26	59,157,519	26
TOTAL	$ 230,136,582	100	$ 225,899,632	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, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018 Amount	2018 %	2017 Amount	2017 %
REVENUE (Notes 4, 28 and 34)	$ 170,711,607	100	$ 156,121,785	100
COSTS (Notes 4, 9, 12, 18, 25, 26, 28 and 34)	153,504,076	90	134,149,374	86
GROSS PROFIT	17,207,531	10	21,972,411	14
OPERATING EXPENSES (Notes 4, 26 and 28)	13,185,148	8	13,146,251	8
OPERATING PROFIT	4,022,383	2	8,826,160	6
NON-OPERATING INCOME AND LOSS				
Other income (Notes 4, 8 and 28)	606,453	1	560,399	-
Other gains and losses (Notes 10, 13, 16, 28 and 31)	(534,848)	-	(5,052,031)	(3)
Finance costs (Notes 9, 28 and 33)	(1,379,985)	(1)	(1,346,801)	(1)
Share of the profit of associates and joint ventures (Note 15)	367,246	-	536,236	-
Total non-operating income and loss	(941,134)	-	(5,302,197)	(4)
PRETAX PROFIT	3,081,249	2	3,523,963	2
INCOME TAX EXPENSE (Notes 4, 5 and 29)	808,565	1	1,033,171	-
NET INCOME	2,272,684	1	2,490,792	2
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Gain on hedging instruments subject to basis adjustment (Notes 4, 27 and 33)	23,884	-	-	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income (Note 8)	930	-	-	-
Remeasurement of defined benefit plans (Notes 4 and 26)	(851,866)	-	(1,021,715)	(1)
Share of other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4, 15 and 31)	(33,242)	-	(42,277)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 29)	187,881	-	173,691	-
	(672,413)	-	(890,301)	(1)

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 27)	$ 26,567	-	$ (140,074)	-
Cash flow hedges (Notes 4 and 27)	-	-	(128,280)	-
Share of other comprehensive income (loss) of associates and joint ventures accounted for using the equity method (Notes 4, 5 and 31)	-	-	60	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 27 and 33)	85,341	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 29)	(17,858)	-	45,419	-
	94,050	-	(222,875)	-
Other comprehensive loss for the year, net of income tax	(578,363)	-	(1,113,176)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,694,321	1	$ 1,377,616	1
NET INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 1,790,361	1	$ 2,208,066	2
Non-controlling interests	482,323	-	282,726	-
	$ 2,272,684	1	$ 2,490,792	2
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owner of the Company	$ 1,258,035	1	$ 1,240,677	1
Non-controlling interests	436,286	-	136,939	-
	$ 1,694,321	1	$ 1,377,616	1
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 30)				
Basic	$ 0.33		$ 0.40	
Diluted	$ 0.32		$ 0.39	

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, 2018 AND 2017
(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	Unrealized Gain on Financial Asset at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total	Non-Controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	$ 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 ordinary 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
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637	-	40,637
BALANCE AT JANUARY 1, 2018 AS RESTATED	54,709,846	799,999	206,092	-	1,458,373	(34,986)	-	42,351	-	(74,429)	(43,372)	57,063,874	2,134,282	59,198,156
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978	-	409,978
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118	-	12,118
Appropriation of 2017 earnings														
Legal reserve	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-	-	-
Cash dividends - $0.2181820086 per share	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)	-	(1,193,670)
Changes in capital surplus from dividends distributed to subsidiaries	-	630	-	-	-	-	-	-	-	-	-	630	-	630
Net income for the year ended December 31, 2018	-	-	-	-	1,790,361	-	-	-	-	-	-	1,790,361	482,323	2,272,684
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(645,495)	25,322	-	268	-	87,579	-	(532,326)	(46,037)	(578,363)
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	1,144,866	25,322	-	268	-	87,579	-	1,258,035	436,286	1,694,321
Gain or loss on non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	565,963	565,963
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-	(469,393)	(469,393)	-	(469,393)
Treasury shares retired	(500,000)	30,607	-	-	-	-	-	-	-	-	469,393	-	-	-
Cash dividends from subsidiaries paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(171,019)	(171,019)
BALANCE AT DECEMBER 31, 2018	$ 54,209,846	$ 1,241,214	$ 351,923	$ 118,810	$ 1,144,928	$ (9,664)	$ -	$ 42,619	$ -	$ 25,268	$ (43,372)	$ 57,081,572	$ 2,965,512	$ 60,047,084

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,081,249	$ 3,523,963
Adjustments for operating activities:		
Depreciation expenses	19,325,083	18,340,022
Amortization expenses	191,979	259,129
Bad debts expense	49,824	45,016
Net (gain) loss on fair value changes of financial assets and liabilities held for trading	(11,168)	32,039
Interest income	(330,710)	(210,264)
Dividend income	(9,603)	(9,564)
Share of profit of associates and joint ventures	(367,246)	(536,236)
Loss (gain) on disposal of property, plant and equipment	270,597	(6,153)
Gain on disposal of investments accounted for using the equity method	(450,195)	(101,105)
Loss (gain) on disposal of non-current assets held for sale	368,992	(252,467)
Impairment loss on non-current assets held for sale	75,437	3,571,301
Impairment loss recognized on property, plant, equipment	50,000	690,579
Loss on inventories and property, plant and equipment	623,022	644,005
Impairment loss on financial assets measured at cost	-	56,023
Net loss (gain) on foreign currency exchange	298,787	(327,854)
Finance costs	1,379,985	1,346,801
Recognition of provisions	3,386,052	3,201,642
Amortization of unrealized gain on sale-leasebacks	(13,888)	(14,512)
Changes in operating assets and liabilities		
Financial assets held for trading	-	77,133
Financial assets mandatorily classified as at fair value through profit or loss	269,682	-
Financial liabilities mandatorily classified as at fair value through profit or loss	(9,359)	9,580
Notes and accounts receivable	(1,304,948)	(298,519)
Accounts receivable - related parties	253,540	(101,830)
Other receivables	(100,400)	215,027
Inventories	(288,941)	(616,396)
Derivative financial assets for hedging	(1,838,950)	-
Other current assets	15,763	(1,474,384)
Notes and accounts payable	993,434	(464,147)
Accounts payable - related parties	(97,753)	309,729
Other payables	535,211	2,239,296
Contract liabilities	3,256,101	-
Deferred revenue	-	1,564,292
Provisions	(3,310,089)	(1,755,029)
Other current liabilities	73,958	314,740
Accrued pension liabilities	(205,340)	(876,289)
Other liabilities	2,698	(23,007)
Cash generated from operations	26,162,804	29,372,561

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Interest received	$ 301,465	$ 228,247
Dividends received	228,636	443,509
Interest paid	(1,319,690)	(1,319,910)
Income tax paid	(185,208)	(177,389)
Net cash generated from operating activities	25,188,007	28,547,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of associates	-	(2,450)
Proceeds from disposal of non-current assets held for sale	688,427	1,128,472
Proceeds from disposal of investments accounted for using the equity method	-	380,850
Payments for property, plant and equipment	(4,608,600)	(2,535,293)
Proceeds from disposal of property, plant and equipment	333,284	95,929
Increase in refundable deposits	(265,335)	(289,911)
Decrease in refundable deposits	391,487	245,505
Increase in prepayments for equipment	(14,991,412)	(24,756,184)
Increase in long-term lease receivable	(785)	(716)
Increase in computer software costs	(184,223)	(141,448)
Decrease in restricted assets	59,726	82,906
Acquisition of subsidiaries	136,769	-
Net cash used in investing activities	(18,440,662)	(25,792,340)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for buy-back of ordinary shares	(469,393)	-
Decrease in short-term debts	(120,000)	(18,021)
Decrease in short-term bills payable	-	(900,000)
Proceeds from issuance of bonds payable	10,512,000	5,850,000
Repayments of bonds payable	(2,700,000)	(2,700,000)
Proceeds from long-term borrowings	18,285,457	30,657,300
Repayments of long-term borrowings and capital lease obligations	(28,587,288)	(37,506,405)
Proceeds from guarantee deposits received	126,578	250,062
Refunds of guarantee deposits received	(70,204)	(214,060)
Dividends paid to owners of the Company	(1,193,040)	-
Cash dividends paid to non-controlling interests	(171,019)	(39,920)
Acquisition of subsidiaries' shares	-	(48,387)
Net cash used in financing activities	(4,386,909)	(4,669,431)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(8,231)	232,888

(Continued)

CHINA AIRLINES, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	$ 2,352,205	$ (1,681,865)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	22,585,332	24,267,197
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 24,937,537	$ 22,585,332

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, 2018 AND 2017
(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 the entire aircraft; and (f) leasing of aircraft.

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, 2018 and 2017, CADF and NDF held 44.03% and 43.63% of the Company's shares.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") were approved by the Company's board of directors and authorized for issue on March 20, 2019.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers (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:

1) IFRS 9 "Financial Instruments" and related amendments

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

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

On the basis of the facts and circumstances that existed as of January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group's financial assets and financial liabilities as of January 1, 2018.

Financial Asset	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Equity securities	Financial assets measured at cost	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	$ 84,075	$ 131,585	a)
Time deposits with original maturities of more than 3 months (other financial assets)	Loans and receivables	Amortized cost	1,323,095	1,323,095	
Principal-protected notes (other financial assets)	Loans and receivables	Financial assets at fair value through profit or loss (i.e. FVTPL)	483,318	483,318	c)

Financial Asset	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTOCI							
Equity instruments	$ -	$ -	$ -	$ -	$ -	$ -	
Add: Reclassification from FVTPL (IAS 39)	-	-	-	-	60	(60)	b)
Add: Financial assets measured at cost (IAS 39)	-	84,075	47,510	131,585	-	40,637	a)
	$ -	$ 84,075	$ 47,510	$ 131,585	$ 60	$ 40,637	

a) Investments in unlisted shares previously measureded at cost under IAS 39 have been classified as designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $47,510 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

b) Mutual funds held by investments accounted for using the equity method previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The retrospective adjustment resulted in a decrease of $60 thousand in other equity - unrealized gain (loss) on available-for-sale financial assets and an increase of $60 thousand in retained earnings on January 1, 2018.

c) Contracts such as principal-protected notes signed by the Group and financial institutions are hybrid instruments. Since the related master contracts included in these hybrid instruments are assets within the scope of IFRS 9, the overall master contracts should be classified under IFRS 9.

d) Except for the above, the remaining financial assets classified as loans and receivables amounting to $34,792,801 thousand based on IAS 39 are classified as financial assets at amortized cost under IFRS 9.

e) In line with the equity adjustments above, the Group's deferred tax liabilities increased by $6,873 thousand.

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 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

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). The Group chooses to apply retroactively IFRS 15 only for contracts that have not yet been completed on the conversion date. Also, the revenue-related amount received should be recognized as contract liabilities. Therefore, the previously classified deferred revenue - current and non-current are reclassified to contract liabilities - current and non-current which amounted to $16,375,789 thousand and $1,818,265 thousand, respectively, on January 1, 2018.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
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
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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.

Definition of a lease

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

The Group as lessee

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

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Group will apply IAS 36 to all right-of-use assets.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

If the Group determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it will be accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Group will recognize only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Currently, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Group will not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee will apply to the leaseback portion. In addition, for asset currently accounted for as a sale and a finance lease under IAS 17, the Group will continue to amortize any gains on sales over the lease term.

The Group as lessor

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

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid rent	$ 861,045	$ (861,045)	$ -
Refundable deposits	1,089,690	(215,425)	874,265
Right-of-use assets	-	78,499,374	78,499,374
Other financial assets	-	189,808	189,808
Property, plant and equipment	163,107,718	(30,682)	163,077,036
Total effect on assets	$ 165,058,453	$ 77,582,030	$ 242,640,483
Lease liabilities - current	$ -	$ 9,276,226	$ 9,276,226
Lease liabilities - non-current	-	68,343,669	68,343,669
Capital lease obligation - non-current	37,775	(37,775)	-
Accrued rent payable	90	(90)	-
Total effect on liabilities	$ 37,865	$ 77,582,030	$ 77,619,895

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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)

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

Note 2: Business combinations that began after January 1, 2020 and acquisition of assets after the aforesaid date are subjected to the amendment.

Note 3: The amendment is applied for the annual period beginning after January 1, 2020.

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:

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

2) 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

3) Level 3 inputs are unobservable inputs for an asset or liability.

Current and Non-current Assets and Liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) 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:

1) Liabilities held primarily for the purpose of trading;

2) 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

3) 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 non-current.

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 purpose 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 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.

Business Combinations

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gains on bargain purchases. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date.

When a business combination is achieved in stages, the Group's previously held equity interest in an acquiree is remeasured to fair value at the acquisition date, and the resulting is recognized in profit or loss or other comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required if those interests were directly disposed of by the Group

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

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.

Non-current Assets Held for Sale

Non-current 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 non-current 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.

Non-current 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 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 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 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 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 is subsequently 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 issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

1) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 33.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if an equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of an investment.

<u>2017</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 33.

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 FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other 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 such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group'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 presented in a separate line item as financial assets measured 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 other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other financial assets and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

<u>2018</u>

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as contract assets.

The Group always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables and other receivables. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amounts of the financial assets.

<u>2017</u>

Financial assets, other than those at FVTPL, 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, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investments have been affected.

For financial assets at amortized cost, such as trade receivables and other receivables, such 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 a financial asset at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets 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 any 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 significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets 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 measured 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 trade receivables and other receivables are considered uncollectible, they are 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 uncollectible 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 entity 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.

Equity instruments issued by the Group entity are recognized at the proceeds received, net of direct issue costs.

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, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of 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.

Before 2017, hedge accounting was discontinued prospectively when the Group revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. Starting from 2018, the Group discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period in which 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.

Aircraft lease contracts

When an aircraft lease contracts expires and the leased item will be returned to the lessor, the Group will assess if there are existing obligations exist and if it is required to recognize a provision when signing the lease contract.

Revenue Recognition

When applying IFRS 15 during 2018, the Group recognizes revenue by applying the following steps:

- Identifying the contract with the customer;
- Identifying 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.

Shipping service revenue

Passenger and cargo revenue are recognized as revenue when the passengers and goods are actually carried. When the tickets are sold, due to the fact that the fulfillment obligations of the shipment have not been met, the relevant amount of revenue is first recorded as contract liabilities until passengers actually board. Before 2017, the relevant amounts were recorded as deferred revenue.

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 Group 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 is to treat 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 can 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 recognizes this deferred revenue as revenue only when the Company 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 are vested 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 are capitalized as replacements for aircraft and engines and are depreciated on a straight-line basis over the expected annual overhaul cycle.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies as disclosed in Note 4, management is required to make judgments, estimations 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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand and revolving funds	$ 413,139	$ 374,445
Checking accounts and demand deposits	7,770,200	11,427,766
Cash equivalents		
Time deposits with original maturities of less than three months	15,784,323	4,812,734
Repurchase agreements collateralized by bonds	969,875	5,970,387
	$ 24,937,537	$ 22,585,332

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

	December 31	
	2018	2017
Bank balance	0%-1.90%	0%-2.00%
Time deposits with original maturities of less than three months	0.59%-3.55%	0.59%-4.20%
Repurchase agreements collateralized by bonds	0.63%-3.30%	0.36%-2.20%

The amount of time deposits with original maturities more than three months for the year ended December 31, 2017 were $1,323,095 thousand, respectively, and the market rate intervals were 0.16%-1.42%, which were recognized as other current assets. (Refer to Note 18.)

7. FINANCIAL INSTRUMENTS AT FVTPL

	December 31 2018	December 31 2017
Financial assets mandatorily classified as at FVTPL		
Non-derivative financial assets		
Beneficial certificates	$ 206,001	$ -
Financial assets held for trading - current		
Non-derivative financial assets		
Beneficial certificates	$ -	$ 306,839
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
Current	$ 221	$ 8,655
Non-current	-	926
	$ 221	$ 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, 2018			
Buy forward contracts	NTD/USD	2019.01.02-2019.01.31	NTD30,923/USD1,000
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.31-2019.01.31	NTD194,030/USD6,500

8. FINANCIAL ASSETS AT FVTOCI - 2018

Investments in Equity Instruments

	December 31, 2018
Non-current	
Foreign investments	
Unlisted shares	$ 110,445
Domestic investments	
Unlisted shares	21,746
	$ 132,191

These investments in equity instruments are not held for trading. Instead, they are held for medium- to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as it believes that recognizing short-term fluctuations in these investments' fair values in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale and financial assets measured at cost under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Time deposits with original maturities of more than 3 months (e)	$ 3,856,660

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.40% to 1.36% as of the end of the reporting period. The time deposits were classified as other financial assets under IAS 39. Refer to Notes 3, 6 and 19 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS CARRIED AT COST - 2017

	December 31, 2017 Carrying Amount	December 31, 2017 % of Ownership
Unlisted ordinary shares		
Everest Investment Holdings Ltd. (AH)	$ 52,704	14
Jardine Aviation Service	-	15
Taikoo (Xiamen) Landing Gear Service Co., Ltd.	-	3
Taikoo Spirt Aerospace Systems (Jin Jiang) Composite Co., Ltd.	19,898	5
Chung Hwa Express Co.	11,000	11
	83,602	
Unlisted preference shares		
Everest Investment Holdings Ltd. (AH)	473	
	$ 84,075	
Classified according to financial asset measurement categories		
Available-for-sale financial assets	$ 84,075	

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.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31 2018	December 31 2017
Notes receivable	$ 598,824	$ 362,855
Accounts receivable		
Accounts receivable	9,667,010	8,423,278
Less: Allowance for impairment loss	(227,306)	(181,868)
	9,439,704	8,241,410
	$ 10,038,528	$ 8,604,265

For the year ended December 31, 2018

The average credit period was 7 to 55 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the 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. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Group applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowance for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the debtors and an analysis of the debtors' current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the loss allowance based on the past due status is not further distinguished according to the different segments of the Group's customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery. For accounts receivable that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Group's provision matrix.

December 31, 2018

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.06%	0.06%	3.67%	21.78%	97.5%	
Gross carrying amount	$ 7,856,048	$ 1,424,421	$ 103,498	$ 76,415	$ 206,628	$ 9,667,010
Loss allowance (lifetime ECLs)	(4,546)	(856)	(3,796)	(16,642)	(201,466)	(227,306)
Amortized cost	$ 7,851,502	$ 1,423,565	$ 99,702	$ 59,773	$ 5,162	$ 9,439,704

The movements of the loss allowance of trade receivables were as follows:

	For the Year Ended December 31, 2018
Balance at January 1, 2018 per IAS 39	$ 181,868
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	181,868
Add: Net remeasurement of loss allowance	49,824
Less: Amounts written off	(2,975)
Foreign exchange gains and losses	(1,411)
Balance at December 31, 2018	$ 227,306

December 31, 2017

The Group applied the same credit policy in 2018 and 2017.

Movement in the allowance for impairment loss recognized on notes receivable and trade receivables were as follows:

	For the Year Ended December 31, 2017
Beginning balance	$ 191,398
Impairment loss recognized on receivables	45,016
Amounts written off during the current period	(54,570)
Amounts receivable during the current period	24
Ending balance	$ 181,868

12. INVENTORIES

	December 31	
	2018	2017
Aircraft spare parts	$ 7,847,082	$ 8,082,993
Items for in-flight sale	556,365	576,429
Work in process - maintenance services	227,975	71,046
Others	23,288	1,287
	$ 8,654,710	$ 8,731,755

The operating costs recognized for the years ended December 31, 2018 and 2017 included losses from inventory write-downs of $371,275 thousand and $324,447 thousand, respectively.

