

China Airlines 2019 Investor Conference

August 23, 2019

TSE : 2610

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Agenda

1. **1st Half 2019 Operating Results**
2. **Aviation Industry Outlook**
3. **Passenger Performance and Strategies**
4. **Cargo Performance and Strategies**
5. **Operating Fleet**

1st Half 2019 Operating Results

Operating Performance

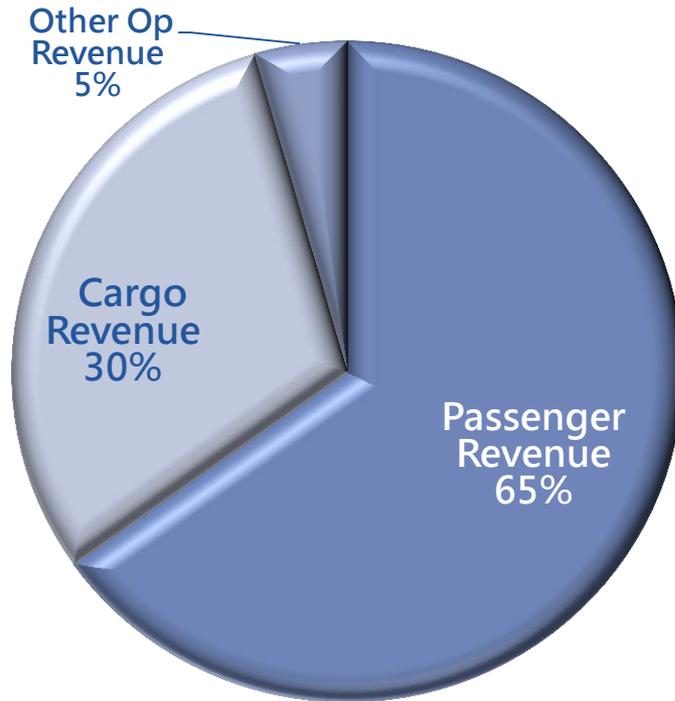
Consolidated Financial Statistics			TWD 100 Million
	1 st Half 2018	1 st Half 2019	YoY %
Operating Revenue	810.11	832.98	2.82%
Net Operating Income	11.98	13.34	11.35%
Net Income (Loss) After Tax	4.03	-4.38	-
Net Income (Loss) Attributable to Owners of the company	1.89	-6.86	-
Earnings (Losses) Per Share (NT\$)	0.03	-0.13	-

Financial Statistics (CI only) (Exclude adopting IFRS 16 “Leases” impact)			TWD 100 Million
	1 st Half 2018	1 st Half 2019	YoY %
Net Income (Loss) Attributable to Owners of the company	1.89	-6.86	-
Reconcile : adopting IFRS 16 “Leases” impact	0	3.95	-
Adjusted Net Income Attributable to Owners of the company	1.89	-2.91	-

Composition of Op. Revenue

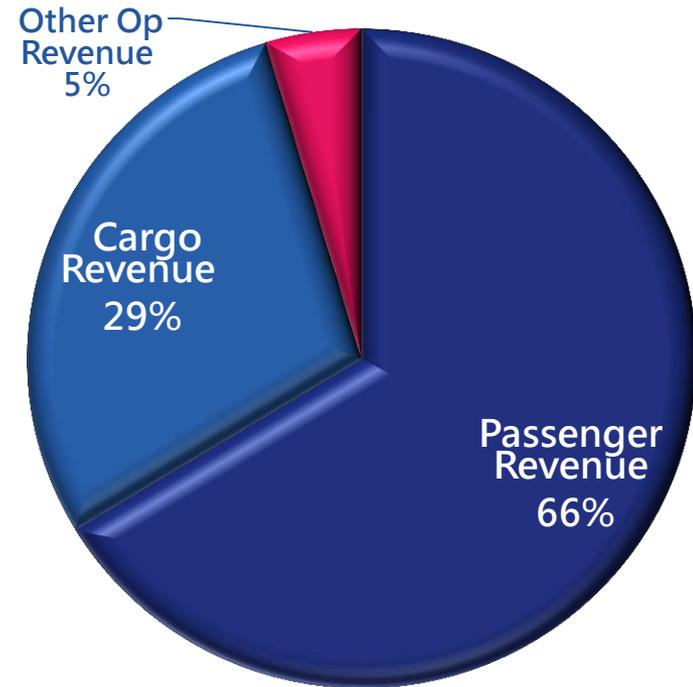
1st Half 2018

TWD 71.16 Billion



1st Half 2019

TWD 72.01 Billion

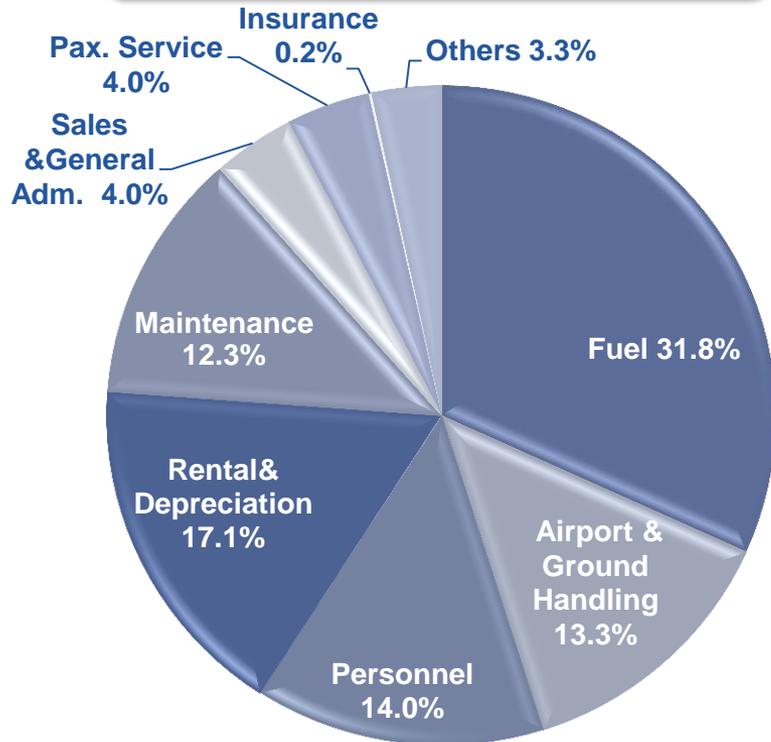


In the first half of 2019, Passenger, Cargo and other operating revenues accounted for 66%, 29% and 5% respectively.

