



**CHINA AIRLINES**



# **China Airlines 2018 Investor Conference**

**Apr 24, 2018**

# Legal Disclaimer

- The information contained in this presentation, including all forward-looking information, is subject to change without notice, whether as a result of new information, further events or otherwise, and China Airlines(the “Company”) undertakes no obligation to publicly update or revise the information contained in this presentation.
- Investors should not regard the above forward-looking information as legally binding but as information subject to change. No guarantees regarding the completeness, accuracy, and reliability of information contained are made explicitly or implicitly. They are not intended to represent complete statement of the Company, industry or future development.

# Agenda

- 1. 2017 Operating Results**
- 2. Aviation Industry**
- 3. Passenger Performance and Strategies**
- 4. Cargo Performance and Strategies**
- 5. Fleet Planning**
- 6. Major Affiliated Enterprises**



**CHINA AIRLINES**



# 2017 Operating Results

# Operating Performance

## Financial Statistics

NT\$ Million

	2016	2017	%
Operating Revenue	127,525	139,815	9.64%
Operating Profit	4,476	7,358	64.39%
Pretax Profit	1,537	3,088	286.01%
Net Income	572	2,208	286.01%
Earnings Per Share(NT\$)	0.10	0.40	300.00%

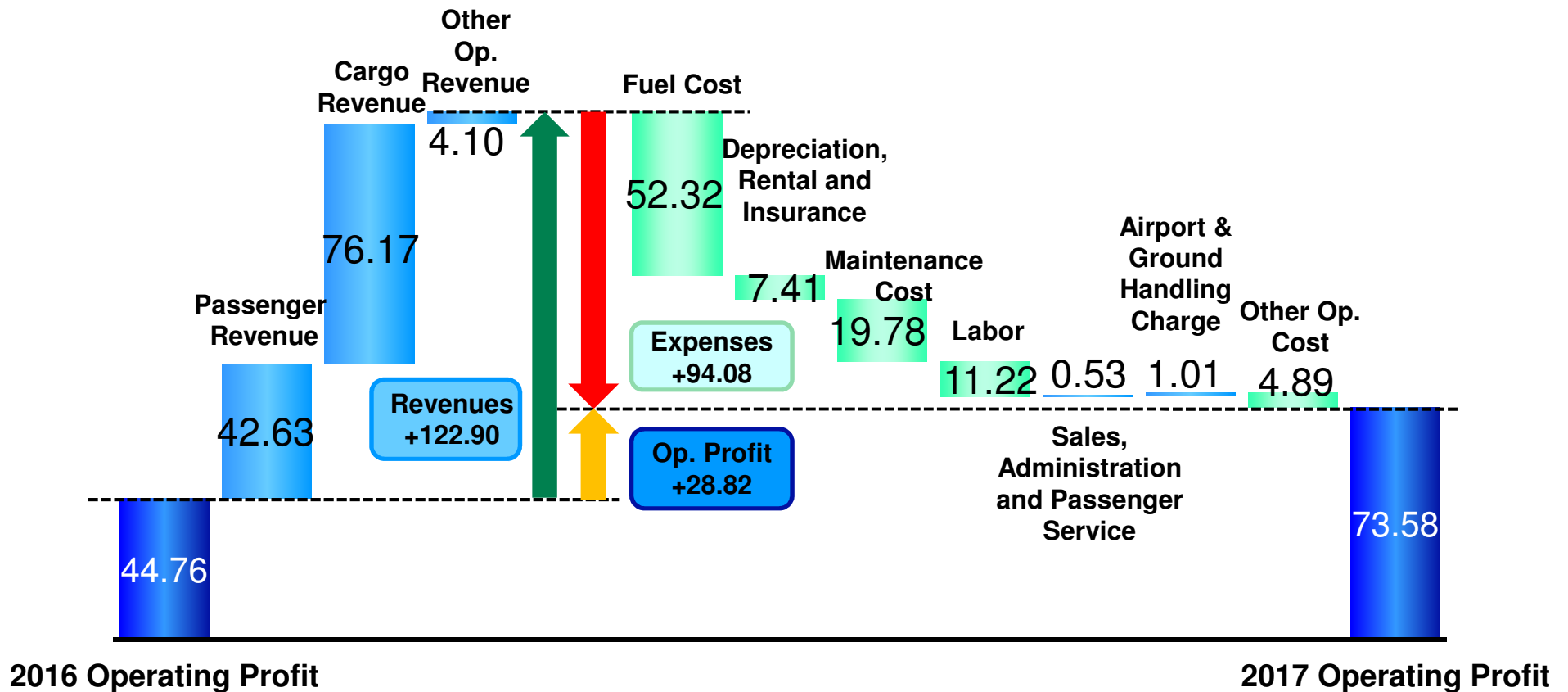
NT\$ Million

## Financial Statistics(Excluding Impairment Loss)

	2016	2017	%
Pretax Profit	1,537	3,088	100.89%
Reconcile : Loss of Impairment	1,066	4,318	305.07%
Adjusted Pretax Profit	2,603	7,406	184.50%

# Changes in Operating Profit

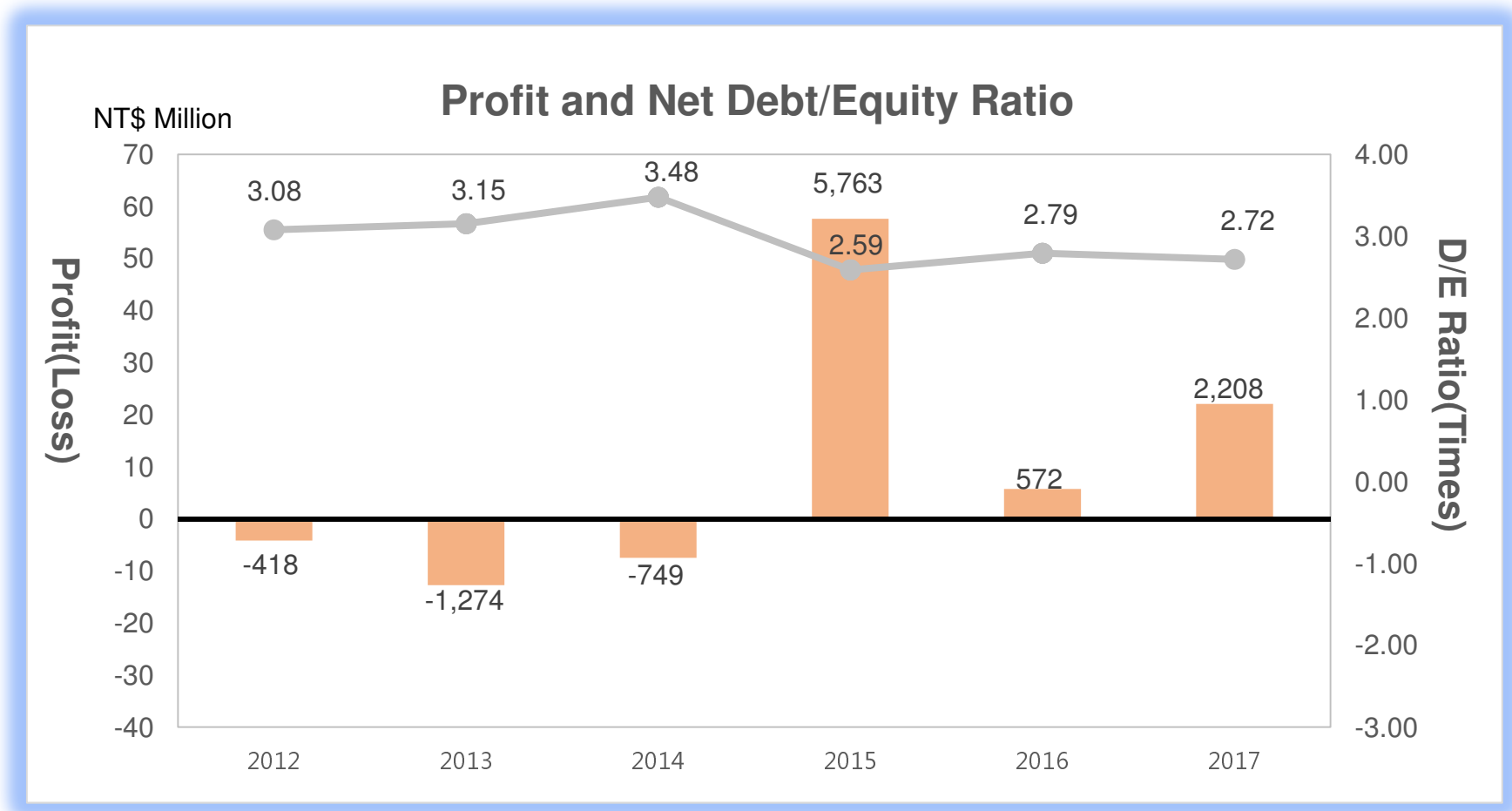
(NT\$ 100 million)