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31	
	2018	2017
Aircraft held for sale	$ 46,154	$ 309,330
Long-term equity investments held for sale - Asian Compressor Technology Services	-	117,223
	$ 46,154	$ 426,553

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as non-current 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 2018 and 2017, the Company recognized impairment losses of $75,436 thousand and $3,571,301 thousand, respectively. In 2018 and 2017, the Company recognized disposal gains and losses of $(368,992) thousand and $252,467 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 aircraft. The fair value is classified as level 3.

14. SUBSIDIARIES

Subsidiary included in the consolidated financial statements:

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%) December 31 2018	Proportion of Ownership (%) December 31 2017
China Airlines, Ltd.	Tigerair Taiwan Co., Ltd. (Note)	Air transportation	100	100
	Taiwan Aircraft Maintenance And Engineering Co., Ltd.	Aircraft maintenance	100	100
	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

(Continued)

Investor Company	Investee Company	Main Businesses and Products	Proportion of Ownership (%) December 31 2018	Proportion of Ownership (%) December 31 2017
	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
	Kaohsiung Catering Services, Ltd.	In-flighting catering	54	36
	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
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

(Concluded)

Note: Proportion of ownership is considered from the perspective of the Group.

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, 2018 and 2017 of these subsidiaries was reported according to the information which was audited independently.

The Group's respective holdings of the issued share capital of China Pacific Catering Services, China Pacific Laundry Services and Delica International Co., Ltd. exceeded 50%, yet the Group did not have control over the investees. For related information, refer to Note 15b.

The Group paid $243,743 thousand on March 7, 2018 to acquire an additional 18% of Kaohsiung Catering, Ltd. (Kaohsiung Catering) of which the Group's holding of the issued share capital exceeded 50%. Kaohsiung Catering is listed as a subsidiary because the Group has control over the investee. For the disclosure of the Group's acquisition of Kaohsiung Catering, refer to Note 31.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
Investments in associates	$ 1,217,863	$ 1,576,753
Investments in jointly controlled entities	982,286	930,593
	$ 2,200,149	$ 2,507,346

a. The amount of investment in associates were as follows:

	December 31	
	2018	2017
Unlisted companies		
China Aircraft Services	$ 497,362	$ 493,077
Kaohsiung Catering Services	-	300,400
Airport Air Cargo Terminal (Xiamen)	442,891	483,814
Airport Air Cargo Service (Xiamen)	233,417	256,291
Eastern United International Logistics (Holdings) Ltd.	44,193	43,171
	$ 1,217,863	$ 1,576,753

At the end of the reporting period, the proportion of ownership and voting rights in associates held by the Group were as follows:

	Proportion of Ownership and Voting Rights	
	December 31	
Name of Associate	2018	2017
China Aircraft Services	20%	20%
Kaohsiung Catering Services	-	36%
Airport air Cargo Terminal (Xiamen)	28%	28%
Airport air Cargo Service (Xiamen)	28%	28%
Eastern United International Logistics (Holdings) Ltd.	35%	35%

Note: Kaohsiung Catering Services was list as a subsidiary on March 7, 2018.

Proportion of ownership is considered from the perspective of the Group.

The investment income of associates accounted for using the equity method were as follows:

	2018	2017
China Aircraft Services	$ 6,402	$ 24,470
Kaohsiung Catering Services	15,113	86,757
Asian Compressor Technology Services	-	88,943
Science Park Logistics	-	21,819
Airport air Cargo Terminal (Xiamen)	22,571	22,381
Airport air Cargo Service (Xiamen)	32,196	27,886
Eastern United International Logistics (Holdings) Ltd.	6,895	4,806
	$ 83,177	$ 277,062

Other comprehensive income of associates accounted for using the equity method in 2018 and 2017 are losses in the amounts of $0 thousand and $(740) 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 non-current assets held for sale at book value. The transaction was completed and all payments were settled in January 2018. The total transaction price was $471,132 thousand, and a disposition gain of $353,909 thousand was recognized.

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, 2018 and 2017 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	
	2018	2017
China Pacific Catering Services	$ 805,157	$ 756,965
China Pacific Laundry Services	166,901	171,229
NORDAM Asia Ltd.	2,358	2,399
Delica International Co., Ltd.	7,870	-
	$ 982,286	$ 930,593

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	
	2018	2017
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia Ltd.	49%	49%
Delica International Co., Ltd.	51%	-

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. NORDAM has filed for Chapter 11 bankruptcy reorganization in the USA on July 22, 2018 to solve the business disputation with their cooperative partner, so their company operation was not impact.

To expand the Group's catering business, Kaohsiung Catering entered into a joint venture agreement with a Japanese brand company to invest in Delica International Co, Ltd., with the Japanese brand company having the right to make decisions on operations, and therefore, the Group does not have control.

Details of investment income attributable to investment in jointly controlled entities were as follows:

	For the Year Ended December 31	
	2018	2017
China Pacific Catering Services	$ 267,413	$ 235,871
China Pacific Laundry Services	16,695	23,354
NORDAM Asia Ltd.	(41)	(51)
Delica International Co., Ltd.	2	-
	$ 284,069	$ 259,174

Other comprehensive income of associates accounted for using the equity method in 2018 and 2017 are losses in the amounts of $(33,242) thousand and $(41,477) 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, 2018 and 2017 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.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
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)

(Continued)

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
Cost						
Balance at January 1, 2018	$ 922,626	$ 13,698,308	$ 263,427,144	$ 26,187,556	$ 16,230,011	$ 320,465,645
Additions	-	57,998	2,684,337	-	1,868,212	4,610,547
Disposals	-	(11,803)	(20,307,375)	(1,811,222)	(313,727)	(22,444,127)
Reclassification	-	(227)	13,661,640	1,428,463	103,296	15,193,172
Net exchange difference	16,234	28,991	-	211	3,003	48,439
Gain of acquisitions through business combinations	76,704	220,318	229,384	-	26,985	553,391
Balance at December 31, 2018	$ 1,015,564	$ 13,993,585	$ 259,695,130	$ 25,805,008	$ 17,917,780	$ 318,427,067
Accumulated depreciation and impairment						
Balance at January 1, 2018	$ -	$ (6,137,495)	$ (136,594,765)	$ (14,142,872)	$ (9,972,982)	$ (166,848,114)
Depreciation expense	-	(433,450)	(15,960,477)	(2,023,924)	(906,953)	(19,324,804)
Disposals	-	10,049	19,814,544	1,532,046	292,136	21,648,775
Impairment loss	-	-	(50,000)	-	-	(50,000)
Reclassification	-	-	9,283,041	-	(11,655)	9,271,386
Net exchange difference	-	(13,977)	-	(72)	(2,543)	(16,592)
Balance at December 31, 2018	$ -	$ (6,574,873)	$ (123,507,657)	$ (14,634,822)	$ (10,601,997)	$ (155,319,349)

(Concluded)

Property, plant and equipment are 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
Assets leased to others	3-5 years
Flight equipment and equipment under finance leases	
Airframes	15-25 years
Aircraft cabins	7-20 years
Engines	10-20 years
Heavy maintenance on aircraft	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 2018 and 2017 of $50,000 thousand and $690,579 thousand, respectively.

Refer to Note 35 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 aircraft, 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, 2018
Increase in property, plant and equipment	$ 4,610,547
Capitalized interest paid	(1,947)
Purchase of property, plant and equipment paid	$ 4,608,600

17. INVESTMENT PROPERTIES

	December 31	
	2018	2017
Carrying amount		
Investment properties	$ 2,075,345	$ 2,075,624

The investment properties held by the Group were land located in Nankan and buildings in Taipei, which were all leased to others. The buildings are depreciated on a straight-line basis over 55 years.

The fair value of the investment properties held by the Group was $2,506,230 thousand as of both December 31, 2018 and 2017, 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 at January 1, 2017	$ 2,082,390	$ (6,487)	$ 2,075,903
Depreciation expense	-	(279)	(279)
Balance at December 31, 2017	$ 2,082,390	$ (6,766)	$ 2,075,624
Balance at January 1, 2018	$ 2,082,390	$ (6,766)	$ 2,075,624
Depreciation expense	-	(279)	(279)
Balance at December 31, 2018	$ 2,082,390	$ (7,045)	$ 2,075,345

18. OTHER INTANGIBLE ASSETS

	Computer Software Cost	Relationship Between Clients	Accumulated Amortization	Net Value
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
Balance at January 1, 2018	$ 2,039,602	$ -	$ (1,020,257)	$ 1,019,345
Additions	184,223	-	-	184,223
Amortization expenses	-	-	(181,943)	(181,943)
Acquisitions through business combinations	686	186,197	(10,036)	176,847
Reclassification	12,871	-	(540)	12,331
Effects of exchange rate changes	-	-	(7)	(7)
Balance at December 31, 2018	$ 2,237,382	$ 186,197	$ (1,212,783)	$ 1,210,796

The above other intangible assets are amortized on a straight-line basis over 2-16 years.

19. OTHER ASSETS

	December 31	
	2018	2017
Current		
Other financial assets	$ -	$ 1,806,413
Temporary payments	556,860	464,258
Prepayments	3,028,808	2,834,936
Restricted assets	18,623	-
Others	543,591	895,931
	$ 4,147,882	$ 6,001,538
Non-current		
Prepayments for aircraft	$ 529,963	$ 10,942,604
Prepayments - long-term	1,603,400	1,164,604
Refundable deposits	1,089,690	1,377,136
Restricted assets	100,141	161,398
Other financial assets	19,335	18,803
Others	88,224	-
	$ 3,430,753	$ 13,664,545

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A350-900 and ATR72-600 aircraft. For details on the A350-900 aircraft purchase contracts, refer to Note 36.

20. BORROWINGS

a. Short-term debts

	December 31 2018	December 31 2017
Bank loans - unsecured	$ -	$ 120,000
Interest rates	-	1.04%-1.15%

b. Long-term borrowings

	December 31 2018	December 31 2017
Unsecured bank loans	$ 9,354,457	$ 26,820,000
Secured bank loans	36,330,211	32,176,074
Commercial paper		
Proceeds from issue	30,770,000	26,100,000
Less: Unamortized discount	59,033	37,897
	76,395,635	85,058,177
Less: Current portion	15,709,487	19,304,674
	$ 60,686,148	$ 65,753,503
Interest rates	0.92%-1.46%	0.92%-1.56%

For information on secured bank loans which were secured by freehold land, buildings, machinery equipment and flight equipment, refer to Note 35.

Bank loans (New Taiwan dollars and US dollars) are repayable quarterly, semiannually or in lump sum upon maturity. Related information is summarized as follows:

	December 31 2018	December 31 2017
Periods	2007.5.24-2030.4.25	2007.5.24-2029.11.9

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, 2018 and 2017, the commercial papers were issued at discount rates of 1.0693%-1.2960% and 0.9983%-1.2897%, respectively.

21. BONDS PAYABLE

	December 31 2018	December 31 2017
Unsecured corporate bonds first-time issued in 2013	$ 5,500,000	$ 8,200,000
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	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	-
Convertible bonds - fifth-time issues	1,695,900	1,667,100
Convertible bonds - sixth-time issues	5,673,710	-
	32,919,610	25,417,100
Less: Current portion and put option of convertible bonds	4,445,900	4,367,100
	$ 28,473,710	$ 21,050,000

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	1.60
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
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	2017.05.19-2020.05.19	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	2017.05.19-2024.05.19	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

(Continued)

Category	Period	Conditions	Rate (%)
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.32
Five-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November of 2022 and 2023; 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	-
Five-year convertible bonds - issued at discount in December 2013; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Except for converting to share capital or buying back, principal repayable in December of 2023	-

(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., which held a face value of $300,000 thousand, and the amount was eliminated in 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 non-current 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 ordinary 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 August 14, 2018, there was adjustment the conversion price to NT$11.38, corporate bonds with a face value of $3,316,800 thousand had been converted to 270,985 thousand units of ordinary shares.

e. The convertible bonds has expired on December 26, 2018, the Company has fully repayable in January 8, 2019, the related capital surplus - share option has reclassified as capital surplus - other.

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

The Company issued the sixth issue of its 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 face value on the third anniversary of the offering date. The holders can exercise the right to sell on January 30, 2021.

c. The Company may redeem the bonds at face value between April 30, 2018 and December 20, 2022 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 ordinary shares. The initial conversion price was set at NT$13.2, 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 August 14, 2018, the conversion price was adjusted to NT$12.9.

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 1.3821% per annum on initial recognition.

Proceeds from issuance	$ 6,012,000
Equity component	(409,978)
Liability component at the date of issuance	$ 5,602,022

22. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2018	2017
Minimum lease payments -flight equipment		
Within one year	$ 596,000	$ 1,580,000
Later than one year and no later than five years	-	596,000
Present value of minimum lease payments	$ 596,000	$ 2,176,000
Interest rates	1.0680%	1.0617%-1.1317%

As of December 31, 2017, the Company leased engines and a total of three A330-300 aircraft 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 aircraft 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	
	2018	2017
Minimum lease payments - cargo terminal and other		
Within one year	$ 37,998	$ 37,484
Beyond one year and within five years	2,974	40,851
	40,972	78,335
Less: Financial cost	(629)	(792)
Present value of minimum lease payments	$ 40,343	$ 77,543
Present value of minimum lease payments - cargo terminal and other		
Within one year	$ 37,398	$ 37,321
Beyond one year and within five years	2,945	40,222
	$ 40,343	$ 77,543
Discount rate	4.756%	4.756%
Total amount of present value of minimum lease payments		
Current	$ 633,398	$ 1,617,321
Non-current	2,945	636,222
	$ 636,343	$ 2,253,543

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, 2018 and 2017, the refundable deposits paid by the Group under operating lease contracts were $693,466 thousand and $807,629 thousand, respectively. Part of the refundable deposits is secured by credit guarantees, and outstanding credit guarantee as of December 31, 2018 and 2017 were $1,682,774 thousand and $1,394,791 thousand, respectively.

The future minimum lease payments for the non-cancelable operating lease commitments are as follows:

	December 31	
	2018	2017
Up to 1 year	$ 11,785,442	$ 11,499,501
Over 1 year to 5 years	44,559,429	43,175,899
Over 5 years	21,685,499	29,762,766
	$ 78,030,370	$ 84,438,166

The lease payments recognized in profit or loss for the current period are as follows:

	For the Year Ended December 31	
	2018	2017
Minimum lease payments	$ 11,735,495	$ 10,432,620

23. OTHER PAYABLES

	December 31	
	2018	2017
Fuel costs	$ 3,822,018	$ 3,484,288
Ground service expenses	1,167,214	1,187,329
Repair expenses	1,031,700	926,686
Interest expense	266,268	290,902
Short-term employee benefits	2,237,409	2,550,551
Terminal surcharges	1,151,578	876,108
Commission expenses	484,341	407,109
Others	3,985,670	3,310,096
	$ 14,146,198	$ 13,033,069

24. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31	
	2018	2017
	Contract Liabilities	Deferred Revenue
Frequent flyer programs	$ 2,493,551	$ 2,450,877
Advance ticket sales	18,956,569	15,743,177
	$ 21,450,120	$ 18,194,054

(Continued)

	December 31	
	2018	2017
	Contract Liabilities	Deferred Revenue
Current	$ 19,546,455	$ 16,375,789
Non-current	1,903,665	1,818,265
	$ 21,450,120	$ 18,194,054

(Concluded)

25. PROVISIONS

	December 31	
	2018	2017
Operating leases - aircraft	$ 8,794,539	$ 8,489,308
Current	$ 321,075	$ 475,725
Non-current	8,473,464	8,013,583
	$ 8,794,539	$ 8,489,308

	Aircraft Lease Contract
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
Balance at January 1, 2018	$ 8,489,308
Additional provisions recognized	3,386,052
Usage	(3,310,089)
Effect of exchange rate changes	229,268
Balance at December 31, 2018	$ 8,794,539

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.

26. 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 United states and Japan of China Airlines Co., Ltd. and subsidiaries are members of the United states 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	
	2018	2017
Present value of funded defined benefit obligation	$ 17,464,856	$ 16,149,382
Fair value of plan assets	(8,661,474)	(8,047,817)
Deficit (net defined benefit liabilities)	$ 8,803,382	$ 8,101,565

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, 2017	$ 15,119,110	$ (7,162,275)	$ 7,956,835
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

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
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
Service cost			
Current service cost	1,384,213	-	1,384,213
Net interest expense (income)	163,283	(82,595)	80,688
Recognized in profit or loss	1,547,496	(82,595)	1,464,901
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(236,287)	(236,287)
Actuarial (gain) loss - changes in demographic assumptions	15,538	-	15,538
Actuarial (gain) loss - changes in financial assumptions	344, 716	-	344, 716
Actuarial (gain) loss - experience adjustments	727,899	-	727,899
Recognized in other comprehensive income	1,088,153	(236,287)	851,866
Contributions from the employer	-	(1,486,550)	(1,486,550)
Benefits paid	(1,210,839)	1,210,839	-
Others	(109,336)	(19,064)	(128,400)
Balance at December 31, 2018	$ 17,464,856	$ (8,661,474)	$ 8,803,382

(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 2018	December 31 2017
Discount rate(s)	0.86%-1.35%	0.88%-1.25%
Expected rate(s) of salary increase	1.00%-2.50%	1.00%-2.00%

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, 2018
Discount rate(s)	
0.5% increase	$ (777,193)
0.5% decrease	841,488
Expected rate(s) of salary increase	
0.5% increase	811,485
0.5% decrease	(760,793)

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 2018	December 31 2017
The expected contributions to the plan for the next year	$ 916,927	$ 887,216
The average duration of the defined benefit obligation	8-12 years	8-12 years

27. EQUITY

a. Share capital

Ordinary shares

	December 31 2018	December 31 2017
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	$ 54,209,846	$ 54,709,846

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 ordinary 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	
	2018	2017
Issuance of convertible bonds in excess of par value and conversion premium	$ 315,114	$ 318,020
Expired employee share options	11,747	11,747
Retirement of treasury shares	33,513	-
Gain on sale of treasury shares held by subsidiaries	3,303	2,673
Long-term investments	955	955
Bonds payable equity component	409,978	146,589
Others	466,604	320,015
	$ 1,241,214	$ 799,999

The capital surplus from shares issued in excess of par (including additional paid-in capital from issuance of ordinary 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 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.

2) Appropriation of earnings in 2017

The appropriation of earnings for 2017 was resolved in the shareholders' meeting on June 27, 2017. The appropriations 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

3) Appropriation of earnings in 2018

The appropriation of earnings for 2018 should be resolved in the board of directors meeting to be held on March 20, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 114,493	
Cash dividends	1,136,278	$0.20960737

Company undistributed special reserve of $105,844 thousand.

The appropriation of earnings for 2018 should be resolved in the shareholders' meeting to be held on June 25, 2019.