Composition of Op. Expenses

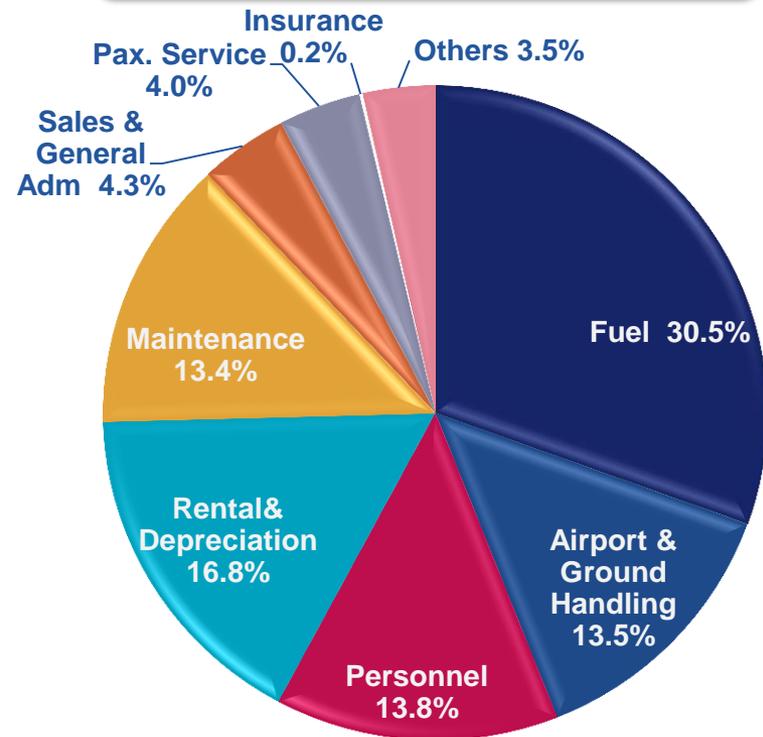
1st Half 2018

TWD 71.12 Billion



1st Half 2019

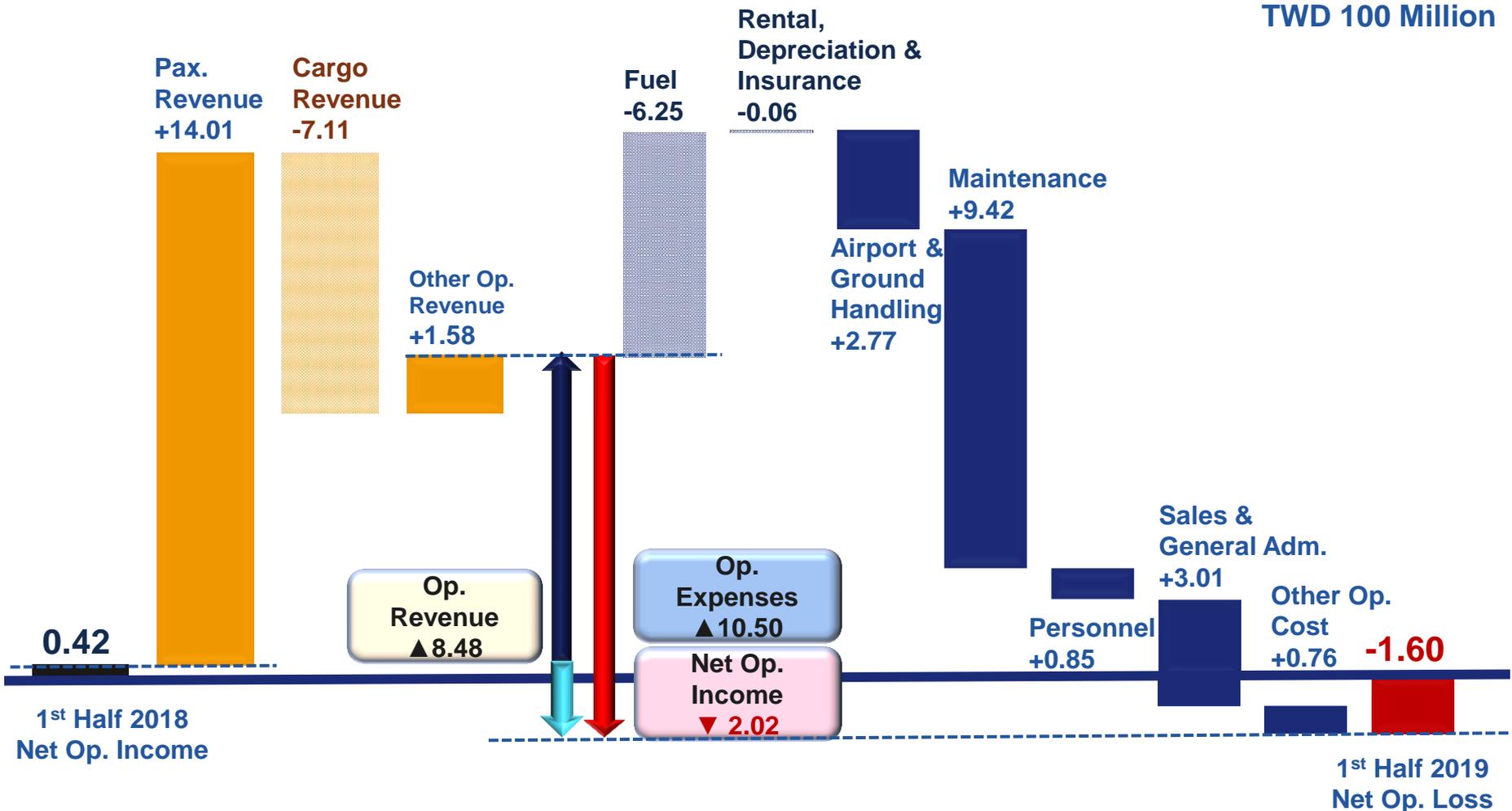
TWD 72.17 Billion



In the first half of 2019, Fuel cost accounted for 30.5% of operating expenses mainly due to the decrease in oil prices

