

EVA AIRWAYS CORP.
Parent-Company-Only Financial Statements
With Independent Auditors' Report
For the Years Ended
December 31, 2018 and 2017

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Independent Auditors' Report

To the Board of Directors
EVA Airways Corp.:

Opinion

We have audited the parent-company-only financial statements of EVA Airways Corp. (“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 ended December 31, 2018 and 2017, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 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.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the 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 Certified Public Accountants Code of Professional Ethics in Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 of the current period. 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.

1. Contract liabilities — mileage redemption revenue

Please refer to note 4(p) “Revenue recognition”, note 5 “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” of the financial statements, and note 6(t) “Revenue from contracts with customers”.

Description of key audit matter:

The member who joins the “Infinity MileageLands” (“the Program”) can earn mileage by flying any of the Company’s flights or through other consumption. Contract liabilities will be converted into reverses when the member actually redeems the mileage or it is expected that the right are probable not to be redeemed.

The Company maintains information technology systems in order to calculate its mileage redemption revenue. And the Company also uses the systems to estimate the unit fair value of the mileage. Therefore, the cut off test of contract liabilities – mileage redemption revenue is one of the key judgment areas for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: testing the design and implementation of the relevant automatic and manual controls over the mileage redemption revenue systems related to the Program; engaging the internal specialist to assess the quantity of the mileage, fair value of the redemption of the Program and the historical redemption probability of the Program to examine the unit fair value of the mileage for verifying the accuracy of recognition of the contract liabilities – mileage redemption revenue.

2. The restoration obligation of leased aircraft

Please refer to note 4(n) “Provision”, note 5 “Significant accounting assumptions and judgments, and major sources of estimation uncertainty” of the financial statements, and note 6(m) “Restoration obligations”.

Description of key audit matter:

The estimated recovery costs are incurred through the lease of aircraft. The Company’s restoration obligations are based on the necessary maintenance expenses under the lease contracts of the aircraft, in which the Company expects all of the maintenance expenses to be reimbursed when the Company returns back all its rented aircraft. The accuracy of restoration obligation is one of the key judgmental areas for our audit.

How the matter was addressed in our audit:

Our principal audit procedures included: understanding the accounting policy of the restoration obligation; examining the methodology and key assumptions of the restoration obligation adopted by the Company’s management, including lease terms and discount rates, as well as the assessing the accuracy of recognition of restoration obligation by understanding the using condition of the leased aircraft; comparing past assumptions made by the Company’s management with actual recovery costs and analyzing their significant differences.

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) 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 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 and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion of the Company.



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 of the current period 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 Ya-Ling Chen and Yen-Ta Su.

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG' in a stylized, cursive font.

KPMG

Taipei, Taiwan (Republic of China)
March 19, 2019

Notes to Readers

The accompanying parent-company-only financial statements are intended only to present the financial position, financial performance and its cash flows in accordance with the 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 parent-company-only financial statements are those generally accepted and applied in the Republic of China.

EVA AIRWAYS CORP.
Balance Sheets
December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

Assets		2018.12.31		2017.12.31		Liabilities and Equity		2018.12.31		2017.12.31	
		Amount	%	Amount	%			Amount	%	Amount	%
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (note 6(a))	\$ 39,930,700	19	35,432,733	17	2125	Derivative financial liabilities for hedge purposes— current (note 6(c))	\$ -	-	558	-
1110	Financial assets at fair value through profit or loss— current (note 6(b))	501,757	-	-	-	2126	Financial liabilities for hedging— current (note 6(c))	136,731	-	-	-
1125	Available-for-sale financial assets— current (note 6(b))	-	-	1,525,795	1	2130	Contract liabilities— current (note 6(t))	18,201,266	9	-	-
1135	Derivative financial assets for hedge purposes— current (note 6(c))	-	-	184,458	-	2170	Accounts payable	6,735,360	3	5,773,798	3
1139	Financial assets for hedging— current (note 6(c))	36	-	-	-	2180	Accounts payable— related parties (note 7)	1,800,672	1	1,903,298	1
1150	Notes receivable, net (notes 6(d) and 6(t))	933,343	-	751,534	-	2200	Other payables (notes 6(v) and 7)	8,087,355	4	7,519,714	4
1170	Accounts receivable, net (notes 6(d) and 6(t))	6,178,314	3	5,792,428	3	2230	Current tax liabilities	434,201	-	140,879	-
1180	Accounts receivable— related parties (notes 6(d), 6(t) and 7)	273,750	-	478,744	-	2310	Unearned revenue (note 6(u))	-	-	16,316,960	8
130x	Inventories (notes 6(f) and 6(h))	1,576,677	1	1,399,784	1	2320	Current portion of long-term liabilities (notes 6(l) and 8)	12,699,748	6	16,050,521	8
1470	Other current assets (notes 6(e), 6(k) and 7)	1,593,355	1	1,473,008	1	2300	Other current liabilities (notes 6(h), 6(l) and 6(m))	5,498,552	3	5,508,040	2
	Total current assets	<u>50,987,932</u>	<u>24</u>	<u>47,038,484</u>	<u>23</u>		Total current liabilities	<u>53,593,885</u>	<u>26</u>	<u>53,213,768</u>	<u>26</u>
Non-current assets:						Non-current liabilities:					
1517	Financial assets at fair value through other comprehensive income— non-current (note 6(b))	2,346,285	1	-	-	2500	Financial liabilities at fair value through profit or loss— non-current (notes 6(b) and 6(l))	6,234	-	16,800	-
1523	Available-for-sale financial assets— non-current (note 6(b))	-	-	2,503,536	1	2527	Contract liabilities— non-current (note 6(t))	2,908,958	1	-	-
1550	Investments accounted for using equity method (note 6(g))	15,879,855	8	14,415,673	7	2530	Bonds payable (note 6(l))	15,107,923	7	15,096,232	8
1600	Property, plant and equipment (notes 6(h), 6(l), 6(m), 7, 8 and 9)	125,704,145	60	119,481,891	60	2540	Long-term borrowings (notes 6(l) and 8)	49,021,219	23	47,583,959	24
1760	Investment property, net (note 6(i))	183,054	-	-	-	2570	Deferred tax liabilities (note 6(p))	83,345	-	134,068	-
1780	Intangible assets (note 6(j))	600,856	-	493,403	-	2613	Lease liabilities— non-current (note 6(l))	1,279,618	1	2,152,643	1
1840	Deferred tax assets (note 6(p))	3,305,511	2	3,451,704	2	2640	Net defined benefit liabilities— non-current (note 6(o))	4,184,512	2	4,385,296	2
1900	Other non-current assets (notes 6(c), 6(h), 6(k), 7, 8 and 9)	11,279,779	5	13,761,377	7	2600	Other non-current liabilities (notes 6(h), 6(m), and 6(u))	20,519,454	10	20,555,579	10
	Total non-current assets	<u>159,299,485</u>	<u>76</u>	<u>154,107,584</u>	<u>77</u>		Total non-current liabilities	<u>93,111,263</u>	<u>44</u>	<u>89,924,577</u>	<u>45</u>
							Total liabilities	<u>146,705,148</u>	<u>70</u>	<u>143,138,345</u>	<u>71</u>
						Equity (notes 6(b), 6(c), 6(l), 6(o), 6(p), 6(q) and 6(r)):					
						3110	Common stock	43,821,215	21	41,734,490	21
						3140	Capital collected in advance	230,642	-	-	-
						3200	Capital surplus	6,751,945	3	6,639,940	3
						3300	Retained earnings	12,344,382	6	8,672,249	5
						3400	Other equity	434,085	-	961,044	-
							Total equity	<u>63,582,269</u>	<u>30</u>	<u>58,007,723</u>	<u>29</u>
							Total liabilities and equity	<u>\$ 210,287,417</u>	<u>100</u>	<u>201,146,068</u>	<u>100</u>
	Total assets	<u>\$ 210,287,417</u>	<u>100</u>	<u>201,146,068</u>	<u>100</u>						

See accompanying notes to parent-company-only financial statements.

EVA AIRWAYS CORP.
Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, except Earnings Per Share)

		<u>2018</u>		<u>2017</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
4000	Operating revenue (notes 6(t), 6(u) and 7)	\$ 135,620,650	100	125,314,160	100
5000	Operating costs (notes 6(c), 6(f), 6(h), 6(j), 6(n), 6(o), 6(v) and 7)	<u>(117,631,167)</u>	<u>(87)</u>	<u>(107,862,932)</u>	<u>(86)</u>
	Gross profit from operations	17,989,483	13	17,451,228	14
6000	Operating expenses (notes 6(d), 6(h), 6(j), 6(n), 6(o), 6(r), 6(v) and 7)	<u>(11,994,341)</u>	<u>(9)</u>	<u>(11,508,710)</u>	<u>(9)</u>
	Net operating income	<u>5,995,142</u>	<u>4</u>	<u>5,942,518</u>	<u>5</u>
	Non-operating income and expenses (notes 6(g), 6(h), 6(l), 6(m), 6(w) and 7):				
7010	Other income	757,444	1	491,051	-
7020	Other gains and losses	724,667	-	773,604	1
7050	Finance costs	(1,798,071)	(1)	(1,839,812)	(1)
7375	Share of profit of subsidiaries and associates accounted for using equity method	<u>1,988,335</u>	<u>1</u>	<u>1,518,572</u>	<u>1</u>
	Total non-operating income and expenses	<u>1,672,375</u>	<u>1</u>	<u>943,415</u>	<u>1</u>
7900	Profit before tax	7,667,517	5	6,885,933	6
7950	Income tax expenses (note 6(p))	<u>(1,114,690)</u>	<u>-</u>	<u>(1,133,866)</u>	<u>(1)</u>
	Profit	<u>6,552,827</u>	<u>5</u>	<u>5,752,067</u>	<u>5</u>
8300	Other comprehensive income (notes 6(c), 6(g), 6(o), 6(p) and 6(q)):				
8310	Items that will not be reclassified subsequently to profit or loss:				
8311	Remeasurements of net defined benefit plans	(551,659)	-	(640,200)	(1)
8316	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	157,677	-	-	-
8317	Gains on hedging instruments	366	-	-	-
8330	Share of other comprehensive income of subsidiaries and associates accounted for using equity method	(58,057)	-	(224,872)	-
8349	Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	<u>213,318</u>	<u>-</u>	<u>108,834</u>	<u>-</u>
	Total items that will not be reclassified subsequently to profit or loss	<u>(238,355)</u>	<u>-</u>	<u>(756,238)</u>	<u>(1)</u>
8360	Items that may be reclassified subsequently to profit or loss:				
8361	Exchange differences on translation of foreign financial statements	933	-	(48,111)	-
8362	Unrealized losses on available-for-sale financial assets	-	-	(181,561)	-
8363	Cash flow hedges	-	-	383,942	-
8368	Losses on hedging instruments	(320,961)	-	-	-
8380	Share of other comprehensive income of subsidiaries and associates accounted for using equity method	6,158	-	(55)	-
8399	Income tax benefit (expenses) relating to items that may be reclassified subsequently to profit or loss	<u>58,658</u>	<u>-</u>	<u>(63,050)</u>	<u>-</u>
	Total items that may be reclassified subsequently to profit or loss	<u>(255,212)</u>	<u>-</u>	<u>91,165</u>	<u>-</u>
8300	Other comprehensive income, net of tax	<u>(493,567)</u>	<u>-</u>	<u>(665,073)</u>	<u>(1)</u>
8500	Comprehensive income	<u>\$ 6,059,260</u>	<u>5</u>	<u>5,086,994</u>	<u>4</u>
	Earnings per share (note 6(s))				
9750	Basic earnings per share (in New Taiwan Dollars)	<u>\$ 1.50</u>		<u>1.31</u>	
9850	Diluted earnings per share (in New Taiwan Dollars)	<u>\$ 1.36</u>		<u>1.19</u>	

See accompanying notes to parent-company-only financial statements.

EVA AIRWAYS CORP.
Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings						Other equity						Total	Total equity
	Common stock	Capital collected in advance	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Cash flow hedges	Gains (losses) on hedging instruments			
Balance on January 1, 2017	\$ 40,518,923	-	6,237,027	643,643	2,314,892	2,743,831	5,702,366	46,069	-	989,845	(166,035)	-	869,879	53,328,195
Appropriation of prior year's earnings:														
Legal reserve	-	-	-	347,600	-	(347,600)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(2,314,892)	2,314,892	-	-	-	-	-	-	-	-
Cash dividends to common stockholders	-	-	-	-	-	(810,379)	(810,379)	-	-	-	-	-	-	(810,379)
Stock dividends to common stockholders	1,215,567	-	-	-	-	(1,215,567)	(1,215,567)	-	-	-	-	-	-	-
Issuance of convertible bonds recognized in capital surplus-share options	-	-	402,913	-	-	-	-	-	-	-	-	-	-	402,913
Profit	-	-	-	-	-	5,752,067	5,752,067	-	-	-	-	-	-	5,752,067
Other comprehensive income	-	-	-	-	-	(756,238)	(756,238)	(56,920)	-	(170,587)	318,672	-	91,165	(665,073)
Total comprehensive income	-	-	-	-	-	4,995,829	4,995,829	(56,920)	-	(170,587)	318,672	-	91,165	5,086,994
Balance on December 31, 2017	41,734,490	-	6,639,940	991,243	-	7,681,006	8,672,249	(10,851)	-	819,258	152,637	-	961,044	58,007,723
Effects of retrospective application	-	-	-	-	-	454,662	454,662	-	371,924	(819,258)	(152,637)	152,637	(447,334)	7,328
Balance on January 1, 2018 after adjustments	41,734,490	-	6,639,940	991,243	-	8,135,668	9,126,911	(10,851)	371,924	-	-	152,637	513,710	58,015,051
Appropriation of prior year's earnings:														
Legal reserve	-	-	-	575,207	-	(575,207)	-	-	-	-	-	-	-	-
Cash dividends to common stockholders	-	-	-	-	-	(834,689)	(834,689)	-	-	-	-	-	-	(834,689)
Stock dividends to common stockholders	2,086,725	-	-	-	-	(2,086,725)	(2,086,725)	-	-	-	-	-	-	-
Conversion of convertible bonds	-	49,662	20,505	-	-	-	-	-	-	-	-	-	-	70,167
Profit	-	-	-	-	-	6,552,827	6,552,827	-	-	-	-	-	-	6,552,827
Other comprehensive income	-	-	-	-	-	(395,610)	(395,610)	7,091	156,945	-	-	(261,993)	(97,957)	(493,567)
Total comprehensive income	-	-	-	-	-	6,157,217	6,157,217	7,091	156,945	-	-	(261,993)	(97,957)	6,059,260
Issuance of common stock	-	180,980	91,500	-	-	-	-	-	-	-	-	-	-	272,480
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	(18,332)	(18,332)	-	18,332	-	-	-	18,332	-
Balance on December 31, 2018	\$ 43,821,215	230,642	6,751,945	1,566,450	-	10,777,932	12,344,382	(3,760)	547,201	-	-	(109,356)	434,085	63,582,269

See accompanying notes to parent-company-only financial statements.

EVA AIRWAYS CORP.
Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from (used in) operating activities:		
Profit before tax	\$ <u>7,667,517</u>	<u>6,885,933</u>
Adjustments:		
Adjustments to reconcile profit:		
Expected credit loss	70,000	-
Depreciation expense	11,706,048	12,956,693
Amortization expense	225,600	200,851
Net gains on financial assets or liabilities at fair value through profit or loss	(15,050)	(7,700)
Interest expense	1,798,071	1,839,812
Interest income	(612,624)	(359,659)
Dividend income	(144,820)	(131,392)
Share-based payments transactions	91,500	-
Shares of profit of subsidiaries and associates accounted for using equity method	(1,988,335)	(1,518,572)
Losses (gains) on disposal of property, plant and equipment	(548,970)	69,866
Gains on disposal of investments	(14,612)	(625,351)
Unrealized foreign exchange losses (gains)	441,832	(1,468,529)
Others	<u>(199,483)</u>	<u>(252,121)</u>
Total adjustments to reconcile profit	<u>10,809,157</u>	<u>10,703,898</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Notes receivable, net	(181,809)	(206,950)
Accounts receivable, net	(455,886)	(4,040)
Accounts receivable—related parties	204,994	(82,753)
Inventories	(374,741)	147,544
Other current assets	<u>(91,721)</u>	<u>180,836</u>
Total changes in operating assets	<u>(899,163)</u>	<u>34,637</u>
Changes in operating liabilities:		
Contract liabilities	21,110,224	-
Accounts payable	961,562	2,943,344
Accounts payable—related parties	(102,626)	(559,521)
Other payables	744,576	(3,178,277)
Unearned revenue	(16,316,960)	1,708,636
Other current liabilities	339,937	(2,555,878)
Net defined benefit liabilities—non-current	(742,221)	(373,655)
Other non-current liabilities	<u>(2,305,238)</u>	<u>604,791</u>
Total changes in operating liabilities	<u>3,689,254</u>	<u>(1,410,560)</u>
Total changes in operating assets and liabilities	<u>2,790,091</u>	<u>(1,375,923)</u>
Total adjustments	<u>13,599,248</u>	<u>9,327,975</u>
Cash inflow generated from operations	21,266,765	16,213,908
Income taxes paid	<u>(282,384)</u>	<u>(271,466)</u>
Net cash flows from operating activities	<u>20,984,381</u>	<u>15,942,442</u>

See accompanying notes to parent-company-only financial statements.