# Operating Costs Analysis

Operating Cost Items	2016	2017
Fuel cost	26.6%	28.7%
Labor	15.5%	15.2%
Airport & Ground Handling Charge	15.1%	14.0%
Maintenance Cost	11.1%	11.8%
Depreciation & Amorization	9.9%	9.5%
Rental	8.5%	8.1%
Sale & General Administration	5.0%	4.5%
Passenger Service	4.5%	4.3%
Insurance	0.2%	0.2%
Others	3.6%	3.7%
Total	100.0%	100.0%

# Profit and Debt/Equity Ratio



# Financial Risk Management- FX rate and Interest rate

- In order to stabilize the settlement of FX and reduce the position of FX exposure, the Company manages an appropriate distribution of currencies to reach the effect of Nature Hedge. And the Company also enters the forward market and option market to eliminate the FX risk.
- Local currency is currently the main funding source of the Company due to its lower cost. The Company maintains an appropriate fixed-rate ratio by issuing the fixed-rate bond to reduce an operational impact of rising rates.

# Financial Risk Management-Fuel

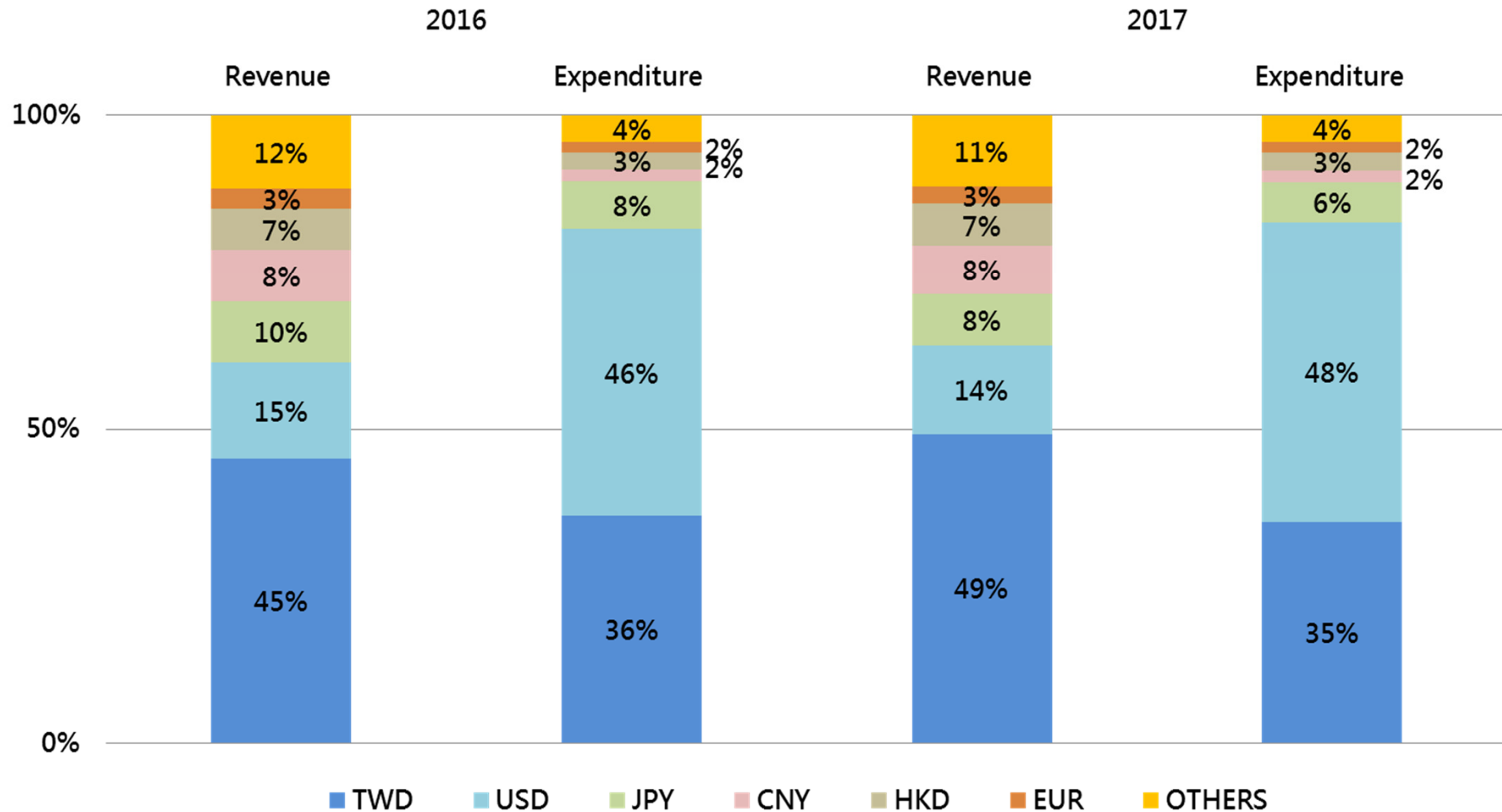
## Fuel Cost

		2016	2017	% Change
Jet Fuel (MOPS)	USD/BBL	53.00	65.27	23.15%
Fuel Consumption	KBBL	17,434.1	17,650.1	1.24%
Fuel Expend	NT\$/Million	32,456	38,000	17.08%
Hedging Loss	NT\$/Million	313	N/A	N/A
Total Fuel Cost	NT\$/Million	32,769	38,000	15.96%