Changes in Op. Income

TWD 100 Million



Financial Risk Management - Fuel

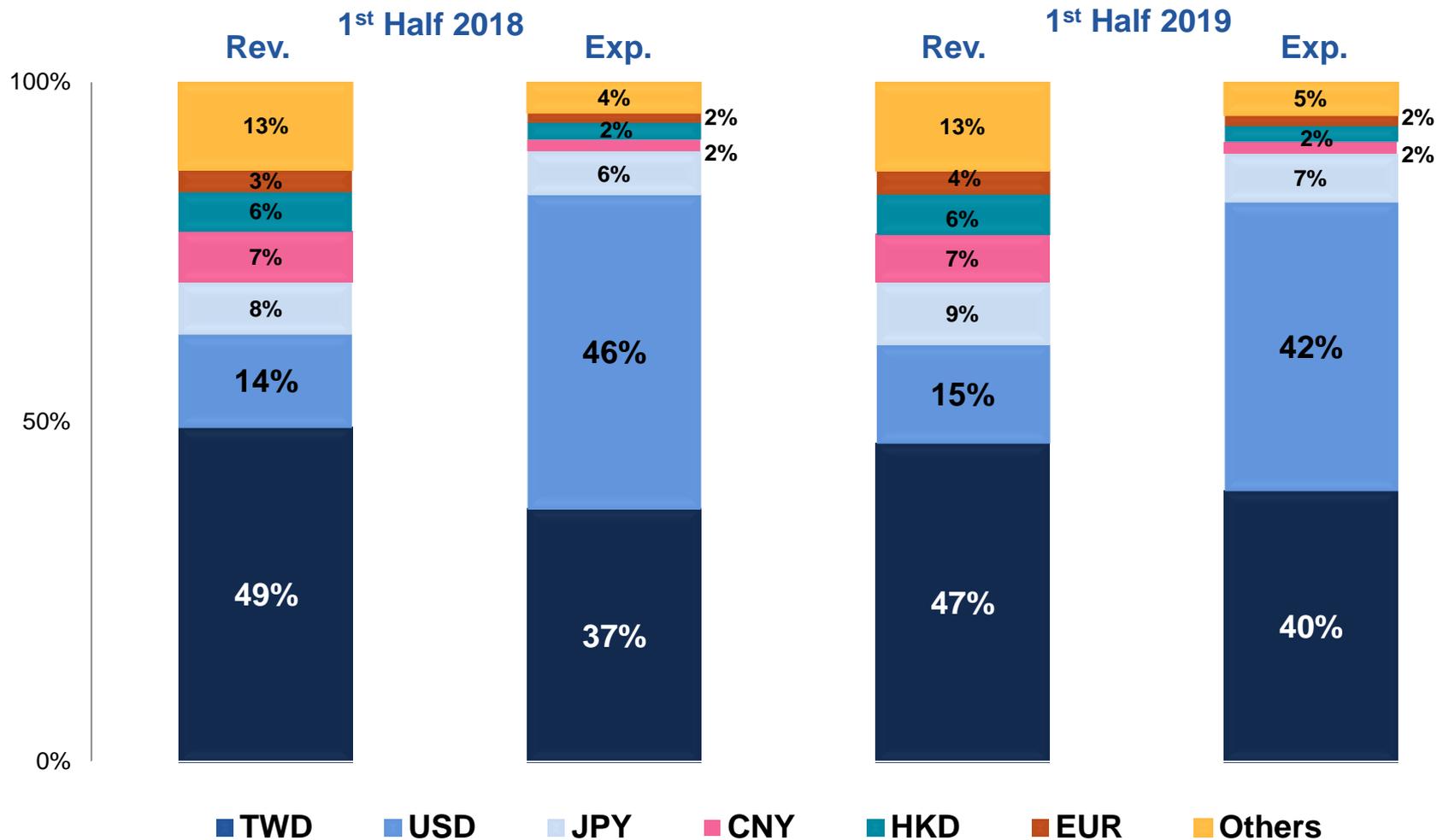
Fuel Cost

		1 st Half 2018	1 st Half 2019	YoY%
Jet Fuel (MOPS)	USD/BBL	83.68	78.05	-6.7%
Fuel Consumption	10KBBL	865.13	854.58	-1.2%
Fuel Expend	TWD/100Million	225.98	219.65	-2.6%
Hedging Loss(Gain)	TWD/100Million	-0.03	0.05	-
Total Fuel Cost	TWD/100Million	225.95	219.70	-2.6%

Fuel Hedging

Year	Hedging%
1 st Half 2019	2.5%

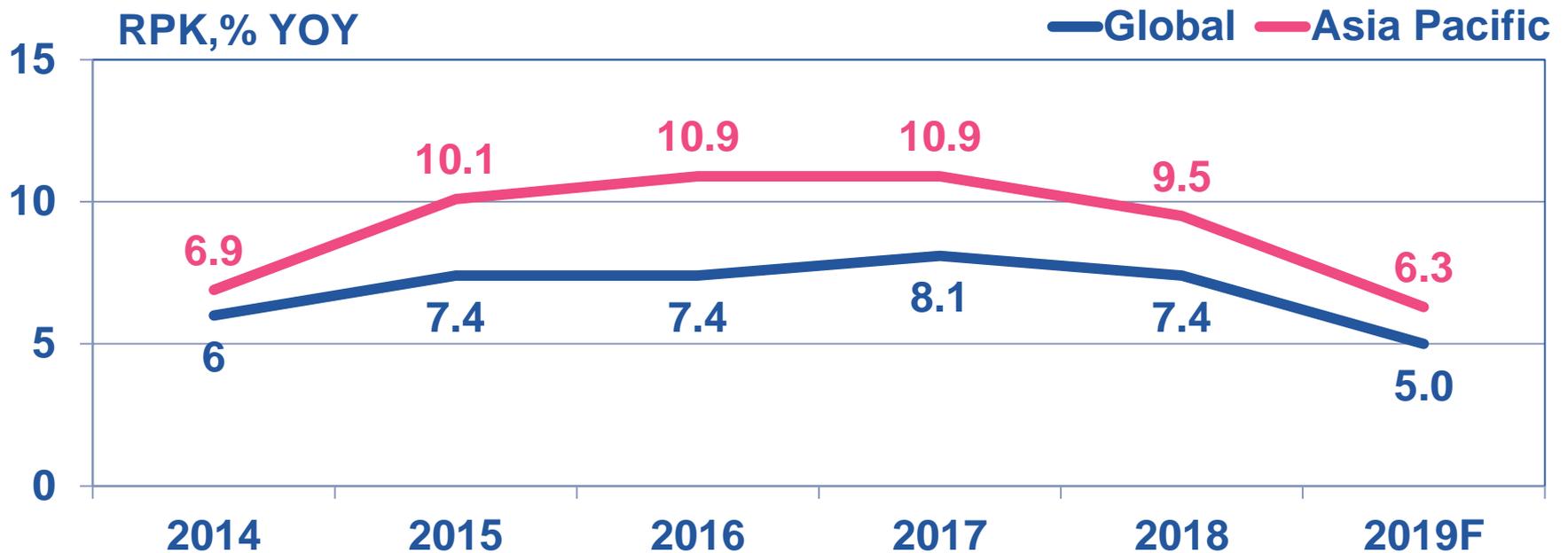
Financial Risk Management – Currency of Revenue and Expenditure