EVA AIRWAYS CORP.
Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	\$ 323,402	-
Decrease available-for-sale financial assets – current	-	2,068
Acquisition of financial assets designated at fair value through profit or loss	(3,975,000)	-
Proceeds from disposal of financial assets designated at fair value through profit or loss	5,003,589	-
Acquisition of available-for-sale financial assets – non-current	-	(24,620)
Proceeds from disposal of available-for-sale financial assets – non-current	-	943,106
Acquisition of investments accounted for using equity method	(307,201)	(1)
Proceeds from disposal of investments accounted for using equity method	21,189	9,337
Acquisition of property, plant and equipment	(10,743,741)	(9,812,775)
Proceeds from disposal of property, plant and equipment	2,671,559	457,550
Acquisition of intangible assets	(333,053)	(201,165)
Decrease (increase) in other non-current assets	(37,300)	20,865
Increase in prepayments for business facilities	(5,676,696)	(8,802,553)
Interest received	584,352	360,926
Dividends received	931,632	859,928
Net cash flows used in investing activities	(11,537,268)	(16,187,334)
Cash flows from (used in) financing activities:		
Proceeds from issuance of bonds payable	-	7,009,018
Redemption of bonds payable	(4,500,000)	(6,500,000)
Proceeds from long-term borrowings	18,332,000	11,857,700
Redemption of long-term borrowings	(15,829,071)	(10,968,867)
Decrease in lease liabilities	(1,275,885)	(1,496,591)
Increase in other non-current liabilities	73,079	4,381
Cash dividends paid	(834,689)	(810,379)
Issuance of common stock	180,980	-
Interest paid	(1,095,560)	(1,292,493)
Net cash flows used in financing activities	(4,949,146)	(2,197,231)
Net increase (decrease) in cash and cash equivalents	4,497,967	(2,442,123)
Cash and cash equivalents at beginning of year	35,432,733	37,874,856
Cash and cash equivalents at end of year	\$ 39,930,700	35,432,733

See accompanying notes to parent-company-only financial statements.

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

EVA Airways Corp (the “Company”) was incorporated on April 7, 1989, as a corporation limited by shares under special permission of the Republic of China (R.O.C.) Ministry of Transportation and Communications. The address of the Company’s registered office is No. 376, Sec. 1, Hsin-nan Road, Luchu Dist., Taoyuan City, Taiwan.

The Company’s business activities are

- (a) civil aviation transportation and general aviation business;
- (b) to carry out any business which is not forbidden or restricted by the applicable laws and regulations, excluding those requiring licensing.

(2) Approval date and procedures of the financial statements

The parent-company-only financial statements were authorized for issuance by the Company’s Board of Directors as of March 19, 2019.

(3) New standards, amendments and interpretations adopted

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Except for the following items, the Company believes that the adoption of the above IFRSs would not have a material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a five-step model framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Company applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Company recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Company uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following tables summarize the impacts of adopting IFRS15 on the Company’s financial statements:

<u>Impacted line items on the balance sheet</u>	<u>2018.12.31</u>			<u>2018.1.1</u>		
	<u>Balances prior to the adoption of IFRS 15</u>	<u>Impact of changes in accounting policies</u>	<u>Balances upon adoption of IFRS 15</u>	<u>Balances prior to the adoption of IFRS 15</u>	<u>Impact of changes in accounting policies</u>	<u>Balances upon adoption of IFRS 15</u>
Contract liabilities – current	\$ -	18,201,266	18,201,266	-	16,312,880	16,312,880
Unearned revenue	18,243,135	(18,243,135)	-	16,316,960	(16,316,960)	-
Other current liabilities	5,456,683	41,869	5,498,552	5,508,040	4,080	5,512,120
Contract liabilities – non-current	-	2,908,958	2,908,958	-	2,351,380	2,351,380
Other non-current liabilities	23,428,412	<u>(2,908,958)</u>	20,519,454	20,555,579	<u>(2,351,380)</u>	18,204,199
Impact on liabilities		<u><u>-</u></u>			<u><u>-</u></u>	

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

<u>Impacted line items on the statement of cash flows</u>	<u>For the year ended December 31, 2018</u>		
	<u>Balances without adoption of IFRS 15</u>	<u>Impact of changes in accounting policies</u>	<u>Balances with adoption of IFRS 15</u>
Cash flows from (used in) operating activities:			
Profit before tax	\$ 7,668,074	-	7,668,074
Adjustments:			
Unearned revenue	1,926,175	(18,243,135)	(16,316,960)
Contract liabilities	-	21,110,224	21,110,224
Other current liabilities	298,068	41,869	339,937
Other non-current liabilities	603,720	<u>(2,908,958)</u>	(2,305,238)
Impact on net cash flows from operating activities		<u><u>-</u></u>	

(ii) IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” (hereinafter referred to as IFRS 9) replaces IAS 39 “Financial Instruments: Recognition and Measurement” (hereinafter referred to as IAS 39) which contains classification and measurement of financial instruments, impairment and hedge accounting.

The Company adopted the consequential amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(f).

The adoption of IFRS 9 did not have any significant impact on its accounting policies on financial liabilities.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the forward-looking ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(f).

3) Hedge accounting

The Company prospectively apply the requirements for hedge accounting upon initial application of IFRS 9. In addition, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets for hedging and financial liabilities for hedging starting January 1, 2018.

4) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

5) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company’s financial assets as of January 1, 2018 (There are no changes to the measurement categories and carrying amount of financial liabilities).

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

	IAS39		IFRS9	
	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Financial assets				
Cash and cash equivalents	Loans and receivables (note 1)	35,432,733	Amortized cost	35,432,733
Derivative instruments	Derivative financial assets for hedge purposes	184,458	Financial assets for hedging	184,458
Equity instruments	Available-for-sale (fund)	1,525,795	FVTPL	1,525,795
	Available-for-sale financial assets (equity instruments) (note 2)	2,503,536	FVOCI	2,503,536
	Financial assets carried at cost (note 2)	1,020	FVOCI	8,474
Trade receivables, net	Loans and receivables (note 1)	7,413,509	Amortized cost	7,413,509
Other financial assets (refundable deposits and pledged time deposits)	Loans and receivables (note 1)	1,502,442	Amortized cost	1,502,442

Note 1: Cash and cash equivalents, notes receivable, accounts receivable, other receivables and other financial assets that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

Note 2: These equity securities (including financial assets carried at cost) represent investments that the Company intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Company has designated these investments at the date of initial application as measured at FVOCI, resulting in an increase of \$7,454 in those assets recognized, and a decrease of \$447,334 in the other equity, as well as the increase of \$454,662 in retained earnings were recognized on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying amount	2018.1.1 Adjustment in retained earnings	2018.1.1 Adjustment in other equity
Financial assets at fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ -	-	-	-	-	-
From available-for-sale	-	1,525,795	-	-	16,500	(16,500)
Total	\$ -	1,525,795	-	1,525,795	16,500	(16,500)
Financial assets at fair value through other comprehensive income						
Beginning balance of available-for-sale (including carried at cost) (IAS 39)	\$ 2,504,556	(2,504,556)	-	-	-	-
Available-for-sale to FVOCI	-	2,504,556	7,454	-	438,162	(430,834)
Total	\$ 2,504,556	-	7,454	2,512,010	438,162	(430,834)

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Company present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as note 6(aa).

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

Except for the following items, the Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as operating or finance leases.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Company can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Company can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients. And, it need not restate comparative financial statements.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company chooses to elect the following practical expedients:

- apply a single discount rate to a portfolio of leases with similar characteristics.
- apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.
- exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

- 3) So far, the most significant impact identified is that the Company will have to recognize the new assets and liabilities for the operating leases of its offices and aircraft. The Company estimated that the right-of-use assets and the lease liabilities (deduct advance rental) to increase by \$98,839,764 and \$97,960,020, respectively on January 1, 2019. No significant impact is expected for the Company's finance leases. In addition, since the loan covenants agreed upon by the Company with different financial institutions were without financial ratio limits, the adoption of IFRS 16 will not have any impact on the said covenants. Also, the Company is not required to make any adjustments for leases where the Company is the intermediate lessor in a sub-lease.

(ii) IFRIC 23 "Uncertainty over Income Tax Treatments"

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

Based on the Company's assessment, the application of IFRIC23 would not result in any material impact.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

(4) Summary of significant accounting policies

The significant accounting policies have been applied consistently to all periods presented in these financial statements, except when otherwise indicated.

The significant accounting policies presented in the parent-company-only financial statements are summarized as follows:

(a) Statement of compliance

These parent-company-only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”).

(b) Basis of preparation

(i) Basis of measurement

The parent-company-only financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- 1) Financial instruments at fair value through profit or loss are measured at fair value;
- 2) Fair value through other comprehensive income (Available-for-sale financial assets) are measured at fair value;
- 3) Hedging financial instruments are measured at fair value; and
- 4) The net defined benefit liabilities are recognized as the present value of the defined benefit obligation, less, the fair value of plan assets.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The parent-company-only financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in TWD has been rounded to the nearest thousand.

(c) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at the exchange rates of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate of that date. The foreign currency gains or losses on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and the payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate of the date the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of transactions.

Foreign currency differences arising from retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income that arise from the retranslation :

- 1) fair value through other comprehensive income (available-for-sale) equity investment;
- 2) financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Taiwan Dollars (which was expressed in reporting currency) at the exchange rates of the reporting date. The income and expenses of foreign operations are translated to New Taiwan Dollars (which was expressed in reporting currency) at average rate. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely predicted in the foreseeable future, the foreign currency gains and losses arising from such items are considered as a part of investment in the foreign operation and are recognized in other comprehensive income.

(d) Classification of current and non-current assets and liabilities

The Company classifies an asset as current when:

- (i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;
- (ii) It holds the asset primarily for the purpose of trading;
- (iii) It expects to realize the asset within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies all other assets as non-current.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

The Company classifies a liability as current when:

- (i) It expects to settle the liability in its normal operating cycle;
- (ii) It holds the liability primarily for the purpose of trading;
- (iii) The liability is due to be settled within twelve months after the reporting period; or
- (iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issuance of equity instruments that do not affect its classification.

The Company classifies all other liabilities as non-current.

(e) Cash and cash equivalents

Cash comprise cash and demand deposits. Cash equivalents are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Time deposits, in conformity with the aforementioned definition, that are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes, and that are subject to an insignificant risk of changes in their fair value are recognized as cash equivalents.

(f) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Company shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend income clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retained earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Company's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

4) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivable, refundable deposits and other financial assets).

The Company measures loss allowances at an amount equal to lifetime expected credit losses (ECLs), except for the following which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables is always measured at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Company's historical experience and informed credit assessment as well as forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when the financial asset is more than 365 days past due or the borrower is unlikely to pay its credit obligations to the Company in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

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At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 60 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Company recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a debt instrument in its entirety, the Company recognizes the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses from financial assets measured at fair value through other comprehensive income", in profit or loss.

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On derecognition of a financial asset other than in its entirety, the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

(ii) Financial assets (policy applicable before January 1, 2018)

The Company classifies assets as follows: loans and receivables and available-for-sale financial assets. A regular purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

1) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized in profit or loss, and is included in other income under non-operating income and expenses.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income and are presented in the fair value reserve in equity, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale monetary items, are recognized in profit or loss. The accumulated unrealized gains or losses reserve in equity are reclassified to other gains and losses when available-for-sales financial assets are derecognized.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, shall be measured at cost less the impairment loss, and included in financial assets carried at cost.

Dividends on available-for-sale securities are recognized when the Company is authorized to receive.

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3) Impairment of financial assets

A financial asset is impaired if, and only if, there is any objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security.

All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Objective evidence that the collection of financial assets impaired includes the Company's experience of collections, the increasing payment terms of the collection over the average term, and economic conditions that correlate with defaults.

The evidence of impairment for financial assets measured at amortized cost is considered at both an individual and collective level. All individually significant financial assets are assessed for specific impairment.

The financial assets, which were assessed individually for any impairment and the impairment was recognized or being recognized, were not collectively assessed for impairment by grouping together. If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment. Impairment losses on available-for-sale financial assets are recognized by reclassifying the accumulated losses in the fair value reserve in equity to profit or loss.

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

An impairment loss in respect of a financial asset is reduced from the carrying amount except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of a receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

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Impairment losses and recoveries of accounts receivable are recognized in operating expense; impairment losses and recoveries of other financial assets are recognized in other gains and losses under non-operating income and expenses.

4) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity – unrealized gains or losses on available-for-sale financial assets is recognized in profit or loss, and is included in other gains and losses under non-operating income and expenses.

The Company separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss, and is included in other gains and losses under non-operating income and expenses. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received less the direct cost of issuing.

Compound financial instruments issued by the Company comprise convertible bonds that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have any equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest and gain or loss related to the financial liabilities are recognized in profit or loss, and are included in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as such on initial recognition.

Financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short term. The Company designates financial liabilities, other than those classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;
- b) Performance of the financial liabilities is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss, and included in other gains and losses under non-operating income and expenses.

3) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise short-term and long-term borrowings, and trade payables and other payables, shall be measured at fair value plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, and is under non-operating income and expenses.

4) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligation has been discharged or cancelled or has expired.

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The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in other gains and losses under non-operating income and expenses.

5) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company has the legally enforceable rights to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Derivative financial instruments and hedge accounting (policy applicable from January 1, 2018)

The Company holds derivative financial instruments to hedge its foreign currency, interest rate and fuel price exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

The Company designates its hedging instruments, including derivatives, embedded derivatives, and nonderivative instruments for a hedge of a foreign currency risk, as a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risks of firm commitments are treated as fair value hedges. For a hedge of foreign currency risk with a highly probable forecast transaction, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided.

An initial designated hedging relationships, the Company documents the risk management objectives and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged items and hedging instrument are expected to offset each other.

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in “other equity – gains (losses) on hedging instruments”. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

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When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or in the periods during which the hedged item affects the profit or loss, and is presented in the same accounting item with the hedged item recognized in the statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a nonfinancial asset or liability, the amount accumulated in “other equity—gains (losses) on hedging instruments” and retained in other comprehensive income is reclassified as the initial cost of the nonfinancial asset or liability.

The Company prospectively 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.

- (v) Derivative financial instrument and hedge accounting (policy applicable before January 1, 2018)

Derivatives are used to hedge the risks associated with changes in foreign currency rates, interest rates and fuel prices. They are recognized initially (trade date), and are subsequently re-measured at fair value. The transaction costs are recognized in profit or loss. Method of recognizing fair value gains and losses on derivative financial instruments depends on the nature of the hedging relationship. All derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

The documentation at inception of each hedging relationship sets out purpose and strategy of risk management. To qualify for hedge accounting at the inception of the hedge throughout its life, each hedge must be kept in records if it is highly effective in offsetting the changes (which arise from risks to be managed) in fair value or cash flow of the hedged items on an ongoing basis.

- 1) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss, together with changes in the fair value of the asset or liability or group, thereof that are attributable to the hedged risk, and are both presented under hedged items in the statement of comprehensive income as well.

If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated, exercised or its designation is revoked, then hedge accounting is discontinued prospectively. Under effective interest method, adjustments made for fair value of hedged items (which arises from risk to be managed) are amortized as profit or loss once the hedge accounting is discontinued. The amortization is based on the effective interest rate that is recalculated at the inception of amortization so that the adjustment in fair value will be fully amortized at maturity date.

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2) Cash flow hedges

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 and accumulated in other equity the effective portion of gains and losses from changes in fair value of cash flow hedges. Any gain or loss relating to an ineffective portion is recognized immediately under non-operating income and expenses in the statement of comprehensive income.

When a hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and it is presented in the same accounting caption with the hedged item recognized in the statement of comprehensive income. However, when a forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and are included in the initial measurement of the cost of the asset or liability.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average method, and includes expenditure incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the selling expenses.

(h) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. The Company recognizes any changes, proportionately with the shareholding ratio under additional paid in capital, when an associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual controlling power.

Unrealized profits resulting from transactions between the Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with an associate are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Company's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

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(i) Investment in subsidiaries

When preparing the parent-company-only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity.