## Fuel Hedging

Year	Hedging %
2016	3.0%
2017	N/A
2018	0.6%

# Financial Risk Management-Currency of Revenue and Expenditure





**CHINA AIRLINES**

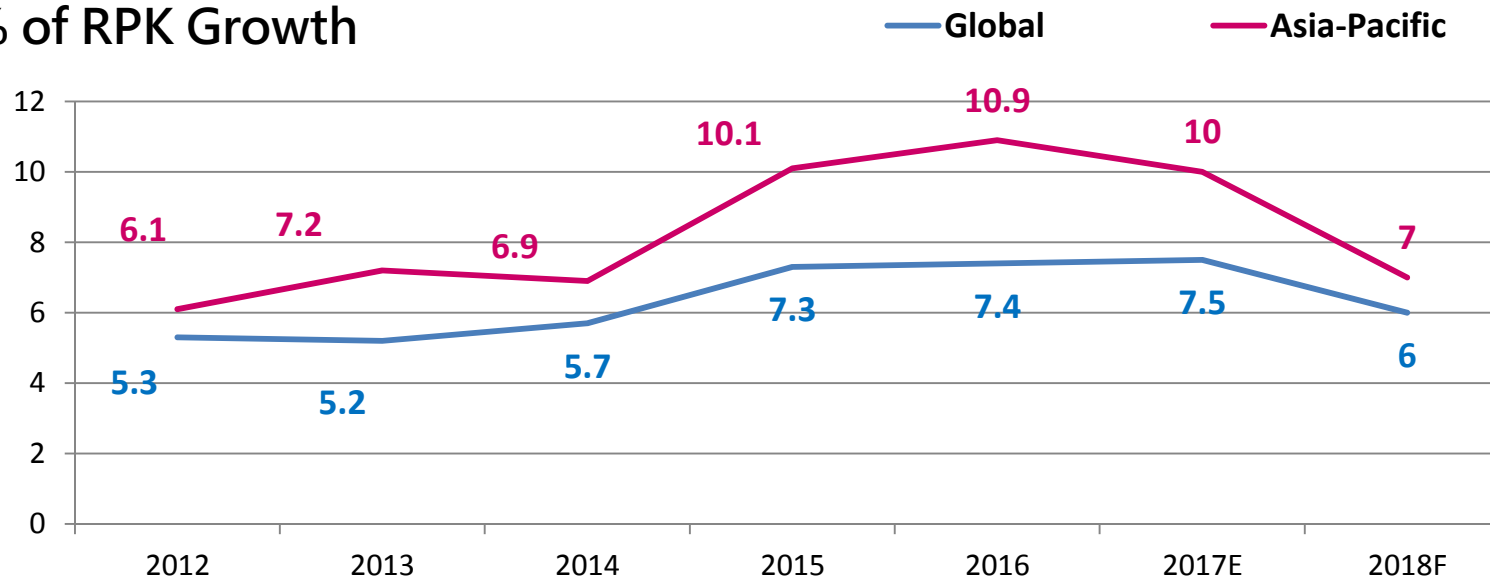


# Aviation Industry

# Passenger Traffic Continues to Grow

- According to IATA forecast, global RPK(Revenue Passenger Kilometer) maintains steady growth; the growth rate of Asia-Pacific is larger than global average with similar trend.
- The growth rate of global and Asia-Pacific traffic in 2017 are 7.5%, 10% respectively.

% of RPK Growth

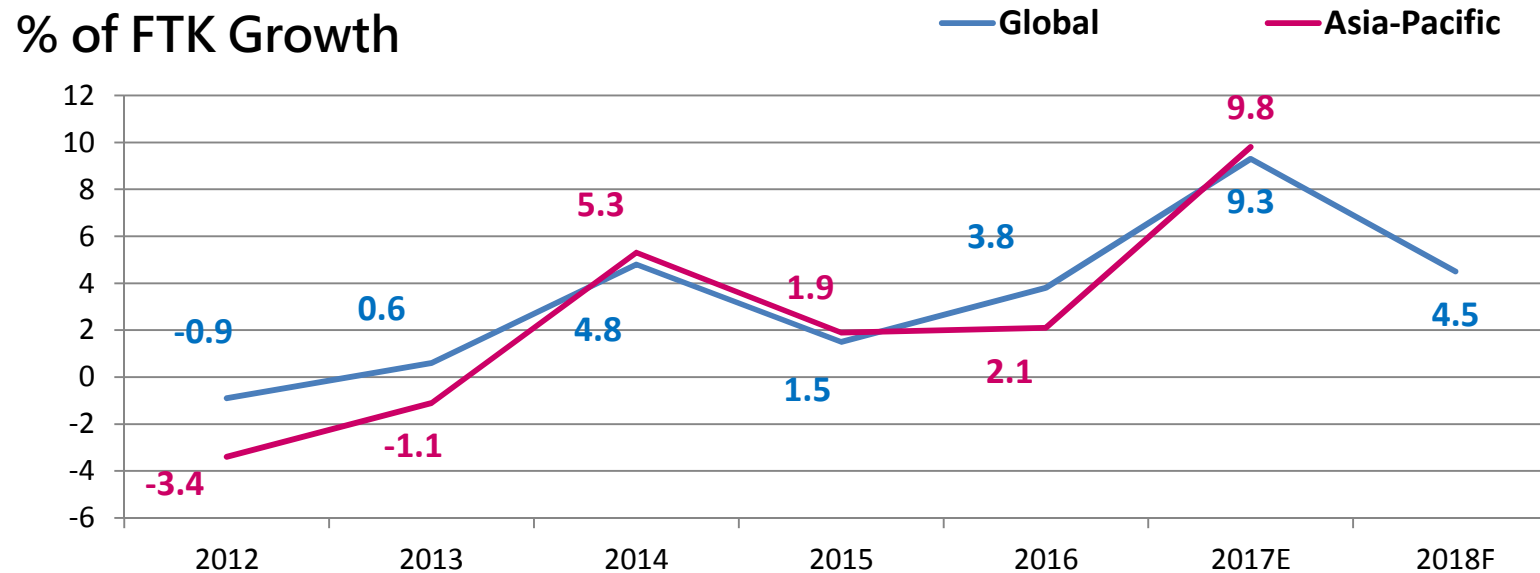


Source: IATA



# Air Cargo Maintains Growth Steadily

- Global/Asia-Pacific FRTKs have grown by 9.3%, 9.8% respectively in 2017.
- IATA expects global cargo traffic to grow by 4.5% in 2018.



Source: IATA



# Market Outlook

## Regional market



### Northeast Asia

- Japan : Taiwan and Japan governments encourage travel development, and the supply/demand of passenger traffic grow steadily.
- Korea : Encountering increasing demand and LCC competition; will act in concert with Taiwan government tourism policy to accelerate demand.



### Mainland China

- It is estimated the economic growth rate will decline gradually.
- Unstable political status caused unstable demand.