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	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2017	$ 78,564	$ 1,714	$ -	$ 31,986	$ -	$ 112,264
Exchange differences on translating foreign operations	(136,476)	-	-	-	-	(136,476)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	(305,137)	-	(305,137)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	176,927	-	176,927
Share of profit of associates accounted for using equity method	-	60	-		-	60
Effects of income tax	22,926	-	-	21,795	-	44,721
Other comprehensive income recognized in the period	(113,550)	60	--	(106,415)	-	(219,905)
Balance at December 31, 2017	$ (34,986)	$ 1,774	$ -	$ (74,429)	$ -	$ (107,641)

(Continued)

	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2018	$ (34,986)	$ 1,774	$ -	$ (74,429)	$ -	$ (107,641)
Adjustments on initial application of IFRS 9	-	(1,774)	42,351	74,429	(74,429)	40,577
Balance at January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	29,897	-	-	-	-	29,897
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	77,435	77,435
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	31,731	31,731
Unrealized gain on financial assets at FVTOCI	-	-	930	-	-	930
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	(5,773)	-	547	-	(24,117)	(29,343)
Other comprehensive income (loss) recognized in the period	25,322	-	268	-	87,579	113,169
Transfers of initial carrying amount of hedged items	-	-	-	-	12,118	12,118
Balance at December 31, 2018	$ (9,664)	$ -	$ 42,619	$ -	$ 25,268	$ 58,223

(Concluded)

e. Non-controlling interests

	For the Year Ended December 31 2018	2017
Beginning balance	$ 2,134,282	$ 2,083,381
Net income attributable to non-controlling interests	482,323	282,726
Foreign exchange differences	(3,330)	(3,598)
Actuarial gains and losses on defined benefit plans	(69,654)	(206,821)
Cash flow hedge on changes in fair value of hedging instruments	(46)	(131)
Cumulative gain (loss) arising on changes in fair value of hedging instruments reclassified to profit or loss	105	61
Effect on income tax	26,888	64,702
Acquisition of non-controlling interests in subsidiaries	565,963	(46,118)
Dividends paid by subsidiaries	(171,019)	(39,920)
Ending balance	$ 2,965,512	$ 2,134,282

f. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries as of December 31, 2018 and 2017 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Buy Back to Write off	Company's Shares Held by Its Subsidiaries	Total
Number of shares, January 1, 2018	-	2,889	2,889
Addition during the year	50,000	-	50,000
Reduction during the year	(50,000)	-	(50,000)
Number of shares, December 31, 2018	-	2,889	2,889
Number of shares, January 1, 2017	-	2,889	2,889
Addition during the year	-	-	-
Number of shares, December 31, 2017	-	2,889	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2018			
Mandarin Airlines	2,075	$ 22,821	$ 22,821
Hwa Hsia	814	8,956	8,956
		$ 31,777	$ 31,777
December 31, 2017			
Mandarin Airlines	2,075	$ 24,169	$ 24,169
Hwa Hsia	814	9,485	9,485
		$ 33,654	$ 33,654

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' right on these treasury shares, except for the right to subscribe for the Company's new shares and voting rights.

To maintain the Company's credit standing and shareholders' rights and interests, the board of directors decided to buy back shares of the Company from Taiwan Stock Exchange at a price from $9 to $14 per share. The expected period of purchase is from August 10, 2018 to October 9, 2018. As of 50,000 thousand shares had been repurchased. The treasury shares held by the Company has retired on December 18, 2018, share capital decreases $500,000 thousand, additional paid-in capital in excess of par-ordinary share decreases $2,906 thousand and additional paid-in capital - treasury share increases $33,513 thousand. Under the Securities Exchange Act, the treasury shares held by the Company cannot be pledged and are not entitled to dividends distribution and voting rights, etc.

28. NET INCOME

a. Revenue

	For the Year Ended December 31 2018	2017
Passenger	$ 108,345,648	$ 102,216,106
Cargo	49,847,065	43,336,068
Others	12,518,894	10,569,611
	$ 170,711,607	$ 156,121,785

b. Other income

	For the Year Ended December 31 2018	2017
Interest income	$ 330,710	$ 210,264
Subsidy income	11,200	32,332
Dividend income	9,603	9,564
Others	254,940	308,239
	$ 606,453	$ 560,399

c. Other gains and losses

	For the Year Ended December 31 2018	2017
(Loss) gain on disposal property, plant and equipment	$ (270,597)	$ 6,153
(Loss) gain on non-current assets held for sale	(368,992)	252,467
Net gain (loss) on financial assets at FVTPL	11,168	(32,039)
Gain (loss) on disposal of investments	450,195	101,105
Gain (loss) on foreign exchange, net	41,843	(51,756)
Impairment loss on non-current assets held for sale	(75,437)	(3,571,301)
Impairment loss on property, plant and equipment	(50,000)	(690,579)
Impairment loss on financial assets measured at cost	-	(56,023)
Others	(273,028)	(1,010,058)
	$ (534,848)	$ (5,052,031)

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 US 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 2018	2017
Interest expense		
Bonds payable	$ 412,422	$ 319,315
Bank loans	949,483	974,535
Interest on obligations under financial leases	18,080	50,137
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	-	2,814
	$ 1,379,985	$ 1,346,801
Capitalization interest	$ 41,925	$ 216,305
Capitalization rate	1.16%-1.45%	1.31%-1.41%

e. Depreciation and amortization expense

	For the Year Ended December 31 2018	2017
Property, plant, equipment	$ 19,324,804	$ 18,339,743
Investment properties	279	279
Intangible assets	191,979	259,129
Depreciation and amortization expense	$ 19,517,062	$ 18,599,151
An analysis of depreciation by function		
Operating costs	$ 18,648,142	$ 17,667,649
Operating expenses	676,941	672,373
	$ 19,325,083	$ 18,340,022
An analysis of amortization by function		
Operating costs	$ 10,597	$ 281
Operating expenses	181,382	258,848
	$ 191,979	$ 259,129

f. Employee benefits expense

	For the Year Ended December 31 2018	2017
Post-employment benefits		
Defined contribution plan	$ 538,915	$ 482,586
Defined benefit plan	1,464,901	1,026,515
	$ 2,003,816	$ 1,509,101

(Continued)

	For the Year Ended December 31	
	2018	2017
Other employee benefits		
Salary expenses	$ 20,910,604	$ 20,287,418
Personnel service expenses	5,791,627	5,578,306
	$ 26,702,231	$ 25,865,724
An analysis of employee benefits expense by function		
Operating costs	$ 23,857,265	$ 22,640,698
Operating expenses	4,848,782	4,734,127
	$ 28,706,047	$ 27,374,825

(Concluded)

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 year ended December 31, 2017, the employees' compensation was $799,768 thousand, respectively, of the base net profit. The employees' compensation and profit bonus for the year ended December 31, 2018 was $51,656 thousand and $594,810 thousand.

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 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 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

29. 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	
	2018	2017
Current tax		
Current year	$ 264,527	$ 148,743
Prior year adjustment	10,592	1,364
Income tax on unappropriated earnings	35	-
Deferred tax		
Current year	1,467,343	883,064
Effect of income tax	(933,932)	-
Income tax expense recognized in profit or loss	$ 808,565	$ 1,033,171

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax	$ 3,081,249	$ 3,523,963
Income tax expense calculated at the statutory rate (20% for 2018, 17% for 2017)	$ 616,250	$ 599,074
Effect on different tax of subsidiaries govern by other region	7,391	15,435
Effect on adjustment to income tax		
Non-deductible expenses in determining taxable income	20,662	5,593
Tax-exempt income	(25,730)	(95,556)
Additional income tax under the Alternative Minimum Tax Act	-	9,906
Income tax on unappropriated earnings (10%)	35	-
Oversea income tax expense	22,786	17,474
Unrecognized loss carryforwards, investment tax credits and temporary difference	1,088,650	517,071
Adjustments for prior years' tax	10,592	1,364
Adjustments to changes in tax rates and laws	(933,932)	-
Other	1,861	(37,190)
Income tax expense recognized in profit or loss	$ 808,565	$ 1,033,171

It was announced that the Income Tax Law in the ROC. 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%.

b. Income tax recognized in other comprehensive income

	2018	2017
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ (4,657)	$ 23,612
Fair value changes of financial assets at FVTOCI	547	-
Hedging instruments fair value revaluation for cash flow hedging	(24,128)	21,807
Actuarial gain or loss on defined benefit plan	187,368	173,691
Effect of income tax	10,893	-
Total income tax recognized in other comprehensive income	$ 170,023	$ 219,110

c. Deferred tax assets and liabilities

For the year ended December 31, 2018

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Acquisition Consolidated	Ending Balance
Deferred tax assets						
Temporary differences						
Defined benefit plans	$ 1,381,538	$ 180,560	$ 195,742	$ -	$ 7,212	$ 1,765,052
Frequent flyer programs	426,106	83,954	-	-	-	510,060
Maintenance reserves	1,507,285	304,563	-	-	-	1,811,848
Allowance for reduction of inventory	239,115	96,596	-		-	335,711
Others	1,143,871	(397,832)	(18,546)	479	1,427	729,399
Loss carryforwards	821,417	(821,417)	-	-	-	-
	$ 5,519,332	$ (553,576)	$ 177,196	$ 479	$ 8,639	$ 5,152,070
Deferred tax liabilities						
Temporary differences						
Unrealized foreign exchange gains	$ 915	$ (898)	$ -	$ -	$ -	$ 17
Depreciation difference from fixed assets	31,010	(31,010)	-	-	-	-
Others (Note)	165,630	11,743	7,173	3,884	-	188,430
	$ 197,555	$ (20,165)	$ 7,173	$ 3,884	$ -	$ 188,447

Note: Included adjustments on initial application due to tax rate changes $6,873 thousand from IFRS 9.

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

Deductible temporary differences, and unused loss carryforwards for which no deferred tax assets have been recognized in the balance sheets.

	December 31 2018	2017
Loss carryforwards		
2019	$ 11,790,770	$ 10,900,000
2020	-	-
2021	2,899,496	17,929
2022	620,769	9,617
2023	-	71,861
2024	-	34,048
2025	18,124	221,121
2026	818,198	1,184,297
2027	68,415	68,415
2028	1,513,001	-
	$ 17,728,773	$ 12,507,288
Difference in depreciation	$ 90,350	$ 323,173

d. Unused tax loss carryforwards as of December 31, 2018 were as follows:

Expiry Year	Unused Amount
China Airlines, Ltd.	
2019	$ 11,790,770
2021	2,899,496
2022	619,799
2026	202,699
2028	1,326,528
	$ 16,839,292
Mandarin Airline Co., Ltd.	
2026	$ 584,023
2028	83,322
	$ 667,345
Cal Hotel Co., Ltd.	
2022	$ 970
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	
2025	$ 18,124
2026	31,476
2027	68,415
2028	103,151
	$ 221,166

e. Income tax assessment

The income tax returns for 2016 of the Company and its subsidiaries, have been examined by the tax authorities.

30. EARNING PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 0.33	$ 0.40
Diluted earnings per share	$ 0.32	$ 0.39

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share	$ 1,790,361	$ 2,208,066
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	81,463	24,801
Earnings used in the computation of diluted earnings per share	$ 1,871,824	$ 2,232,867

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares in computation of basic earnings per share	5,453,579	5,468,030
Effect of potentially dilutive ordinary shares:		
Convertible bonds	457,481	145,763
Employees' compensation or bonuses issued to employees	8,821	70,259
Weighted average number of ordinary shares used in the computation of diluted earnings per share	5,919,881	5,684,052

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.

31. BUSINESS COMBINATIONS

As stated in Note 14, the other disclosures of the Group's acquisition of Kaohsiung Catering on March 7, 2018 are as follows:

a. Acquisition-related cash amounting to $243,743 thousand.

b. Assets acquired and liabilities assumed at the date of acquisition.

Assets	
Current assets (included cash and cash equivalents of $380,512)	$ 918,033
Property, plant and equipment	553,390
Intangible assets	186,883
Other assets	49,479
Total assets	1,707,785
Liabilities	(486,356)
Identifiable net assets	$ 1,221,429

c. The Company acquired the control of Kaohsiung Catering (the date of acquisition), and the 35.78% equity held by the equity method was remeasured at the fair value of the acquisition date and the difference recognized in gain on disposal of investment is $69,671 thousand.

d. The non-controlling interest of Kaohsiung Catering (46.33% of equity) was valued $565,888 thousand; at the fair value of the identifiable net assets attributed to the non-controlling interest on the date of acquisition.

e. The bargain purchase benefit of $26,615 thousand of Kaohsiung Catering(the date of acquisition) was measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Impact of acquisitions of the Group

From the acquisition date, the operating results from the acquired company, which are included in the consolidated statements of comprehensive income, are as follows:

	Kaohsiung Catering
Revenue	$ 1,823,950
Profit	$ 229,665

Had these business combinations been in effect at the beginning of the annual reporting period, the Group's revenue from continuing operations would have been $171,039,102 thousand and the profit from continuing operations would have been $2,310,159 thousand. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

32. 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.

33. 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			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 33,919,610	$ 31,651,865	$ 25,417,100	$ 25,818,511
Loans and debt	76,395,635	74,404,225	85,058,177	87,070,820

Some long-term borrowings and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. As of December 31, 2018 and 2017, the fair values of long-term borrowings and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.68% and 0.75%, respectively, prevailing in the market for long-term borrowings (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, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic money market funds	$ 206,001	$ -	$ -	$ 206,001

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	$ -	$ -	$ 21,746	$ 21,746
Unlisted shares - foreign	-	-	110,445	110,445
	$ -	$ -	$ 132,191	$ 132,191
Financial liabilities at FVTPL				
Derivative instruments	$ -	$ 221	$ -	$ 221
Financial assets for hedging	$ -	$ 28,005	$ 4,901	$ 32,906
Financial liabilities for hedging	$ -	$ 560	$ -	$ 560

(Concluded)

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

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 flows. 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 foreign exchanges and fuel options are determined using option pricing models where the significant unobservable inputs are implied fluctuation. Changes in the implied fluctuations used in isolation would result in a increase or decrease in the fair value of the foreign exchange forward contracts and fuel options.

The domestic unlisted equity investment is based on the comparative company valuation to estimate the fair value. The main assumptions are based on the multiplier of the market price of the comparable listed company and the net value per share, which have considered the liquidity discount. The higher the multiplier or the lower the liquidity discount, the higher the fair value of the relevant financial instruments. The multiplier on September 30, 2018 ranged from 0.85 to 18.68, and the liquidity discount is 80%.

The movements of Level 3 financial instruments are as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1,2018	$ -	$ 84,075
Adjustments on initial application of IFRS 9	-	47,510
Other comprehensive income recognized during the period	4,901	606
Balance at September 30,2018	$ 4,901	$ 132,191

There were no financial assets measured using Level 3 fair value measurements in 2017.

Because some financial instruments and nonfinancial instruments may not have their fair values disclosed, the total fair value disclosed herein is not the total value of the Group's collective instruments.

b. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Financial assets at FVTPL	$ 206,001	$ 306,839
Available-for-sale financial assets (Note 3)	-	84,075
Financial assets for hedging	32,906	-
Derivative financial assets for hedging	-	293
Loans and receivables (Note 1)	-	35,276,119
Financial assets at amortized cost (Note 4)	40,496,618	-
Financial assets at FVTPCI - equity instrument investment	132,191	-
Financial liabilities		
Financial liabilities at FVTPL	221	9,581
Financial liabilities for hedging	560	-
Derivative financial liabilities for hedging	-	89,289
Financial liabilities at amortized cost (Note 2)	127,271,892	127,928,250

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 debts, 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 non-current liabilities and guarantee deposits.

Note 3: The balances include financial assets measured at cost.

Note 4: 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 and other restricted financial assets.

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 US 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 US 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 US dollars increase/decrease against the New Taiwan dollar.

When New Taiwan dollar strengthens one dollar against the US dollar and all other variables were held constant, there will be an increase in pre-tax profit in 2018 of $142,244 thousand and a decrease in pre-tax profit in 2017 of $60,437 thousand.

For the year ended December 31, 2018

The Group's hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure of its foreign currency denominated receipts and payments and to manage exchange rate exposure of its aircraft prepayments in the next year. Those transactions are designated as cash flow hedges. When forecasted purchases actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable aircraft prepayments, as the critical terms (i.e. the notional amount, useful life and underlying asset) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Group performs a qualitative assessment of the effectiveness, and it is expected that the value of the foreign exchange forward contracts and the value of the corresponding hedged items will systematically change in the opposite direction in response to movements in the underlying exchange rates.

The following table summarizes the information relating to the hedges of foreign currency risk.

December 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD2,265,231/ USD13,620	2019.1.7-2019.12.26	28.3-30.9	Financial assets for hedging/liabilities for hedging	$ 28,005	$ 560

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in US dollars and Aircraft prepayment) are $27,445 thousand.

For the year ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	$ 80,440	$ (22,415)	(Note)
Aircraft prepayments	23,884	-	
	$ 104,324	$ (22,415)	

Note: Increase in operating costs.

And the amount of gains and losses on hedging instruments for the three months ended December 31, 2018 reclassified from profit or loss to prepayments for equipment was $12,118 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 2018	December 31 2017
Fair value interest rate risk	$ 34,919,610	$ 27,537,100
Cash flow interest rate risk	75,031,978	85,311,720

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, 2018 would have decreased by $187,580 thousand.

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.

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.

December 31, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedges - fuel options	USD	NT$4,901	2019.1.31-2019.12.31	US$72-US$88	Financial assets for hedging	$ 4,901	$ -

Hedge accounting is continued to be applied to the abovementioned hedging instruments continue to be applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is $4,901 thousand.

For the year ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	$ 4,901	$ (9,421)	(Note)

Note: Increase in operating costs.

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			
	2018		2017	
	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)
Fuel price increase of 5%	$ -	$ -	$ -	$ -
Fuel price decrease of 5%	-	-	-	-

d) Hedge accounting in 2017

The relevant hedging strategies of the Group in 2017 are the same as the aforementioned in 2018, except for the following special instructions.

Derivative financial instrument for hedging

	December 31, 2017
Derivative financial assets under hedge accounting	
Foreign exchange forward contracts	$ 293
Current	$ 293
Non-current	-
	$ 293
Derivative financial liabilities under hedge accounting	
Foreign exchange forwards contracts	$ 89,289
Current	$ 82,295
Non-current	6,994
	$ 89,289

The fair value of each derivative contract is determined using quotes from financial institutions.

Cash flow hedges

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 US dollars.

December 31, 2017

	Currency	Maturity Date	Notional Amount (In Thousands)
Buy forward contracts	NTD/USD	2018.1.5-2019.6.21	NTD7,105,942/USD236,924

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:

	December 31, 2017
Increase in operating costs	$ (52,034)
Increase in finance costs	(2,814)
Other foreign exchange losses	(21,773)
	$ (76,621)

The amount of gains and losses on hedging instruments for the year ended December 31, 2017 reclassified from profit or loss to prepayments for equipment was $100,367 thousand.