Aviation Industry Outlook

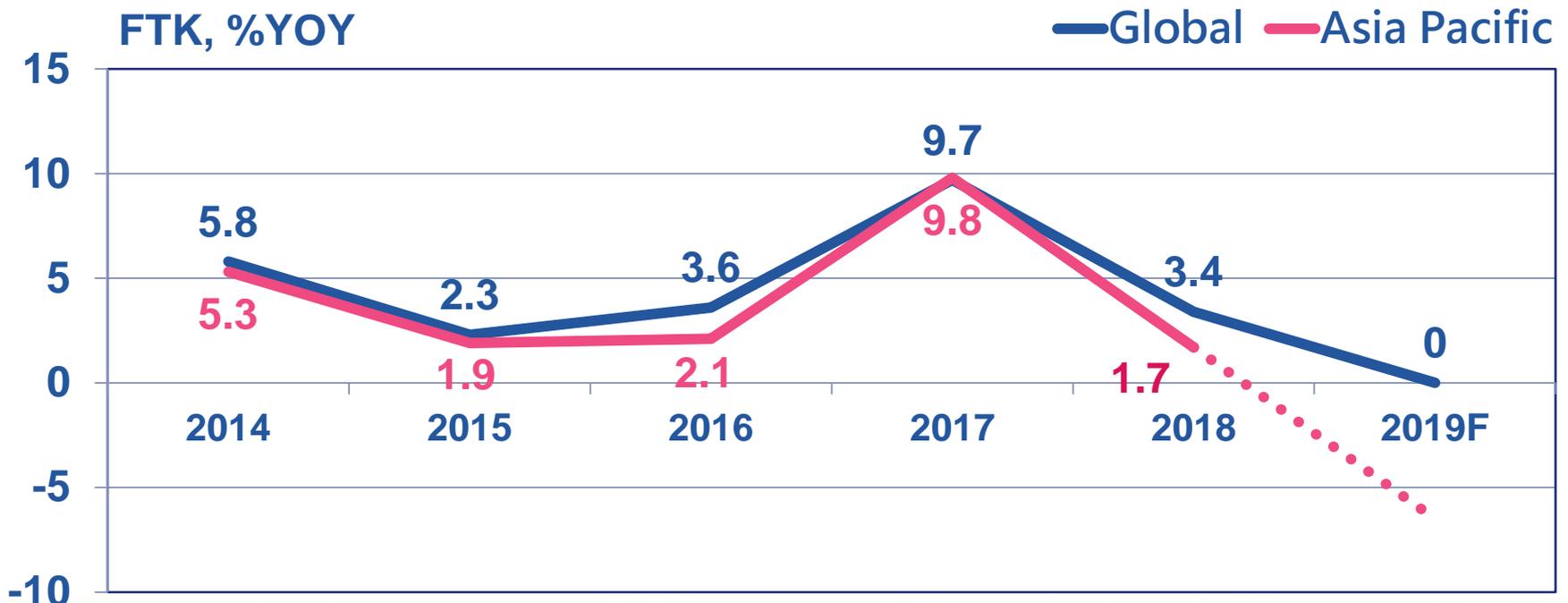
Passenger Traffic Continues to Grow

- According to IATA forecast, global RPK growth is slowing down, the growth rate of Asia-Pacific is larger than global average with similar trend.
- The growth rate of global and Asia-Pacific traffic in 2019 are expected to be 5% and 6.3% respectively.



Air Cargo Growth Slows Down

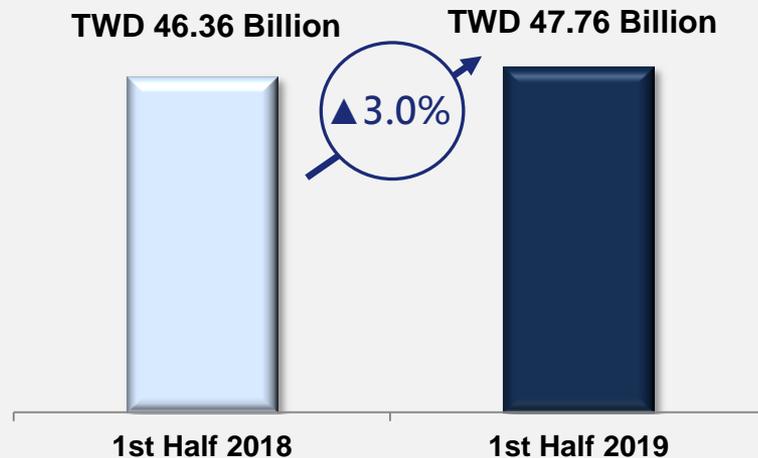
- Global and Asia-Pacific FTKs have grown by 3.4% and 1.7% respectively in 2018.
- IATA expects the growth rate of global FTKs in 2019 will be flat and the Asia-Pacific is expected to be negative growth.



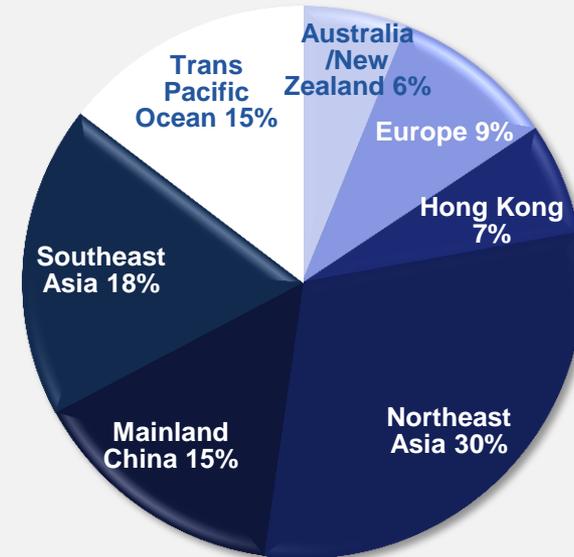
Passenger Performance and Strategies

Passenger Performance

Revenue

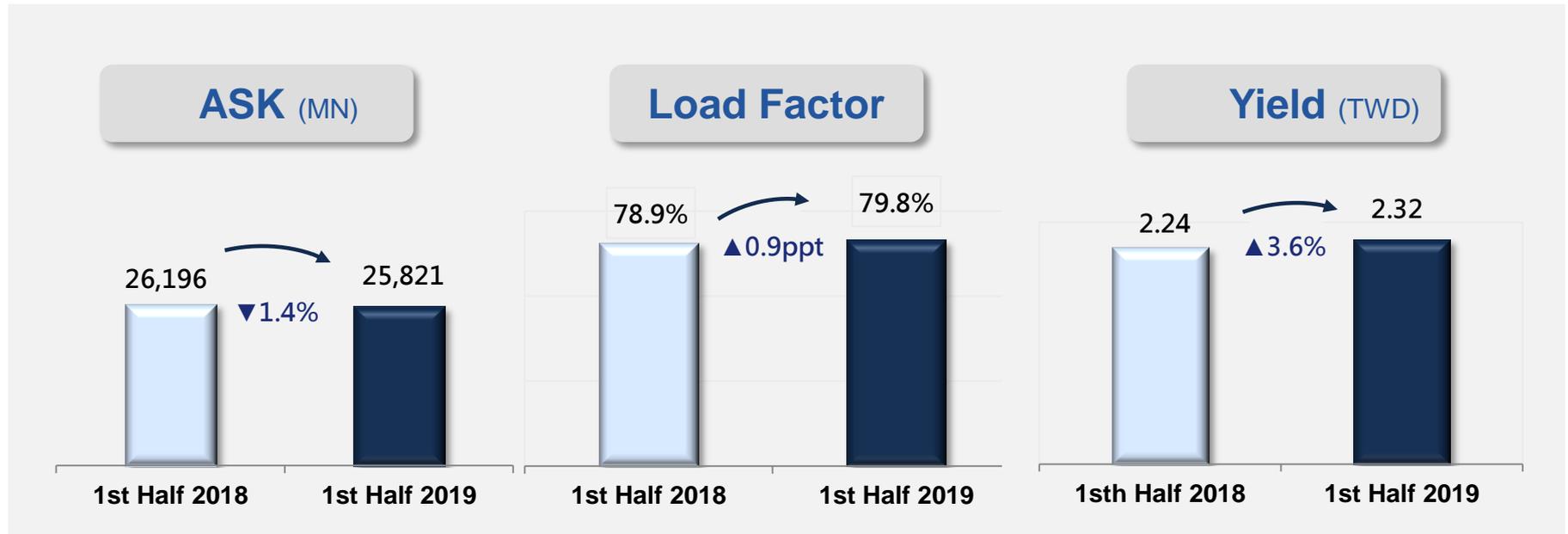


Composition by Region



- Passenger revenue increased by 3%, reaching TWD 47.76 billion in the first half of 2019.
- Northeast Asia accounted for the largest share(30%) of revenue, followed by Southeast Asia with revenue share of 18%.