### Southeast Asia

- Based on the Taiwan New South Bound Policy, the government held visa waiver program for Thailand and Brunei, and lower the restriction of visa for other southeast countries.
- The economic and trade exchanges between the two places are closer, but the number of business people driven by them remains to be observed.

## Long-haul market



### North America

- The economy is expected to continue to recover.
- Increasing supply remains an important factor to stimulate the demand.



### Europe

- The recovery of economy.
- Decline in political risk.



### Australia/New Zealand

- Relatively stable exchange rate and the passenger traffic demand raise steadily.



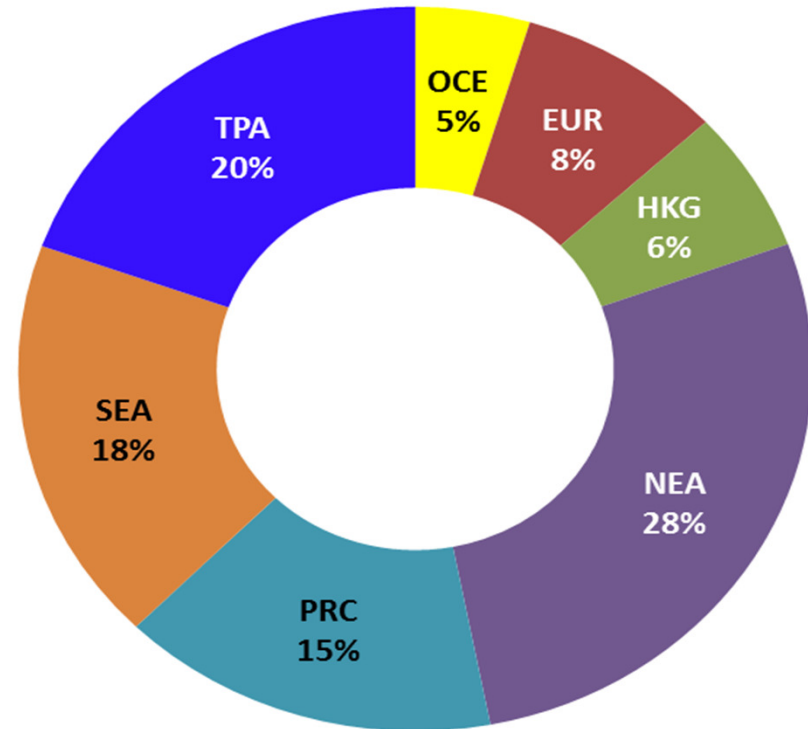
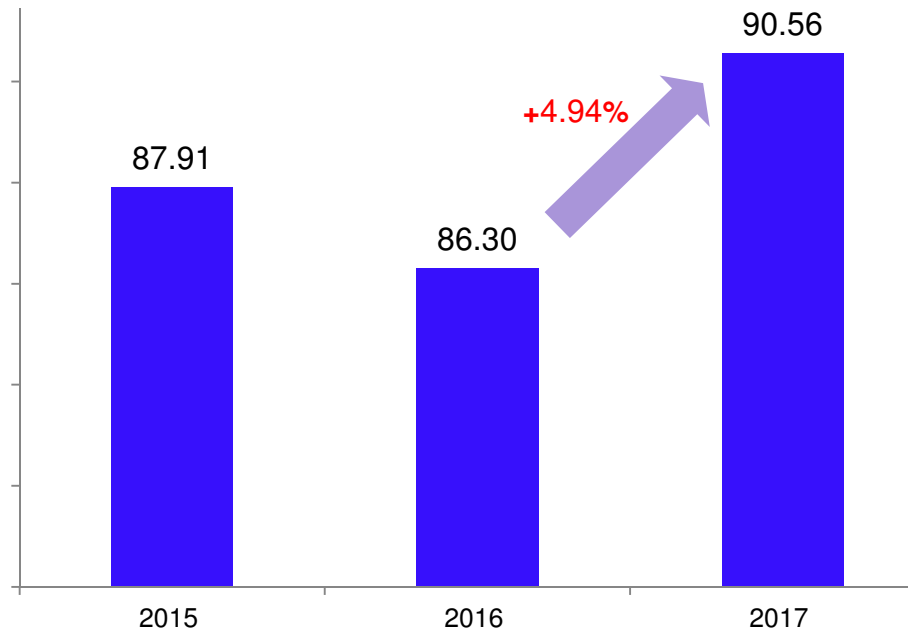
**CHINA AIRLINES**