(j) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured at initial acquisition cost less any subsequent accumulated depreciation. Depreciation methods, useful lives and residual values are in accordance with the policy of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property and any other costs directly attributable to bringing the investment property to a working condition for its intended use, and capitalized borrowing costs.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its book value at the date of reclassification becomes its cost for subsequent accounting.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the disposal of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

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(ii) Major inspection and overhaul cost

Major inspection and overhaul expenditures of self-owned and finance leased aircraft are capitalized as costs of aircraft and leased assets by components, and are depreciated using the straight-line method over the estimated useful life of the overhaul. Costs of designated inspections to be performed at the end of the lease term of operating leased aircraft are estimated and depreciated using the straight-line method over the lease term.

(iii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iv) Depreciation

The depreciable amount of an asset is determined after deducting its residual value, and it shall be allocated on a systematic basis over the asset's useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- 1) Land has unlimited useful life and therefore is not depreciated.
- 2) Buildings and structures: 5 to 55 years
- 3) Machinery and equipment: 1 to 18 years
- 4) Aircraft: 3 to 18 years
- 5) Leased assets are depreciated over the shorter of the lease term or the estimated useful life.

Depreciation methods, useful lives, and residual values are reviewed at each fiscal year-end date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment purpose.

(l) Leases

Leases in which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

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Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Company's balance sheets.

Payments made under an operating lease, excluding insurance and maintenance expenses, are recognized expenses over the term of the lease.

Recognition of income arising from sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and the sales price is at or below fair value, any profit or loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

(m) Impairment of non-financial assets

The Company measures whether impairment occurred in non-financial assets (except for inventories and deferred tax assets), at the end of each reporting period, and estimates their recoverable amount. If it is not possible to determine the recoverable amount (fair value less costs to sell and value in use) for an individual asset, then the Company will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Company should assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of previously recognized impairment loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if no impairment loss had been recognized.

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(n) Provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

The estimated recovery costs are incurred through the lease of aircraft. The Company's restoration obligations are based on necessary maintenance expenses under the lease contracts of the aircraft, in which the Company expects all of the maintenance expenses to be reimbursed when the Company returns back all its rented aircraft. The amounts are estimated by gauging the maintenance experiences of similar types of aircraft, the actual maintenance expenses in the past, and the historical information on the usage of the aircraft.

(o) Intangible assets

Intangible assets that are acquired by the Company are measured at cost less accumulated amortization and any accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

The amortization amount is the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of 3~5 years of intangible assets, other than goodwill and intangible assets with indefinite useful lives, from the date that they are available for use.

(p) Revenue recognition

(i) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

1) Aviation transportation revenue

Ticket sales for passengers and cargo are recorded as unearned revenue. They are included in contract liabilities-current, and recognized as revenue when service is provided.

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2) Customer loyalty program

The Company has a customer loyalty program, whereby, customers are awarded rights of accumulating mileages during their flights, and the fair value of the consideration received or receivable in respect of initial sale is allocated between the rights of accumulated mileages and the other components of the sale. The amount allocated to rights of accumulated mileages is estimated by the fair value of the redeemable part of the customer loyalty program and by reference to past experience of probability of redemption. Thus, the corresponding fair value is estimated and deferred, and service revenues will not be recognized until the rights have been redeemed and obligations are fulfilled. Also, contract liabilities will be converted into revenues when it is expected that the rights are probable not to be redeemed.

3) Sale of goods

The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the utility of the product, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

Accounts receivable are recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional.

4) Financing components

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(ii) Revenue recognition (policy applicable before January 1, 2018)

1) Aviation transportation revenue

Ticket sales for passengers and cargo are recorded as unearned revenue. They are included in current liabilities, and recognized as revenue when service is provided.

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2) Unearned mileage redemption revenue

The Company has a customer loyalty program, whereby, customers are awarded rights of accumulating mileages during their flights, and the fair value of the consideration received or receivable in respect of initial sale is allocated between the rights of accumulated mileages and the other components of the sale. The amount allocated to rights of accumulated mileages is estimated by the fair value of the redeemable part of the customer loyalty program and by reference to past experience of probability of redemption. Thus, the corresponding fair value is estimated and deferred, and service revenues will not be recognized until the rights have been redeemed and obligations are fulfilled. Also, unearned revenues will be converted into revenues when it is expected that the rights are probable not to be redeemed.

3) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that a discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on market yields of government bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved the expense of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company recognizes the amounts in retained earnings.

The Company recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are accrued when the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee. A liability is recognized when the obligation can be estimated reliably.

(r) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

(s) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the exceptions below:

- (i) Assets and liabilities that are initially recognized but are not related to a business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) The Company has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfills one of the scenarios below:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(t) Earnings per share (EPS)

The Company discloses the Company's basic and diluted earnings per share attributable to ordinary equity holders of the Company. The calculation of basic earnings per share is based on the profit or loss attributable to the ordinary equity holders of the Company divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit or loss attributable to ordinary equity holders of the Company, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, such as convertible bonds and employee compensation.

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(u) Operating segment

The Company discloses the operating segment information in the consolidated financial statements. Therefore, the Company does not disclose the operating segment information in the parent-company-only financial statements.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the parent-company-only financial statements based on the Regulations requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continues to monitor the accounting assumptions, estimates and judgments. Management recognizes any changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next year.

Information about critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the parent-company-only financial statements is as follows:

Please refer to note 6(h), for the Company entered into numbers of aircraft lease contracts, and the Company assumes substantially all of the risks and rewards of ownership according to the article of lease contracts. Therefore, the Company classified these lease contracts as financial leases.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year is as follow:

(a) Contract liabilities— mileage redemption revenue

Please refer to note 4(p), for the rights of accumulated mileages that are estimated by using the fair value of the redeemable part of the customer loyalty program and, the reference to past experience of probability of redemption. Changes in fair value per mileage or redemption rate may have a material impact on the contract liabilities-mileage redemption revenue. Also, contract liabilities-mileage redemption revenue will be converted into revenues when the member actually redeems the mileage or it is expected that the rights are probable not to be redeemed.

(b) Restoration obligations

Please refer to note 4(n), for the estimated recovery costs that were incurred through the lease of aircrafts. The Company's restoration obligations are based on necessary maintenance expenses under the lease contracts of the aircraft, in which the Company expects all of the maintenance expenses to be reimbursed when the Company returns back all its rented aircraft. The amounts are estimated by gauging the maintenance experiences of similar types of aircraft, the actual maintenance expenses in the past, and the historical information on the usage of the aircraft. The Company is also continuing to monitor its accounting assumption and verify its appropriateness. Changes in judgment or estimations may have a material impact on the amounts of recovery costs.

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The accounting policy and disclosure of the Company include measuring the financial assets and financial liabilities at fair value. The accounting department of the Company uses information of external information to make the evaluation result agreeable to the market status and to ensure that the data resources are independent, reliable and consistent with the other resources. The accounting department of the Company regularly revises the evaluation models and the input parameters, makes retrospective review and makes essential adjustments to ensure that the evaluation results is reasonable.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 6(x).

(6) Explanation of significant accounts

(a) Cash and cash equivalents

	<u>2018.12.31</u>	<u>2017.12.31</u>
Cash on hand	\$ 82,179	84,837
Cash in bank	<u>39,848,521</u>	<u>35,347,896</u>
	<u>\$ 39,930,700</u>	<u>35,432,733</u>

Refer to note 6(x) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Company.

(b) Financial assets and liabilities

(i) Financial assets and liabilities at fair value through profit or loss:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Financial assets mandatorily measured at fair value through profit or loss:		
Money market funds	<u>\$ 501,757</u>	<u>-</u>

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	2018.12.31	2017.12.31
Financial liabilities mandatorily measured at fair value through profit or loss:		
Convertible bonds with embedded derivatives	\$ 6,234	-
Financial liabilities held-for-trading:		
Convertible bonds with embedded derivatives	-	16,800
Total	<u>\$ 6,234</u>	<u>16,800</u>

The derivative financial instruments arose from the issuance of convertible bonds of the Company stated in note 6(l).

- (ii) Financial assets at fair value through other comprehensive income:

	2018.12.31
Equity investments at fair value through other comprehensive income:	
Publicly traded stocks	\$ 878,240
Non-publicly traded stocks	<u>1,468,045</u>
	<u>\$ 2,346,285</u>

The Company designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Company intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017.

For the year ended December 31, 2018, the Company has sold its equity securities as at fair value through other comprehensive income. The shares sold had a fair value of \$323,402 and the Company realized a loss of \$18,332, which is already included in other equity. The loss has been transferred to retained earnings.

- (iii) Available-for-sale financial assets – current:

	2017.12.31
Money market funds	<u>\$ 1,525,795</u>

- (iv) Available-for-sale financial assets – non-current:

	2017.12.31
Publicly traded stocks	\$ 1,178,219
Non-publicly traded stocks	<u>1,325,317</u>
	<u>\$ 2,503,536</u>

- (v) For credit risk and market risk; please refer to note 6(x).
(vi) The aforementioned financial assets were not pledged.

(Continued)

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(c) Financial instruments used for hedging

Financial instruments used for hedging which were recognized as “financial assets / liabilities for hedging” on December 31, 2018, and recognized as “derivative financial assets / liabilities for hedge purposes” on December 31, 2017 were as follow:

Cash flow hedge:

	2018.12.31	2017.12.31
Financial assets for hedging:		
Fuel option agreements	\$ -	184,458
Forward exchange contracts	36	-
Total	\$ 36	184,458
Current	\$ 36	184,458
Non-current	-	-
	\$ 36	184,458
	2018.12.31	2017.12.31
Financial liabilities for hedging:		
Fuel swap agreements	\$ 136,503	-
Forward exchange contracts	228	558
Total	\$ 136,731	558
Current	\$ 136,731	558
Non-current	-	-
	\$ 136,731	558

(i) Fuel swap and option agreements

The Company needs fuel for operating. However, cash flow risk will occur if the future cash flows for fuel fluctuate due to the floating market prices. The Company evaluates the risk as significant, and thus, hedges the risk by signing fuel swap and option agreements.

As of December 31, 2018 and 2017, the cash flow hedged items and derivative financial hedging instruments were as follows:

Hedged item	Hedging instrument	Fair value of assigned hedging instrument		Period when cash flows are expected to occur	Period when profit or loss is affected
		2018.12.31	2017.12.31		
Floating price of fuel	Fuel swap agreements	\$ (136,503)	-	2019	2019
Floating price of fuel	Option agreements	-	184,458	2018	2018
		\$ (136,503)	184,458		

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(ii) Forward exchange contracts

The Company's strategy is to use the forward exchange contracts to hedge its estimated foreign currency exposure in respect of forecasted purchases transactions. When actual purchase occurs, the amount accumulated in gains (losses) on the effective portion of cash flow hedge under other equity interest will be reclassified to non-current assets in the same period. The terms of forward foreign exchange contract are coordinated with the hedged item. The unexpired forward exchange contracts held by the Company were as follows:

2018.12.31				
	Contract Amount (in thousands)	Currency	Maturity dates	Average strike price
Forward exchange purchased	USD\$ <u>24,000</u>	TWD to USD	2019/05/02	USD\$30.33~30.45
2017.12.31				
	Contract Amount (in thousands)	Currency	Maturity dates	Average strike price
Forward exchange purchased	USD\$ <u>6,000</u>	TWD to USD	2018/02/01~2018/04/02	USD\$29.76~29.90

(iii) The details arising from cash flow hedges for the years ended December 31, 2018 and 2017, were as follows:

Account Item	2018	2017
Recognized in other comprehensive income during the period	\$ <u>(320,595)</u>	<u>383,942</u>
Reclassification from equity to operating cost (income) for the period	\$ <u>(310,986)</u>	<u>360,526</u>
Reclassification from equity to other non-current assets for the period	\$ <u>(14,026)</u>	<u>74,093</u>

There was no ineffective portion of cash flow hedge recognized in profit or loss.

(d) Notes and accounts receivable

	2018.12.31	2017.12.31
Notes receivable	\$ 933,343	751,534
Accounts receivable (including related parties)	6,547,601	6,305,317
Less: allowance for impairment	(95,537)	(34,145)
	<u>\$ 7,385,407</u>	<u>7,022,706</u>

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on December 31, 2018. To measure the expected credit losses, accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward-looking information. The loss allowance provision as of December 31, 2018 was determined as follows:

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	Notes and accounts receivable (including related parties) carrying amount	Weighted- average loss rate	Loss allowance provision
Not Overdue	\$ 7,413,119	0.57%	42,283
Overdue within 30 days	35,270	58.69%	20,699
Overdue 31~60 days	25,229	100%	25,229
Overdue over 60 days but less than one year	5,221	100%	5,221
Overdue more than one year	<u>2,105</u>	100%	<u>2,105</u>
	<u><u>\$ 7,480,944</u></u>		<u><u>95,537</u></u>

As of December 31, 2017, the Company applies the incurred loss model to consider the loss allowance provision of notes and accounts receivable, and the aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	<u>2017.12.31</u>
Overdue within 30 days	<u>\$ 6,375</u>

The movement in the allowance for notes and accounts receivable was as follow:

	<u>2018</u>	<u>2017</u>	
		<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 34,145	-	34,828
Adjustment on initial application of IFRS 9	<u>-</u>		
Balance on January 1, 2018 per IFRS 9	34,145		
Impairment losses recognized	70,000	-	-
Amounts written off	<u>(8,608)</u>	<u>-</u>	<u>(683)</u>
Balance on December 31, 2018 and 2017	<u><u>\$ 95,537</u></u>	<u><u>-</u></u>	<u><u>34,145</u></u>

The aforementioned notes and accounts receivable were not pledged. Other credit risk information please refer to note 6(x).

(e) Other receivables

	<u>2018.12.31</u>	<u>2017.12.31</u>
Other receivables – related parties	\$ 326,012	374,807
Others	<u>205,809</u>	<u>15,996</u>
	<u><u>\$ 531,821</u></u>	<u><u>390,803</u></u>

The aforementioned notes and accounts receivable were not pledged. Other credit risk information please refer to note 6(x).

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(f) Inventories

(i) The components were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Aircraft spare parts	\$ 217,806	113,159
Consumables for use and merchandise for in-flight sales	1,310,178	1,238,498
Fuel for aircraft and others	<u>48,693</u>	<u>48,127</u>
	<u>\$ 1,576,677</u>	<u>1,399,784</u>

(ii) Except for cost of goods sold and inventories recognized as expenses, the gains or losses which were recognized as operating costs were as follows:

	<u>2018</u>	<u>2017</u>
Losses on valuation of inventories and obsolescence (reversal of write-downs of inventories)	<u>\$ (409,831)</u>	<u>246,250</u>

As of December 31, 2018 and 2017, these inventories were not pledged.

(g) Investments accounted for using equity method

The components were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Subsidiaries	\$ 15,768,190	14,318,533
Associates	<u>111,665</u>	<u>97,140</u>
	<u>\$ 15,879,855</u>	<u>14,415,673</u>

(i) Subsidiaries

Please see the consolidated financial statements for the year ended December 31, 2018.

(ii) Associates

Summary of financial information for the individually insignificant investments in associates accounted for using equity method was as follows. The aforementioned financial information was included in the Parent-company-only financial statements of the Company.

	<u>2018</u>	<u>2017</u>
Attributable to the Company:		
Profit	\$ 15,560	8,953
Other comprehensive income	<u>(1,034)</u>	<u>(1,349)</u>
Comprehensive income	<u>\$ 14,526</u>	<u>7,604</u>

(iii) Pledged

As of December 31, 2018 and 2017, the investments accounted for using equity method were not pledged.