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, 2018

	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	1.3104	$ 85,541	$ 555,983	$ 2,181	$ 843	$ -
Floating interest rate liabilities	1.8105	7,129,543	7,723,817	14,797,669	27,346,290	20,810,464
Fixed interest rate liabilities	0.1034	2,000,517	-	-	-	-
Derivative instruments		239,138	-	-	-	-
Bonds payable	1.3905	4,877,118	1,122,203	6,496,270	24,339,179	1,051,418
		$ 14,331,857	$ 9,402,003	$ 21,296,120	$ 51,686,312	$ 21,861,882

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

Loan commitments

	December 31	
	2018	2017
Unused bank loan limit (unsecured)	$ 17,337,000	$ 25,181,000

34. 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 (become subsidiary in March 2018)
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate (disposal in January 2018)
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 2018	2017
Other income	Major shareholder of the Company	$ 28,670	$ 31,971
	Associate	$ 523	$ 1,938
	Joint venture investment	$ 41,410	$ 46,461

c. Purchases

Related Party Type	For the Year Ended December 31 2018	2017
Major shareholder of the Company	$ 64,188	$ 71,852
Associate	$ 501,609	$ 745,686
Joint venture investment	$ 1,912,995	$ 1,857,684

d. Accounts receivable - related parties (generated by operations)

Related Party Type	December 31 2018	2017
Joint venture investment	$ 7,589	$ 6,431
Major shareholder of the Company	1,454	1,928
	$ 9,043	$ 8,359

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 2018	2017
Associate	$ 54,948	$ 116,525
Joint venture investment	474,499	469,827
Major shareholder of the Company	3,368	4,454
	$ 532,815	$ 590,806

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 2018 and 2017, the Company had paid rentals of about $64,188 thousand and $71,852 thousand, respectively.

g. Endorsements and guarantees

	December 31			
	2018		2017	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
CAL Park	$ 3,850,000	$ 2,339,700	$ 3,850,000	$ 2,850,000
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	318,611
Tigerair Taiwan	1,081,792	418,491	1,055,604	405,998
Taiwan Air Craft Maintenance	2,000,000	605,457	-	-

h. Compensation of key management personnel

	For the Year Ended December 31 2018	2017
Short-term employee benefits	$ 44,551	$ 46,805
Post-employment benefits	3,295	4,007
	$ 47,846	$ 50,812

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

35. PLEDGED ASSETS

The following assets were pledged or mortgaged as collateral for long-term bank loans, lease obligations and business transactions:

	December 31 2018	2017
Property, plant and equipment	$ 38,337,066	$ 39,821,666
Restricted assets - non-current		
Pledged certificate deposits	118,764	161,398
	$ 38,455,830	$ 39,983,064

36. 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 aircraft from Airbus, with the option to buy six more A350-900 aircraft, as of December 31, 2018, fourteenth of the aircraft had been handed over to the Company.

b. For operation needs, the board of directors of Mandarin Airlines resolved to enter into a contract to buy six ATR72-600 aircraft, and the total list price of the six aircraft was $120,000 thousand. The expected delivery period ranges from June 2018 to June 2020, as of December 31, 2018, two of the aircraft has been handed over to the company, and the total list price of the lefts four aircraft was $80,000 thousand, which has been paid in the amount of US$10,190 thousand (recognized as prepayments for aircraft). Additionally, Mandarin Airlines signed a lease contract for three ATR72-600 aircraft, 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, 2018, 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, 2018, the cumulated consultant service expense and construction equipment had amounted to $481,776 thousand (VAT included) and $5,143,529 thousand (VAT included), respectively. Upon completion of the projects, the amount of $468,755 thousand (VAT included) and $5,143,510 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 non-operating 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.

   AL 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 March 5, 2019, and the estimated total cost of the project is $1.964 billion. As of December 31, 2018, $1,547,499 thousand was paid (recognized as construction in progress).

37. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company failed to mediate labor disputes with the labor union. After obtaining the right to strike, the labor union went on strike at 0:00 February 8, 2019, and the flights resumed normal operation on February 14, 2019. The initial estimated compensation for customer losses and various expenses were $154 million. For other information, refer to "Pubic Information Observatory" of the Taiwan Stock Exchange.

38. 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, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 533,109	30.7692	$ 16,403,335
EUR	20,519	35.2113	722,514
HKD	302,930	3.9231	1,188,425
JPY	6,479,942	0.2778	1,800,967
CNY	394,503	4.4803	1,767,491
Financial liabilities			
Monetary items			
USD	391,865	30.7692	12,057,386
EUR	6,516	35.2113	229,440
HKD	79,716	3.9231	310,978
JPY	5,586,337	0.2778	1,552,067
CNY	150,529	4.4803	674,413

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

For the years ended December 31, 2018 and 2017, the Group's net foreign exchange gain (losses) were $41,843 thousand and $(51,756) 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.

39. 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)

40. 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, 2018			
	Air Transportation	Others	Adjustments and Write-offs	Total
Operating revenue	$ 167,370,925	$ 10,430,156	$ (7,089,474)	$ 170,711,607
Operation profit and losses	$ 2,617,116	$ 1,429,884	$ (24,617)	$ 4,022,383
Interest revenue				330,710
Investments income accounted for using the equity method				367,246
Revenue				146,667
Financial costs				(1,369,351)
Expenses				(416,406)
Profit before income tax				$ 3,081,249
Identifiable assets	$ 154,007,329	$ 11,036,945	138,787	$ 165,183,061
Investments accounted for using the equity method				2,200,149
Assets				62,753,372
Total assets				$ 230,136,582

	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

b. Geographical segment

The geographical segment information of the Company and its subsidiaries in 2018 and 2017 are listed below:

	For the Year Ended December 31, 2018								
	America	Northeast Asia	Southeast Asia	Europe	Australia	China	Domestic	Adjustment and Eliminations	Consolidation
Operating revenue	$ 43,278,890	$ 38,464,450	$ 34,132,301	$ 16,092,452	$ 6,760,146	$ 22,114,227	$ 16,958,615	$ (7,089,474)	$ 170,711,607
Operation profit and losses	$ 582,721	$ 2,717,255	$ (2,412,823)	($ 756,263)	$ (904,416)	$ 2,454,935	$ 2,365,591	($ 24,617)	$ 4,022,383
Interest revenue									330,710
Investments income accounted for using the equity method									367,246
Revenue									146,667
Interest expense									(1,369,351)
Expenses									(416,406)
Profit before income tax									$ 3,081,249
Identifiable assets	$ 1,328,004	$ 15,520	$ 94,631	$ 2,796	$ 2,619	$ 10,174	$ 163,590,530	$ 138,787	$ 165,183,061
Investments accounted for using the equity method									2,200,149
Assets									62,753,372
Total assets									$ 230,136,582

	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 expense									(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

TABLE 1

CHINA AIRLINES, LTD. AND INVESTEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(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	$ 11,416,314	$ 3,850,000	$ 3,850,000	$ 2,339,700	$ -	6.74	$ 28,540,786	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,416,314	1,080,000	1,080,000	-	-	1.89	28,540,786	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,416,314	1,087,224	1,081,792	418,491	-	1.90	28,540,786	Y	N	N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,416,314	2,000,000	2,000,000	605,457	-	3.50	28,540,786	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, 2018
(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, 2018				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. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,495,305	$ 56,018	13.59	$ 61,620	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	5,602	-		
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	21,746	11.00	21,746	
	Jardine Air Terminal Services	-	Financial assets at FVTPL - current	12,000,000	-	15.00	-	
	The Grand Hi Lai Hotel	-	Financial assets at FVTPL - current	4,021	-	0.02	-	
Mandarin Airlines	Shares							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	22,821	-	22,821	-
	Beneficiary certificates							
	Barclays America Bonds Fund	-	Financial assets at FVTPL - current	1,000,000	30,837	-	30,837	-
Cal-Asia Investment	Shares							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets at FVTPL - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at FVTOCI - non-current	-	48,825	5.45	48,825	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	3,492,097	36,041	-	36,041	-
Taiwan Airport Services	Shares							
	TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.4	-	-
	Beneficial certificates							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at FVTPL - current	787,007	9,042	-	9,042	-
Hwa Hsia	Shares							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	814,152	8,956	-	8,956	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,721	-	4,721	-
Kaohsiung Catering Services	Beneficiary certificates							
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	7,939,173	125,360	-	125,360	-

(Continued)

Note 1: The subsidiary's net asset value was $61,620 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2018.

Note 2: The Company does not issue shares because it is a limited company.

Note 3: The table only lists financial assets that are IFRS 9 regulated.

(Concluded)

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, 2018
(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													
	Asian Compressor Technology Services	Investments accounted for using the equity method	MB Aerospace	Non-related party	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -
	Kaohsiung Catering Services	Investments accounted for using the equity method	TransAsia Airlines	Non-related party	-	-	-	-	-	-	-	-	-	-
Tigerair Taiwan Co., Ltd.	NT-dollar 100% principal-protected structural products	Financial assets at FVTPL - current	President Securities Corp.	Non-related party	-	300,000	-	3,030,000	-	3,330,000	3,330,000	-	-	-

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.

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, 2018
(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	$ 599,309	0.44	30 days	$ -	-	$ (46,076)	(5.40)	-
	Taiwan Airport Services	Subsidiary	Purchase	434,538	0.32	40 days	-	-	(74,816)	(8.77)	-
	CAL Park	Subsidiary	Purchase	231,288	0.17	2 months	-	-	(121,426)	(14.24)	-
	Cal Hotel	Subsidiary	Purchase	107,273	0.08	1 months	-	-	(13,982)	(1.64)	-
	Mandarin Airlines	Subsidiary	Sale	(2,155,732)	(1.43)	2 months	-	-	235,253	2.35	-
	Mandarin Airlines	Subsidiary	Purchase	236,744	0.17	2 months	-	-	(278,323)	(32.64)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,247,054	0.91	40 days	-	-	(365,115)	(42.82)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	462,577	0.34	60 days	-	-	(74,641)	(8.75)	-
	Hua Hsia	Subsidiary	Purchase	333,255	0.24	2 months	-	-	(54,352)	(6.37)	-
	Tigerair Taiwan	Subsidiary	Sale	(336,530)	(0.22)	1 months			42,084	0.42	
	Tigerair Taiwan	Subsidiary	Purchase	141,030	0.10	1 months	-	-	(21,538)	(2.53)	-
	Eastern United International Logistics	Equity-method investee	Purchase	238,356	0.17	2 months	-	-	(22,145)	(2.60)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,784,963	1.30	90 days	-	-	(454,920)	(53.35)	-
	China Aircraft Services	Equity-method investee	Purchase	180,238	0.13	30 days	-	-	(31,988)	(3.75)	-
	China Pacific Laundry Services	Equity-method investee	Purchase	128,033	0.09	2 months	-	-	(19,579)	(2.30)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	152,652	2.71	1 months	-	-	(24,608)	(2.02)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	179,798	(3.28)	1 months	-	-	(17,699)	(2.96)	-
Cal Hotel	CAL Park	Same parent company	Purchase	114,281	28.70	1 months			(388)	(17.50)	

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, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	$ 235,253	Note	$ -	-	$ 235,253	$ -
Mandarin Airlines	China Airlines	Parent company	278,323	Note	-	-	276,142	-
China Pacific Catering Services	China Airlines	Parent company	454,920	3.90	-	-	301,208	-
CAL Park	China Airlines	Parent company	121,426	1.90	-	-	121,426	-
Taoyuan International Airport Service	China Airlines	Parent company	365,115	3.48	-	-	362,163	-

Note: Accounts receivable and revenue were not directly correlated because of the particular industry characteristics, and therefore the turnover rate was not applicable.

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, 2018
(In thousands of New Taiwan Dollars and Foreign Currencies in Thousands, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Business and Product	Investment Amount December 31, 2018	Investment Amount December 31, 2017	Balance as of December 31, 2018 Number of Shares/Units	Balance as of December 31, 2018 Percentage of Ownership (%)	Balance as of December 31, 2018 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	$ 1,507,445	$ 3,143	$ 3,143	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,201,109	24,824	22,878	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,533,244	359,195	193,964	-
	Cal-Dynasty International	Los Angeles, USA	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,266,921	43,975	43,975	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	805,157	524,339	267,413	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	755,619	282,254	138,305	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	494,098	26,115	26,115	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	454,149	188,247	176,820	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	497,362	32,012	6,402	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	266,775	133,894	63,399	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	140,240	21,494,637	53.67	662,817	296,678	138,460	Note 5
	Cal Hotel Co., Ltd.	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	461,239	25,274	25,274	-
	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	166,901	30,355	16,695	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	89,101	14,616	14,439	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	26,946	1,437	1,438	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	26,059	(2,297)	(1,172)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,996	5,137	1,284	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	1,805,921	981,713	883,542	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	1,128,138	(103,410)	(103,410)	
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	2,450	2,450	245,000	49.00	2,358	(83)	(41)	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	200,658	981,713	98,171	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,068	133,894	1,442	
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	44,193	19,703	6,865	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	388,910	27,353	27,353	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd.	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,870	3	2	Note 4

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: Investee acquired by merger.

Note 5: Difference cause by acquisition.

TABLE 7

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands of New Taiwan Dollars/Renminbi/US Dollars)

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, 2018	Investment Flow		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,140,143 (RMB 254,480)	Indirect (Note 1)	$ 128,799 (US$ 4,186)	$ -	$ -	$ 128,799 (US$ 4,186)	$ 80,455 (RMB 17,650)	14.00	$ 11,307 (RMB 2,471)	$ 222,073 (RMB 49,567)	$ 86,208 (US$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,724 (RMB 14,000)	Indirect (Note 1)	59,921 (US$ 1,947)	-	-	59,921 (US$ 1,947)	114,760 (RMB 25,175)	14.00	16,130 (RMB 3,525)	116,600 (RMB 26,025)	26,933 (US$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,135,077 (US$ 36,890)	Indirect (Note 1)	66,191 (US$ 2,151)	-	-	66,191 (US$ 2,151)	-	2.59	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	358,862 (US$ 11,663)	Indirect (Note 1)	19,569 (US$ 636)	-	-	19,569 (US$ 636)	-	5.45	-	48,825 (RMB 10,898)	-

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$274,481 (US$8,920)	$665,586 (Note 3)	$36,028,250 (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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,140,143 (RMB 254,480)	Indirect (Note 5)	$ 123,642 (US$ 4,018)	$ -	$ -	$ 123,642 (US$ 4,018)	$ 80,455 (RMB 17,650)	14	$ 11,264 (RMB 2,471)	$ 220,818 (RMB 49,287)	$ 117,118 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,724 (RMB 14,000)	Indirect (Note 5)	59,285 (US$ 1,927)	-	-	59,285 (US$ 1,927)	114,760 (RMB 25,175)	14	16,066 (RMB 3,525)	116,817 (RMB 26,073)	43,280 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$182,926 (US$5,945)	$182,926 (US$5,945)	$338,046 (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 2018 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 US 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, 2018
(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	$ 1,891,339	The same as ordinary transactions	1.10
		Mandarin Airlines	a	Other operating revenue	264,393	The same as ordinary transactions	0.15
		Tigerair Taiwan Co., Ltd.	a	Other operating revenue	336,530	The same as ordinary transactions	0.20
		Taoyuan International Airport Services	a	Airport service costs	1,247,054	The same as ordinary transactions	0.73
		Taiwan Airport Service	a	Airport service costs	434,538	The same as ordinary transactions	0.25
		Hwa Hsia	a	Airport service costs	333,255	The same as ordinary transactions	0.19
		Mandarin Airlines	a	Passenger costs	236,744	The same as ordinary transactions	0.14
		Tigerair Taiwan Ltd.	a	Passenger costs	141,030	The same as ordinary transactions	0.08
		Kaohsiung Catering Services	a	Passenger service cost	462,557	The same as ordinary transactions	0.27
		Taiwan Air Cargo Terminal	a	Other operating costs	599,309	The same as ordinary transactions	0.35
		CAL Park	a	Other operating costs	231,288	The same as ordinary transactions	0.14
		Cal Hotel Co., Ltd.	a	Other operating costs	107,273	The same as ordinary transactions	0.06
		Mandarin Airlines	a	Accounts receivable - related parties	235,253	The same as ordinary transactions	0.10
		Mandarin Airlines	a	Accounts payable - related parties	278,323	The same as ordinary transactions	0.12
		Taoyuan International Airport Services	a	Accounts payable - related parties	365,115	The same as ordinary transactions	0.16
		CAL Park	a	Accounts payable - related parties	121,426	The same as ordinary transactions	0.05
		Mandarin Airlines	a	Bonds payable - non-current	250,000	The same as ordinary transactions	0.11
1	Taiwan Air Cargo Terminal	China Airlines, Ltd.	b	Sales revenue	599,309	The same as ordinary transactions	0.35
2	Mandarin Airlines	China Airlines, Ltd.	b	Passenger costs	1,891,339	The same as ordinary transactions	1.10
		China Airlines, Ltd.	b	Operating expenses	264,393	The same as ordinary transactions	0.15
		Taiwan Airport Service	c	Airport service costs	152,652	The same as ordinary transactions	0.09
		China Airlines, Ltd.	b	Passenger revenue	236,744	The same as ordinary transactions	0.14
		China Airlines, Ltd.	b	Accounts receivable - related parties	278,323	The same as ordinary transactions	0.12
		China Airlines, Ltd.	b	Financial assets at amortized costs	250,000	The same as ordinary transactions	0.11
		China Airlines, Ltd.	b	Notes payable and accounts payable - related parties	235,253	The same as ordinary transactions	0.10
3	Taoyuan International Airport Services	China Airlines, Ltd.	b	Airport service revenue	1,247,054	The same as ordinary transactions	0.73
		China Airlines, Ltd.	b	Accounts receivable - related parties	365,115	The same as ordinary transactions	0.16
		Tigerair Taiwan Co., Ltd.	c	Operating revenue	179,798	The same as ordinary transactions	0.11
4	Taiwan Airport Service	China Airlines, Ltd.	b	Operating revenue	434,538	The same as ordinary transactions	0.25
		Mandarin Airlines	c	Operating revenue	152,652	The same as ordinary transactions	0.09

(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
5	Tigerair Taiwan Co., Ltd.	China Airlines, Ltd.	b	Operating expense	$ 336,530	The same as ordinary transactions	0.20
		China Airlines, Ltd.	b	Passenger revenue	141,030	The same as ordinary transactions	0.08
		Taoyuan International Airport Services	b	Airport service costs	179,798	The same as ordinary transactions	0.11
6	Hwa Hsia	China Airlines, Ltd.	b	Operating revenue	333,255	The same as ordinary transactions	0.19
7	Kaohsiung Catering Services	China Airlines, Ltd.	b	Operating revenue	462,557	The same as ordinary transactions	0.27
8	CAL Park	China Airlines, Ltd.	b	Operating revenue	231,288	The same as ordinary transactions	0.14
		Cal Hotel Co., Ltd.	c	Operating revenue	114,281	The same as ordinary transactions	0.07
		China Airlines, Ltd.	b	Accounts receivable - related parties	121,426	The same as ordinary transactions	0.05
9	Cal Hotel Co., Ltd.	China Airlines, Ltd.	b	Operating revenue	107,273	The same as ordinary transactions	0.06
		CAL Park	c	Other operating expense	114,281	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)

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, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies. (collectively referred to as the "financial statements")

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and 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 statements of the Company are stated below:

Passenger Revenue Recognition

In accordance with IFRS 15 "Revenue from Contracts with Customers", passenger sales are accounted for as contract liabilities before relevant transportation services are provided. After providing the related services, contract liabilities are reclassified to passenger revenue. As of December 31, 2018, passenger revenue was NT$94,248,291 thousand. Refer to Notes 4 and 27 to the accompanying consolidated financial statements for related detailed information.

Since relevant sales can only be recognized as passenger revenue when passengers actually boarded, confirmation from each passenger holding the ticket who actually boarded involves a complicated process; therefore, we identified passenger revenue recognition as a key audit matter.

The main audit procedures that we performed included the following:

1. We understood and tested the internal control related to the process of revenue from passenger, including manual and automatic control.

2. We understood and tested the effectiveness of the information system related to the process of passenger revenue.

3. We sampled several flight tickets, which were flown and recognized as revenue, to verify whether the boarding date matched the date recorded on the tickets, from advanced sales tickets

New Aircraft Acquisition Cost

In accordance with IAS 16 "Property, Plant and Equipment", aircraft acquisition costs were allocated into several significant components, which include airframe, airframe overhaul, engine, engine overhaul, landing gear, etc., and are depreciated over different useful lives. As of December 31, 2018, the carrying amount of the flight equipment was NT$133,222,119 thousand. Refer to Notes 4, 5 and 15 to the accompanying financial statements for related detailed information.