# Passenger Performance and Strategies

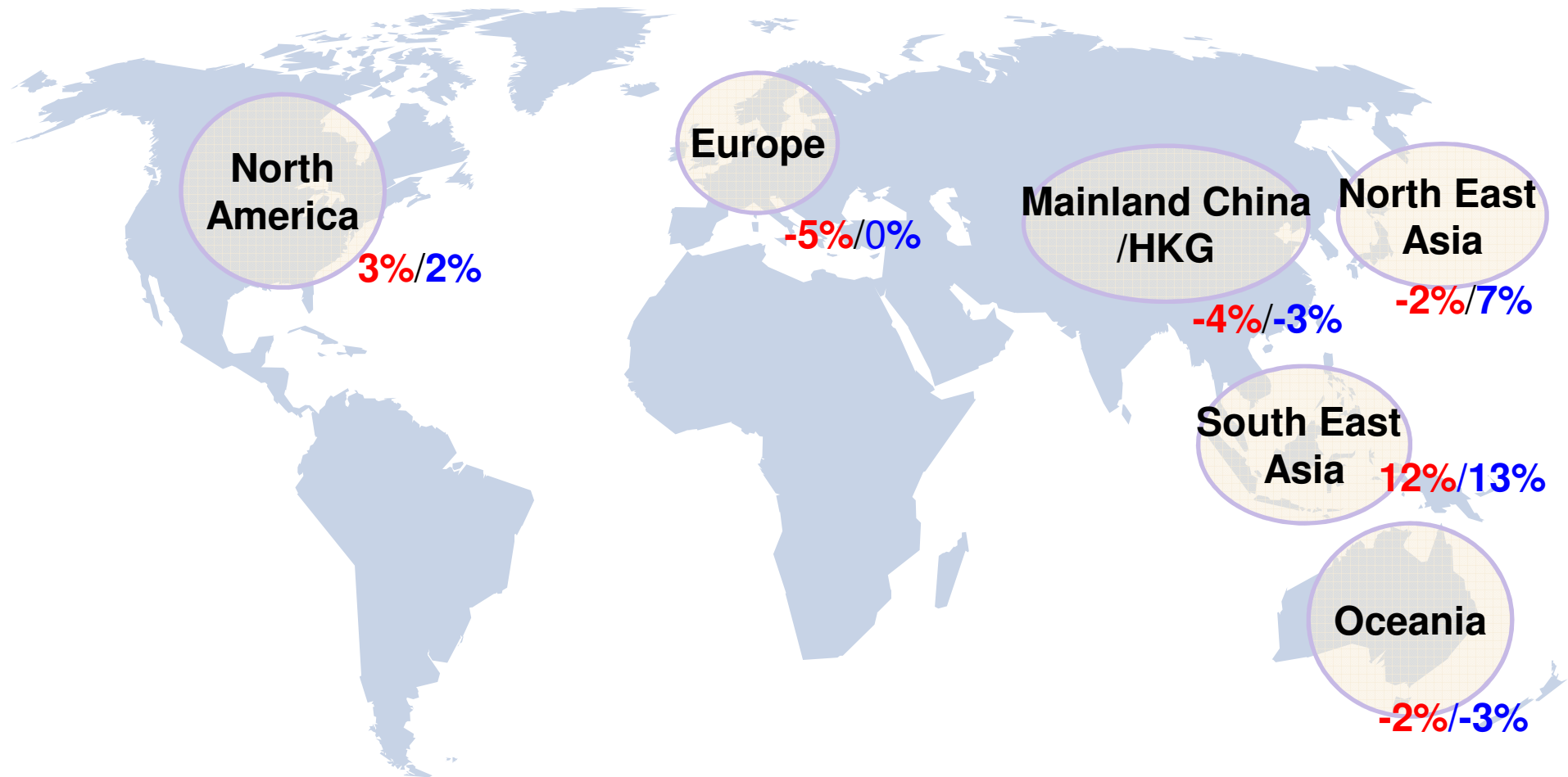
# Passenger Performance

NT\$ Billion



- China Airlines total passenger revenue reached NT\$ 90.56 billion in 2017, an increase of 4.94% comparing with the year of 2016.
- North-East Asia (NEA) recorded the highest revenue share of 28% among all regions, and followed by Trans-Pacific (TPA) with revenue share of 20%.
- The market share of China Airlines (RPKs) is 28% which is the highest among all the national airlines.