Passenger Operation Index



ASK decreased by 1.4% while the load factor and yield increased by 0.9ppt and 3.6% respectively in the first half of 2019.

Market Outlook

Regional Market



Northeast Asia

- Taiwan outbound flow to NEA region continues to grow.
- The extra or charter flights to Northeast Asia will be arranged to generate more revenue.



Mainland China

- Mainland China market is expected to have the negative growth due to the latest Restricted Policy.



Southeast Asia

- Inbound visitors from Southeast Asia increase substantially resulting from the implementation of New Southbound Policy.

Long-haul Market



Trans Pacific Ocean

- The travel volume between Taiwan and North America keeps growing.
- Aggressive Ontario/Los Angeles 17 flights/week offer better service and gain more market share.



Europe

- Demand stably grows in Taiwan outbound market with Direct flight service.

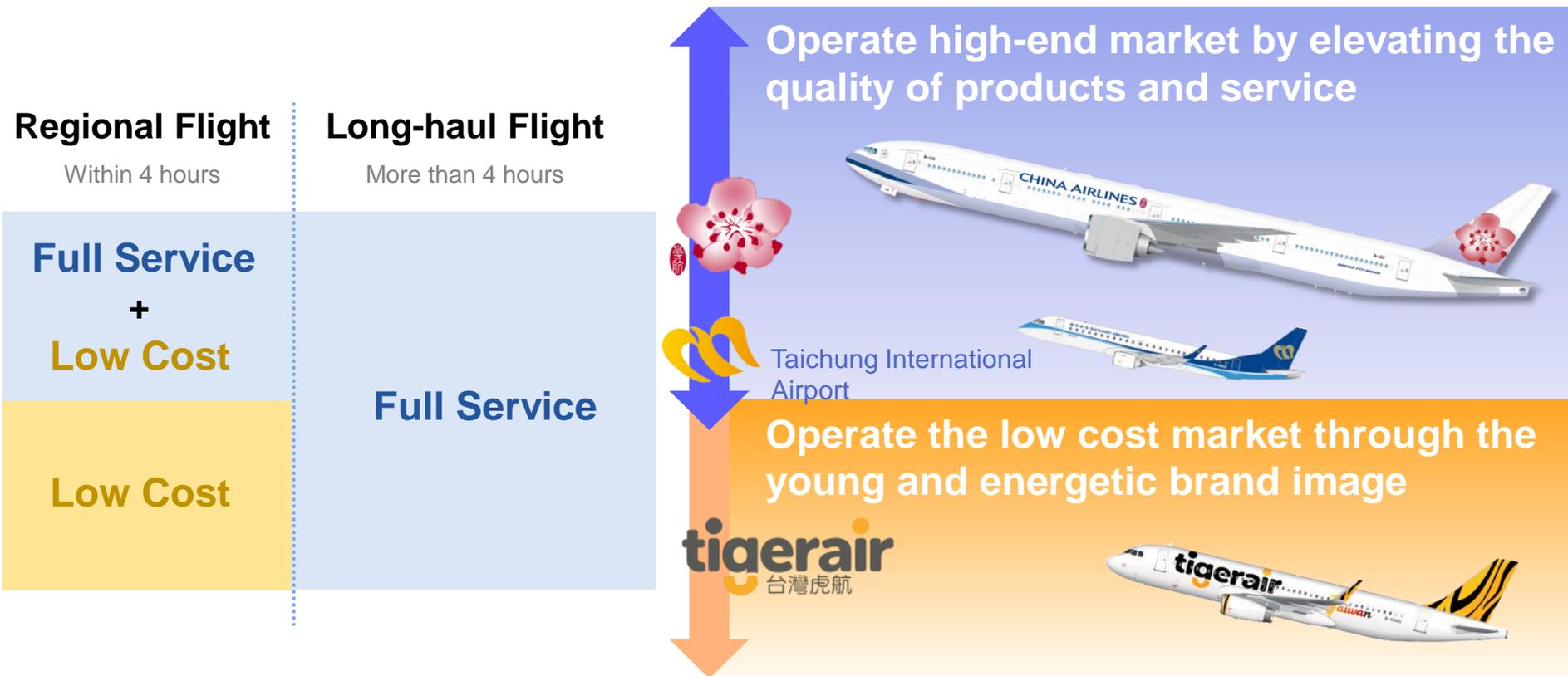


Australia & New Zealand

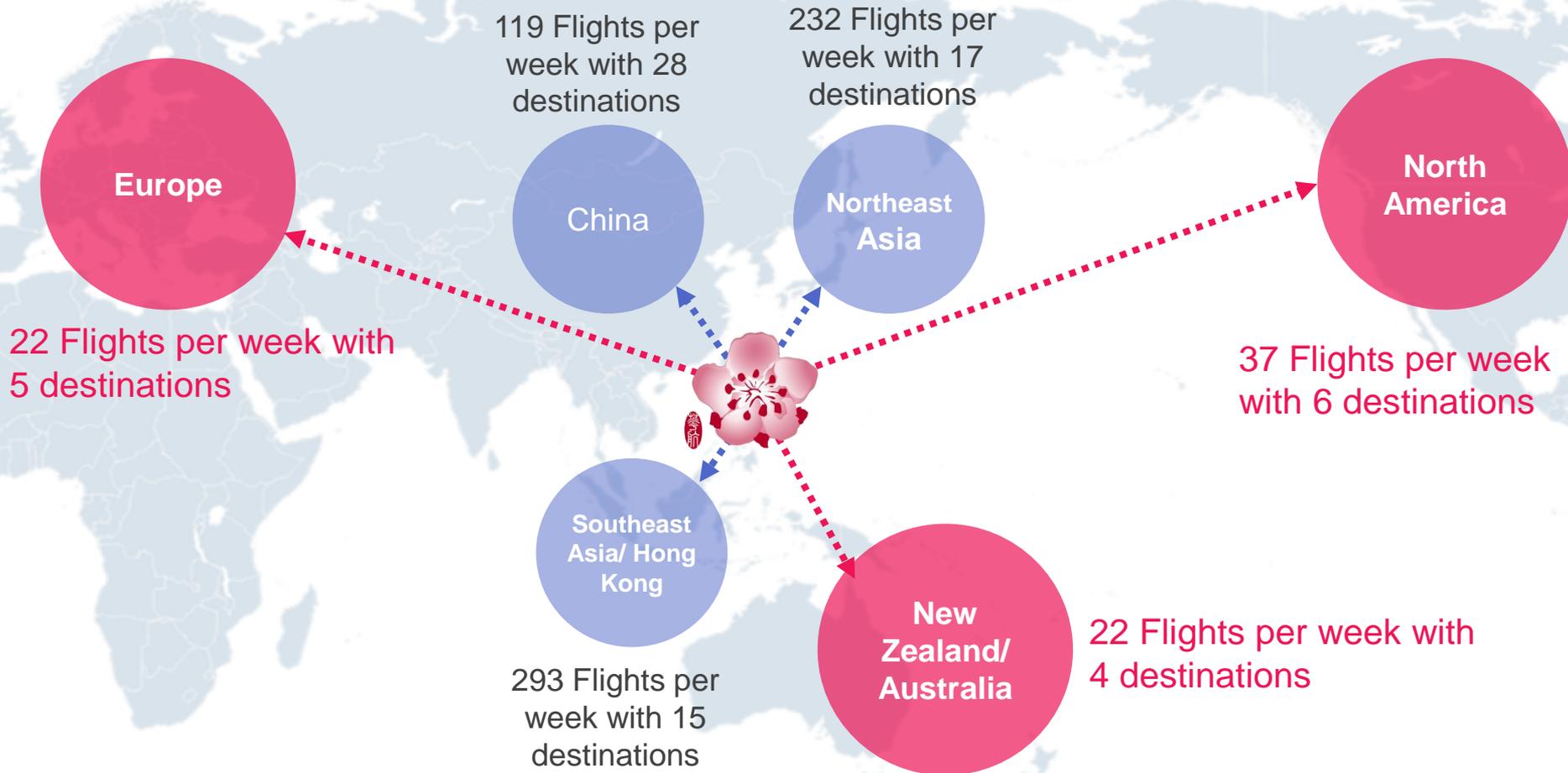
- Increase frequency to maintain competitive edge.

Secure Taiwan Market by Multiple Brands

In response to intense market competition, China Airlines established Tigerair Taiwan to differentiate products from traditional airlines in order to achieve competitive advantage and create positive synergy.



Flight Networks



Cooperation with Other Airlines

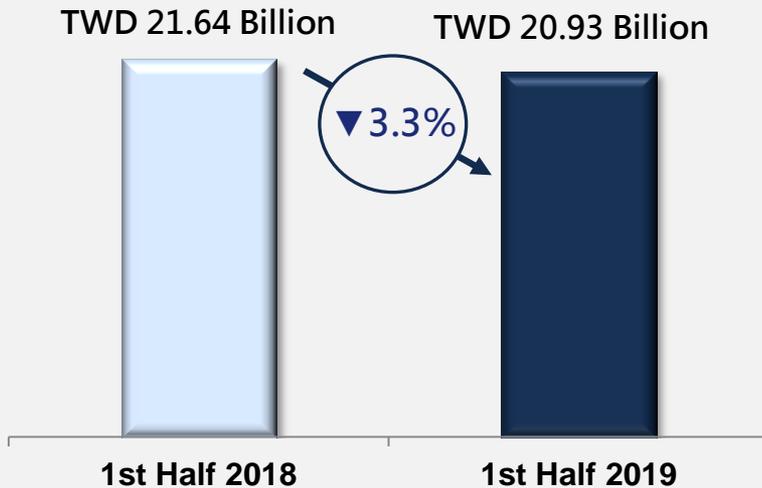
China Airlines works with more than 20 airlines worldwide to expand global flight network and share operation resources.