Since the Company introduced A350-900 brand new aircraft this year, the allocation base was adjusted. Moreover, the carrying amount of the flight equipment and the depreciation expense recognized will be subject to the allocation of acquisition cost and the estimated useful life, which were made in accordance with management's judgment. Therefore, we identified new aircraft acquisition cost as a key audit matter.

The main audit procedures that we performed included the following:

1. We reviewed 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 allocated amount by management.

2. We conducted an assessment on the rationality of the aircraft's useful life based on aircraft performance in the industry, historical experience of aircraft operations, and documents that described the basis used by management to determine the useful life of its new aircraft.

Other Matter - Audited by Other Independent Auditors

Some investments accounted for using the equity method and disclosure information in Note 14 were audited by other independent auditors, and our audit opinion is based solely on the audit report of other independent auditors. As of December 31, 2018, the aforementioned investment accounted for using the equity method was NT$1,805,921 thousand, representing 0.84% of total assets. For the year ended December 31, 2018, comprehensive income (including share of profit or loss of subsidiaries, associates and joint ventures and share of other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using the equity method) was NT$890,786 thousand.

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, 2018 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-Hsiu Yang and Jui-Chan Huang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 2019

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

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally 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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018 Amount	2018 %	2017 Amount	2017 %
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 4, 6 and 32)	$ 18,688,022	9	$ 16,563,559	8
Derivative financial assets for hedging - current (Notes 4 and 32)	-	-	293	-
Financial assets at amortized cost (Notes 9 and 32)	2,310,000	1	-	-
Financial assets for hedging - current (Notes 4 and 32)	27,354	-	-	-
Receivables:				
Notes and accounts, net (Notes 4, 11 and 32)	9,280,662	4	8,044,940	4
Accounts - related parties (Notes 32 and 33)	298,311	-	510,588	-
Other receivables	656,790	-	532,974	-
Current tax assets (Notes 4 and 28)	15,810	-	24,096	-
Inventories, net (Notes 4 and 12)	8,451,892	4	8,610,958	4
Non-current assets held for sale (Notes 4 and 13)	46,154	-	426,553	-
Other current assets (Note 18)	3,157,864	2	3,219,735	2
Total current assets	42,932,859	20	37,933,696	18
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Notes 4, 8 and 32)	83,366	-	-	-
Financial assets measured at cost - non-current (Notes 4, 10 and 32)	-	-	64,177	-
Investments accounted for using the equity method (Notes 4 and 14)	13,158,355	6	11,551,369	5
Property, plant and equipment (Notes 4, 15 and 34)	149,029,054	69	142,265,548	67
Investment properties (Notes 4 and 16)	2,047,448	1	2,047,448	1
Other intangible assets (Notes 4 and 17)	979,708	1	989,327	1
Deferred tax assets (Notes 4 and 28)	4,561,346	2	4,974,941	2
Other non-current assets (Notes 18, 21 and 32)	2,122,085	1	12,091,486	6
Total non-current assets	171,981,362	80	173,984,296	82
TOTAL	$ 214,914,221	100	$ 211,917,992	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 4, 7 and 32)	$ 221	-	$ 8,655	-
Derivative financial liabilities for hedging - current (Notes 4 and 32)	-	-	77,639	-
Financial liabilities for hedging - current (Notes 4 and 32)	239	-	-	-
Notes and accounts payable (Note 32)	1,198,647	1	297,952	-
Contract liabilities current (Notes 4 and 23)	17,065,481	8	-	-
Accounts payable - related parties (Notes 32 and 33)	1,583,684	1	1,494,006	1
Other payables (Notes 22 and 27)	11,739,299	5	10,908,752	5
Current tax liabilities (Notes 4 and 28)	2	-	2	-
Provisions - current (Notes 4 and 24)	268,901	-	406,457	-
Deferred revenue - current (Notes 4 and 23)	-	-	14,048,025	7
Bonds payable and put option of convertible bonds - current (Notes 4, 20, 26, 32 and 33)	4,445,900	2	4,367,100	2
Loans and debts - current (Notes 18, 32 and 34)	15,335,005	7	18,814,633	9
Capital lease obligations - current portion (Notes 4, 21, 32 and 34)	596,000	-	1,580,000	1
Other current liabilities (Note 32)	2,946,455	1	2,922,143	1
Total current liabilities	55,179,834	25	54,925,364	26
NON-CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - non-current (Notes 4, 7 and 32)	-	-	926	-
Derivative financial liabilities for hedging - non-current (Notes 4 and 32)	-	-	6,994	-
Bonds payable - non-current (Notes 4, 20, 26, 32 and 33)	28,773,710	13	21,350,000	10
Loans and debts - non-current (Notes 19, 32 and 34)	56,827,738	27	61,907,978	29
Contract liabilities - non-current (Notes 4 and 23)	1,903,665	1	-	-
Provisions - non-current (Notes 4 and 24)	7,730,114	4	7,352,194	4
Deferred tax liabilities (Notes 4 and 28)	21,195	-	38,946	-
Capital lease obligations - non-current (Notes 4, 21, 32 and 34)	-	-	596,000	-
Deferred revenue - non-current (Notes 4 and 23)	-	-	1,818,265	1
Accrued pension costs (Notes 4, 5 and 25)	6,932,783	3	6,158,744	3
Other non-current liabilities (Note 32)	463,610	-	739,344	-
Total non-current liabilities	102,652,815	48	99,969,391	47
Total liabilities	157,832,649	73	154,894,755	73
EQUITY (Notes 20 and 26)				
Share capital	54,209,846	25	54,709,846	26
Capital surplus	1,241,214	1	799,999	-
Retained earnings				
Legal reserve	351,923	-	206,092	-
Special reserve	118,810	-	-	-
Unappropriated retained earnings	1,144,928	1	1,458,313	1
Total retained earnings	1,615,661	1	1,664,405	1
Other equity	58,223	-	(107,641)	-
Treasury shares	(43,372)	-	(43,372)	-
Total equity	57,081,572	27	57,023,237	27
TOTAL	$ 214,914,221	100	$ 211,917,992	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, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018 Amount	2018 %	2017 Amount	2017 %
REVENUE (Notes 4, 27 and 33)	$ 150,264,792	100	$ 139,815,211	100
COSTS (Notes 4, 12, 27 and 33)	137,614,956	92	121,848,814	87
GROSS PROFIT	12,649,836	8	17,966,397	13
OPERATING EXPENSES (Notes 4, 27 and 33)	10,802,269	7	10,608,283	8
OPERATING PROFIT	1,847,567	1	7,358,114	5
NON-OPERATING INCOME AND EXPENSES				
Other income (Note 27)	420,416	-	360,980	-
Other gains and losses (Notes 10, 13, 15 and 27)	(559,230)	-	(4,980,870)	(3)
Finance costs (Notes 10, 27 and 33)	(1,312,044)	(1)	(1,277,807)	(1)
Share of the profit of associates and joint ventures (Note 14)	1,918,922	1	1,627,786	1
Total non-operating income and expenses	468,064	-	(4,269,911)	(3)
PROFIT BEFORE INCOME TAX	2,315,631	1	3,088,203	2
INCOME TAX EXPENSE (Notes 4, and 28)	525,270	-	880,137	-
NET INCOME	1,790,361	1	2,208,066	2
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Gain on hedging instruments subject to basis adjustments (Notes 4, 26 and 32)	23,884	-	-	-
Unrealized (loss) gain on investments in equity instruments designated as at fair value through other comprehensive income (Notes 4 and 26)	(23,830)	-	-	-
Remeasurement of defined benefit plans (Notes 4 and 25)	(674,905)	-	(645,219)	(1)
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(105,569)	-	(211,952)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 28)	127,120	-	109,687	-

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 26)	$ 34,140	-	$ (134,857)	-
Cash flow hedges (Notes 4 and 26)	-	-	(116,580)	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method (Notes 4 and 26)	29,573	-	(11,212)	-
Gain on hedging instruments not subject to basis adjustment (Notes 4, 26 and 32)	75,454	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 28)	(18,193)	-	42,744	-
Other comprehensive loss for the year, net of income tax	(532,326)	-	(967,389)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 1,258,035	1	$ 1,240,677	1
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 28)				
Basic	$ 0.33		$ 0.40	
Diluted	$ 0.32		$ 0.39	

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

			Retained Earnings			Other Equity						
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deflect)	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Treasury Shares Held by Subsidiaries	Total Equity
BALANCE AT JANUARY 1, 2017	$ 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 ordinary shares	945	131	-	-	-	-	-	-	-	-	-	1,076
Changes 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
Effect of retrospective application and retrospective restatement	-	-	-	-	60	-	(1,774)	42,351	74,429	(74,429)	-	40,637
BALANCE AT JANUARY 1, 2018 AS RESTATED	54,709,846	799,999	206,092	-	1,458,373	(34,986)	-	42,351	-	(74,429)	(43,372)	57,063,874
Issuance of convertible bonds	-	409,978	-	-	-	-	-	-	-	-	-	409,978
Basis adjustments to gain on hedging instruments	-	-	-	-	-	-	-	-	-	12,118	-	12,118
Appropriation of 2017 earnings												
Legal reserve	-	-	145,831	-	(145,831)	-	-	-	-	-	-	-
Special reserve	-	-	-	118,810	(118,810)	-	-	-	-	-	-	-
Cash dividends - $0.2181820086 per share	-	-	-	-	(1,193,670)	-	-	-	-	-	-	(1,193,670)
Changes in capital surplus from dividends distributed to subsidiaries	-	630	-	-	-	-	-	-	-	-	-	630
Net income for the year ended December 31, 2018	-	-	-	-	1,790,361	-	-	-	-	-	-	1,790,361
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(645,495)	25,322	-	268	-	87,579	-	(532,326)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	1,144,866	25,322	-	268	-	87,579	-	1,258,035
Treasury shares acquired	-	-	-	-	-	-	-	-	-	-	(469,393)	(469,393)
Treasury shares retired	(500,000)	30,607	-	-	-	-	-	-	-	-	469,393	-
BALANCE AT DECEMBER 31, 2018	$ 54,209,846	$ 1,241,214	$ 351,923	$ 118,810	$ 1,144,928	$ (9,664)	$ -	$ 42,619	$ -	$ 25,268	$ (43,372)	$ 57,081,572

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

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,315,631	$ 3,088,203
Adjustments for:		
Bad debt expenses	50,000	50,000
Depreciation expenses	18,192,291	17,375,194
Amortization expenses	165,050	247,725
Net loss on fair value changes of financial assets and liabilities held for trading	(11,076)	33,385
Interest income	(274,189)	(176,329)
Dividend income	(9,603)	(9,564)
Share of profit of associates and joint ventures	(1,918,922)	(1,627,786)
Loss (gain) on disposal of property, plant and equipment	273,308	(5,839)
Gain on disposal of investments accounted for using the equity method	(450,195)	(101,105)
Loss (gain) on disposal of non-current assets held for sale	368,992	(252,467)
Loss on inventories and property, plant and equipment	623,012	642,423
Impairment loss recognized on property, plant and equipment	50,000	690,579
Net gain on foreign currency exchange	288,598	(343,681)
Finance costs	1,312,044	1,277,807
Recognition of provisions	2,566,045	2,524,079
Amortization of unrealized gain on sale-leasebacks	(13,888)	(14,512)
Impairment loss recognized on financial assets measured at cost	-	56,023
Impairment loss recognized on non-current assets held for sale	75,437	3,571,301
Changes in operating assets and liabilities		
Financial assets held for trading	-	(32,185)
Financial assets mandatorily classified as at fair value through profit or loss	11,076	-
Financial liabilities mandatorily classified as at fair value through profit or loss	(9,359)	9,580
Notes and accounts receivable	(1,260,344)	(271,309)
Accounts receivable - related parties	212,277	(71,079)
Other receivables	(94,232)	266,338
Inventories	(225,553)	(591,043)
Financial assets at amortized cost - current	(2,310,000)	-
Other current assets	62,151	(733,731)
Notes and accounts payable	878,219	(305,161)
Accounts payable - related parties	89,678	146,999
Other payables	513,674	2,073,621
Contract liabilities	3,102,855	-
Deferred revenue	-	653,161
Provisions	(2,539,210)	(1,138,140)
Other current liabilities	10,515	157,417
Accrued pension liabilities	99,135	(703,821)
Cash generated from operations	22,143,417	26,486,083
Interest received	244,604	192,138
Dividends received	624,834	639,454

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Interest paid	$ (1,242,278)	$ (1,245,421)
Income tax paid	(19,085)	(31,203)
Net cash generated from operating activities	21,751,492	26,041,051
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for by the equity method	(243,743)	(1,240,837)
Payments for property, plant and equipment	(2,561,987)	(953,218)
Proceeds from disposal of property, plant and equipment	330,136	82,534
Proceeds from disposal of non-current assets held for sale	688,427	1,128,472
Proceeds from disposal of investments accounted for using the equity method	-	380,850
Increase in refundable deposits	(51,378)	(107,935)
Decrease in refundable deposits	103,593	180,381
Increase in prepayments for equipment	(13,798,867)	(24,215,469)
Increase in computer software costs	(155,431)	(121,951)
Net cash used in investing activities	(15,689,250)	(24,867,173)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bills payable	-	(900,000)
Payments for buy-back of treasury shares	(469,393)	-
Proceeds from issuance of bonds payable	10,512,000	5,850,000
Repayments of bonds payable	(2,700,000)	(2,700,000)
Proceeds from long-term borrowings	17,200,000	30,380,000
Repayments of long-term borrowings and capital lease obligations	(27,339,868)	(36,947,007)
Proceeds from guarantee deposits received	118,367	233,015
Refunds of guarantee deposits received	(67,905)	(192,672)
Dividends paid to owners of the Company	(1,193,670)	-
Net cash used in financing activities	(3,940,469)	(4,276,664)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	2,690	(68,245)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	2,124,463	(3,171,031)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	16,563,559	19,734,590
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 18,688,022	$ 16,563,559

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, 2018 AND 2017
(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 the entire aircraft; and (f) leasing of aircraft.

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, 2018 and 2017, CADF and NDF held a combined 44.03% and 43.63% of the Company's shares. As of December 31, 2018 and 2017, the Company had 12,418 and 12,654 employees, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Company's board of directors and authorized for issue on March 20, 2019.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers (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:

1) IFRS 9 "Financial Instruments" and related amendments

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

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018, and the requirements for hedge accounting have been applied prospectively. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

On the basis of the facts and circumstances that existed as of January 1, 2018, the Company has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Company's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount	
Financial Asset	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**
Equity securities	Financial assets measured at cost	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	$ 64,177	$ 107,196

Financial Asset	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remea-surements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018
FVTOCI						
Equity instruments	$ -	$ -	$ -	$ -	$ -	$ -
Add: Financial assets measured at cost (IAS 39)	-	64,177	43,019	107,196	60	42,959
Investments using equity method	11,551,369	-	4,491	11,555,860	-	4,491
	$ 11,551,369	$ 64,177	$ 47,510	$ 11,603,056	$ 60	$ 47,450

a) Investments in unlisted shares previously measured at cost under IAS 39 have been classified as designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $43,019 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

b) Investment using equity method previously measured at cost have been classified as designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $4,491 thousand was recognized in both investment using equity method and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

c) Mutual funds held by investments accounted for using the equity method previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL (FVTPL) under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The retrospective adjustment resulted in a decrease of $60 thousand in other equity - unrealized gain (loss) on available-for-sale financial assets and an increase of $60 thousand in retained earnings on January 1, 2018.

d) Except for the above, the remaining financial assets classified as loans and receivables amounting to $26,095,060 thousand based on IAS 39 are classified as financial assets at amortized cost under IFRS 9.

e) In line with the equity adjustments above, the Company's deferred tax liabilities increased by $6,873 thousand.

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 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

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). The Company chooses to apply retroactively IFRS 15 only for contracts that have not yet been completed on the conversion date. Also, the revenue-related amount received should be recognized as contract liabilities. Therefore, the previously classified deferred revenue - current and non-current are reclassified to contract liabilities - current and non-current which amounted to $14,048,025 thousand and $1,818,265 thousand, respectively, on January 1, 2018.

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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, IFRIC 4 "Determining whether an Arrangement contains a Lease " and a number of related interpretations.

Definition of a lease

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

The Company as lessee

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

The Company anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Company will apply IAS 36 to all right-of-use assets.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

If the Company determines that a sale and leaseback transaction does not satisfy the requirements of IFRS 15 to be accounted for as a sale of an asset, it will be accounted for as a financing transaction. If it satisfies the requirements to be accounted for as a sale of an asset, the Company will recognize only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor. Currently, the leaseback portion is classified as either a finance lease or an operating lease and accounted for differently.

The Company will not reassess sale and leaseback transactions entered into before January 1, 2019 to determine whether the transfer of an underlying asset satisfies the requirements in IFRS 15 to be accounted for as a sale. Upon initial application of IFRS 16, the aforementioned transitional provision for a lessee will apply to the leaseback portion. In addition, for assets currently accounted for as a sale and a finance lease under IAS 17, the Company will continue to amortize any gains on sales over the lease term.

The Company as lessor

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

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepaid rent	$ 699,098	$ (699,098)	$ -
Refundable deposits	377,577	(215,426)	162,151
Right-of-use assets	-	69,988,735	69,988,735
Other financial assets	-	189,808	189,808
Total effect on assets	$ 1,076,675	$ 69,264,019	$ 70,340,694
Lease liabilities - current	$ -	$ 8,746,080	$ 8,746,080
Lease liabilities - non-current	-	60,517,939	60,517,939
Total effect on liabilities	$ -	$ 69,264,019	$ 69,264,019

Except for the above impact, as of the date the standalone 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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)

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

Note 2: Business combinations that began after January 1, 2020 and acquisition of assets after the aforesaid date, are subjected to the amendment.

Note 3: The amendment is applied for the annual period beginning after January 1, 2020.

Except for the above impact, as of the date the standalone 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 standalone financial statements, adjustments arising from the differences in accounting treatments between the parent company only basis and the standalone 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 Non-current 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 Company 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 non-current.

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.

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.

Non-current Assets Held for Sale

Non-current 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 Non-current 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.

Non-current 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 changes 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 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 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 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 is 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 issuance of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

1) Measurement category

<u>2018</u>

Financial assets are classified into the following categories: financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 33.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables, other receivables and other financial assets, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if an equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of an investment.

<u>2017</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 32.

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 FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other 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 such investments are disposed of or are 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 presented in a separate line item as financial assets measured 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 other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, other financial assets and other receivables) are measured at amortized cost using the effective interest method, at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

<u>2018</u>

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as contract assets.

The Company always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables and other receivables. For all other financial instruments, the Company recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amounts of the financial assets.

<u>2017</u>

Financial assets, other than those at FVTPL, 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, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investments have been affected.

For financial assets at amortized cost, such as trade receivables and other receivables, such 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 Company'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 a financial asset at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets 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 any 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 significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets 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 measured 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 trade receivables and other receivables are considered uncollectible, they are 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 uncollectible 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 entity 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.

Equity instruments issued by the Company entity are recognized at the proceeds received, net of direct issue costs.

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, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of 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 issuance 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.

Before 2017, hedge accounting was discontinued prospectively when the Company revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. Starting from 2018, the Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period in which 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, the Company will assess if there are existing obligations and if a provision is required when signing the lease contract.

Revenue Recognition

When applying IFRS 15 during 2018, the Company recognizes revenue by applying the following steps:

- Identifying the contract with the customer;
- Identifying 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.