# ASKs/RPKs Trend by Regions



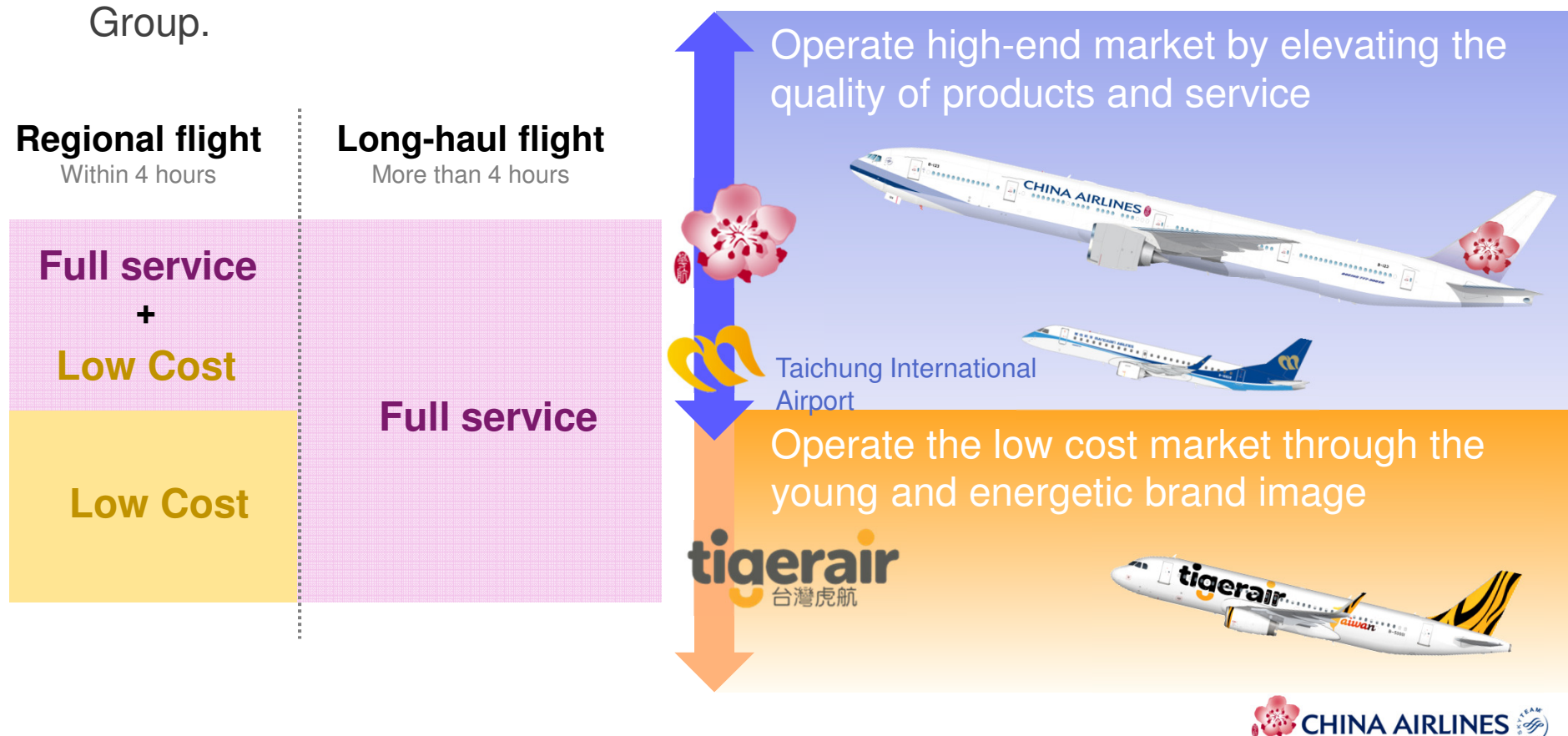
ASKs RPKs

# Outlook for Passenger Sales by Region

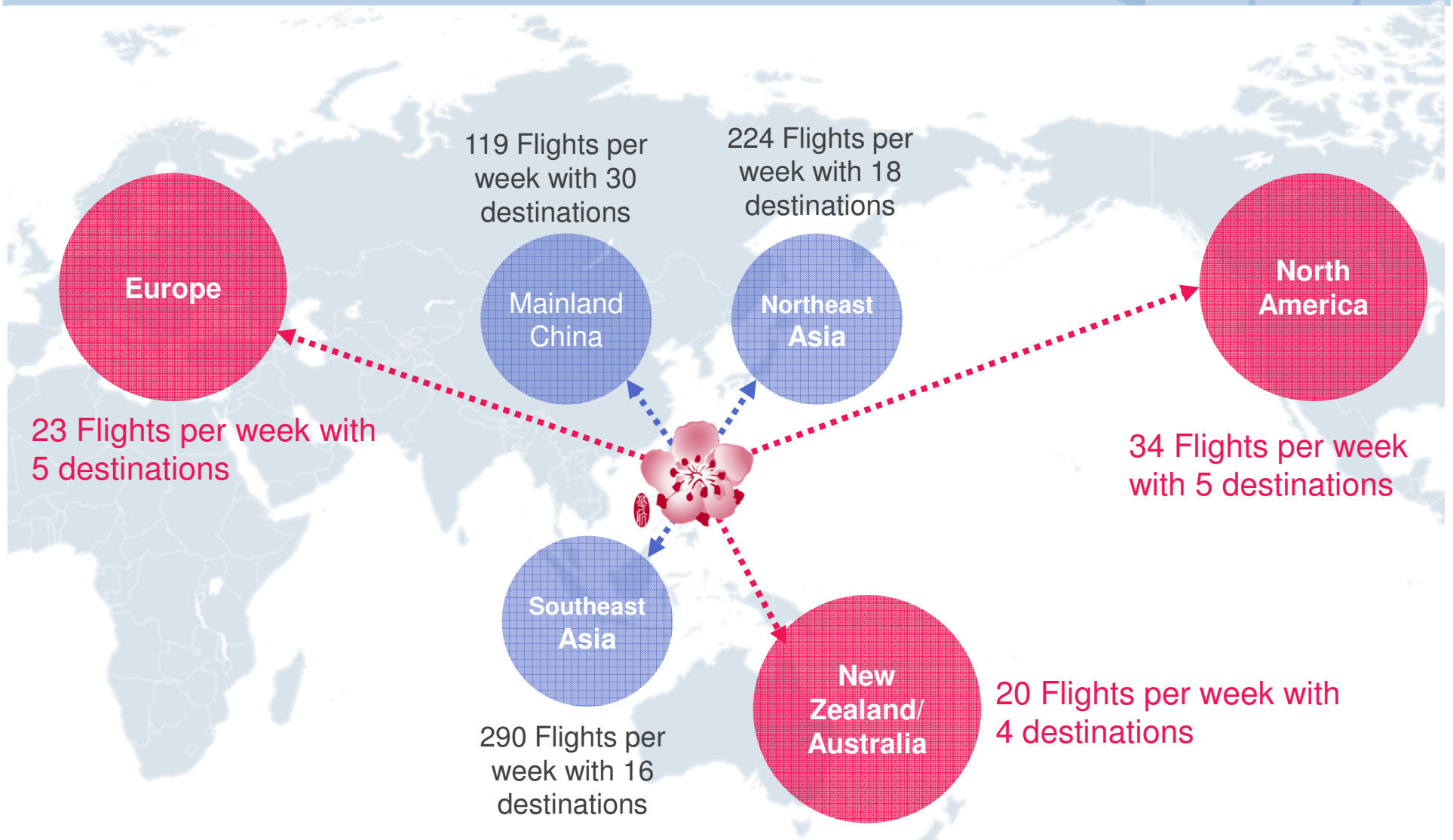
- Taiwan outbound flow to North East Asia region continues to grow. The extra or charter flights to Northeast Asia will be arranged to generate more revenue.
- Taiwanese tourists to Mainland China have slightly grown in 2017 comparing with the year of 2016. Chinese visitors to Taiwan in some particular routes have been slowly picking up.
- Inbound visitors from Southeast Asia have increased substantially due to the implementation of New Southbound Policy. We increase frequency in routes with stable load factors and enhance cooperation with partners to enable the expansion in market share.
- The travel volume between Taiwan and North America keeps growing. Having launched Taipei-Ontario v.v. route for East L.A area customers to offer better service
- In terms of high demand to Europe region in Taiwan outbound market, we manage to build a more comprehensive network between Europe and Oceania region
- Increase the frequency of Oceania flights to keep the advantage.

# Secure Taiwan Market by Multiple Brands

In response to LCC competition, China Airlines established Tigerair Taiwan to offer the different products from the traditional airlines for various of segment customers in order to enhance the competitive advantages of China Airlines Group.



# Flight Networks



# Cooperation with Other Airlines

- China Airlines establishes workshare with more than 20 airlines in order to expand global flight network and share operation resources.





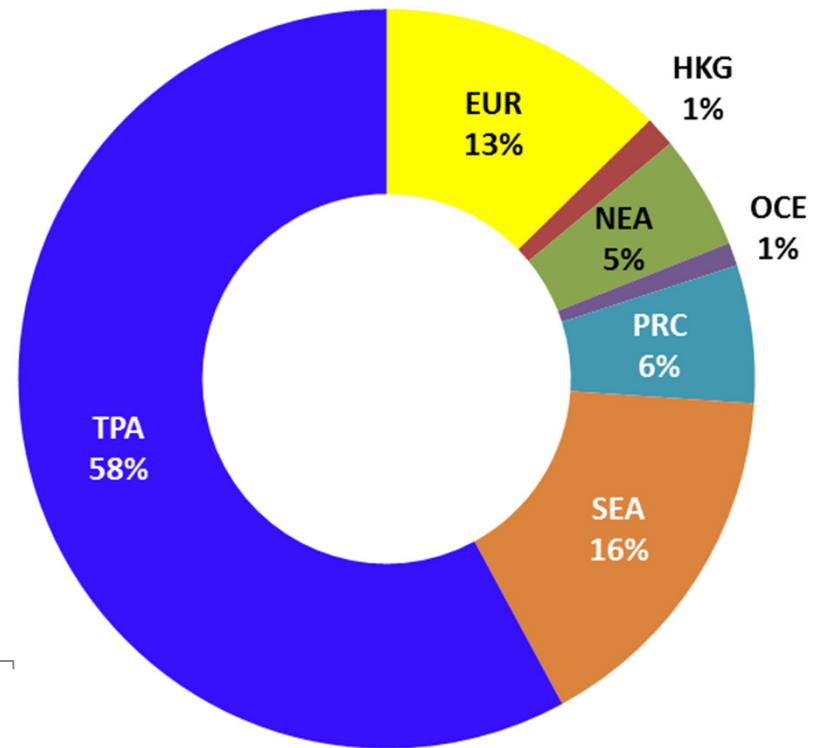
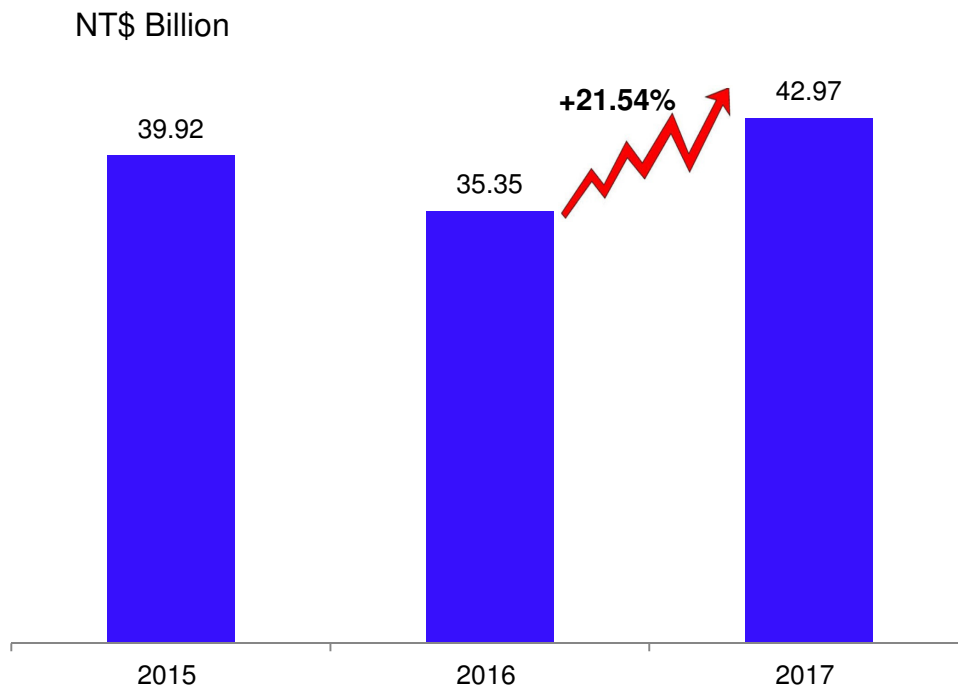
**CHINA AIRLINES**