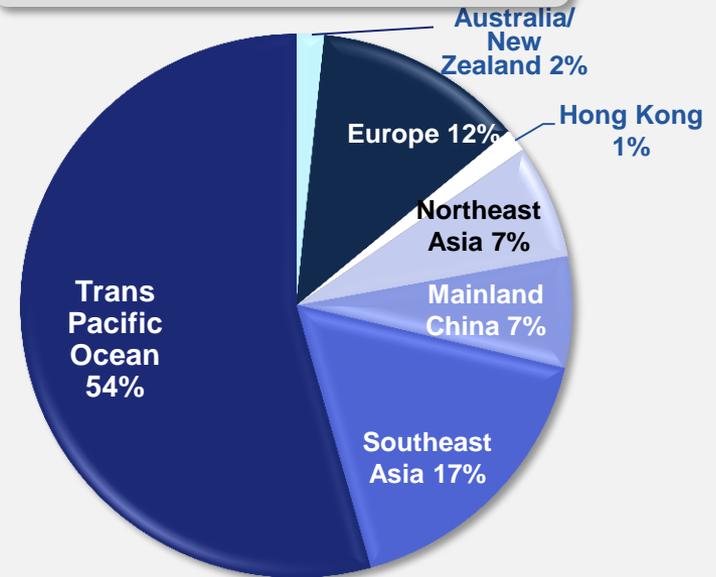
Cargo Performance and Strategies

Cargo Performance

Revenue

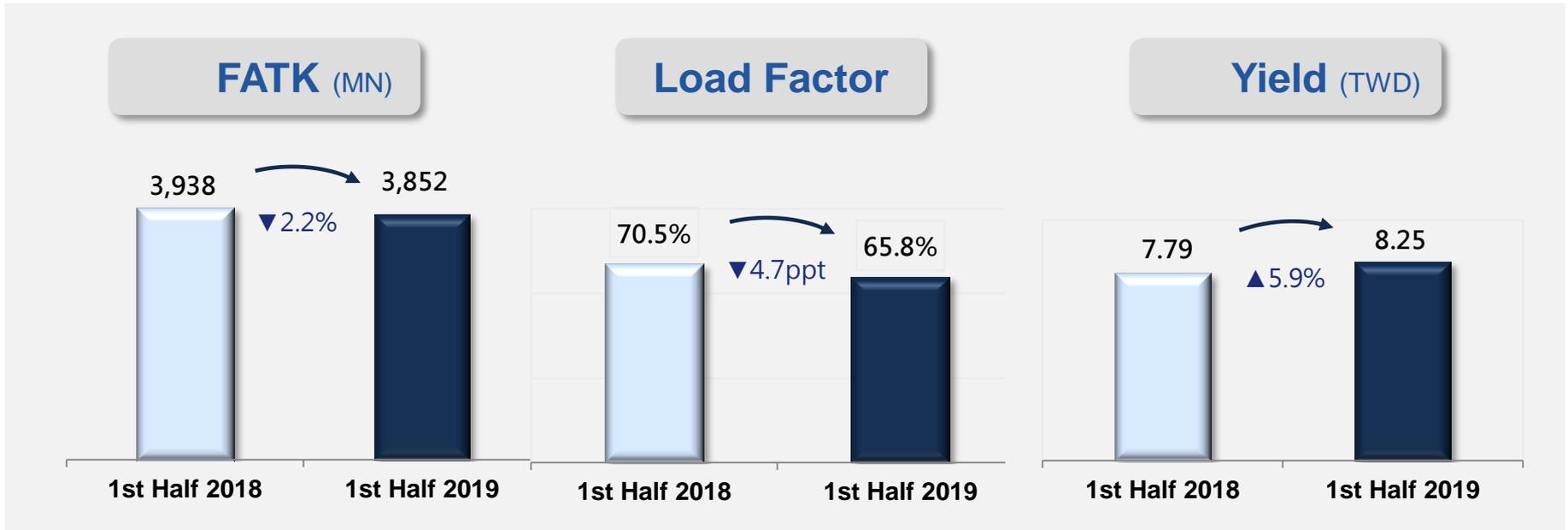


Composition by Region



- Cargo revenue totaled TWD 20.93 billion, a 3.3% decrease, in the first half of 2019.
- Trans Pacific Ocean accounted for the largest share (54%) of revenue, followed by Southeast Asia and Europe with revenue shares of 17% and 12% respectively.

Cargo Operation Index



FATK decreased by 2.2% and the load factor dropped 4.7ppt while yield grew by 5.9% in the first half of 2019.

Cargo Performance – Where We Are

In 2018, China Airlines Cargo ranked globally NO. 6 in terms of tonnage carried and NO. 12 in terms of FRTK basis

Top Air Cargo Carriers in 2018

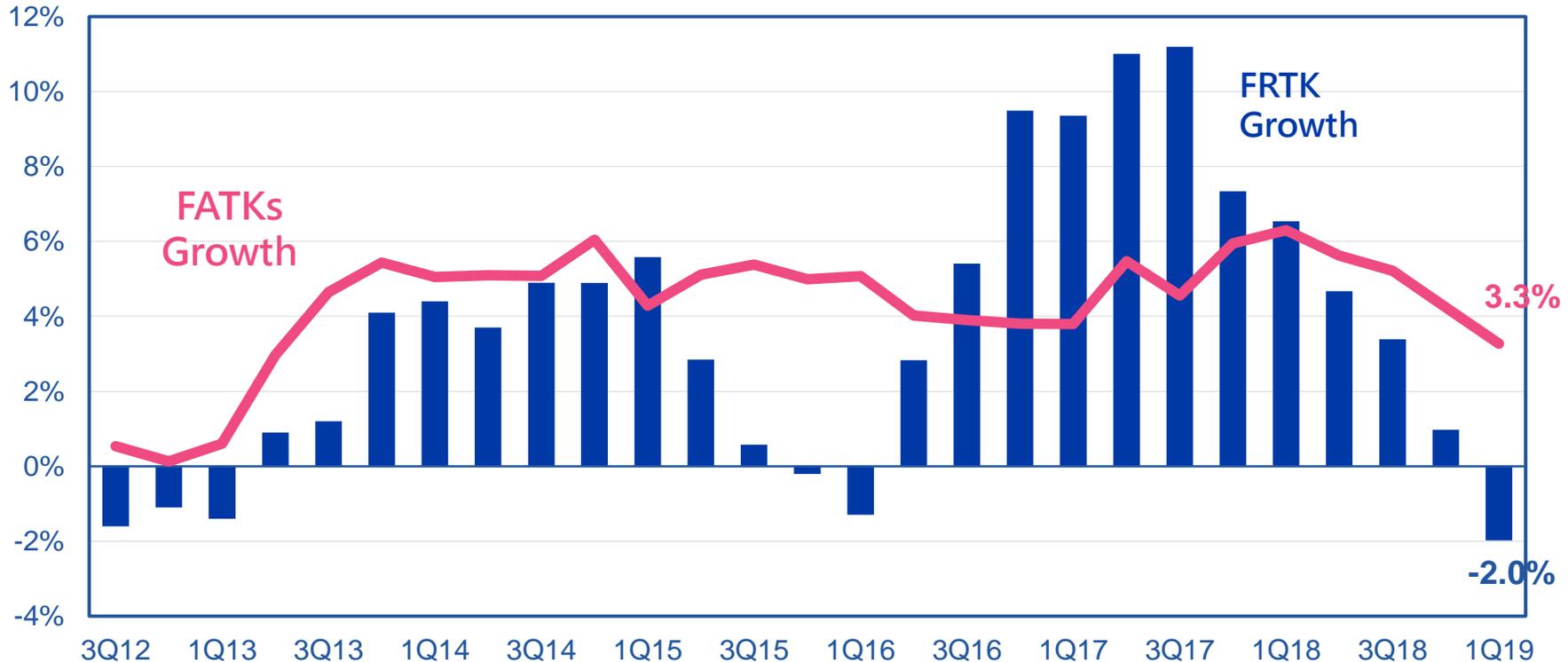
Rank	Airline	by Tonnage (in thousands)	Airline	by FRTK (in millions)
1	Emirates (1)	2,609	Emirates (1)	12,713
2	Qatar Airways (3)	2,262	Qatar Airways (2)	12,695
3	Federal Express (2)	2,159	Cathay Pacific Airways (3)	11,284
4	Cathay Pacific Airways (4)	1,828	Federal Express (4)	8,455
5	United Parcel Service (5)	1,548	Korean Air (5)	7,815
6	China Airlines (7)	1,512	Lufthansa (7)	7,391
7	Korean Air (6)	1,510	Cargolux (6)	7,322
8	Turkish Airlines (9)	1,302	Singapore Airlines (8)	6,491
9	Singapore Airlines (8)	1,167	United Parcel Service (9)	6,252
10	Lufthansa (10)	969	Air China (12)	5,912
11	Asiana Airlines (11)	933	Turkish Airlines (14)	5,860
12	Cargolux(15)	850	China Airlines (10)	5,804

(YOY +3.4%)

(YOY +1.1%)

Global Cargo Market Trend

Year-over-year FRTK (traffic) and FATK (capacity) growth



Air Cargo growth is expected to weaken in 2019 due to recent escalating China-US trade war and overstock resulting from unexpected cargo growth demand during past 2 years.