(Continued)

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(h) Property, plant and equipment

The movements in cost and accumulated depreciation of property, plant and equipment were as follows:

	<u>Land</u>	<u>Building and structures</u>	<u>Machinery and equipment</u>	<u>Leased assets</u>	<u>Aircraft</u>	<u>Unfinished construction</u>	<u>Total</u>
Cost:							
Beginning balance as of January 1, 2018	\$ 3,066,240	5,776,715	17,818,892	29,691,803	122,212,518	1,352,707	179,918,875
Additions	-	208,627	83,775	1,168,303	10,235,749	8,077	11,704,531
Disposals	-	-	(951,324)	(125,825)	(15,527,908)	-	(16,605,057)
Reclassification (Note)	<u>(56,381)</u>	<u>1,389,011</u>	<u>2,465,903</u>	<u>12,947</u>	<u>5,420,732</u>	<u>(918,097)</u>	<u>8,314,115</u>
Balance as of December 31, 2018	<u>\$ 3,009,859</u>	<u>7,374,353</u>	<u>19,417,246</u>	<u>30,747,228</u>	<u>122,341,091</u>	<u>442,687</u>	<u>183,332,464</u>
Beginning balance as of January 1, 2017	\$ 3,066,240	5,776,715	18,303,660	30,954,551	123,764,376	380,797	182,246,339
Additions	-	-	456,634	3,279,309	9,099,672	23,797	12,859,412
Disposals	-	-	(1,094,613)	(4,955,435)	(15,741,953)	-	(21,792,001)
Reclassification (Note)	<u>-</u>	<u>-</u>	<u>153,211</u>	<u>413,378</u>	<u>5,090,423</u>	<u>948,113</u>	<u>6,605,125</u>
Balance as of December 31, 2017	<u>\$ 3,066,240</u>	<u>5,776,715</u>	<u>17,818,892</u>	<u>29,691,803</u>	<u>122,212,518</u>	<u>1,352,707</u>	<u>179,918,875</u>
Accumulated depreciation:							
Beginning balance as of January 1, 2018	\$ -	2,791,066	8,445,534	7,635,763	41,564,621	-	60,436,984
Depreciation expense	-	216,622	1,421,577	2,806,322	7,261,527	-	11,706,048
Disposals	-	-	(675,372)	(125,581)	(13,681,515)	-	(14,482,468)
Reclassification (Note)	<u>-</u>	<u>-</u>	<u>(32,245)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,245)</u>
Balance as of December 31, 2018	<u>\$ -</u>	<u>3,007,688</u>	<u>9,159,494</u>	<u>10,316,504</u>	<u>35,144,633</u>	<u>-</u>	<u>57,628,319</u>
Beginning balance as of January 1, 2017	\$ -	2,648,293	8,232,327	8,611,564	49,767,243	-	69,259,427
Depreciation expense	-	142,773	1,412,061	3,979,482	7,422,377	-	12,956,693
Disposals	-	-	(739,858)	(4,955,283)	(15,569,444)	-	(21,264,585)
Reclassification (Note)	<u>-</u>	<u>-</u>	<u>(458,996)</u>	<u>-</u>	<u>(55,555)</u>	<u>-</u>	<u>(514,551)</u>
Balance as of December 31, 2017	<u>\$ -</u>	<u>2,791,066</u>	<u>8,445,534</u>	<u>7,635,763</u>	<u>41,564,621</u>	<u>-</u>	<u>60,436,984</u>
Carrying amounts:							
Balance as of December 31, 2018	<u>\$ 3,009,859</u>	<u>4,366,665</u>	<u>10,257,752</u>	<u>20,430,724</u>	<u>87,196,458</u>	<u>442,687</u>	<u>125,704,145</u>
Balance as of December 31, 2017	<u>\$ 3,066,240</u>	<u>2,985,649</u>	<u>9,373,358</u>	<u>22,056,040</u>	<u>80,647,897</u>	<u>1,352,707</u>	<u>119,481,891</u>
Balance as of January 1, 2017	<u>\$ 3,066,240</u>	<u>3,128,422</u>	<u>10,071,333</u>	<u>22,342,987</u>	<u>73,997,133</u>	<u>380,797</u>	<u>112,986,912</u>

Note: Reclassifications are mainly the transfers of property, plant and equipment to operating cost and operating expenses, as well as the inventories and prepayments for equipment being reclassified to property, plant and equipment.

(i) Leased aircraft

The estimated recovery costs incurred by leasing aircraft are recognized as leased assets and the related restoration obligations are recognized as other current liabilities and other non-current liabilities and are amortized using interest method. Refer to note 6(m) for the movements of restoration obligations.

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(ii) Sale and leaseback transactions

The Company leased aircraft under sale and leaseback arrangements, which were judged as finance leases. The unrealized gain on sale and leaseback, resulting from the difference between sale price and book value of the equipment, is recorded as a reduction of depreciation expenses over the lease term. As of December 31, 2018 and 2017, the unrealized gains from the sale and leaseback were \$51,548, and \$127,227, respectively and were recognized as other non-current liabilities.

(iii) Pledge

As of December 31, 2018 and 2017, the Company's property, plant and equipment were used as pledge for long-term borrowings and lines of credit, and they are disclosed in note 8.

(iv) For the years ended December 31, 2018 and 2017, the Company capitalized the interest expenses on purchase of assets amounted to \$151,149 and \$161,879, respectively. The ranges of the monthly interest rate used for capitalization calculation were 0.11%~0.12% and 0.11%~0.12%, respectively.

(i) Investment property

The movements in cost of investment property were as follows:

	<u>Land</u>	<u>Unfinished construction</u>	<u>Total</u>
Cost:			
Beginning balance as of January 1, 2018	\$ -	-	-
Reclassification from property, plant and equipment	<u>56,381</u>	<u>126,673</u>	<u>183,054</u>
Balance as of December 31, 2018	<u>\$ 56,381</u>	<u>126,673</u>	<u>183,054</u>
Carrying amounts:			
Balance as of December 31, 2018	<u>\$ 56,381</u>	<u>126,673</u>	<u>183,054</u>
Fair value:			
Balance as of December 31, 2018			<u>\$ 592,137</u>

The fair value of investment properties was based on a valuation by a qualified independent appraiser who has recent valuation experience in the location and category of the investment property being valued. The Company's management also assessed the settled deals by using the valuation method. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

As of December 31, 2018, the investment property was not pledged. There was no such transaction in 2017.

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(j) Intangible assets

The movements in cost and accumulated amortization of intangible assets were as follows:

	Computer software
Cost:	
Beginning balance as of January 1, 2018	\$ 980,627
Additions	333,053
Disposals	<u>(276,173)</u>
Balance as of December 31, 2018	<u>\$ 1,037,507</u>
Beginning balance as of January 1, 2017	\$ 926,532
Additions	201,165
Disposals	<u>(147,070)</u>
Balance as of December 31, 2017	<u>\$ 980,627</u>
Accumulated amortization:	
Beginning balance as of January 1, 2018	\$ 487,224
Amortization expense	225,600
Disposals	<u>(276,173)</u>
Balance as of December 31, 2018	<u>\$ 436,651</u>
Beginning balance as of January 1, 2017	\$ 433,443
Amortization expense	200,851
Disposals	<u>(147,070)</u>
Balance as of December 31, 2017	<u>\$ 487,224</u>
Carrying amounts:	
Balance as of December 31, 2018	<u>\$ 600,856</u>
Balance as of December 31, 2017	<u>\$ 493,403</u>
Balance as of January 1, 2017	<u>\$ 493,089</u>

(i) Amortization

For the years ended December 31, 2018 and 2017, the amortization of intangible assets is included under operating costs and operating expenses in the statements of comprehensive income.

(ii) Pledge

The Company's intangible assets were not pledged.

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(k) Other current assets and other non-current assets

The details of the Company's other current assets were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Prepaid expense	\$ 781,051	924,259
Other receivables (including related parties)	531,821	390,803
Others	<u>280,483</u>	<u>157,946</u>
Total	<u>\$ 1,593,355</u>	<u>1,473,008</u>

The details of the Company's other non-current assets were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Prepayments for equipment	\$ 9,740,037	12,257,915
Refundable deposits	1,457,821	1,426,786
Pledged time deposits	81,921	75,656
Others	<u>-</u>	<u>1,020</u>
Total	<u>\$ 11,279,779</u>	<u>13,761,377</u>

(l) Short-term borrowings, long-term borrowings, bonds payables and lease liabilities

The details, conditions and terms of the Company's short-term borrowings, long-term borrowings, bonds payables and lease liabilities were as follows:

	<u>2018.12.31</u>			
	<u>Currency</u>	<u>Interest rate</u>	<u>Maturity date</u>	<u>Amount</u>
Secured bonds payable	TWD	1.07%	2020/12/29~2021/12/29	\$ 8,500,000
Unsecured convertible bonds	TWD	-	2022/10/27	<u>6,607,923</u>
Subtotal				15,107,923
Less: Current portion (included in current portion of long-term liabilities)				<u>-</u>
Total				<u>\$ 15,107,923</u>
Unsecured loans	TWD	1.16%~2.01%	2019/02/18~2023/11/09	\$ 13,723,333
Secured loans	TWD	1.11%~1.54%	2019/02/27~2030/12/11	<u>47,997,634</u>
Subtotal				61,720,967
Less: Current portion				<u>(12,699,748)</u>
Total				<u>\$ 49,021,219</u>
Lease liabilities	TWD, USD	2.03%~4.12%	2019/01/22~2024/06/21	\$ 2,204,904
Less: Current portion (included in other current liabilities)				<u>(925,286)</u>
Total				<u>\$ 1,279,618</u>

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

2017.12.31				
	Currency	Interest rate	Maturity date	Amount
Secured bonds payable	TWD	1.07%~1.15%	2018/06/14~2021/12/29	\$ 13,000,000
Unsecured convertible bonds	TWD	-	2022/10/27	<u>6,596,232</u>
Subtotal				19,596,232
Less: Current portion (included in current portion of long-term liabilities)				<u>(4,500,000)</u>
Total				<u><u>\$ 15,096,232</u></u>
Unsecured loans	TWD	1.16%~2.01%	2018/09/23~2022/09/19	\$ 11,390,000
Secured loans	TWD, USD	1.11%~2.76%	2018/06/15~2029/12/28	<u>47,744,480</u>
Subtotal				59,134,480
Less: Current portion				<u>(11,550,521)</u>
Total				<u><u>\$ 47,583,959</u></u>
Lease liabilities	TWD, USD	2.03%~4.12%	2018/01/22~2024/06/21	\$ 3,427,353
Less: Current portion (included in other current liabilities)				<u>(1,274,710)</u>
Total				<u><u>\$ 2,152,643</u></u>

The details of convertible bonds were as follows:

	2018.12.31	2017.12.31
Total convertible bonds issued	\$ 7,000,000	7,000,000
Less: Unamortized discounted bonds payable	(318,577)	(403,768)
Cumulative converted amount	<u>(73,500)</u>	<u>-</u>
Convertible bonds issued balance	<u><u>\$ 6,607,923</u></u>	<u><u>6,596,232</u></u>
Embedded derivatives – put/call options (included in financial liabilities at fair value through profit or loss)	<u><u>\$ 6,234</u></u>	<u><u>16,800</u></u>
Equity components – conversion options (included in capital surplus – share options)	<u><u>\$ 398,682</u></u>	<u><u>402,913</u></u>

The equity instruments and liability instruments were included in the abovementioned convertible bonds. The equity instruments were recognized in capital surplus. The liability instruments were measured at an initial effective rate 1.23%. Please refer to note 6(w) for the valuation loss/profit of embedded derivatives – put/call options, which were recognized in net gains on financial liabilities at fair value through profit or loss, and the related interest expenses for the convertible bonds.

On October 27, 2017, the Company issued the third unsecured domestic convertible bonds amounting to \$7,000,000. The major terms are as follows:

- (i) Total issue amount: TWD7,000,000
- (ii) Issue price: At par value 100.2%.
- (iii) Maturity date: Five years, with the maturity date on October 27, 2022.
- (iv) Coupon rate: 0%.
- (v) Conversion target: Common shares of the Company.

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- (vi) Conversion price: The price determination day was October 19, 2017; the conversion price shall be the simple arithmetical average closing price of the common shares of the Company for either one, three or five business days before the pricing date (exclusive), multiplied by the premium ratio of 104.24% (rounded off to the 1st decimal place). If the ex-dividend or the ex-rights date happens before the pricing date, the closing price which was adopted to calculate the conversion price should be adjusted for the distribution of stock dividends or cash dividends; and if the ex-dividend or the ex-rights date happens between the conversion price determination date and the actual issuance date, the conversion price should be modified by the conversion price adjustment formula. As of December 31, 2018 and 2017, the conversion price was \$14.8 and \$15.5 per share, respectively. In addition, corporate bonds with a face value of \$73,500 has been converted to 4,966 thousand shares of common stock.
- (vii) Conversion period: The bondholder can convert its bonds into shares at any time between 3 months after the issuance date and the day before the maturity day, except for the following:
- 1) The closing period in accordance with the applicable laws;
 - 2) The period that starts from the fifteen business days prior to the date of record for determination wherein the shareholders are entitled to receive the distributions or rights to subscribe for new shares in a capital increase for cash, and ends on the date of record for the distribution of the rights/benefits;
 - 3) The period starts from the date of record of the capital decrease and ends one day prior to the reissuance of the trading of shares after the capital decrease.
- (viii) Repurchase at the option of the bondholders (put option of the bondholders): Bondholders have the option to notify the Company of their request for bond redemption within 40 days prior to the third anniversary of the issuance date, and the Company should redeem the bonds at 100% of the par value within 5 business days following such date.
- (ix) Redemption at the option of the Company (call option of the Company): If the closing price of shares for each of 30 consecutive trading days is at least 130% of the conversion price between the 3 months after the share issuance date and the 40th day before the maturity date, the Company may redeem all the outstanding bonds at their principal amount. If the amount outstanding of bonds is less than 10% of the principal amount between the 3 months after the share issuance date and the 40th day before the maturity date, the Company may redeem the outstanding bonds at their principal amount.

Parts of the Company's long-term borrowings, lease liabilities will be settled in foreign currency. The details of foreign liabilities were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
USD (in thousands)	<u>\$ 49,153</u>	<u>207,677</u>
Convert to TWD	<u>\$ 1,509,738</u>	<u>6,180,469</u>

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

As of December 31, 2018, the details of the future repayment periods and amounts of the Company's long-term borrowings, bonds payable, and lease liabilities were as follows:

<u>Year due</u>	<u>Amount</u>
2019.1.1~2019.12.31	\$ 13,625,034
2020.1.1~2023.12.31	46,954,810
2024.01.01 and thereafter	<u>18,453,950</u>
	<u><u>\$ 79,033,794</u></u>

Information on the Company's exposure to interest rate risk, currency risk and liquidity risk is disclosed in note 6(x).

(i) Pledge for borrowings

The pledge for borrowings is disclosed in note 8.

(ii) Unused lines of credit

As of December 31, 2018 and 2017 the unused credit lines for short-term and long-term borrowings amounted to \$6,250,950 and \$5,879,762, respectively.

(iii) Lease liabilities

The Company's lease liabilities were as follows:

	<u>2018.12.31</u>			<u>2017.12.31</u>		
	<u>Future minimum rental payment</u>	<u>Interest</u>	<u>Present value of minimum rental payment</u>	<u>Future minimum rental payment</u>	<u>Interest</u>	<u>Present value of minimum rental payment</u>
Within 1 year	\$ 1,005,415	80,129	925,286	1,355,939	81,229	1,274,710
1 to 5 years	1,179,456	21,911	1,157,545	1,849,454	95,465	1,753,989
More than 5 years	<u>122,860</u>	<u>787</u>	<u>122,073</u>	<u>404,736</u>	<u>6,082</u>	<u>398,654</u>
	<u><u>\$ 2,307,731</u></u>	<u><u>102,827</u></u>	<u><u>2,204,904</u></u>	<u><u>3,610,129</u></u>	<u><u>182,776</u></u>	<u><u>3,427,353</u></u>

The recognized interest expenses incurred by lease liabilities for the years ended December 31, 2018 and 2017 are disclosed in note 6(w).

(m) Restoration obligations

The movements of the restoration obligations were as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance as of January 1	\$ 17,411,564	17,351,555
Additions	1,897,487	3,985,670
Decreases	(59,586)	(3,103,828)
Effect of exchange rate changes	<u>327,512</u>	<u>(821,833)</u>
Balance as of December 31	<u><u>\$ 19,576,977</u></u>	<u><u>17,411,564</u></u>

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The estimated recovery costs are incurred through the lease of aircraft. The Company's restoration obligations are based on necessary maintenance expenses under the lease contracts of the aircraft, in which the Company expects all of the maintenance expenses to be reimbursed when the Company returns back all its rented aircraft. The amounts are estimated by gauging the maintenance experiences of similar types of aircraft, the actual maintenance expenses in the past, and the historical information on the usage of the aircraft. The Company's restoration obligations are included in other current liabilities and other non-current liabilities.

(n) Operating leases

The Company leased aircraft, land, buildings, and parking lots under operating lease agreements with rental payable in the future as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Within 1 year	\$ 14,068,833	12,875,016
1 to 5 years	51,949,273	49,744,953
More than 5 years	<u>47,035,338</u>	<u>53,194,320</u>
	<u>\$ 113,053,444</u>	<u>115,814,289</u>

For the years ended December 31, 2018 and 2017, rental expenses included in operating costs and operating expenses were \$13,506,503 and \$13,074,295, respectively.

The Company did not assume the residual value of the abovementioned lease items, and determined that the risk and return of those lease items are still assumed by the lessor. Hence, the Company treated the abovementioned lease as operating leases.