# **Cargo Performance and Strategies**

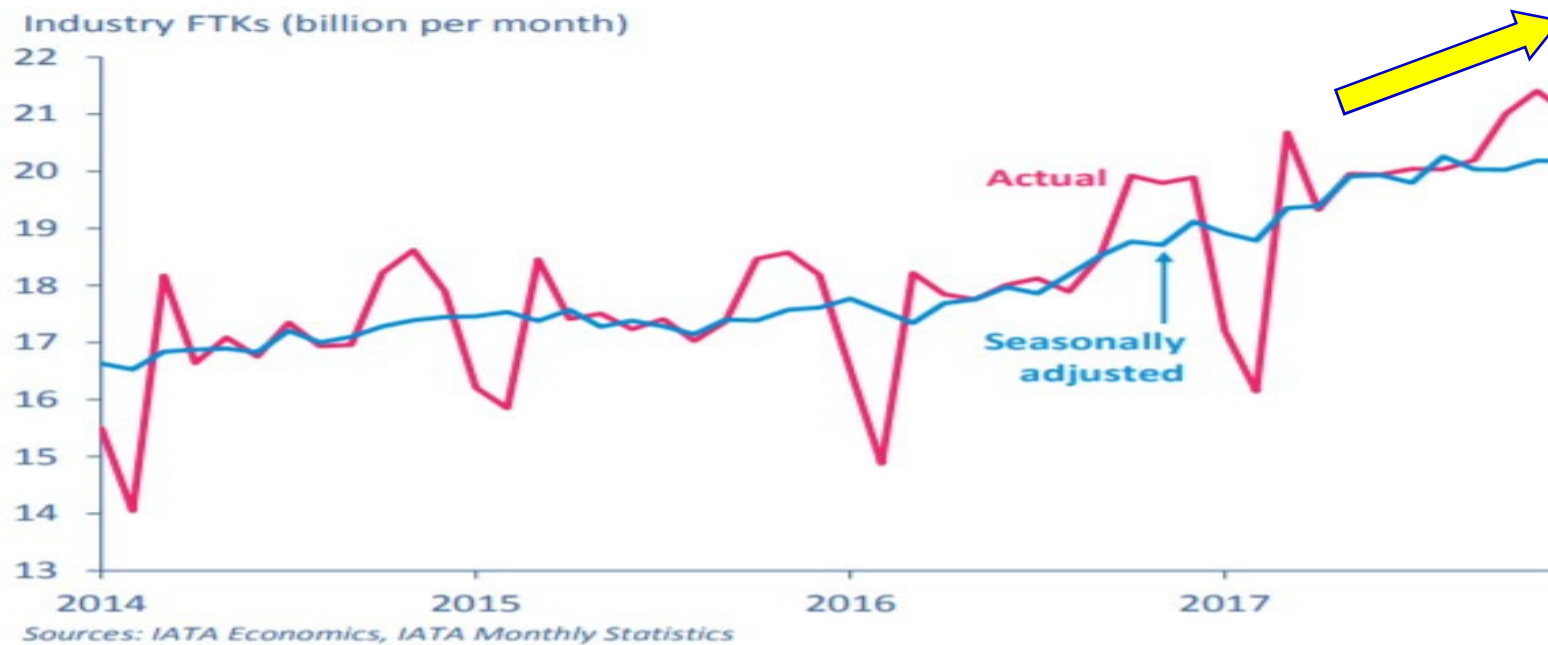
# Cargo Performance

- 2017 cargo revenue: NT\$42.97 billion with growth of 21.54% YoY.
- In 2017, the cargo revenue of Trans- Pacific route accounted for 58% highest, followed by 16% for Southeast Asia and 13% for European route.



# 2018 Market outlook

- The cargo business continues to grow from a strong cyclical upturn in volumes, with some recovery in yields. According to the IATA forecasts, cargo volumes are expected to grow by 4.5% and cargo yields are expected to improve by 4.0% in 2018.





# China Airlines ranked world's top ten cargo carrier

- IATA has bulletined CI as the 7<sup>th</sup> air cargo carrier of freight tonnage in 2016.
- In terms of freight revenue ton-kilometers, CI ranked 10th worldwide last year.

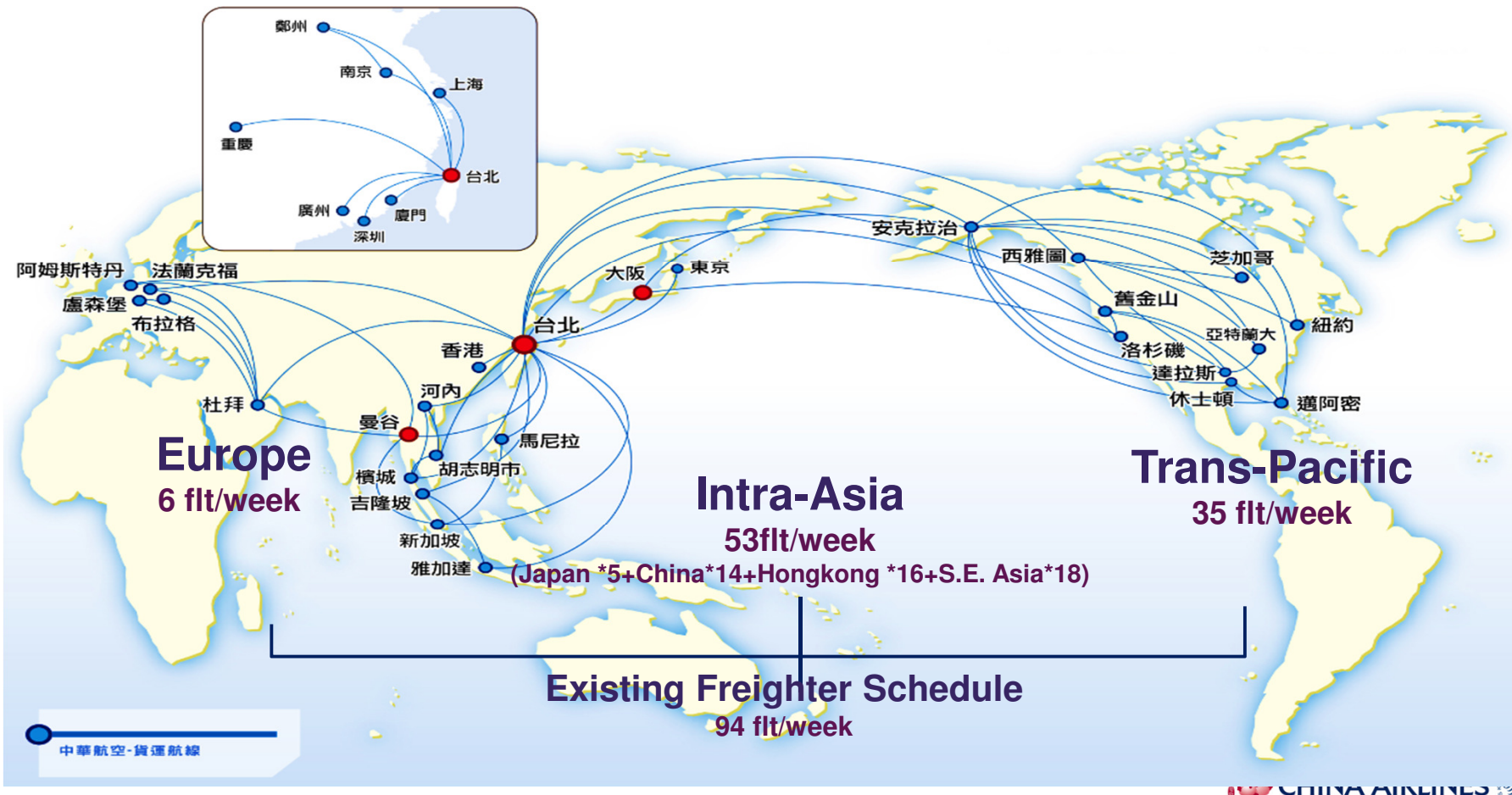
Top 10 Airlines Ranked by Freight Traffic					
Rank	Airline	International Tonnage (in thousands)	Rank	Airline	International FRTK (in millions)
1	Emirates	2,583	1	Emirates	12,270
2	Federal Express	1,842	2	Cathay Pacific Airways	9,947
3	Qatar Airways	1,764	3	Qatar Airways	9,221
4	Cathay Pacific Airways	1,597	4	Korean Air	7,639
5	United Parcel Service	1,508	5	Lufthansa	7,379
6	Korean Air	1,445	6	Federal Express	7,000
<b>7</b>	<b>China Airlines</b>	<b>1,326</b>	7	Cargolux	6,878
8	Singapore Airlines	1,139	8	Singapore Airlines	6,345
9	Lufthansa	947	9	United Parcel Service	560
10	Etihad Airways	929	<b>10</b>	<b>China Airlines</b>	<b>5,273</b>