2019 Business Opportunity-Project Shipment

- **Continuously focusing on recurrent traffic**

Semiconductor, Capital Equipment , Electronic products/semi-products , Functional textile , auto parts , Pharmaceuticals , Medical Equipment , Fresh produces , e-Commerce , Aircraft materials

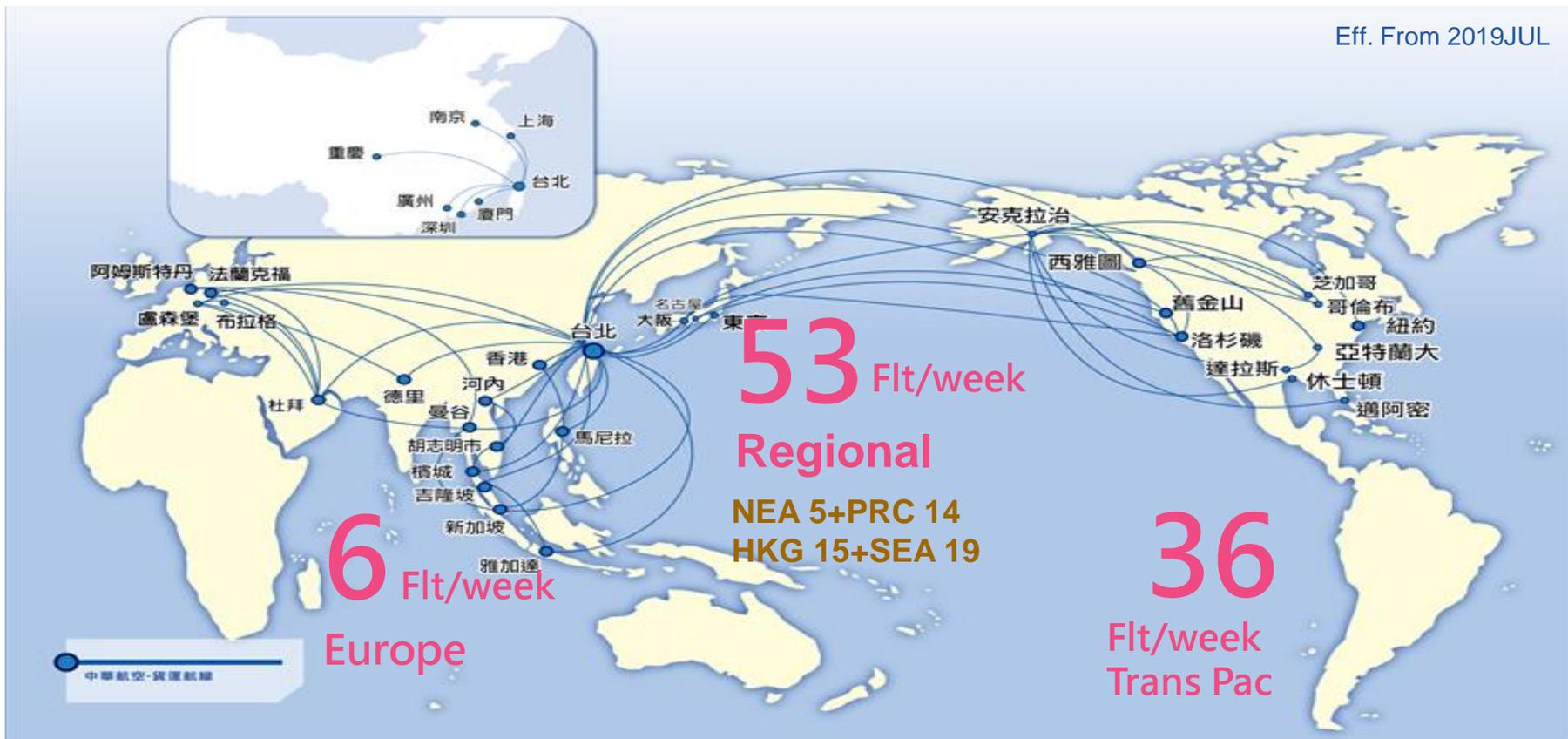
- **Actively explore potential cargo**

Industrial computers/servers 、 Wearing devices 、 Internet of Things development



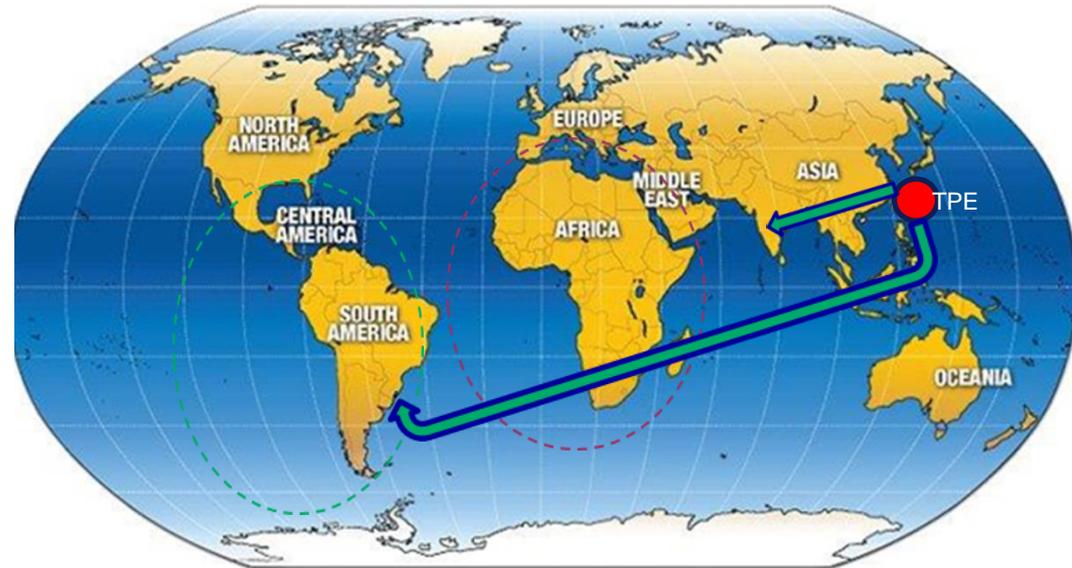
Freighter Network Planning

Deploy regional networks such as Southeast Asia and India and optimize the long-haul flight revenues to Europe and America.



Interline Cooperation

Cooperate with other airlines to develop Mid-Asia and Latin American markets.



Challenge: China-US Trade War

China-US Trade war Effect on TW

Many overseas Taiwanese businesses have taken steps to adjust their production by relocating funds back to Taiwan or Southeast Asia to diversify risk amid the China-US trade dispute.



The impact of China-US trade war on air cargo transport :

- **Short term:** Urgent order shipment due to tariff issue
- **Mid term:** Air cargo demand reduced while overstock
- **Long term:** Cargo volume is expected back to normal as agreement is made by US and China

Counter Measure of CI

- **Cargo supply adjustment to cater to market needs**
- **Flexible network planning for potential market**
- **Aggressive development of solid target suppliers**

Operating Fleet

Operating Fleet as of August 2019

- Aircrafts in storage are excluded.

Aircraft Type	Owned	On Lease
777-300ER	-	10
747-400	4	-
A350-900	14	-
A330-300	13	10
737-800	4	15
747-400F (Freighter)	18	-
Number of aircraft in fleet	53	35

To maximize fuel efficiency, CI is expected to receive the first of 3 777F in 2020 and the first of 14 leased A321neo in 2021.

Thank you

2019.08

China Airlines | No.1, Hangzhan S. Rd., Dayuan Dist., Taoyuan City, Taiwan

TEL | 03.399.8888