(o) Employee benefits

(i) Defined benefit plans

The movements in the present value of the defined benefit obligations and the fair value of plan assets were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Total present value of defined benefit obligations	\$ 8,584,178	8,201,027
Fair value of plan assets	<u>(4,399,666)</u>	<u>(3,815,731)</u>
Recognized liabilities of net defined benefit obligations	<u>\$ 4,184,512</u>	<u>4,385,296</u>

The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for employees upon retirement. The plans (covered by the Labor Standards Act) entitle a retired employee to receive retirement payment calculated by the units based on years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. Minimum earnings on such funds shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

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EVA AIRWAYS CORP.
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The Company's labor pension reserve account balance in Bank of Taiwan amounted to \$4,339,393 as of December 31, 2018. The utilization of the labor pension fund assets, including the asset allocation and yield of the fund. Please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in present value of the defined benefit obligations were as follows:

	<u>2018</u>	<u>2017</u>
Defined benefit obligations as of January 1	\$ 8,201,027	7,977,365
Benefits paid by the plan	(563,815)	(691,567)
Current service costs and interest	304,873	294,458
Net remeasurements of defined benefit liabilities		
— Experience adjustments	196,802	415,556
— Actuarial losses (gains) arising from changes in financial assumptions	<u>445,291</u>	<u>205,215</u>
Defined benefit obligations as of December 31	<u><u>\$ 8,584,178</u></u>	<u><u>8,201,027</u></u>

3) Movements in the fair value of the defined benefit plan assets

The movements in the fair value of the defined benefit plan assets were as follows:

	<u>2018</u>	<u>2017</u>
Fair value of plan assets as of January 1	\$ 3,815,731	3,858,614
Contributions from plan participants	944,485	555,116
Benefits paid by the plan	(511,349)	(632,830)
Expected return on plan assets	60,365	54,260
Net remeasurements of defined benefit liabilities		
— Return on plan assets (excluding the amounts included in net interest expense)	<u>90,434</u>	<u>(19,429)</u>
Fair value of plan assets as of December 31	<u><u>\$ 4,399,666</u></u>	<u><u>3,815,731</u></u>

4) Expenses recognized in profit or loss

The expenses recognized in profit or loss were as follows:

	<u>2018</u>	<u>2017</u>
Current services costs	\$ 183,939	186,766
Net interest on the net defined benefit liabilities	<u>60,569</u>	<u>53,432</u>
	<u><u>\$ 244,508</u></u>	<u><u>240,198</u></u>
Operating costs	\$ 182,675	181,165
Operating expenses	<u>61,833</u>	<u>59,033</u>
	<u><u>\$ 244,508</u></u>	<u><u>240,198</u></u>

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- 5) The remeasurements of the net defined benefit liabilities recognized in other comprehensive income (before tax)

As of December 31, 2018 and 2017, the Company's remeasurements of the net defined benefit liabilities recognized in other comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
Accumulate amount as of January 1	\$ (3,457,159)	(2,816,959)
Losses recognized during the period	<u>(551,659)</u>	<u>(640,200)</u>
Accumulate amount as of December 31	<u>\$ (4,008,818)</u>	<u>(3,457,159)</u>

- 6) Actuarial assumptions

The following are the Company's principal actuarial assumptions at the reporting date:

- a) the rate applied in calculating the present value of defined benefit obligations

	<u>2018.12.31</u>	<u>2017.12.31</u>
Discount rate	1.125%	1.50%
Future salary increases	1.54%~6.92%	1.61%~4.20%

- b) the rate applied in calculating the defined benefit plan cost

	<u>2018</u>	<u>2017</u>
Discount rate	1.5%	1.375%
Future salary increases	1.61%~4.20%	1.51%~3.31%

The Company expects to make contributions of \$674,256 to the defined benefit plans in the next year starting from December 31, 2018. The weighted average of the defined benefit plans is 13.77 years.

- 7) Sensitivity analysis

The changes in main actuarial assumptions might have an impact on the present value of the defined benefit obligation:

	<u>Effects to the defined benefit obligation</u>			
	<u>Favorable</u>		<u>Unfavorable</u>	
	<u>2018.12.31</u>	<u>2017.12.31</u>	<u>2018.12.31</u>	<u>2017.12.31</u>
Discount rate (0.25%)	206,767	203,819	214,415	211,369
Future salary increases (0.25%)	195,985	194,478	202,138	200,594

There is no change in other assumptions when performing the above-mentioned sensitivity analysis. In practice, assumptions may be interactive with each other. The method used on sensitivity analysis is consistent with the calculation on the net defined benefit liabilities.

The method and assumptions used on current sensitivity analysis is the same as those of the prior year.

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Notes to the Parent-Company-Only Financial Statements

(ii) Defined contribution plans

The Company set aside 6% of each employee's monthly wages to contribute to the labor pension personal accounts at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. The Company set aside a fixed amount to contribute to the Bureau of Labor Insurance without the payment of additional legal or constructive obligations.

The Company set aside \$390,749 and \$364,813 as pension costs under the defined contribution plans in 2018 and 2017, respectively. Payment was made to the Bureau of Labor Insurance.

(p) Income tax

(i) According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20%.

(ii) The components of estimated income tax expenses were as follows:

	<u>2018</u>	<u>2017</u>
Current tax expenses	\$ 748,511	428,747
Deferred tax expenses	366,179	705,119
Income tax expenses	<u>\$ 1,114,690</u>	<u>1,133,866</u>

The amounts of income tax benefit (expenses) recognized in other comprehensive income were as follows:

	<u>2018</u>	<u>2017</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of net defined benefit plans	\$ 214,047	108,834
Unrealized gains from investment in equity instruments measured at fair value through other comprehensive income	(673)	-
Gains on hedging instruments	(56)	-
	<u>\$ 213,318</u>	<u>108,834</u>
Items that may be reclassified subsequently to profit or loss:		
Unrealized losses on available-for-sale financial assets	\$ -	2,220
Cash flow hedges	-	(65,270)
Losses on hedging instruments	58,658	-
	<u>\$ 58,658</u>	<u>(63,050)</u>

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EVA AIRWAYS CORP.
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Reconciliations of income tax expenses and profit before tax were as follows:

	<u>2018</u>	<u>2017</u>
Profit before tax	\$ <u>7,667,517</u>	<u>6,885,933</u>
Income tax using the Company's domestic tax rate	\$ 1,533,504	1,170,609
Adjustment in tax rate	(487,483)	-
Exempt income	(455,040)	(373,435)
Changes in unrecognized deductible temporary differences	163,126	(71,903)
Undistributed earnings additional tax	149,921	163,338
Income basic tax	-	33,631
Others	<u>210,662</u>	<u>211,626</u>
Total	<u>\$ 1,114,690</u>	<u>1,133,866</u>

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets and liabilities

The Company's unrecognized deferred tax assets were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Unrecognized deferred tax assets:		
Tax losses	\$ -	297,316
Investment loss of foreign operations accounted for using equity method	33,862	23,825
Restoration obligations	<u>507,077</u>	<u>-</u>
	<u>\$ 540,939</u>	<u>321,141</u>

The Company has no unrecognized deferred tax liabilities as of December 31, 2018 and 2017.

2) Recognized deferred tax assets and liabilities

The movements in the balances of deferred tax assets and liabilities were as follows:

	<u>Loss carryforwards</u>	<u>Loss on valuation of inventories</u>	<u>Purchase of fixed assets in installments</u>	<u>Defined benefit plans</u>	<u>Restoration obligations</u>	<u>Mileage revenue</u>	<u>Expense payable</u>	<u>Unrealized foreign exchange losses</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:										
Beginning balance as of January 1, 2018	\$ 624,396	406,304	70,736	755,284	750,218	515,175	154,212	-	175,379	3,451,704
Recognized in profit or loss	(624,396)	(14,672)	(34,399)	(118,874)	80,545	215,406	(37,759)	-	146,570	(387,579)
Recognized in other comprehensive income	-	-	-	214,047	-	-	-	-	27,339	241,386
Balance as of December 31, 2018	<u>\$ -</u>	<u>391,632</u>	<u>36,337</u>	<u>850,457</u>	<u>830,763</u>	<u>730,581</u>	<u>116,453</u>	<u>-</u>	<u>349,288</u>	<u>3,305,511</u>
Beginning balance as of January 1, 2017	\$ 975,353	408,623	136,823	708,109	673,983	434,814	311,648	163,501	224,411	4,037,265
Recognized in profit or loss	(350,957)	(2,319)	(66,087)	(61,659)	76,235	80,361	(157,436)	(163,501)	(15,025)	(660,388)
Recognized in other comprehensive income	-	-	-	108,834	-	-	-	-	(34,007)	74,827
Balance as of December 31, 2017	<u>\$ 624,396</u>	<u>406,304</u>	<u>70,736</u>	<u>755,284</u>	<u>750,218</u>	<u>515,175</u>	<u>154,212</u>	<u>-</u>	<u>175,379</u>	<u>3,451,704</u>

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	Unrealized foreign exchange gains	Investment gains of foreign operations accounted for using equity method	Others	Total
Deferred tax liabilities:				
Beginning balance as of January 1, 2018	\$ 42,798	58,784	32,486	134,068
Effects of retrospective application	-	-	1,267	1,267
Recognized in profit or loss	(39,916)	18,516	-	(21,400)
Recognized in other comprehensive income	-	-	(30,590)	(30,590)
Balance as of December 31, 2018	<u>\$ 2,882</u>	<u>77,300</u>	<u>3,163</u>	<u>83,345</u>
Beginning balance as of January 1, 2017	\$ -	56,851	3,443	60,294
Recognized in profit or loss	42,798	1,933	-	44,731
Recognized in other comprehensive income	-	-	29,043	29,043
Balance as of December 31, 2017	<u>\$ 42,798</u>	<u>58,784</u>	<u>32,486</u>	<u>134,068</u>

(iv) The Company's income tax returns for the years through 2016 were examined and approved by the local tax authorities.

(q) Capital and other equity

As of December 31, 2018 and 2017, the Company's authorized share capital consisted of 45,000,000 and 4,500,000 thousand shares of common stock respectively, with par value of \$10 (dollars) per share, of which the issued and outstanding share capital were \$43,821,215 and \$41,734,490 respectively.

(i) Common stock

The appropriation of 2017 earnings that was approved at the shareholders meeting on June 22, 2018, in which the Company issued 208,672 thousand shares, with a face value of \$2,086,725. The date of capital increase was set on September 17, 2018 and all related registration procedure has been completed.

The appropriation of 2016 earnings that was approved at the shareholders meeting on June 26, 2017, in which the Company issued 121,557 thousand shares, with a face value of \$1,215,567. The date of capital increase was set on September 4, 2017, and all related registration procedure has been completed.

A resolution was approved during the Board of Directors' meeting held on August 13, 2018 for the issuance of 300,000 thousand shares for cash, at a face value amounting to \$3,000,000. The Company has received approval from the Financial Supervisory Commission for this capital increase in November 2018, with January 24, 2019 as the date of capital increase. For the year ended December 31, 2018, the Company received a capital increase amounting to \$180,980. The capital increase was recorded as capital collected in advance because the registration process has yet to be completed.

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For the year ended December 31, 2018, the bondholders of convertible bonds had requested to convert the bonds into 4,966 thousand common stocks. The Company recognized the capital collected in advance amounting to \$49,662 and would complete the amendment registration after the issuance of new stocks on the record date in accordance with the regulations.

(ii) Capital surplus

The details of capital surplus were as follows:

	<u>2018.12.31</u>	<u>2017.12.31</u>
Cash subscription in excess of par value of shares	\$ 4,218,825	4,218,825
Stock options granted to employees	697,600	606,100
Additional paid-in capital from bond conversion	1,436,566	1,411,830
Additional paid-in capital from conversion option	398,682	402,913
Difference between actual acquiring subsidiary's equity and carrying amount	<u>272</u>	<u>272</u>
	<u><u>\$ 6,751,945</u></u>	<u><u>6,639,940</u></u>

In accordance with R.O.C. Company Act amended in January 2012, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned capital surplus included share premiums and donation gains. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital surplus to be reclassified under share capital shall not exceed 10% of the actual share capital amount.

(iii) Retained earnings

According to the Company's Articles of Incorporation, current-period earnings should first be used to settle all outstanding tax payables and accumulated deficit, and then 10% of statutory earnings reserves should be retained, and special reserve should be recognized or reversed according to statutory requirements. Thereafter, the remaining current-period earnings and the unappropriated prior-period earnings will have to be proposed by the Board of Directors, which will be resolved at the stockholders' meeting for an allocation plan to be distributed to the shareholders.

The Company adopts the dividend policy that cash dividends and stock dividends are distributed with cash dividends accounting for at least 10% of total dividends distributed.

1) Legal reserve

In accordance with R.O.C. Company Act, the Company must retain 10% of its annual profit as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve by issuing new shares or cash for the portion in excess of 25% of the paid-in capital.

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2) Special reserve

In accordance with Decree No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the current-period total net reduction of other equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other equity shall qualify for additional distributions.

3) Earnings distribution

The appropriation of 2017 earnings was approved at the shareholders' meeting on June 22, 2018. The cash dividends and stock dividends were amounting to \$834,689 and \$2,086,725, respectively.

The appropriation of 2016 earnings was approved at the shareholders' meeting on June 26, 2017. The cash dividends and stock dividends were amounting to \$810,379 and \$1,215,567, respectively.

The appropriation of 2018 earnings was approved at the Board of Directors on March 19, 2019. The cash dividends and stock dividends were amounting to \$2,343,647 and \$1,406,188, respectively.

(iv) Other equity (net of taxes)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available- for-sale financial assets	Cash flow hedges	Gains (losses) on hedging instruments	Total
Beginning balance as of January 1, 2018	\$ (10,851)	-	819,258	152,637	-	961,044
Effects of retrospective application	-	371,924	(819,258)	(152,637)	152,637	(447,334)
Balance as of January 1, 2018 after adjustments	(10,851)	371,924	-	-	152,637	513,710
Exchange differences on translation of foreign financial statements	933	-	-	-	-	933
Exchange differences on associates accounted for using equity method	6,158	-	-	-	-	6,158
Unrealized gains from financial assets measured at fair value through other comprehensive income	-	157,004	-	-	-	157,004
Disposal of investments in equity instruments designated at fair value through other comprehensive income reclassified to retained earning	-	18,332	-	-	-	18,332
Unrealized gains or losses from financial assets measured at fair value through other comprehensive income, subsidiaries accounted for using equity method	-	(59)	-	-	-	(59)
Changes in fair value of hedging instrument reclassified to profit or loss	-	-	-	-	(261,993)	(261,993)
Balance as of December 31, 2018	\$ (3,760)	547,201	-	-	(109,356)	434,085

(Continued)

EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available- for-sale financial assets	Cash flow hedges	Gains (losses) on hedging instruments	Total
Beginning balance as of January 1, 2017	\$ 46,069	-	989,845	(166,035)	-	869,879
Exchange differences on translation of foreign financial statements	(48,111)	-	-	-	-	(48,111)
Exchange differences on associates accounted for using equity method	(8,809)	-	-	-	-	(8,809)
Accumulated gains or losses of available-for-sale financial assets reclassified to profit or loss	-	-	(634,644)	-	-	(634,644)
Accumulated gains or losses of available-for-sale financial assets reclassified to profit or loss of the subsidiaries accounted for using equity method	-	-	(425)	-	-	(425)
Unrealized gains or losses on available-for-sale financial assets	-	-	455,303	-	-	455,303
Unrealized gains or losses on available-for-sale financial assets of subsidiaries accounted for using equity method	-	-	9,179	-	-	9,179
Cash flow hedges, effective portion	-	-	-	318,672	-	318,672
Balance as of December 31, 2017	\$ (10,851)	-	819,258	152,637	-	961,044

(r) Share-based payment

(i) As of December 31, 2018, the Company's share-based payment transaction was as follow:

Type	Grant date	Number of shares granted (thousand shares)	Contract term (year)	Vesting Conditions
Cash-settled share-based payment plan (reserved for employees to subscribe)	2018.11.28	30,000	-	Immediately vested

(ii) The information related to the employee stock option plan was as follows:

2018 Cash-settled share-based payment plan (reserved for employees to subscribe)	Number of options (thousand shares)	Exercise price (NT\$)
Number of shares granted	30,000	\$ 13
Number of shares exercised	(2,648)	13
Number of shares abandoned	-	13
	27,352(note)	
Fair value per share at grant date	\$ 3.05	

Note: The term of payment of shares subscribed is from December 18, 2018 to January 18, 2019. As of December 31, 2018, the unit exercised were 2,648 thousand shares.

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

- (iii) The Company adopted the Black-Sholes model to calculate the fair value of the abovementioned employee shares of stock at the grant date. The assumptions adopted in this valuation model were as follows:

	<u>Cash-settled share-based payment plan (reserved for employees to subscribe)</u>
Fair value per share on grant date	16.05
Exercise price	13
Expected volatility	17.6291 %
Expected life	51 days
Dividend yield	-
Risk-free interest rate	0.97 %

- (iv) Employee expense:

For the year ended December 31, 2018, the compensation cost for the employee shares of stock amounted to \$91,500, which was recognized as operating expenses. There was no such transaction in 2017.