- 2017 cargo capacity reached 5,742million Freight Revenue Ton Kilometers (FRTK)<sup>27</sup>

# Cargo Strategies -Capacity & Network

Focus on main growing areas in Japan/S.E. Asia and optimize the freighter route in USA and Europe.



# Cargo Strategies-Annual business strategy

**Global trade moderate growth trend**



## **Schedule charter / optimize network and capacity**

- Expand charter business and enhance intra-Asia cargo sources to optimize cargo revenue.
- Improve cargo aircraft utilization.
- Evaluation new charter business.

**Passenger aircraft belly capacity increase continuously**



## **Enhance belly performance**

- Full efforts to strengthen belly load of passenger aircraft.
- Strengthen and develop cooperation with international freight forwarder.
- Promote perishable, temperature control and express cargo to increase revenue

**Potential and high yield cargo**



## **Develop potential market**

Develop high-growth E-commerce cargo and NCD, fresh produce, aircraft engines, machine tools and other high yield cargo.



**CHINA AIRLINES**



# Fleet Planning

# Operating Fleet

The operating fleet consists of 87 aircraft including 69 passenger aircraft and 18 freighters.

Aircraft Type	Owned	On Lease
777-300ER	-	10
747-400	4	-
A350-900	12	-
A330-300	13	11
737-800	4	15
747-400F (Freighter)	18	-
Number of aircraft in fleet*	51	36

\*Aircraft in storage are excluded.

# Fleet Planning

- Aircraft performance and operation efficiency: Continue to optimize aircraft utilization, reduce average fleet age and operation cost to ensure safety and profitability.
- Market demand and risk management: Rolling long-haul/short-haul fleet planning to meet market demand and diversify risk.

Aircraft Type	2016	2017	2018
777-300ER	+2	-	-
A350-900	+4	+6	+4
737-800	+5	+2	-



**CHINA AIRLINES**



# Major Affiliated Enterprises

# Capital and CAL Share

Company Name	Capital	CAL Share %
Mandarin Airlines	NT\$ 2 Billion	93.99%
Tigerair Taiwan Co.	NT\$ 2 Billion	90.00%
Taoyuan International Airport Services Co.	NT\$ 0.7 Billion	49.00%
Taiwan Airport Service Co.	NT\$ 0.436 Billion	47.35%
Taiwan Air Cargo Terminal	NT\$ 2.5 Billion	54.00%
Taiwan Aircraft Maintenance and Engineering Co.	NT\$ 1.35 Billion	100.00%
CAL Hotel Co.	NT\$ 0.465 Billion	100.00%
China Pacific Catering Services	NT\$ 0.861 Billion	51.00%

# Major Affiliated Enterprises



## Mandarin Airlines

Provide domestic civil aviation services between major cities and outlying islands such as Taipei-Songshan, Taichung, Kinmen, Makung, Taitung, Kaohsiung and Hualien (Weekly 140 flights). Mandarin Airlines also serves 29 destinations in Asia/Mainland China(Weekly 123 flights).



## Tigerair Taiwan Co.

As a sole Taiwan-based LCC, Tigerair Taiwan serves 20 destinations in Northeast Asia(Tokyo, Osaka, Busan etc), Southeast Asia Bangkok and Macau (Weekly 340 flights). Currently, Tigerair Taiwan also provides ground service at Taoyuan International Airport.

# Major Affiliated Enterprises



## **Taoyuan International Airport Services Co.**

IASAGO certified ground handler. Provide ground handling services at Taoyuan and Taitung Airport. Ground handling operations reached 78,375.5 flights in 2017, with market share of 64.7%(Taoyuan International Airport).



## **Taiwan Airport Service Co.**

IASAGO certified ground handler. Provide ground handling services at Taipei-Songshan, Taichung, Kaohsiung, Hualien and Kinmen Airport. Ground handling operations reached 43,562 flights in 2017, with market share of 52% in average( and 44.1% in Taipei-Songshan Airport)

# Major Affiliated Enterprises



## Taiwan Air Cargo Terminal

Provide air cargo import/export and transfer of goods, and warehousing services. Handling capacity reached 891,000 tons in 2017, with market share of 37.8%.



## Taiwan Aircraft Maintenance and Engineering Co.

TAMECO is currently building a maintenance hangar with the capacity of 2 wide-body airplanes and 3 narrow-body airplanes and will focus on providing airframe maintenance including 777, 737, A320, A350.

# Major Affiliated Enterprises



## **CAL Hotel Co.**

CAL works with Accor Group to have Novotel hotel with 516 rooms near Taoyuan Airport (MRT A14a Stop). Novotel offers CAL crew accommodation and provides the great ease to business, leisure and transit travelers. 2017 occupancy rate reached 82.4%.



## **China Pacific Catering Services**

Provide Taoyuan airport flight catering services. Total supply of meal reached 14.18 million in 2017.



CHINA AIRLINES



Thank you