<u>Shipping service revenue</u>

Passenger and cargo revenue are recognized as revenue when the passengers and goods are actually carried. When the tickets are sold, due to the fact that the fulfillment obligations of the shipment have not been met, the relevant amount of revenue is first recorded as contract liabilities until passengers actually board. Before 2017, the relevant amounts were recorded as deferred revenue.

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 Company 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 is to 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 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 rewards.

A portion of passenger revenue attributable to the rewards for the frequent flyer program is deferred. The Company recognizes this deferred revenue as revenue only when the Company 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 Company'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 are vested 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 are capitalized as replacements for aircraft and engines and are depreciated on a straight line basis over the expected annual overhaul cycle.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies as disclosed in Note 4, management is required to make judgments, estimations 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.

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 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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	**2017**
Cash on hand and revolving funds	$ 51,264	$ 46,287
Checking accounts and demand deposits	6,367,527	8,284,609
Cash equivalents		
Time deposits with original maturities of less than three months	12,269,231	3,098,063
Repurchase agreements collateralized by bonds	-	5,134,600
	$ 18,688,022	$ 16,563,559

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

	December 31	
	2018	**2017**
Bank balance	0%-1.90%	0%-2%
Time deposits with original maturities of less than three months	0.60%-3.55%	0.59%-4.2%
Repurchase agreements collateralized by bonds	-	0.38%-2.2%

7. FINANCIAL INSTRUMENTS AT FVTPL (FVTPL)

	December 31	
	2018	**2017**
Financial liabilities held for trading		
Derivative financial instruments (not under hedge accounting)		
Current	$ 221	$ 8,655
Non-current	$ -	$ 926

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, 2018			
Buy forward contracts	NTD/USD	2019.01.2-2019.01.31	NTD30,923/USD1,000
December 31, 2017			
Buy forward contracts	NTD/USD	2018.01.13-2019.01.31	NTD194,030/USD6,500

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

Investments in Equity Instruments

	December 31, 2018
Non-current	
Foreign investments	
Unlisted shares	$ 61,620
Domestic investments	
Unlisted shares	21,746
	$ 83,366

These investments in equity instruments are not held for trading. Instead, they are held for medium- to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as it believes that recognizing short-term fluctuations in these investments' fair values in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale and financial assets measured at cost under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT AMORTIZED COST - 2018

	December 31, 2018
Current	
Time deposits with original maturities of more than 3 months (e)	$ 2,310,000

The interest rates for time deposits with original maturities of more than 3 months ranged from 0.40% to 0.68% as of the end of the reporting period. The time deposits were classified as other financial assets under IAS 39. Refer to Notes 3, 6 and 18 for information relating to their reclassification and comparative information for 2017.

10. FINANCIAL ASSETS MEASURED AT COST - 2017

	December 31, 2018
Unlisted ordinary shares	$ 63,704
Unlisted preference shares	473
	$ 64,177
Classified according to financial asset measurement categories	
Available-for-sale financial assets	$ 64,177

Due to the permanent decrease in the value of Jardine Aviation Service held by the Company, the Company 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 Company 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.

11. NOTES RECEIVABLE AND ACCOUNTS RECEIVABLE

	December 31	
	2018	2017
Notes receivable	$ 596,739	$ 361,910
Accounts receivable		
Accounts receivable	8,875,002	7,825,667
Less: Allowance for impairment loss	(191,079)	(142,637)
	8,683,923	7,683,030
	$ 9,280,662	$ 8,044,940

For the year ended December 31, 2018

The average credit period was 7 to 55 days. In determining the recoverability of a trade receivable, the Company considered any change in the credit quality of the 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 Company's past default experience with the counterparty and an analysis of the counterparty's current financial position. The Company adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Company uses other publicly available financial information or its own trading records to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

The Company applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss allowance for all trade receivables. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience with the debtors and an analysis of the debtors' current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Company's historical credit loss experience does not show significantly different loss patterns for different customer segments, the loss allowance based on the past due status is not further distinguished according to the different segments of the Company's customer base.

The Company writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery. For accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables based on the Company's provision matrix.

December 31, 2018

	Not Past Due	Up to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	Total
Expected credit loss rate	0.06%	0.06%	3.67%	21.78%	97.5%	
Gross carrying amount	$ 7,291,910	$ 1,331,529	$ 36,819	$ 41,920	$ 172,824	$ 8,875,002
Loss allowance (lifetime ECLs)	(1,149)	(699)	(3,796)	(12,611)	(172,824)	(191,079)
Amortized cost	$ 7,290,761	$ 1,330,830	$ 33,023	$ 29,309	$ -	$ 8,683,923

The movements of the loss allowance of trade receivables were as follows:

	For the Year Ended December 31, 2018
Balance at January 1, 2018 per IAS 39	$ 142,637
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	142,637
Add: Net remeasurement of loss allowance	50,000
Less: Amounts written off	(2,555)
Foreign exchange gains and losses	997
Balance at December 31, 2018	$ 191,079

December 31, 2017

The Company applied the same credit policy in 2018 and 2017.

Movement in the allowance for impairment loss recognized on notes receivable and trade receivables were as follows:

	For the Year Ended December 31, 2017
Beginning balance	$ 147,204
Impairment loss recognized on receivables	50,000
Amounts written off during the current period	(54,567)
Ending balance	$ 142,637

12. INVENTORIES

	December 31 2018	December 31 2017
Aircraft spare parts	$ 7,669,834	$ 7,970,618
Items for in-flight sale	554,084	569,294
Work in process - maintenance services	227,974	71,046
	$ 8,451,892	$ 8,610,958

The operating costs for the years ended December 31, 2018 and 2017 included losses from inventory write-downs of $371,275 thousand and $324,447 thousand, respectively.

13. NON-CURRENT ASSETS HELD FOR SALE

	December 31 2018	December 31 2017
Aircraft held for sale	$ 46,154	$ 309,330
Long-term equity investments held for sale - Asian Compressor Technology Services	-	117,223
	$ 46,154	$ 426,553

To enhance its competitiveness, the Company plans to introduce new aircraft and retire old aircraft according to a planned schedule. Such aircraft, classified as Non-current 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 2018 and 2017, the Company recognized impairment losses of $75,437 thousand and $3,571,301 thousand, respectively. In 2018 and 2017, the Company recognized disposal gains and losses of $(368,992) thousand and $252,467 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 aircraft. The fair value is classified as Level 3.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31 2018	December 31 2017
Investments in subsidiaries	$ 11,686,577	$ 9,827,299
Investments in associates	497,362	793,477
Investments in jointly controlled entities	974,416	930,593
	$ 13,158,355	$ 11,551,369

a. Investment in subsidiaries

	December 31 2018	December 31 2017
Unlisted companies		
Tigerair Taiwan Co., Ltd.	$ 1,805,921	$ 915,135
CAL Park	1,507,445	1,522,696
Mandarin Airlines	1,201,109	1,211,739
CAL-Dynasty International	1,266,921	1,185,323
Taiwan Air Cargo Terminal	1,533,244	1,339,450
Taoyuan International Airport Services	755,619	654,104
CAL-Asia Investment	494,098	478,933
Sabre Travel Network (Taiwan)	454,149	450,600
CAL Hotel	461,239	435,965
Taiwan Airport Services	266,775	259,459
Hwa Hsia	89,101	83,014
Taiwan Aircraft Maintenance And Engineering Co., Ltd.	1,128,138	1,231,548

(Continued)

	December 31	
	2018	2017
Yestrip	$ 26,946	$ 25,904
Dynasty Holidays	26,059	25,992
Global Sky Express	6,996	7,437
Kaohsiung Catering Services	662,817	-
	$ 11,686,577	$ 9,827,299

(Concluded)

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	
	2018	2017
Tigerair Taiwan Co., Ltd.	90%	90%
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%
Kaohsiung Catering Services	54%	-

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 increased its investment in Taiwan Aircraft Maintenance and Engineering Co., Ltd., with payments of $490,000 thousand, $700,000 thousand in April and November 2017, for the purpose of building hangars.

The Company paid $243,743 thousand on March 7, 2018 to acquire an additional 18% of Kaohsiung Catering, Ltd. (Kaohsiung Catering) of which the Company's holding of the issued share capital exceeded 50%. Kaohsiung Catering is listed as a subsidiary because the Company has control over the investee. For the disclosure of the Company's acquisition of Kaohsiung Catering, refer to Note 30.

The share of profit or loss of subsidiaries recognized under the equity method was as follows:

	2018	2017
The share of profit or loss	$ 1,628,453	$ 1,146,623

b. Investments in associates

	December 31	
	2018	2017
Unlisted companies		
China Aircraft Services	$ 497,362	$ 493,077
Kaohsiung Catering Services	-	300,400
	$ 497,362	$ 793,477

At the end of the reporting period, the proportion of ownership and voting rights in associates held by the Company were as follows:

	December 31	
	2018	2017
China Aircraft Services	20%	20%
Kaohsiung Catering Services	(Note)	36%

Note: Kaohsiung Catering Services was list as a subsidiary on March 7, 2018.

The recognized investment income of associates accounted for using the equity method were as follows:

	2018	2017
China Aircraft Services	$ 6,402	$ 24,470
Kaohsiung Catering Services	-	86,757
Asian Compressor Technology Services	-	88,943
Science Park Logistics	-	21,819
	$ 6,402	$ 221,989

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 reclassified it as Non-current assets held for sale at book value. The transaction was completed and all payments were settled in January 2018. The total transaction price was $471,132 thousand, and a disposition gain of $353,909 thousand was recognized.

c. Investments in jointly controlled entities

The investments in jointly controlled entities were as follows:

	December 31 2018	December 31 2017
China Pacific Catering Services	$ 805,157	$ 756,965
China Pacific Laundry Services	166,901	171,229
NORDAM Asia	2,358	2,399
	$ 974,416	$ 930,593

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 2018	December 31 2017
China Pacific Catering Services	51%	51%
China Pacific Laundry Services	55%	55%
NORDAM Asia	49%	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. NORDAM has filed for bankruptcy reorganization in the USA on July 22, 2018 to solve the business disputation with, their cooperative partner, so their company operation was not impact.

Details of the investment income attributable to investments in jointly controlled entities were as follows:

	December 31 2018	December 31 2017
China Pacific Catering Services	$ 267,413	$ 235,871
China Pacific Laundry Services	16,695	23,354
NORDAM Asia	(41)	(51)
	$ 284,067	$ 259,174

The Company's shares of other comprehensive income of subsidiaries, associates and jointly controlled entities were losses of $(75,996) thousand and $(223,164) thousand in 2018 and 2017, 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, 2018 and 2017 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Flight Equipment	Equipment under Finance Leases	Others	Total
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)
Cost						
Balance at January 1, 2018	$ 193,013	$ 7,304,328	$ 261,114,631	$ 25,594,436	$ 6,163,436	$ 300,369,844
Additions	-	41,016	2,308,683	-	212,288	2,561,987
Disposals	-	(10,349)	(20,305,928)	(1,811,222)	(108,752)	(22,236,251)
Reclassification	-	542	12,462,241	1,428,463	73,574	13,964,820
Balance at December 31, 2018	$ 193,013	$ 7,335,537	$ 255,579,627	$ 25,211,677	$ 6,340,546	$ 294,660,400
Accumulated depreciation and impairment						
Balance at January 1, 2018	$ -	$ (3,717,055)	$ (135,671,634)	$ (13,613,023)	$ (5,102,584)	$ (158,104,296)
Depreciation expense	-	(172,873)	(15,732,018)	(1,993,631)	(293,769)	(18,192,291)
Disposals	-	9,326	19,813,183	1,532,046	89,841	21,444,396
Impairment losses	-	-	(50,000)	-	-	(50,000)
Reclassification	-	-	9,283,041	-	(12,196)	9,270,845
Balance at December 31, 2018	$ -	$ (3,880,602)	$ (122,357,428)	$ (14,074,608)	$ (5,318,708)	$ (145,631,346)

Reclassification is mainly from prepaid equipment.

The above items of property, plant and equipment are 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 aircraft	6-8 years
Engine overhauls	3-10 years
Landing gear overhauls	8-12 years
Repairable spare parts	3-15 years
Leased aircraft improvements	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 $50,000 thousand and $690,579 thousand in 2018 and 2017, respectively.

Refer to Note 34 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 aircraft, real estate, and movable property are adequately insured to diversify the potential risk related to operations.

16. INVESTMENT PROPERTIES

	December 31	
	2018	**2017**
Carrying amount		
Investment properties	$ 2,047,448	$ 2,047,448

The investment properties (land) held Company, located in Nankan, were leased to others.

The fair value of the investment properties held by the Company was $2,473,771 thousand as of December 31, 2018 and 2017, 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.

17. OTHER INTANGIBLE ASSETS

	Computer Software Costs	**Accumulated Amortization**	**Net Value**
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
Balance at January 1, 2018	$ 1,905,354	$ (916,027)	$ 989,327
Additions	155,431	-	155,431
Amortization expense	-	(165,050)	(165,050)
Balance at December 31, 2018	$ 2,060,785	$ (1,081,077)	$ 979,708

The above items of other intangible assets are amortized on a straight-line basis over 2-10 years.

18. OTHER ASSETS

	December 31	
	2018	**2017**
Current		
Temporary payments	$ 290,662	$ 315,372
Prepayments	2,549,376	2,391,132
Others	317,826	513,231
	$ 3,157,864	$ 3,219,735
Non-current		
Prepayments for aircraft	$ 223,745	$ 10,578,892
Prepayments - long-term	1,501,429	1,069,595
Refundable deposits	377,577	424,196
Other financial assets	19,334	18,803
	$ 2,122,085	$ 12,091,486

The prepayments for aircraft comprised the prepaid deposits and capitalized interest from the purchase of A350-900 aircraft. For details on the A350-900 aircraft purchase contracts, refer to Note 35.

19. BORROWINGS

Long-term Borrowings

	December 31 2018	December 31 2017
Unsecured bank loans	$ 7,749,000	$ 23,949,000
Secured bank loans	34,171,875	30,711,508
Commercial paper		
Proceeds from issue	30,300,000	26,100,000
Less: Unamortized discount	58,132	37,897
	72,162,743	80,722,611
Less: Current portion	15,335,005	18,814,633
	$ 56,827,738	$ 61,907,978
Interest rates	0.92%-1.46%	0.92%-1.56%

For information on secured bank loans which were secured by buildings, machinery equipment and flight equipment, refer to Note 34.

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:

	December 31 2018	December 31 2017
Periods	2007/5/24-2030/4/25	2007/5/24-2029/11/9

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 1.0693%-1.2960% in 2017 and 0.9983%-1.2897% in 2016.

20. BONDS PAYABLE

	December 31 2018	December 31 2017
Unsecured corporate bonds first-time issued in 2013	$ 5,500,000	$ 8,200,000
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	2,350,000
Unsecured corporate bonds second-time issued in 2017	3,500,000	3,500,000
Unsecured corporate bonds first-time issued in 2018	4,500,000	-
Convertible bonds - fifth-time issue	1,695,900	1,667,100
Convertible bonds - sixth-time issue	5,673,710	-
	33,219,610	25,717,100
Less: Current portion and put option of convertible bonds	4,445,900	4,367,100
	$ 28,773,710	$ 21,350,000

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
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	2017.05.19-2020.05.19	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	2017.05.19-2024.05.19	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 private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.32% interest p.a., payable annually	2018.11.30-2023.11.30	Principal repayable in November of 2022 and 2023; indicator rate; payable annually	1.32
Seven-year private unsecured bonds - issued at par in November 2018; repayable in November 2022 and 2023; 1.45% interest p.a., payable annually	2018.11.30-2025.11.30	Principal repayable in November of 2022 and 2023; 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	-
Five-year convertible bonds - issued at discount in January 2018; repayable in lump sum upon maturity; 1.3821% discount rate p.a.	2018.01.30-2023.01.30	Except for converting to share capital or buying back, principal repayable in December of 2023	-

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., which held a face value of $300,000 thousand, and the amount was eliminated in the Company's standalone 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 Non-current 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 ordinary 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 ordinary 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

The Company issued the sixth issue of its 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 face value on the third anniversary of the offering date. The holders can exercise the right to sell on January 30, 2021.

c. The Company may redeem the bonds at face value between April 30, 2018 and December 20, 2022 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 ordinary shares. The initial conversion price was set at NT$13.2, 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 August 14, 2018, the conversion price was adjusted to NT$12.9.

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 1.3821% per annum on initial recognition.

Proceeds from issuance	$ 6,012,000
Equity component	(409,978)
Liability component at the date of issuance	$ 5,602,022

21. LEASING

a. Sale-leasebacks - finance leases

	December 31	
	2018	2017
Minimum lease payments - flight equipment		
Within one year	$ 596,000	$ 1,580,000
Later than one year and no later than five years	-	596,000
Present value of minimum lease payments	$ 596,000	$ 2,176,000
Current	$ 596,000	$ 1,580,000
Non-current	-	596,000
	$ 596,000	$ 2,176,000
Interest rates	1.0680%	1.0617%-1.1317%

As of December 31, 2017, the Company had leased A330-300 aircraft, totaling three aircraft, under sale-leaseback 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 aircraft 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 aircraft, fifteen 737-800 aircraft and ten 777-300ER aircraft under operating contracts; the lease terms range from 8 to 12 years.

As of December 31, 2018 and 2017, the refundable deposits paid by the Company under operating lease contracts were $215,425 thousand and $208,995 thousand, respectively. Part of the refundable deposits is secured by credit guarantees. The credit guarantees were $1,437,707 thousand and $1,394,791 thousand, respectively.

The minimum lease payments in the future for the non-cancelable operating lease commitments are as follows:

	December 31 2018	December 31 2017
Up to 1 year	$ 9,943,373	$ 10,145,139
Over 1 year to 5 years	38,789,047	39,313,550
Over 5 years	19,441,872	26,841,927
	$ 68,174,292	$ 76,300,616

The lease payments recognized in profit or loss for the current period are as follows:

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Minimum lease payments	$ 10,024,963	$ 9,989,732

22. OTHER PAYABLES

	December 31 2018	December 31 2017
Fuel costs	$ 3,571,314	$ 3,243,742
Ground service expenses	1,089,125	1,089,306
Repair expenses	960,138	842,845
Interest expenses	260,179	290,902
Short-term employee benefits	2,053,442	2,332,644
Terminal surcharges	914,171	659,454
Commission expenses	484,341	407,109
Others	2,406,589	2,042,750
	$ 11,739,299	$ 10,908,752

23. CONTRACT LIABILITIES/DEFERRED REVENUE

	December 31 2018 Contract Liabilities	December 31 2017 Deferred Revenue
Frequent flyer programs	$ 2,489,950	$ 2,450,702
Advance ticket sales	16,479,196	13,415,588
	$ 18,969,146	$ 15,866,290
Current	$ 17,065,481	$ 14,048,025
Non-current	1,903,665	1,818,265
	$ 18,969,146	$ 15,866,290

Amendments to IFRS 15 on January 1, 2018, the related account of deferred revenue was reclassified as contract liabilities.