- (s) Earnings per share (“EPS”)

The calculation of earnings per share is based on the profit attributable to the ordinary equity holders of the Company. The Company’s earnings per share were calculated as follows:

	<u>2018</u>	<u>2017</u>
Basic earnings per share:		
Profit attributable to ordinary equity holders	\$ <u>6,552,827</u>	<u>5,752,067</u>
Weighted-average number of shares outstanding during the period (thousand shares)	<u>4,382,121</u>	<u>4,382,121</u>
Basic earnings per share (in dollars)	\$ <u>1.50</u>	<u>1.31</u>
Diluted earnings per share:		
Profit attributable to ordinary equity holders	\$ <u>6,552,827</u>	<u>5,752,067</u>
Interest expense and other gains and losses on convertible bonds, net of tax	<u>57,033</u>	<u>5,749</u>
Profit attributable to ordinary equity holders (diluted)	<u>6,609,860</u>	<u>5,757,816</u>
Weighted-average number of shares outstanding during the period (thousand shares)	4,382,121	4,382,121
Effect of the potentially dilutive common stock		
Employee compensation (thousand shares)	18,173	16,073
Effect of conversion of convertible bonds (thousand shares)	<u>474,418</u>	<u>451,613</u>
Weighted-average number of shares outstanding during the period (After adjusting the potential dilutive common stock) (thousand shares)	<u>4,874,712</u>	<u>4,849,807</u>
Diluted earnings per share (in dollars)	\$ <u>1.36</u>	<u>1.19</u>

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

(t) Revenue from contracts with customers

(i) Disaggregation of revenue

	2018
Primary geographical markets:	
Taiwan	\$ 55,455,284
Asia	40,631,947
Europe	5,940,184
North America	33,105,001
Others	488,234
	\$ 135,620,650
Major products / services lines	
Aviation transportation revenue	\$ 126,720,587
Others	8,900,063
	\$ 135,620,650
Type of contract:	
Fix price contract	\$ 135,620,650
Timing of revenue recognition:	
Products transferred at a point in time	\$ 135,620,650

For details on revenue for the year ended December 31, 2017, please refer to note 6(u).

(ii) Contract balances

	2018.12.31	2018.1.1
Contract liabilities-tickets services, customer loyalty program and others	\$ 21,110,224	18,664,259

The amount of revenue recognized for the year ended December 31, 2018 that was included in the contract liability balance at the beginning of the period was \$13,163,955.

The contract liabilities primarily relate to deferred recognition of revenue relating to ticket services and customer loyalty programs, for which revenue is recognized when the ticket sales for passengers and award points are redeemed or when they expire.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. Other significant changes during the period are as follows:

	2018
Changes in an estimate of the transaction price	\$ 232,479

(iii) Transaction price allocated to the remaining performance obligations

As of 31 December 2018, the amount allocated to the customer loyalty program was 3,652,903 thousand. This will be recognized as revenue as the customer loyalty program points are redeemed or when they expire, which is expected to occur over the next three years.

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

All consideration from contracts with customers is included in the transaction price presented above.

(u) Revenue

The components of revenue of the year ended December 31, 2017 were as follows:

	2017
Aviation transportation revenue	\$ 117,278,580
Others	8,035,580
	\$ 125,314,160

The Company has a customer loyalty program to improve its ticket sales. Upon purchasing, customers are awarded credits entitling them to exchange for an upgrade or free tickets.

As of December 31, 2017, the above-mentioned deferred revenue amounted to \$3,030,444, were recorded as unearned revenue and other non-current liabilities.

For details on revenue for the year end December 31, 2018, please refer to note 6(t).

(v) Remuneration to employees, directors and supervisors

According to the Company's Articles of Incorporation after June 26, 2017, once the Company has annual earnings, a minimum of 1% will be distributed as employees' remuneration and a maximum of 2% will be allotted for directors' remuneration. However, if the Company has accumulated losses, the earnings shall first be offset against any deficit.

According to the Company's Articles of Incorporation before June 25, 2017, once the Company has annual earnings, a minimum of 1% will be distributed as employees' remuneration and a maximum of 5% will be allotted for directors' and supervisors' remuneration. However, if the Company has accumulated losses, the earnings shall first be offset against any deficit.

The definition of annual earnings, as described in the above-mentioned paragraph, is the Company's profit before tax, excluding the amount of the employees' remuneration, and the directors' (supervisors') remuneration.

For the years ended December 31, 2018 and 2017, the Company's accrued and recognized employees' remuneration amounted to \$237,552 and \$221,020, respectively, the directors' and supervisors' remuneration amounted to \$9,500 and \$11,670, respectively. The employees' remuneration, and the directors' and supervisors' remuneration were included in the operating costs and operating expenses.

The differences between the actual distributed amounts as determined by the Board of Directors and those recognized in the financial statements, if any, shall be accounted for as changes in accounting estimates and recognized in profit or loss in the following year.

There was no difference between the aforementioned employees' remuneration and directors' and supervisors' remuneration of 2017. The related information can be found on Market Observation Post System website.

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

(w) Non-operating income and expenses

(i) Other income

	<u>2018</u>	<u>2017</u>
Interest income		
Interest income from bank deposits	\$ 605,886	350,604
Other interest	<u>6,738</u>	<u>9,055</u>
Total interest income	<u>612,624</u>	<u>359,659</u>
Dividend income	<u>144,820</u>	<u>131,392</u>
	<u>\$ 757,444</u>	<u>491,051</u>

(ii) Other gains and losses

	<u>2018</u>	<u>2017</u>
Gains (losses) on disposal of property, plant and equipment	\$ 548,970	(69,866)
Gains on disposal of investments	14,612	625,351
Foreign exchange gains (losses), net	(4,861)	15,732
Gains (losses) on financial assets (liabilities) at fair value through profit or loss	15,050	7,700
Others gains and losses	<u>150,896</u>	<u>194,687</u>
	<u>\$ 724,667</u>	<u>773,604</u>

(iii) Finance costs

	<u>2018</u>	<u>2017</u>
Interest expense		
Bank borrowings	\$ 849,309	858,202
Bonds Payable	196,173	190,156
Lease liabilities	67,925	106,579
Others	835,813	846,754
Less: capitalized interest	<u>(151,149)</u>	<u>(161,879)</u>
	<u>\$ 1,798,071</u>	<u>1,839,812</u>

(x) Financial instruments

(i) Credit risk

1) Credit risk exposure

The maximum exposure to credit risk is mainly from the carrying amount of financial assets.

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

2) Circumstances of concentration of credit risk

Accounts receivable were due from many customers. Therefore, there was no concentration of credit risk. In order to reduce the credit risk of accounts receivable, the Company continually evaluates each customer's financial situation and requires customers to be a member of IATA clearing house. Otherwise, the customer will have to provide bank guarantees or collaterals.

3) Credit risk of receivables and debt securities

For credit risk exposure of notes and accounts receivable, please refer to note 6(d). Other financial assets at amortized cost includes other receivables and time deposits. For the details on loss allowance for the year ended December 31, 2017, please refer to notes 6(e) and 6(k).

All of these financial assets are considered to have low risk, and thus, the impairment provision recognized during the period was limited to 12 months expected losses. Regarding how the financial instruments are considered to have low credit risk, please refer to note 4(f).

Equity investments at fair value through other comprehensive income include listed and unlisted equity securities (previously classified as available-for-sale financial assets on December 31, 2017). For the details of investments, please refer to note 6(b).

(ii) Liquidity risk

The following were the contractual maturities of financial liabilities, including estimated interest payments:

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
As of December 31, 2018					
Non-derivative financial liabilities					
Long-term borrowings (including current portion of long-term liability)	\$ 61,720,967	64,830,538	13,447,544	32,394,665	18,988,329
Bonds payable	15,107,923	15,653,875	90,950	15,562,925	-
Lease liabilities	2,204,904	2,307,731	1,005,415	1,179,456	122,860
Accounts payable (including related parties)	8,536,032	8,536,032	8,536,032	-	-
Other payables (including related parties)	<u>6,705,509</u>	<u>6,705,509</u>	<u>6,705,509</u>	<u>-</u>	<u>-</u>
Subtotal	<u>94,275,335</u>	<u>98,033,685</u>	<u>29,785,450</u>	<u>49,137,046</u>	<u>19,111,189</u>
Derivative financial liabilities					
Embedded instruments	6,234	-	-	-	-
Fuel swap agreements for hedge purposes	136,503	136,503	136,503	-	-
Forward exchange contracts for hedge purposes:					
Outflow	228	182,651	182,651	-	-
Inflow	<u>-</u>	<u>(182,423)</u>	<u>(182,423)</u>	<u>-</u>	<u>-</u>
Subtotal	<u>228</u>	<u>228</u>	<u>228</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 94,418,300</u></u>	<u><u>98,170,416</u></u>	<u><u>29,922,181</u></u>	<u><u>49,137,046</u></u>	<u><u>19,111,189</u></u>

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>
As of December 31, 2017					
Non-derivative financial liabilities					
Long-term borrowings (including current portion of long-term liability)	\$ 59,134,480	62,381,107	12,379,382	33,897,830	16,103,895
Bonds payable	19,596,232	20,370,075	4,642,700	15,727,375	-
Lease liabilities	3,427,353	3,610,129	1,355,939	1,849,454	404,736
Accounts payable (including related parties)	7,677,096	7,677,096	7,677,096	-	-
Other payables (including related parties)	<u>6,170,701</u>	<u>6,170,701</u>	<u>6,170,701</u>	<u>-</u>	<u>-</u>
Subtotal	<u>96,005,862</u>	<u>100,209,108</u>	<u>32,225,818</u>	<u>51,474,659</u>	<u>16,508,631</u>
Derivative financial liabilities					
Embedded instruments	16,800	-	-	-	-
Forward exchange contracts for hedge purposes:					
Outflow	558	178,996	178,996	-	-
Inflow	-	(178,438)	(178,438)	-	-
Subtotal	<u>558</u>	<u>558</u>	<u>558</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 96,023,220</u>	<u>100,209,666</u>	<u>32,226,376</u>	<u>51,474,659</u>	<u>16,508,631</u>

The Company is not expecting that the cash flows including the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Currency risk

1) Exposure to currency risk

The Company's significant exposure to foreign currency risk was as follows:

	<u>2018.12.31</u>			<u>2017.12.31</u>		
	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Foreign Currency</u>	<u>Exchange rate</u>	<u>TWD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 612,157	30.72	18,802,401	\$ 680,099	29.76	20,239,737
EUR	4,993	35.20	175,745	5,670	35.57	201,665
JPY	1,685,200	0.2782	468,823	1,409,842	0.2642	372,480
HKD	162,318	3.9210	636,447	151,180	3.8070	575,541
CNY	129,715	4.4720	580,085	186,467	4.5650	851,220
			<u>\$ 20,663,501</u>			<u>\$ 22,240,643</u>
<u>Non-monetary items</u>						
USD	\$ 42,383	30.72	1,301,787	\$ 32,214	29.76	958,688
SGD	-	-	-	1,212	22.2600	26,985
IDR	14,309,995	0.0021	30,051	17,357,400	0.0022	38,186
			<u>\$ 1,331,838</u>			<u>\$ 1,023,859</u>
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	\$ 534,225	30.72	16,408,733	\$ 651,190	29.76	19,379,411
EUR	8,696	35.20	306,095	7,381	35.57	262,549
JPY	1,727,097	0.2782	480,478	1,768,412	0.2642	467,215
HKD	28,997	3.9210	113,696	19,093	3.8070	72,688
CNY	169,715	4.4720	758,966	171,283	4.5650	781,905
			<u>\$ 18,067,968</u>			<u>\$ 20,963,768</u>

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EVA AIRWAYS CORP.
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2) Sensitivity analysis

The Company's monetary items exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, notes receivable, accounts receivable (including related parties), financial assets at fair value through other comprehensive income (available-for-sale financial assets – non-current), refundable deposits (included in other non-current assets), long-term borrowings, accounts payable (including related parties), other payables, lease liabilities and restoration obligations (included in other current liabilities and other non-current liabilities) that are denominated in foreign currency. A 1% depreciation (appreciation) of the TWD against the USD, EUR, JPY, HKD and CNY as of December 31, 2018 and 2017, would have changed the profit by \$25,955 and \$12,769, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2018 and 2017.

Due to the variety of the Company's functional currency, the Company discloses its exchange gains and losses of monetary items collectively. For years ended December 31, 2018 and 2017, the Company's foreign exchange gains (losses), net (including realized and unrealized of monetary items) amounted to \$(4,861) and \$15,732, respectively.

(iv) Interest rate risk

The interest rate exposure of the Company's financial liabilities are illustrated in note 6(x) liquidity risk.

The following sensitivity analysis is based on the exposure to interest rate risk of the non-derivative financial instruments on the reporting date. For variable-rate instruments, the sensitivity analysis assumes the variable-rate liabilities are outstanding for the whole year on the reporting date. The Company's internal department reported the increases/decreases in the interest rates and the exposure to changes in interest rates by 1% to the Company's key management so as to allow key management to assess the reasonableness of the changes in the interest rates.

If the interest rate increases (decreases) by 1% with all other variable factors that remain constant, the profit of the Company will change \$622,661 and \$603,301 for the years ended December 31, 2018 and 2017, respectively due to the Company's floating-interest borrowings.

(v) Other market price risk

If the price of the equity securities changes, and it is on the same basis for both years and assumes that all other variables remain the same, the impact on comprehensive income will be as follows:

Price of the equity securities at the reporting date	2018		2017	
	Other Comprehensive Income, net of tax	Profit (losses)	Other Comprehensive Income, net of tax	Profit (losses)
increase 5%	\$ <u>117,068</u>	<u>-</u>	<u>201,390</u>	<u>-</u>
decrease 5%	\$ <u>(117,068)</u>	<u>-</u>	<u>(201,390)</u>	<u>-</u>

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

(vi) Fair value

1) Categories and fair values of financial instruments

The fair value of financial assets and liabilities at fair value through profit or loss, financial instruments used for hedging, and financial assets at fair value through other comprehensive income (available-for-sale financial assets) is measured on a recurring basis. The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It shall not include fair value information of the financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value and investments in equity instruments which do not have any quoted price in an active market in which the fair value cannot be reasonably measured.

	2018.12.31				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Money market funds	\$ 501,757	501,757	-	-	501,757
Financial assets for hedging	36	-	36	-	36
Financial assets at fair value through other comprehensive income					
Publicly traded stock	878,240	878,240	-	-	878,240
Non-publicly traded stock	1,468,045	-	-	1,468,045	1,468,045
Subtotal	2,346,285	878,240	-	1,468,045	2,346,285
Financial assets measured at amortized cost					
Cash and cash equivalents	39,930,700	-	-	-	-
Notes and accounts receivable, and other receivables (including related parties)	7,917,228	-	-	-	-
Other non-current assets	1,539,742	-	-	-	-
Subtotal	49,387,670	-	-	-	-
Total	\$ 52,235,748	1,379,997	36	1,468,045	2,848,078
Financial liabilities at fair value through profit or loss	\$ 6,234	-	6,234	-	6,234
Financial liabilities for hedging	136,731	-	136,731	-	136,731
Financial liabilities measured at amortized cost					
Long-term borrowings (including current portion of long-term liability)	61,720,967	-	61,722,715	-	61,722,715
Bonds payable	15,107,923	-	15,010,158	-	15,010,158
Lease liabilities	2,204,904	-	2,241,518	-	2,241,518
Accounts payable (including related parties)	8,536,032	-	-	-	-
Other payables (including related parties)	6,705,509	-	-	-	-
Subtotal	94,275,335	-	78,974,391	-	78,974,391
Total	\$ 94,418,300	-	79,117,356	-	79,117,356

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EVA AIRWAYS CORP.
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	2017.12.31				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Derivative financial assets for hedge purposes	\$ 184,458	-	184,458	-	184,458
Available-for-sale financial assets					
Money market funds	\$ 1,525,795	1,525,795	-	-	1,525,795
Publicly traded stock	1,178,219	1,178,219	-	-	1,178,219
Non-publicly traded stock	1,325,317	-	-	1,325,317	1,325,317
Financial assets carried at cost	1,020	-	-	-	-
Subtotal	4,030,351	2,704,014	-	1,325,317	4,029,331
Loans and receivables					
Cash and cash equivalents	35,432,733	-	-	-	-
Notes and accounts receivable, and other receivables (including related parties)	7,413,509	-	-	-	-
Subtotal	42,846,242	-	-	-	-
Other non-current assets	1,502,442	-	-	-	-
Total	\$ 48,563,493	2,704,014	184,458	1,325,317	4,213,789
Financial liabilities at fair value through profit or loss	\$ 16,800	-	16,800	-	16,800
Derivative financial liabilities for hedge purposes	558	-	558	-	558
Amortized cost of financial liabilities					
Long-term borrowings (including current portion of long-term liability)	59,134,480	-	59,138,513	-	59,138,513
Bonds payable	19,596,232	-	19,487,983	-	19,487,983
Lease liabilities	3,427,353	-	3,451,848	-	3,451,848
Accounts payable (including related parties)	7,677,096	-	-	-	-
Other payables (including related parties)	6,170,701	-	-	-	-
Subtotal	96,005,862	-	82,078,344	-	82,078,344
Total	\$ 96,023,220	-	82,095,702	-	82,095,702

2) Valuation techniques and assumptions used in fair value determination

a) Non-derivative financial instruments

The fair value of financial instruments traded in an active market is based on the quoted market prices. The quotations, which is published by the main exchange center or that which was deemed to be a public bond by the Treasury Bureau of Central Bank, is included in the fair value of the listed securities instruments and the debt instruments in active markets with open bid.

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

Quoted market prices may not be indicative of the fair value of an instrument if the activity in the market is infrequent, the market is not well-established, only small volumes are traded, or bid-ask spreads are very wide. Determining whether a market is active involves judgment.

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For financial instruments traded in active markets, their fair values are listed below by types and attributes:

- The stocks of publicly traded companies are financial assets which are traded in active markets under standard terms and conditions. The fair value of the abovementioned stocks is based on quoted market prices.

Measurements of fair value of financial instruments without an active market are based on a valuation technique. Fair value measured by a valuation technique can be extrapolated from the fair value of similar financial instruments, the discounted cash flow method, or other valuation technique.

For financial instruments not traded in active markets, their fair values are listed below by types and attributes:

- Equity instruments with no quoted market prices: the Company takes the quote market prices and the price-book ratios of similar publicly traded companies into consideration by using the market comparison approach. The estimates had been adjusted by the depreciation from lack of market liquidity.

b) Derivative financial instruments

Measurement of the fair value of derivative instruments is based on the valuation techniques generally accepted by market participants such as the discounted cash flow and option pricing models. Fair value of forward currency is usually determined by the forward currency exchange rate.

3) Transfers between Level 1 and Level 2

For the years ended December 31, 2018 and 2017, the fair value hierarchy levels of financial instruments were not transferred.

4) Movements in fair value measurements of financial assets in Level 3

The following table shows the reconciliation from the beginning balance to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Fair value through other comprehensive income (Available-for- sale financial assets)
	Unquoted equity instruments
Beginning balance as of January 1, 2018	\$ 1,325,317
Effects of retrospective application	7,454
Reclassified	1,020
Total gains or losses:	
Recognized in profit and loss	-
Recognized in other comprehensive income	134,254
Balance as of December 31, 2018	\$ 1,468,045

(Continued)

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	Fair value through other comprehensive income (Available-for- sale financial assets)
	Unquoted equity instruments
Beginning balance as of January 1, 2017	\$ 1,328,629
Total gains or losses:	
Recognized in profit and loss	-
Recognized in other comprehensive income	(3,312)
Balance as of December 31, 2017	\$ 1,325,317

The amounts of total gains or losses for the periods were recognized in other gains and losses, and unrealized gains (losses) on available-for-sale financial assets and unrealized gains (losses) from financial assets measured at fair value through other comprehensive income. As of December 31, 2018 and 2017, the assets which were still held by the Company were as follows:

	2018	2017
Other comprehensive income (including in unrealized gains (losses) from financial assets measured at fair value through other comprehensive income)	\$ 134,370	-
Other comprehensive income (including in unrealized gains (losses) on available-for-sale financial assets)	-	(3,312)

5) Quantitative information about the significant unobservable inputs used in the fair value measurements categorized within Level 3

The Company classified a partial of its financial assets at fair value through other comprehensive income investment in equity securities and available-for-sale financial assets – investments in equity securities that do not have a quoted market price in an active market as Level 3 of the fair value hierarchy.

Most of the fair value measurements categorized within Level 3 use the significant unobservable inputs. The significant unobservable inputs are independent to each other.

The significant unobservable inputs were as follows:

Items	Valuation techniques	Significant unobservable inputs	Relationship between significant unobservable inputs and fair value
Financial assets at fair value through other comprehensive income (Available-for-sale financial assets – investments in equity securities)	Market approach— relevant information generated by publicly companies	<ul style="list-style-type: none"> • Price-book ratio (as of December 31, 2018 and 2017 were 0.80~2.64 and 0.39~2.64, respectively) • Market liquidity discount rate (as of December 31, 2018 and 2017 were 80%) 	<ul style="list-style-type: none"> • The higher the price-book ratio, the higher the fair value • The higher the market liquidity discount rate, the lower the fair value

(Continued)

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- 6) Sensitivity analysis for fair value measurements categorized within Level 3 of the fair value hierarchy

The fair value measurements of the Company's financial instruments are reasonable; However, changes in the use of valuation models or valuation variables may affect the estimations. For fair value measurements in Level 3, a fluctuation in the valuation variable by 5% would have the following effect:

<u>Inputs</u>	<u>Increase (decrease)</u>	<u>Effects of changes in fair value on other comprehensive income</u>			
		<u>Favorable</u>		<u>Unfavorable</u>	
		<u>2018.12.31</u>	<u>2017.12.31</u>	<u>2018.12.31</u>	<u>2017.12.31</u>
Price-book ratio	5%	72,561	73,659	(73,605)	(59,688)
Market liquidity discount rate	5%	72,561	73,659	(73,605)	(59,688)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the inter-relationships with another input.

- (y) Management of financial risk
- (i) The Company is exposed to the nature and extent of the risks arising from financial instruments as below:
- 1) Credit risk
 - 2) Liquidity risk
 - 3) Market risk

Detailed information about exposure risk arising from the aforementioned risk and the Company's objective, policies and process for managing risks have been stated below. Further quantitative disclosures have been disclosed as notes to the financial statements.

- (ii) Risk management framework

The Company's Board of Directors has responsibility for the oversight of the risk management framework. The Company's inter-department management and committee, which consists of managers from all departments, is responsible for monitoring the Company's risk management policies and reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The inter-department management and committee are reviewed regularly to reflect change in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risk faced by the Company. The Company's Audit Committee is assisted in its oversight role by the internal auditor. The internal auditor reviews the risk controls and procedures, and reports the results on a regular or irregular basis to the Audit Committee.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to equity financial instruments fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investments in securities.

1) Notes and accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristic of each customer. In accordance with the Company's credit policy, each customer is analyzed individually for creditworthiness, and is required to be a member of IATA clearing house. Otherwise, the customer will have to provide bank guarantees or collaterals before its credit terms and credit limit are offered. Credit limit is offered to each customer as the limit of transactions and is reviewed regularly.

The transaction amount of the majority of the Company's customers is not significant, leading to an insignificant influence of loss from credit risk arising from single customer on the Company. The Company set up the forward-looking "expected credit loss" model to reflect the estimated impairment loss of notes and accounts receivable.

2) Investments

The credit risk exposure in the bank deposits, fixed income investments and other equity instruments are measured and monitored by the Company's finance department. Since the Company's transactions are with external parties with good credit standing, highly rated financial institutions, publicly traded stock companies and unlisted companies with good reputation, there are no non-compliance issues and therefore no significant credit risk.

3) Guarantees

As of December 31, 2018, the Company did not provide endorsements and guarantees.

(iv) Liquidity risk

Liquidity risk is a risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company approach to managing liquidity risk is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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The Company's finance department monitors the needs for cash flows, and plans optional return from investments of idle capital. The Company aims to maintain the level of its cash and cash equivalents at an amount to cope with expected cash outflows on operation, including meeting its financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Company, primarily the TWD. The currencies used in these transactions are principally denominated in TWD, CNY, EUR, USD, and JPY.

The Company hedges its cash and cash equivalents, trade receivables from sales, trade payables to purchase and leases payments for aircraft denominated in a foreign currency. When necessary, the Company uses foreign currency financing and forward exchange contracts to hedge its currency risk. The financial department proactively collects information of currency to monitor the trend of currency rate and keeps connection with the foreign currency department of banks to collect the market information for securing the currency risk.

The Company determines the existence of an economic relationship between the hedging instruments and hedged item based on the currency, amount and timing of their respective cash flows. The Company assesses whether the derivative designated in each hedging relationship is expected to be and has been effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method. For hedging foreign currency risk on the cash flow of aviation transportation with a highly probable forecast transaction, the foreign currency risk component of a non-derivative financial asset or a non-derivative financial liability may be designated as a hedging instrument provided.

In these hedge relationships, the main sources of ineffectiveness are :

- the effect of the counterparty and the Company's own credit risk on the fair value of the forward foreign exchange contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in exchange rates; and
- changes in the timing of the hedged transactions.

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EVA AIRWAYS CORP.
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2) Interest rate risk

The Company adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of variability in cash flows attributable to movements in interest rates.

The Company determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, reprising dates and maturities and the notional or par amounts. The Company assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are :

- the effect of the counterparty and the Company's own credit risk on the fair value of the swaps which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- differences in reprising dates between the swaps and the borrowings.

3) Other market price risk

The Company is exposed to equity price risk due to the investments in equity securities. This is a strategic investment and is not held for trading.

The management of the Company monitors the combination of equity securities and open-market funds in its investment portfolio based on cash flow requirements. Material investments within the portfolio are managed on an individual basis, and all buy-and-sell decisions are approved by the Board of Directors.

(z) Capital management

The Board of Directors' policy is to maintain a strong capital base to maintain the confidence of investors, creditors, and the market and to sustain future development of the business. The Board of Directors monitors the level of dividends to ordinary equity holders as well as future operation of the business.

The capital structure of the Company consists of net debt and equity. The net debt from the balance sheet is derived from the total borrowings less cash and cash equivalents. The total capital includes equity (common stock, capital surplus, retained earnings and other equity) and net debt.

As of December 31, 2018, there were no changes in the Company's approach to capital management.

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(aa) Financing activities not affecting current cash flow

The Company's financing activities which did not affect the current cash flow in the year ended December 31, 2018, were as follows:

Reconciliation of liabilities arising from financing activities were as follows:

	<u>2018.1.1</u>	<u>Cash flows</u>	<u>Non-cash changes</u>			<u>2018.12.31</u>
			<u>Interest expense</u>	<u>Foreign exchange movement</u>	<u>Other</u>	
Bonds payable	\$ 19,596,232	(4,500,000)	81,792	-	(70,101)	15,107,923
Long-term borrowings	59,134,480	2,502,929	20,100	63,458	-	61,720,967
Lease liabilities	3,427,353	(1,275,885)	2,572	50,864	-	2,204,904
Total liabilities from financing activities	\$ 82,158,065	(3,272,956)	104,464	114,322	(70,101)	79,033,794

(7) Related-party transactions

(a) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Company and its subsidiaries.

(b) Names and relationship of related parties

The followings are entities that have transactions with the Company during the periods covered in the financial statements.

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Evergreen Aviation Technologies Corp.	The Company's subsidiary
Evergreen Airline Services Corp.	The Company's subsidiary
Evergreen Sky Catering Corp.	The Company's subsidiary
Evergreen Air Cargo Services Corp.	The Company's subsidiary
Evergreen Aviation Precision Corp.	The Company's subsidiary
Hsiang-Li Investment Corp.	The Company's subsidiary
RTW Air Services (S) Pte. Ltd.	The Company's subsidiary (Note)
PT Perdana Andalan Air Service	The Company's subsidiary
EVA Flight Training Academy	The Company's subsidiary
Evergreen International S.A.	The Company's shareholder's major shareholder
Evergreen International Corp.	The Company's shareholder
Evergreen Marine Corp. (Taiwan) Ltd.	The Company's shareholder
Evergreen International Storage & Transport Corp.	The Company's shareholder's equity investment

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<u>Names of related parties</u>	<u>Relationship with the Company</u>
UNI Airways Corp.	The Company's shareholder's equity investment
Ever Accord Construction Corp.	The Company's shareholder's equity investment
Evergreen Steel Corp.	The Company's shareholder's equity investment
Evergreen Insurance Co. Ltd.	The Company's shareholder's equity investment
Evergreen Security Corp.	The Company's equity investment
Chang Yung-Fa Foundation	The Company's shareholder
Note: RTW Air Services (S) Pte. Ltd. has completed liquidation process in August, 2018.	

(c) Significant transactions with related parties

(i) Operating revenue

Significant sales to related parties of the Company were as follows:

	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 180,812	170,660
Associates	1	1
Other related parties	<u>2,666,566</u>	<u>2,546,215</u>
	<u>\$ 2,847,379</u>	<u>2,716,876</u>

Related parties leased aircraft from the Company to operate cross-strait flights between Mainland China and Taiwan. The rental is charged by actual flight hours and recorded under operating revenue.

The prices for sales to related parties are not materially different from those of the third-parties sales. The payment terms are within 1~3 months, which do not materially differ from those of third-party transactions. There was no collateral on the accounts receivable from related parties.

(ii) Operating costs

Significant operating costs from transactions with related parties were as follows:

	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 9,133,004	9,301,495
Associates	20,378	4,202
Other related parties	<u>528,195</u>	<u>572,679</u>
	<u>\$ 9,681,577</u>	<u>9,878,376</u>

The prices for purchases from related parties transactions are not materially different from those of the third-party vendors. The payment terms are within 1~3 months, which do not materially differ from those of third-party transactions.

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EVA AIRWAYS CORP.
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(iii) Operating expenses

Significant operating expenses from transactions with related parties were as follows:

	<u>2018</u>	<u>2017</u>
Subsidiaries	\$ 180,562	255,639
Associates	62,051	46,810
Other related parties	<u>170,603</u>	<u>154,841</u>
	<u>\$ 413,216</u>	<u>457,290</u>

The prices for related parties transactions are not materially different from those of the third-party vendors. The payment terms are within 1~3 months, which do not materially differ from those of third-party transactions.

(iv) Property transaction

For the years ended December 31, 2018 and 2017, the Company purchased equipment from its related parties amounting to \$85,812 and \$214,712, respectively.

For the years ended December 31, 2018 and 2017, the disposals of property, plant and equipment to related parties were summarized as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Disposal price</u>	<u>Gain from disposal</u>	<u>Disposal price</u>	<u>Gain from disposal</u>
Subsidiaries	<u>\$ 570</u>	<u>567</u>	<u>14,532</u>	<u>4,299</u>

(v) Receivables from related parties

Receivables from related parties of the Company were as follows:

<u>Account</u>	<u>Class of related parties</u>	<u>2018.12.31</u>	<u>2017.12.31</u>
	Subsidiaries		
Accounts receivable	RTW Air Services (S) Pte.Ltd.	\$ -	185,959
Accounts receivable	Other Subsidiaries	17,679	18,864
Accounts receivable	Associates	-	2
	Other related parties		
Accounts receivable	UNI Airways Corp.	252,103	262,947
Accounts receivable	Other related parties	3,968	10,972
Other receivables	Subsidiaries	30,739	46,632
Other receivables	Associates	1	1
	Other related parties		
Other receivables	UNI Airways Corp.	285,960	319,022
Other receivables	Other related parties	<u>9,312</u>	<u>9,152</u>
		<u>\$ 599,762</u>	<u>853,551</u>

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EVA AIRWAYS CORP.
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(vi) Payables to related parties

Payables to related parties of the Company were as follows:

<u>Account</u>	<u>Class of related parties</u>	<u>2018.12.31</u>	<u>2017.12.31</u>
	Subsidiaries		
Accounts payable	Evergreen Aviation Technologies Corp.	\$ 840,128	916,396
Accounts payable	Evergreen Sky Catering Corp.	423,030	414,595
Accounts payable	Evergreen Airline Services Corp.	417,417	413,860
Accounts payable	Other Subsidiaries	47,871	73,867
Accounts payable	Associates	3,809	1,328
Accounts payable	Other related parties	68,417	83,252
	Subsidiaries		
Other payables	Evergreen Aviation Technologies Corp.	119,739	75,564
Other payables	Evergreen Airline Services Corp.	33,687	33,382
Other payables	Other Subsidiaries	22,802	51,620
Other payables	Associates	11,845	8,277
	Other related parties		
Other payables	UNI Airways Corp.	41,015	47,102
Other payables	Other related parties	25,629	30,354
		<u>\$ 2,055,389</u>	<u>2,149,597</u>

(d) Key management personnel compensation

Key management personnel compensation comprised the following:

	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 78,698	80,342
Post-employment benefits	23,749	13,422
Share-based payments	845	-
	<u>\$ 103,292</u>	<u>93,764</u>

Please refer to note(r) for the disclosure of share-based payment.

(8) Pledged assets

The carrying amounts of the pledged assets were as follows:

<u>Pledged assets</u>	<u>Object</u>	<u>2018.12.31</u>	<u>2017.12.31</u>
Property, plant, and equipment	Long-term borrowings	\$ 74,841,178	75,144,401
Time deposit – included in other non-current assets	Letters of credit, customs duty, and contract performance guarantees	81,921	75,656
		<u>\$ 74,923,099</u>	<u>75,220,057</u>

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EVA AIRWAYS CORP.
Notes to the Parent-Company-Only Financial Statements

(9) Significant contingent liabilities and unrecognized commitments

(a) Significant contingent liabilities: None.