24. PROVISIONS

	December 31 2018	December 31 2017
Operating leases - aircraft	$ 7,999,015	$ 7,758,651
Current	$ 268,901	$ 406,457
Non-current	7,730,114	7,352,194
	$ 7,999,015	$ 7,758,651

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, 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
Balance at January 1, 2018	$ 7,758,651
Additional provisions recognized	2,566,045
Usage	(2,539,210)
Effect of exchange rate changes	213,529
Balance at December 31, 2018	$ 7,999,015

25. 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	
	2018	2017
Present value of defined benefit obligation	$ 13,117,255	$ 11,956,223
Fair value of plan assets	(6,184,472)	(5,797,479)
Net defined benefit liabilities	$ 6,932,783	$ 6,158,744

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, 2017	$ 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
Service cost			
Current service cost	1,263,193	-	1,263,193
Net interest expense (income)	116,231	(56,995)	59,236
Recognized in profit or loss	1,379,424	(56,995)	1,322,429
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(168,987)	(168,987)
Actuarial gain - changes in financial assumptions	283,774	-	283,774
Actuarial loss - experience adjustments	560,118	-	560,118
Recognized in other comprehensive income	843,892	(168,987)	674,905

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Contributions from the employer	$ -	$ (1,058,494)	$ (1,058,494)
Benefits paid	(897,483)	897,483	-
Payment to employees direct from the employer	(174,390)	-	(174,390)
Effect on income tax	9,589	-	9,589
Balance at December 31, 2018	$ 13,117,255	$ (6,184,472)	$ 6,932,783

(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	
	2018	2017
Discount rate	0.93%	1.01%
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	
	2018	2017
Discount rate		
0.5% increase	$ (576,271)	$ (534,890)
0.5% decrease	$ 626,381	$ 580,412
Expected rate of salary increase		
0.5% increase	$ 601,326	$ 557,651
0.5% decrease	$ (563,743)	$ (523,509)

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 2018	December 31 2017
The expected contributions to the plan for the next year	$ 722,820	$ 688,096
The average duration of the defined benefit obligation	9.8 years	10 years

26. EQUITY

a. Share capital

Ordinary shares

	December 31 2018	December 31 2017
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	$ 54,209,846	$ 54,709,846

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 ordinary 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 2018	December 31 2017
Income of convertible bonds in excess of par value and conversion premium	$ 315,114	$ 318,020
Gain on sale of treasury shares held by subsidiaries	3,303	2,673
Retirement of treasury shares	33,513	-
Expired employee share options	11,747	11,747
Long-term investments	955	955
Bonds payable equity component	409,978	146,589
Others	466,604	320,015
	$ 1,241,214	$ 799,999

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of ordinary 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 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.

2) Appropriation of earnings and dividends per share in 2017

The appropriation of earnings for 2017 shall 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

3) Appropriation of earnings in 2018

The appropriation of earnings for 2018 shall be resolved in the board of directors meeting to be held on March 20, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 114,493	
Cash dividends	1,136,278	$0.20960737

Company undistributed special reserve of $105,844 thousand.

The appropriation of earnings for 2018 shall be resolved in the shareholders' meeting to be held on June 25, 2019.

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	Unrealized Gain (Loss) on Financial Assets at FVTOCI	Cash Flow Hedges	Gain (Loss) on Hedging Instruments	Total
Balance at January 1, 2017	$ 78,564	$ 1,714	$ -	$ 31,986	$ -	$ 112,264
Exchange differences on translating foreign operations	(134,857)	-	-	-	-	(134,857)
Cumulative loss on changes in fair value of hedging instruments	-	-	-	(283,449)	-	(283,449)
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	166,869	-	166,869
Share of profit of associates accounted for using equity method	(1,619)	60	-	(9,653)	-	(11,212)
Effects of income tax	22,926	-	-	19,818	-	42,744
Other comprehensive income recognized in the period	(113,550)	60	--	(106,415)	-	(219,905)
Balance at December 31, 2017	$ (34,986)	$ 1,774	$ -	$ (74,429)	$ -	$ (107,641)
Balance at January 1, 2018	$ (34,986)	$ 1,774	$ -	$ (74,429)	$ -	$ (107,641)
Adjustments on initial application of IFRS 9	-	(1,774)	42,351	74,429	(74,429)	40,577
Balance at January 1, 2018 after IFRS 9 adjustments	(34,986)	-	42,351	-	(74,429)	(67,064)
Exchange differences on translating foreign operations	34,140	-	-	-	-	34,140
Cumulative loss on changes in fair value of hedging instruments	-	-	-	-	84,984	84,984
Cumulative gain on changes in fair value of hedging instruments reclassified to profit or loss	-	-	-	-	14,354	14,354
Unrealized gain on financial assets at FVTOCI	-	-	(23,830)	-	-	(23,830)
Share of profit or associates accounted for using equity method	(3,188)	-	24,760	-	8,001	29,573
Effect of change in tax rate	1,198	-	(1,209)	-	2,530	2,519
Effects of income tax	(6,828)	-	547	-	(22,290)	(28,571)
Other comprehensive income (loss) recognized in the period	25,322	-	268	-	87,579	113,169
Transfers of initial carrying amount of hedged items	-	-	-	-	12,118	12,118
Balance at December 31, 2018	$ (9,664)	$ -	$ 42,619	$ -	$ 25,268	$ 58,223

e. Treasury shares

Treasury shares are the Company's shares held by its subsidiaries, as of December 31, 2018 and 2017 were as follows:

(Shares in Thousands)

Purpose of Treasury Shares	Buy Back to Write off	Company's Shares Held by Its Subsidiaries	Total
Number of shares, January 1, 2018	-	2,889	2,889
Addition during the year	50,000	-	50,000
Reduction during the year	(50,000)	-	(50,000)
Number of shares, December 31, 2018	-	2,889	2,889
Number of shares, January 1, 2017	-	2,889	2,889
Addition during the year	-	-	-
Number of shares, December 31, 2017	-	2,889	2,889

Subsidiary	Shares (In Thousands)	Carrying Amount	Market Value
December 31, 2018			
Mandarin Airlines	2,075	$ 22,821	$ 22,821
Hwa Hsia	814	8,956	8,956
		$ 31,777	$ 31,777
December 31, 2017			
Mandarin Airlines	2,075	$ 24,169	$ 24,169
Hwa Hsia	814	9,485	9,485
		$ 33,654	$ 33,654

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' right on these treasury shares, except for the right to subscribe for the Company's new shares and voting rights.

To maintain the Company's credit standing and shareholders' rights and interests, the board of directors decided to buy back shares of the Company from Taiwan Stock Exchange at a price from $9 to $14 per share. The expected period of purchase is from August 10, 2018 to October 9, 2018. As of 50,000 thousand shares had been repurchased. The treasury shares held by the Company has retired on December 18, 2018, share capital decreases $500,000 thousand, additional paid-in capital in excess of par-ordinary share decreases $2,906 thousand and additional paid-in capital - treasury share increases $33,513 thousand. Under the Securities Exchange Act, the treasury shares held by the Company cannot be pledged and are not entitled to dividends distribution and voting rights, etc.

27. NET INCOME

a. Revenue

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Passenger	$ 94,248,291	$ 90,560,375
Cargo	49,422,018	42,970,102
Others	6,594,483	6,284,734
	$ 150,264,792	$ 139,815,211

b. Other income

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Interest income	$ 274,189	$ 176,329
Subsidy income	11,200	32,332
Dividend income	9,603	9,564
Others	125,424	142,755
	$ 420,416	$ 360,980

c. Other gains and losses

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
(Loss) gain on disposal property, plant and equipment	$ (273,308)	$ 5,839
(Loss) gain on Non-current assets held for sale	(368,992)	252,467
Net loss on financial assets as held for trading	11,076	(33,385)
Gain (loss) on disposal of investment	450,195	101,105
Gain (loss) on foreign exchange, net	10,812	4,920
Impairment loss recognized on Non-current assets held for sale	(75,437)	(3,571,301)
Impairment loss recognized on flight equipment	(50,000)	(690,579)
Impairment loss on financial assets measured at cost	-	(56,023)
Others	(263,576)	(993,913)
	$ (559,230)	$ (4,980,870)

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 US 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 2018	For the Year Ended December 31 2017
Interest expense		
Bonds payable	$ 414,564	$ 321,457
Bank loans	882,190	907,915
Interest on obligations under finance leases	15,290	45,621
Loss on derivatives designated as hedging instruments in cash flow hedge accounting relationships reclassified from equity to profit or loss	-	2,814
	$ 1,312,044	$ 1,277,807

Information about capitalized interest was as follows:

	2018	2017
Capitalization interest	$ 37,174	$ 212,557
Capitalization rate	1.16%-1.31%	1.31%-1.41%

e. Depreciation and amortization expenses

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Property, plant and equipment	$ 18,192,291	$ 17,375,194
Intangible assets	165,050	247,725
	$ 18,357,341	$ 17,622,919
An analysis of depreciation by function		
Operating costs	$ 17,907,878	$ 17,097,228
Operating expenses	284,413	277,966
	$ 18,192,291	$ 17,375,194
An analysis of amortization by function		
Operating expenses	$ 165,050	$ 247,725

f. Employee benefits expense

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Post-employment benefits		
Defined contribution plans	$ 365,707	$ 344,228
Defined benefit plans	1,322,429	897,383
	$ 1,688,136	$ 1,241,611

(Continued)

	For the Year Ended December 31	
	2018	2017
Other employee benefits		
Salary expenses	$ 15,010,513	$ 15,179,456
Labor and health insurance	1,242,585	1,167,348
Personnel service expenses	3,610,480	3,636,354
	$ 19,863,578	$ 19,983,158
An analysis of employee benefits expense by function		
Operating costs	$ 17,751,051	$ 17,376,793
Operating expenses	3,800,663	3,847,976
	$ 21,551,714	$ 21,224,769

(Concluded)

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 year ended December 31, 2017, the employees' compensation was $799,768 thousand, respectively, of the base net profit. The employees' compensation and profit bonus for the year ended December 31, 2018 was $51,656 thousand and $594,810 thousand.

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 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

28. 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	
	2018	2017
Current tax		
Current year	$ 22,506	$ 27,142
Prior year adjustment	4,866	1,617
Deferred tax		
Current year	1,366,740	851,378
Effect of income tax	(868,842)	-
Income tax expense recognized in profit or loss	$ 525,270	$ 880,137

A reconciliation of accounting profit and income tax expense is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax	$ 2,315,631	$ 3,088,203
Income tax expense calculated at the statutory rate (20% for 2018, 17% for 2017)	$ 463,126	$ 524,995
Add (deduct) tax effects of:		
Nondeductible expenses in determining taxable income	20,098	5,122
Tax-exempt income	(343,107)	(283,157)
Overseas income tax expense	22,506	17,236
Additional income tax under the Alternative Minimum Tax Act	-	9,906
Unrecognized loss carryforwards and investment tax credits	1,227,000	612,000
Effect of income tax	(868,842)	-
Adjustments for prior years' tax	4,866	1,617
Other	(377)	(7,582)
Income tax expense recognized in profit or loss	$ 525,270	$ 880,137

It was announced that the Income Tax Law in the ROC. 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%.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ (6,828)	$ 22,926
Fair value revaluation of hedging instruments for cash flow hedges	(22,290)	19,818
Actuarial gain or loss on defined benefit plan	134,979	109,687
Fair value changes of financial assets at FVTOCI	547	-
Effect of income tax	2,519	-
Total income tax recognized in other comprehensive income	$ 108,927	$ 152,431

c. Deferred tax assets and liabilities

For the year ended December 31, 2018

	Beginning Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Ending Balance
Deferred tax assets				
Temporary differences				
Defined benefit plans	$ 1,055,972	$ 205,081	$ 134,980	$ 1,396,033
Frequent flyer programs	426,106	83,954	-	510,060
Maintenance reserve	1,395,805	279,168	-	1,674,973
Allowance for reduction of inventory	237,366	96,287	-	333,653
Others	1,079,923	(420,179)	(13,117)	646,627
Loss carryforwards	779,769	(779,769)	-	-
	$ 4,974,941	$ (535,458)	$ 121,863	$ 4,561,346
Deferred tax liabilities				
Temporary differences				
Depreciation difference from fixed assets	$ 31,010	$ (31,010)	$ -	$ -
Unrealized foreign exchange gains	915	(915)	-	-
Others (Note)	13,894	(5,635)	12,936	21,195
	$ 45,819	$ (37,560)	$ 12,936	$ 21,195

Note: Included adjustments on initial application due to tax rate changes $6,873 thousand from IFRS 9.

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

(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	$ 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

(Concluded)

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 2018	December 31 2017
Loss carryforwards		
2019	$ 11,790,770	$ 10,900,000
2021	2,899,496	-
2022	619,799	-
2026	202,699	-
2028	1,326,528	-
	$ 16,839,292	$ 10,900,000
Other	$ 39,142	$ -

d. Unused tax loss carryforwards as of December 31, 2018 were as follows:

Expiry Year	Unused Amount
2019	$ 11,790,770
2021	2,899,496
2022	619,799
2026	202,699
2028	1,326,528
	$ 16,839,292

e. Income tax returns

The income tax returns of the Company through 2016 have been examined by the tax authorities.

29. EARNINGS PER SHARE

	For the Year Ended December 31 2018	2017
Basic earnings per share	$ 0.33	$ 0.40
Diluted earnings per share	$ 0.32	$ 0.39

	For the Year Ended December 31 2018	2017
Earnings used in the computation of basic earnings per share	$ 1,790,361	$ 2,208,066
Effect of potentially dilutive ordinary shares:		
Interest on convertible bonds (after tax)	81,463	24,801
Earnings used in the computation of diluted earnings per share	$ 1,871,824	$ 2,232,867
Weighted average number of ordinary shares in computation of basic earnings per share	5,453,579	5,468,030
Effect of potentially dilutive ordinary shares:		
Convertible bonds	457,481	145,763
Employees' compensation or bonuses issued to employees	8,821	70,259
Weighted average number of ordinary shares used in the computation of diluted earnings per share	5,919,881	5,684,052

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.

30. BUSINESS COMBINATIONS

As stated in Note 14, the other disclosures of the Company's acquisition of Kaohsiung Catering on March 7, 2018 are as follows:

a. Acquisition-related cash amounting to $243,743 thousand.

b. Assets acquired and liabilities assumed at the date of acquisition.

Assets	
Current assets (included cash and cash equivalents of $380,512)	$ 918,033
Property, plant and equipment	553,390
Intangible assets	186,883
Other assets	49,479
Total assets	1,707,785
Liabilities	(486,356)
Identifiable net assets	$ 1,221,429

c. The Company acquired the control of Kaohsiung Catering (the date of acquisition), and the 35.78% equity held by the equity method was remeasured at the fair value of the acquisition date and the difference recognized in gain on disposal of investment is $69,671 thousand.

d. The non-controlling interest of Kaohsiung Catering (46.33% of equity) was valued $565,888 thousand; at the fair value of the identifiable net assets attributed to the non-controlling interest on the date of acquisition.

e. The bargain purchase benefit of $26,615 thousand of Kaohsiung Catering (the date of acquisition) was measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

f. Impact of acquisitions of the Company

From the acquisition date, the operating results from the acquired company, which are included in the standalone statements of comprehensive income, are as follows:

	Kaohsiung Catering
Profit	$ 123,261

Had these business combinations been in effect at the beginning of the annual reporting period, the Company's profit from continuing operations would have been $1,810,474 thousand. This pro-forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

31. 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.

32. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities				
Bonds payable	$ 33,219,610	$ 31,651,865	$ 25,717,100	$ 25,818,511
Bank loans	72,162,743	70,171,333	80,722,611	82,735,255

Some long-term borrowings and capital lease obligations are floating-rate financial liabilities, so their carrying amounts are their fair values. The fair values of long-term borrowings and private bonds with fixed interest rates are estimated at the present value of expected cash flows discounted at rates of 0.68% in 2018 and 0.75% in 2017 prevailing in the market for long-term borrowings (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).

b. 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:

1) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) 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

3) 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, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
United shares - domestic	$ -	$ -	$ 21,746	$ 21,746
Unlisted shares - foreign	-	-	61,620	61,620
	$ -	$ -	$ 83,366	$ 83,366
Financial liabilities at FVTPL				
Derivative instruments	$ -	$ 221	$ -	$ 221
Financial assets for hedging	$ -	$ 22,453	$ 4,901	$ 27,354
Financial liabilities for hedging	$ -	$ 239	$ -	$ 239

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

There were no transfers between Level 2 and 3 in the current and prior periods.

4) 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.

5) 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.

The domestic unlisted equity investment is based on the comparative company valuation to estimate the fair value. The main assumptions are based on the multiplier of the market price of the comparable listed company and the net value per share, which have considered the liquidity discount. The higher the multiplier or the lower the liquidity discount, the higher the fair value of the relevant financial instruments. The multiplier on September 30, 2018 ranged from 0.85 to 18.68, and the liquidity discount is 80%.

The movements of Level 3 financial instruments are as follows:

	Derivative Instruments	Equity Instruments
Balance at January 1, 2018	$ -	$ 64,177
Adjustments on initial application of IFRS 9	-	43,019
Other comprehensive income recognized during the period	4,901	(23,830)
Balance at December 31, 2018	$ 4,901	$ 83,366

There were no financial assets measured using Level 3 fair value measurements in 2017.

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.

c. Categories of financial instruments

	December 31	
	2018	2017
Financial assets		
Available-for-sale financial assets (Note 3)	$ -	$ 64,177
Financial assets for hedging	27,354	-
Derivative financial assets for hedging	-	293
Loans and receivables (Note 1)	-	26,095,060
Financial assets at amortized cost (Note 4)	31,630,697	-
Financial assets at FVTPCI - equity instrument investment	83,366	-
Financial liabilities		
Financial liabilities at FVTPL	221	9,581
Financial liabilities for hedging	239	-
Derivative financial assets for hedging	-	84,633
Financial liabilities at amortized cost (Note 2)	120,519,575	121,598,470

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 debts, 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 non-current liabilities and guarantee deposits.

Note 3: The balances include financial assets measured at cost.

Note 4: 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 and other restricted financial assets.

d. 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 2018 of $86,030 thousand and an increase in pre-tax profit in 2017 of $109,319 thousand.

For the year ended December 31, 2018

The Company's hedging strategy is to enter into foreign exchange forward contracts to avoid exchange rate exposure of its foreign currency denominated receipts and payments and to manage exchange rate exposure of its aircraft prepayments in the next year. Those transactions are designated as cash flow hedges. When forecasted purchases actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable aircraft prepayments, as the critical terms (i.e. the notional amount, useful life and underlying asset) of the foreign exchange forward contracts and their corresponding hedged items are the same, the Company performs a qualitative assessment of the effectiveness, and it is expected that the value of the foreign exchange forward contracts and the value of the corresponding hedged items will systematically change in the opposite direction in response to movements in the underlying exchange rates.

The following table summarizes the information relating to the hedges of foreign currency risk.

December 31, 2018

Hedging Instruments	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedge							
Aircraft rentals - forward exchange contracts	NTD/USD	NTD1,669,231/ USD54,250	2019.1.17-2019.12.23	28.3-30.7	Financial assets for hedging/liabilities for hedging	$ 22,453	$ 239

The above mentioned hedging instruments continue to be applied to hedging accounting. The book value of other equity which belongs to each hedging item (aircraft rentals in U.S. dollars and Aircraft prepayment) are $22,214 thousand.

For the year ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedge			
Aircraft rentals	$ 70,553	$ (4,933)	(Note)
Aircraft prepayments	23,884	-	
	$ 94,437	$ (4,933)	

Note: Increase in operating costs.

And the amount of gains and losses on hedging instruments for the three months ended December 31, 2018 reclassified from profit or loss to prepayments for equipment was $12,118 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 2018	December 31 2017
Fair value interest rate risk	$ 33,523,710	$ 27,717,100
Cash flow interest rate risk	70,758,743	80,898,611

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, 2018 would have decreased by $176,897 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, 2017 would have decreased by $202,247 thousand.

c) Other price risk

The Company was exposed to fuel price risk on its purchase of aviation fuel. The Company enters into fuel swap contracts to hedge against adverse risks on fuel price changes.

December 31, 2018

Hedging Instrument	Currency	Notional Amount	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount Asset	Carrying Amount Liability
Cash flow hedges - fuel options	USD	NT$4,901	2019.1.31-2019.12.31	US$72-US$88	Financial assets for hedging	$ 4,901	$ -

Hedge accounting is continued to be applied to the abovementioned hedging instruments continue to be applied to hedging accounting. The carrying amount of other equity which belongs to each hedging item (fuel payments) is $4,901 thousand.

For the year ended December 31, 2018

Comprehensive Income	Hedging Gain (Loss) Recognized in Other Comprehensive Income	Amount Reclassified to Profit and Loss and the Adjusted Line Item	
Cash flow hedges - fuel options	$ 4,901	$ (9,421)	(Note)

Note: Increase in operating costs.

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			
	2018		2017	
	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)	Pre-tax Profit Increase (Decrease)	Other Compre-hensive Income Increase (Decrease)
Fuel price increase of 5%	$ -	$ -	$ -	$ -
Fuel price decrease of 5%	-	-	-	-

d) Hedge accounting in 2017

The relevant hedging strategies of the Company in 2017 are the same as the aforementioned in 2018, except for the following special instructions.

Derivative financial instrument for hedging

	December 31, 2017
Derivative financial assets under hedge accounting	
Foreign exchange forward contracts	$ 293
Current	$ 293
Non-current	-
	$ 293
Derivative financial liabilities under hedge accounting	
Foreign exchange forwards contracts	$ 84,633
Current	$ 77,639
Non-current	6,994
	$ 84,633

The fair value of each derivative contract is determined using quotes from financial institutions.

Cash flow hedges

Foreign exchange forward contracts.

The Company 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.

December 31, 2017

	Currency	Maturity Date	Notional Amount (In Thousands)
Buy forward contracts	NTD/USD	2018.1.16-2019.6.21	NTD6,649,254/USD222,750

Gains and losses of hedging instruments reclassified from equity to profit or loss were included in the following line items in the standalone statements of comprehensive income:

	December 31, 2017
Increase in operating costs	$ (52,034)
Increase in finance costs	(2,814)
Other foreign exchange losses	(11,654)
	$ (66,502)

The amount of gains and losses on hedging instruments for the year ended December 31, 2017 reclassified from profit or loss to prepayments for equipment was $103,369 thousand.

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 Company 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, 2018

	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	1.0627	$ 75,583	$ 526,160	$ -	$ -	$ -
Floating interest rate liabilities	1.1084	6,870,598	7,179,976	14,045,872	25,807,093	18,293,128
Fixed interest rate liabilities	1.1800	2,005,900	-	-	-	-
Derivative instruments	-	239	-	-	-	-
Bonds payable	1.3905	4,877,118	1,122,203	6,496,270	24,339,179	1,051,418
		$ 13,829,438	$ 8,828,339	$ 20,542,142	$ 50,146,272	$ 19,344,546

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

Loan commitments

	December 31	
	2018	2017
Unused bank loan limit (unsecured)	$ 17,337,100	$ 25,181,000

33. 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
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 (become subsidiary in March 2018)
Science Park Logistics	Associate (disposal in August 2017)
Asian Compressor Technology Services	Associate (disposal in January 2018)

(Continued)

Name	Relationship with the Company
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 2018	2017
Other income	Subsidiary	$ 2,651,423	$ 2,937,333
	Major shareholder of the Company	$ 28,670	$ 31,971
	Associate	$ 523	$ 1,938
	Joint venture investment	$ 41,410	$ 46,461

c. Purchases

Related Party Type	For the Year Ended December 31 2018	2017
Subsidiary	$ 3,843,308	$ 3,081,697
Major shareholder of the Company	$ 64,188	$ 71,852
Associate	$ 501,609	$ 745,686
Joint venture investment	$ 1,912,995	$ 1,857,684

d. Accounts receivable - related parties (generated by operations)

Related Party Type	December 31 2018	2017
Subsidiary	$ 289,268	$ 502,229
Joint venture investment	7,589	6,431
Major shareholder of the Company	1,454	1,928
	$ 298,311	$ 510,588

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 2018	2017
Subsidiary	$ 1,050,869	$ 903,200
Associate	54,948	116,525
Joint venture investment	474,499	469,827
Major shareholder of the Company	3,368	4,454
	$ 1,583,684	$ 1,494,006

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 2018 and 2017, the rentals received amounted to $1,685,494 thousand and $1,105,171 thousand, respectively.

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 2018 and 2017, the Company paid rentals of about $64,188 thousand and $71,852 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 2018 and 2017, the Company paid rentals of about $231,288 thousand and $228,942 thousand, respectively.

g. Endorsements and guarantees

	December 31 2018		2017	
	Authorized Amount	Actual Amount Used	Authorized Amount	Actual Amount Used
The Company				
CAL Park	$ 3,850,000	$ 2,339,700	$ 3,850,000	$ 2,850,000
Taiwan Air Cargo Terminal	1,080,000	-	1,080,000	318,611
Tigerair Taiwan	1,081,792	418,491	1,055,604	405,998
Taiwan Air Craft Maintenance	2,000,000	605,457	-	-

h. Bonds payable - related parties

Related parties that invested in the first issue of unsecured bonds in 2016 (Note 19) are summarized as follows:

Related Party	December 31, 2017 Units	December 31, 2017 Aggregate Par/Dollars
The first issue of unsecured bonds in 2017		
Mandarin Airlines	250	$ 250,000
Sabre Travel Network (Taiwan)	50	50,000

In 2018, interest expenses was $3,570 thousand. This bonds payable will be paid off in May 2021. As of December 31, 2018 the interest payable was $2,142 thousand.

i. Compensation of key management personnel

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Short-term employee benefits	$ 44,551	$ 46,805
Post-employment benefits	3,295	4,007
	$ 47,846	$ 50,812

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

34. PLEDGED ASSETS

The following assets were pledged or mortgaged as collateral for long-term bank loans, lease obligations and business transactions:

	December 31 2018	December 31 2017
Property, plant and equipment	$ 37,468,142	$ 39,041,679

35. 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 aircraft from Airbus, with the option to buy six more A350-900 aircraft, as of December 31, 2018, fourteenth of the aircraft had been handed over to the Company.

36. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The Company failed to mediate labor disputes with the labor unions. After obtaining the right to strike, the labor union went on strike at 0:00 February 8, 2019, and the flights resumed normal operation on February 14, 2019. The initial estimated compensation for customer losses and various expenses were $154 million. For other information, refer to "Pubic Information Observatory" of the Taiwan Stock Exchange.

37. 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, 2018

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
Financial assets			
Monetary items			
USD	$ 440,565	30.7692	$ 13,555,830
EUR	20,511	35.2113	722,232
HKD	297,496	3.9231	1,167,107
JPY	5,521,288	0.2778	1,533,814
RMB	345,777	4.4803	1,549,187
Financial liabilities			
Monetary items			
USD	355,535	30.7692	10,939,528
EUR	6,511	35.2113	229,264
HKD	70,900	3.9231	278,149
JPY	4,866,894	0.2778	1,352,023
RMB	126,539	4.4803	566,931

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

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate	Carrying Amount
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

(Concluded)

For the years ended December 31, 2018 and 2017, the Company's net foreign exchange gains (losses) were $10,812 thousand and $4,920 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.

38. 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 32.

b. Investment in mainland China: Table 7 (attached).

39. 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, 2018
(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	$ 11,416,314	$ 3,850,000	$ 3,850,000	$ 2,339,700	$ -	6.74	$ 28,540,786	Y	N	N
		Taiwan Air Cargo Terminal	54% subsidiary	11,416,314	1,080,000	1,080,000	-	-	1.89	28,540,786	Y	N	N
		Tigerair Taiwan Ltd.	100% subsidiary by direct and indirect holdings	11,416,314	1,087,224	1,081,792	418,491	-	1.90	28,540,786	Y	N	N
		Taiwan Aircraft Maintenance and Engineering Co., Ltd.	100% subsidiary	11,416,314	2,000,000	2,000,000	605,457	-	3.50	28,540,786	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, 2018
(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, 2018				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. - ordinary shares	-	Financial assets at FVTOCI - non-current	1,495,305	$ 56,018	13.59	$ 61,620	Note 1
	Everest Investment Holdings Ltd. - preference shares	-	Financial assets at FVTOCI - non-current	135,937	5,602	-		
	Chung Hua Express Co.	-	Financial assets at FVTOCI - non-current	1,100,000	21,746	11.00	21,746	
	Jardine Air Terminal Services	-	Financial assets at FVTPL - current	12,000,000	-	15.00	-	
	The Grand Hi Lai Hotel	-	Financial assets at FVTPL - current	4,021	-	0.02	-	
Mandarin Airlines	Shares							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	2,074,628	22,821	-	22,821	-
	Beneficiary certificates							
	Barclays America Bonds Fund	-	Financial assets at FVTPL - current	1,000,000	30,837	-	30,837	-
CAL-Asia Investment	Shares							
	Taikoo (Xiamen) Landing Gear Services	-	Financial assets at FVTPL - current	-	-	2.59	-	Note 2
	Taikoo Spirit Aerospace Systems (Jinjiang) Composite	-	Financial assets at FVTOCI - non-current	-	48,825	5.45	48,825	Note 2
Sabre Travel Network (Taiwan)	Beneficiary certificates							
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	3,492,097	36,041	-	36,041	-
Taiwan Airport Services	Shares							
	TransAsia Airways	-	Financial assets at FVTPL - current	2,277,786	-	0.4	-	-
	Beneficial certificates							
	Fuh Hwa Emerging Market Short-term Income Fund	-	Financial assets at FVTPL - current	787,007	9,042	-	9,042	-
Hwa Hsia	Shares							
	China Airlines	Parent company	Financial assets at FVTOCI - non-current	814,152	8,956	-	8,956	-
	Beneficiary certificates							
	Taishin 1699 Money Market Fund	-	Financial assets at FVTPL - current	349,523	4,721	-	4,721	-
Kaohsiung Catering Services	Beneficiary certificates							
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	7,939,173	125,360	-	125,360	-

(Continued)

Note 1: The subsidiary's net asset value was $61,620 thousand, which included ordinary shares and preference shares as of and for the year ended December 31, 2018.

Note 2: The Company does not issue shares because it is a limited company.

Note 3: The table only lists financial assets that are IFRS 9 regulated.

(Concluded)

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, 2018
(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													
	Asian Compressor Technology Services	Investments accounted for using the equity method	MB Aerospace	Non-related party	-	$ -	-	$ -	-	$ -	$ -	$ -	-	$ -
	Kaohsiung Catering Services	Investments accounted for using the equity method	TransAsia Airways	Non-related party	-	-	-	-	-	-	-	-	-	-
Tigerair Taiwan Co., Ltd.	NT-dollar 100% principal-protected structural products	Financial assets at FVTPL - current	President Securities Corp.	Non-related party	-	300,000	-	3,030,000	-	3,330,000	3,330,000	-	-	-

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, 2018
(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	$ 599,309	0.44	30 days	$ -	-	$ (46,076)	(5.40)	-
	Taiwan Airport Services	Subsidiary	Purchase	434,538	0.32	40 days	-	-	(74,816)	(8.77)	-
	CAL Park	Subsidiary	Purchase	231,288	0.17	2 months	-	-	(121,426)	(14.24)	-
	CAL Hotel	Subsidiary	Purchase	107,273	0.08	1 months	-	-	(13,982)	(1.64)	-
	Mandarin Airlines	Subsidiary	Sale	(2,155,732)	(1.43)	2 months	-	-	235,253	2.35	-
	Mandarin Airlines	Subsidiary	Purchase	236,744	0.17	2 months	-	-	(278,323)	(32.64)	-
	Taoyuan International Airport Service	Subsidiary	Purchase	1,247,054	0.91	40 days	-	-	(365,115)	(42.82)	-
	Kaohsiung Catering Services	Subsidiary	Purchase	462,577	0.34	60 days	-	-	(74,641)	(8.75)	-
	Hua Hsia	Subsidiary	Purchase	333,255	0.24	2 months	-	-	(54,352)	(6.37)	-
	Tigerair Taiwan	Subsidiary	Sale	(336,530)	(0.22)	1 months			42,084	0.42	
	Tigerair Taiwan	Subsidiary	Purchase	141,030	0.10	1 months	-	-	(21,538)	(2.53)	-
	Eastern United International Logistics	Equity-method investee	Purchase	238,356	0.17	2 months	-	-	(22,145)	(2.60)	-
	China Pacific Catering Services	Equity-method investee	Purchase	1,784,963	1.30	90 days	-	-	(454,920)	(53.35)	-
	China Aircraft Services	Equity-method investee	Purchase	180,238	0.13	30 days	-	-	(31,988)	(3.75)	-
	China Pacific Laundry Services	Equity-method investee	Purchase	128,033	0.09	2 months	-	-	(19,579)	(2.30)	-
Mandarin Airlines	Taiwan Airport Services	Same parent company	Purchase	152,652	2.71	1 months	-	-	(24,608)	(2.02)	-
Tigerair Taiwan	Taoyuan International Airport Service	Same parent company	Purchase	179,798	(3.28)	1 months	-	-	(17,699)	(2.96)	-
CAL Hotel	CAL Park	Same parent company	Purchase	114,281	28.70	1 months			(388)	(17.50)	

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, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. (“China Airlines”)	Mandarin Airlines	Subsidiary	$ 235,253	Note	$ -	-	$ 235,253	$ -
Mandarin Airlines	China Airlines	Parent company	278,323	Note	-	-	276,142	-
China Pacific Catering Services	China Airlines	Parent company	454,920	3.90	-	-	301,208	-
CAL Park	China Airlines	Parent company	121,426	1.90	-	-	121,426	-
Taoyuan International Airport Service	China Airlines	Parent company	365,115	3.48	-	-	362,163	-

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, 2018
(In Thousands of 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, 2018			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2018	December 31, 2017	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	$ 1,507,445	$ 3,143	$ 3,143	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368	2,042,368	188,154,025	93.99	1,201,109	24,824	22,878	Note 1
	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	1,350,000	1,350,000	135,000,000	54.00	1,533,244	359,195	193,964	-
	CAL-Dynasty International	Los Angeles, USA	A holding company, real estate and hotel services	US$ 26,145	US$ 26,145	2,614,500	100.00	1,266,921	43,975	43,975	Note 2
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	439,110	439,110	43,911,000	51.00	805,157	524,339	267,413	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000	147,000	34,300,000	49.00	755,619	282,254	138,305	-
	CAL-Asia Investment	Territory of the British Virgin Islands	General investment	US$ 7,172	US$ 7,172	7,172,346	100.00	494,098	26,115	26,115	-
	Sabre Travel Network (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	52,200	52,200	13,021,042	93.93	454,149	188,247	176,820	-
	China Aircraft Service	Hong Kong International Airport	Airport services	HK$ 58,000	HK$ 58,000	28,400,000	20.00	497,362	32,012	6,402	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289	12,289	20,626,644	47.35	266,775	133,894	63,399	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	383,846	140,240	21,494,637	53.67	662,817	296,678	138,460	Note 5
	CAL Hotel Co., Ltd	Taoyuan, Taiwan	Hotel business	465,000	465,000	46,500,000	100.00	461,239	25,274	25,274	-
	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	166,901	30,355	16,695	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	77,270	77,270	77,270	100.00	89,101	14,616	14,439	Note 1
	Yestrip	Taipei, Taiwan	Travel business	26,265	26,265	1,600,000	100.00	26,946	1,437	1,438	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400	JPY 20,400	408	51.00	26,059	(2,297)	(1,172)	-
	Global Sky Express	Taipei, Taiwan	Forwarding and storage of air cargo	2,500	2,500	250,000	25.00	6,996	5,137	1,284	-
	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	1,648,387	1,600,000	180,000,000	90.00	1,805,921	981,713	883,542	-
	Taiwan Aircraft Maintenance and Engineering Co., Ltd.	Taoyuan, Taiwan	Aircraft maintenance	1,350,000	1,350,000	135,000,000	100.00	1,128,138	(103,410)	(103,410)	
	NORDAM Asia Ltd.	Taoyuan, Taiwan	Aircraft maintenance	2,450	2,450	245,000	49.00	2,358	(83)	(41)	
Mandarin Airlines	Tigerair Taiwan Co., Ltd.	Taipei, Taiwan	Air transportation and maintenance of aircraft	200,000	200,000	20,000,000	10.00	200,658	981,713	98,171	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	11,658	11,658	469,755	1.08	6,068	133,894	1,442	
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	44,193	19,703	6,865	-
Taiwan Airport Services	Taiwan Airport Service (Samoa)	Samoa	Airport services and investment	US$ 5,877	US$ 5,877	-	100.00	388,910	27,353	27,353	Note 3
Kaohsiung Catering Services	Delica International Co., Ltd	Kaohsiung, Taiwan	Catering business	10,200	10,200	1,020,000	51.00	7,870	3	2	Note 4

Note 1: Adopted the treasury shares method in recognizing investment income or loss.

Note 2: Represents the standalone 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: Investee acquired by merger.

Note 5: Difference cause by acquisition.

CHINA AIRLINES, LTD. AND INVESTEES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of 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, 2018	Investment Flow: Outflow	Investment Flow: Inflow	Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,140,143 (RMB 254,480)	Indirect (Note 1)	$ 128,799 (US$ 4,186)	$ -	$ -	$ 128,799 (US$ 4,186)	$ 80,455 (RMB 17,650)	14.00	$ 11,307 (RMB 2,471)	$ 222,073 (RMB 49,567)	$ 86,208 (US$ 2,802) (Note 2)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,724 (RMB 14,000)	Indirect (Note 1)	59,921 (US$ 1,947)	-	-	59,921 (US$ 1,947)	114,760 (RMB 25,175)	14.00	16,130 (RMB 3,525)	116,600 (RMB 26,025)	26,933 (US$ 875) (Note 2)
Taikoo (Xiamen) Landing Gear Services	Landing gear maintenance services	1,135,077 (US$ 36,890)	Indirect (Note 1)	66,191 (US$ 2,151)	-	-	66,191 (US$ 2,151)	-	2.59	-	-	-
Taikoo Spirit Aerospace Systems (Jinjang)	Composite material	358,862 (US$ 11,663)	Indirect (Note 1)	19,569 (US$ 636)	-	-	19,569 (US$ 636)	-	5.45	-	48,825 (RMB 10,898)	-

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment
$274,481 (US$8,920)	$665,586 (Note 3)	$36,028,250 (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, 2018	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2018	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Amount as of December 31, 2018	Accumulated Repatriation of Investment Income as of December 31, 2018
					Outward	Inward						
Airport Air Cargo Terminal (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	$ 1,140,143 (RMB 254,480)	Indirect (Note 5)	$ 123,642 (US$ 4,018)	$ -	$ -	$ 123,642 (US$ 4,018)	$ 80,455 (RMB 17,650)	14	$ 11,264 (RMB 2,471)	$ 220,818 (RMB 49,287)	$ 117,118 (US$ 3,806)
Airport Air Cargo Service (Xiamen) Co., Ltd.	Forwarding and storage of air cargo	62,724 (RMB 14,000)	Indirect (Note 5)	59,285 (US$ 1,927)	-	-	59,285 (US$ 1,927)	114,760 (RMB 25,175)	14	16,066 (RMB 3,525)	116,817 (RMB 26,073)	43,280 (US$ 1,407)

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
$182,926 (US$5,945)	$182,926 (US$5,945)	$338,046 (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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