(b) Significant commitments:

- (i) In July 2015, the Company entered into aircraft purchase contracts amounting to US\$1,620,000 with Boeing Company for five Boeing 777 freighters. As of December 31, 2018, one Boeing 777 freighters had not yet been delivered by Boeing Company. The Company has partially paid the price of \$1,685,027, which was included in other non-current assets.
- (ii) In November 2015, the Company entered into aircraft purchase contracts amounting to US\$6,588,000 with Boeing Company for eighteen Boeing 787-10 aircraft. As of December 31, 2018, the eighteen Boeing 787-10 aircraft had not yet been delivered by Boeing Company. The Company has partially paid the price of \$6,896,243, which was included in other non-current assets.
- (iii) In November 2015, the Company entered into engine purchase contracts amounting to US\$118,660 with General Electric Company for five Boeing 787 engines. As of December 31, 2018, four Boeing 787 engines had not yet been delivered by General Electric Company. The Company has partially paid the price of \$211,538, which was included in other non-current assets.
- (iv) The Company entered into a contract with DPR Construction, A General Partnership, for its Los Angeles land development case, with the approximate amount of US\$64,591, which was approved during the Board of Directors' meeting on May 10, 2017. As of December 31, 2018, the Company has partially paid the price of \$421,989, which was included in property, plant and equipment and investment property.
- (v) Unused letters of credit for the Company were as follows:

	2018.12.31	2017.12.31
Unused letters of credit	\$ 2,320,404	2,731,565

(10) Losses due to major disasters: None.

(11) Subsequent events: None.

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(12) Other

A summary of personnel expenses, depreciation and amortization expenses, by function, is as follows:

By item	2018			2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salaries	8,291,503	5,759,385	14,050,888	7,893,792	5,384,447	13,278,239
Labor and health insurance	450,764	320,014	770,778	417,800	306,151	723,951
Pension	424,687	210,570	635,257	403,144	201,867	605,011
Remuneration of directors	-	19,983	19,983	-	19,298	19,298
Others	3,664,010	449,428	4,113,438	3,713,321	490,356	4,203,677
Depreciation (Note)	10,893,896	720,144	11,614,040	12,202,425	637,088	12,839,513
Amortization	207	225,393	225,600	688	200,163	200,851

As of December 31, 2018 and 2017, the Company had 11,321 and 11,303 employees, respectively, among then the number of directors who are not concurrently employed had both to 8.

Note: For the years ended December 31, 2018 and 2017, the depreciation expenses recognized were \$11,706,048 and \$12,956,693, respectively, less deferred gains of \$92,008 and \$117,180, respectively.

(13) Other disclosures**(a) Information on significant transactions**

The followings were the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company for the year ended December 31, 2018:

- (i) Financings provided: None.
- (ii) Guarantee and Endorsement provided: None.
- (iii) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures): Please see Table 1 attached.
- (iv) Accumulated buying/selling of the same marketable securities for which the dollar amount at least \$300 million or 20% of paid-in capital : Please see Table 2 attached.
- (v) Acquisition of real estate for which the dollar amount at least \$300 million or 20% of paid-in capital : Please see Table 3 attached.
- (vi) Disposition of real estate for which the dollar amount at least \$300 million or 20% of paid-in capital : Please see Table 4 attached.

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- (vii) Total purchases from or sales to related parties with the dollar amount at least \$100 million or 20% of paid-in capital : Please see Table 5 attached.
- (viii) Accounts receivable from related parties for which the dollar amount at least \$100 million or 20% of paid-in capital : Please see Table 6 attached.
- (ix) Derivative transactions : Please refer to Note 6(c) for related information.

(b) Information on investees:

The followings are the information on investees for the year ended December 31, 2018: Please see Table 7 attached.

- (c) Information on investment in Mainland China : Please see Table 8 attached.

(14) Segment information

Please refer to the consolidated financial statement for the year ended December 31, 2018.

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Table 1 Market Securities Held (excluding investments in subsidiaries, associates and joint ventures)
(December 31, 2018)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2018				Notes
				Shares/Units	Book value	Percentage of Ownership	Fair Value	
The Company	Mega Diamond Money Market Fund	None	Financial assets at fair value through profit or loss – current	28,055,711	351,311		351,311	
The Company	Jih Sun Money Market Fund	None	Financial assets at fair value through profit or loss – current	10,169,719	150,446		150,446	
Evergreen Air Cargo Services Corp.	Mega Diamond Money Market Fund	None	Financial assets at fair value through profit or loss – current	9,984,016	125,019		125,019	
Evergreen Air Cargo Services Corp.	UPAMC James Bond Money Market Fund	None	Financial assets at fair value through profit or loss – current	4,262,075	71,115		71,115	
Evergreen Air Cargo Services Corp.	Eastspring Investments Well Pool Money Market Fund	None	Financial assets at fair value through profit or loss – current	5,237,554	71,148		71,148	
					769,039		769,039	
The Company	Shares of Everest Investment Holdings Ltd.	None	Financial assets at fair value through other comprehensive income – non-current	231,580	16,492	2.11	16,492	
The Company	Shares of Trade-Van Information Services Co.	None	Financial assets at fair value through other comprehensive income – non-current	8,502,418	278,029	5.67	278,029	
The Company	Shares of Central Reinsurance Corporation	None	Financial assets at fair value through other comprehensive income – non-current	35,203,008	600,211	5.96	600,211	
The Company	Shares of UNI Airways Corp.	The Company's shareholder's equity investment	Financial assets at fair value through other comprehensive income – non-current	30,343,761	378,690	8.70	378,690	
The Company	Shares of Evergreen Steel Corp.	The Company's shareholder's equity investment	Financial assets at fair value through other comprehensive income – non-current	38,201,625	1,034,882	9.42	1,034,882	
The Company	Shares of Chung Hwa Express Corp.	None	Financial assets at fair value through other comprehensive income – non-current	1,000,000	29,810	10.00	29,810	
The Company	Star Alliance Services Gmbh	None	Financial assets at fair value through other comprehensive income – non-current	1	8,171	4.55	8,171	
Evergreen Airline Services Corp.	Shares of Evergreen Marine Corp.(Taiwan)Ltd.	The Company's shareholder's shareholder	Financial assets at fair value through other comprehensive income – non-current	557,349	6,632	0.01	6,632	
Evergreen Airline Services Corp.	Shares of Evergreen International Storage & Transport Corp.	The Company's shareholder's equity investment	Financial assets at fair value through other comprehensive income – non-current	158,800	2,144	0.01	2,144	
Hsiang Li Investment Corp.	Shares of Central Reinsurance Corporation	None	Financial assets at fair value through other comprehensive income – non-current	2,740,542	46,726	0.46	46,726	
Evergreen Airways Service (Macau) Ltd.	Shares of Air Macau Co., Ltd.	None	Financial assets at fair value through other comprehensive income – non-current	500	1,210	0.0207	1,210	
					2,402,997		2,402,997	

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Table 2 Accumulated buying/selling of the same marketable securities for which the dollar amount at least \$300 million or 20% of paid-in capital
(December 31, 2018)

Company Name	Marketable Securities Type and Name		Financial Statement Account	Counter - party	Relationship with the Company	Beginning balance		Acquisition		Disposal				Ending balance	
						Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Amount	Book value	Gain/Loss on Disposal	Shares/Units	Amount
The Company	Fund	Mega Diamond Money Market Fund	Financial assets at fair value through profit or loss – current – fund	Mega International Investment Trust Co.,Ltd.	None	53,908,390	672,011	64,043,549	800,000	89,896,228	1,123,000	1,108,532	14,468	28,055,711	351,311
The Company	Fund	Jih Sun Money Market Fund	Financial assets at fair value through profit or loss – current – fund	JihSun Securities Investment Trust Co.,Ltd.	None	54,515,207	802,873	94,901,956	1,400,000	139,247,444	2,054,540	2,050,992	3,548	10,169,719	150,446
The Company	Fund	Taishin 1699 Money Market Fund	Financial assets at fair value through profit or loss – current – fund	Taishin Securites Investment Trust Co.,Ltd.	None	-	-	80,538,808	1,085,000	80,538,808	1,085,075	1,085,000	75	-	-
The Company	Fund	Yuanta Wan Tai Money Market Fund	Financial assets at fair value through profit or loss – current – fund	Yuanta Securities Investment Trust Co., Ltd.	None	-	-	26,511,310	400,000	26,511,310	400,021	400,000	21	-	-
The Company	Share	Taiwan High Speed Rail Corporation	Financial assets at fair value through other comprehensive income – non-current		None	13,882,000	326,227	-	-	13,882,000	323,222	341,071	(17,849)	-	-
The Company	Equity	EVA Flight Training Academy	Investments accounted for using equity method	EVA Flight Training Academy	The Company's subsidiary	10,000,000	624,850	-	307,200	-	-	-	-	10,000,000	932,050

(in shares)

EVA AIRWAYS CORP.
Notes To Parent Company Only Financial Statement

Table 3 Acquisition of real estate for which the dollar amount at least \$300 million or 20% of paid-in capital :
(December 31, 2018)

Company Name	Types of Property	Transaction Date	Transaction Amount (USD in Thousands)	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
The Company	Office building of Los Angeles	2018.5.24	USD 64,591	As of December 31, 2018, the Company has partially paid the price of \$421,989.	DPR Construction, A General Partnership	Non-related party	-	-	-	-	The construction of the new office building on the own land, which was approved by the Board of Director's meeting.	Office building constructed by The Company	None

EVA AIRWAYS CORP.
Notes To Parent Company Only Financial Statement

Table 4 Disposition of real estate for which the dollar amount at least \$300 million or 20% of paid-in capital :
(December 31, 2018)

Company Name	Types of Property	Transaction Date	Acquisition Date	Book Value	Transaction Amount	Proceed Term	Losses(gains) on Disposal of PPE	Counter-party	Nature of Relationships	Purpose of Disposal	Price Reference	Other Terms
The Company	Office building of Los Angeles	2018.9.24~2018.12.7	On construction	not been applied	592,137	not been applied	not been applied	(1)El Segundo Investments 2, LLC (2)James Orland and Judith Orland (3)Lil Nubbins Neighborhood, LLC (4)Mardi Norman	Non-related party	The flexible application of Assets	Appraisal report	None

EVA AIRWAYS CORP.
Notes To Parent Company Only Financial Statement

Table 5 Total purchases from or sales to related parties with the dollar amount at least \$100 million or 20% of paid-in capital :
(December 31, 2018)

Company Name	Related Party	Relationship	Transaction details				Abnormal Transaction		Account/note receivable(payable)		Notes
			Purchases/ Sales	Amount	Percentage of total purchases/sales	Payment Terms	Unit price	Payment Terms	Balance	Percentage of total accounts/ notes receivable(payable)	
The Company	UNI Airways Corp.	The company's shareholder's equity investment	Sales	2,616,206	1.93	60 days	-		252,103	3.41	
The Company	Evergreen Aviation Technologies Corp.	The company's subsidiary	Sales	174,387	0.13	60 days	-		13,107	0.18	
The Company	Evergreen Aviation Technologies Corp.	The company's subsidiary	Purchases	3,647,688	3.10	60 days	-		(840,128)	9.84	
The Company	Evergreen Sky Catering Corp.	The company's subsidiary	Purchases	2,713,462	2.31	60 days	-		(423,030)	4.96	
The Company	Evergreen Airline Services Corp.	The company's subsidiary	Purchases	2,445,986	2.08	60 days	-		(417,417)	4.89	
The Company	Evergreen Air Cargo Services Corp.	The company's subsidiary	Purchases	366,931	0.31	60 days	-		(47,871)	0.56	
The Company	Evergreen International Corp.	The company's shareholder	Purchases	174,845	0.15	60 days	-		(23,121)	0.27	
The Company	Evergreen International Storage & Transport Corp.	The company's shareholder	Purchases	158,922	0.14	60 days	-		(12,086)	0.14	
The Company	Evergreen Insurance Company Ltd.	The company's shareholder's equity investment	Purchases	100,422	0.09	60 days	-		-	-	
Evergreen Airline Services Corp.	The Company	Parent company	Sales	2,445,986	79.60	60 days	-		431,745	85.07	
Evergreen Airline Services Corp.	UNI Airways Corp.	The company's shareholder's equity investment	Sales	236,504	7.70	60 days	-		37,873	7.46	
Evergreen Airline Services Corp.	Evergreen Aviation Technologies Corp.	Parent company's equity investment	Sales	111,590	3.63	30 days	-		8,900	1.75	
Evergreen Aviation Technologies Corp.	The Company	Parent company	Sales	3,645,421	8.16	60 days	-		965,052	10.82	
Evergreen Aviation Technologies Corp.	GE Evergreen Engine Services Corp.	Equity investment	Sales	31,945,372	71.50	30 days	-		6,279,073	70.40	
Evergreen Aviation Technologies Corp.	UNI Airways Corp.	The company's shareholder	Sales	312,746	0.70	60 days	-		117,045	1.31	
Evergreen Aviation Technologies Corp.	The Company	Parent company	Purchases	258,090	0.61	60 days	-		(13,981)	0.46	
Evergreen Aviation Technologies Corp.	Evergreen Airline Services Corp.	Parent company's equity investment	Purchases	111,590	0.27	60 days	-		(8,900)	0.29	
Evergreen Sky Catering Corp.	The Company	Parent company	Sales	2,713,462	78.95	60 days	-		427,894	82.39	
Evergreen Sky Catering Corp.	UNI Airways Corp.	The company's shareholder's equity investment	Sales	139,945	4.07	60 days	-		21,602	4.16	
Evergreen Air Cargo Services Corp.	The Company	Parent company	Sales	366,931	23.48	60 days	-		50,586	42.30	
EVA Flight Training Academy	The Company	Parent company	Sales	101,045	100.00	30 days	-		7,836	100.00	

EVA AIRWAYS CORP.
Notes To Parent Company Only Financial Statement

Table 6 Accounts receivable from related parties for which the dollar amount at least \$100 million or 20% of paid-in capital :
(December 31, 2018)

Company Name	Related Party	Relationship	Balance of receivables from related party	Turnover rate	Past - due receivables from related party		Amounts Received in Subsequent Period	Allowances for impairment loss
					Amount	Action taken		
The Company	UNI Airways Corp.	The company's shareholder's equity investment	538,063	Note 1	-		537,412	
Evergreen Airline Services Corp.	The Company	Parent company	451,279	5.44	-		451,279	
Evergreen Sky Catering Corp.	The Company	Parent company	431,503	6.35	-		431,503	
Evergreen Aviation Technologies Corp.	The Company	Parent company	970,378	3.72	-		970,378	
Evergreen Aviation Technologies Corp.	GE Evergreen Engine Services Corp.	Equity investment	6,279,073	5.89	-		6,279,073	
Evergreen Aviation Technologies Corp.	UNI Airways Corp.	The company's shareholder	117,161	2.80	-		117,161	

Note 1: Accounts receivable and revenue were not directly correlated because of the particular industry characteristics, and therefore, the turnover rate was not applicable.

EVA AIRWAYS CORP.
Notes To Parent Company Only Financial Statement

Table 7 Information on Investees(Excluding Investees in Mainland China) :
For the year ended December 31, 2018, the following is the information on investees

Name of the Investor	Name of Investee	Location	Main Bussiness and Products	Initial Investment Amount		Ending balance			Net Income (Losses)of the Investee	Share of Profits/Losses of Investee	Notes
				December 31, 2018	December 31, 2017	Shares	Ratio of Shares	Book value			
The Company	Sky Castle Investment Ltd.	Maystar Chambers, P.O. Box 3269, Apia, Samoa	Investment business	179,173	179,173	5,500,000	100.00%	385,110	26,748	26,748	Note 1
The Company	Evergreen Airways Service (Macau) Ltd.	398 Alameda Dr. Carlos D' Assumpcao.Edif CNAC 3 Andar K-M Macau	Investment business	327	327	no issue	99.00%	162,689	75,971	75,211	Note 1
The Company	RTW Air Services(S) Pte. Ltd.	300 Tampines Avenue 5 #07-01 Income@Tampines Junction.Singapore 529653	Traveling agency	-	13,217	-	-	-	4,516	2,213	Notes 1 and 4
The Company	PT Perdana Andalan Air Service	10/F, Gedung Mega Plaza Jl. H.R Rasuna Said Kav. C-3 Jakarta 12920 Indonesia.	Traveling agency	5,086	5,086	40,800	51.00%	30,051	7,752	3,954	Note 1
The Company	EVA Flight Training Academy	3745 Whitehead Street Mather, CA, 95655, USA	Flight training school	932,050	624,850	10,000,000	100.00%	753,988	(29,166)	(29,166)	Note 1
The Company	Evergreen Aviation Technologies Corp.	No. 6 Harnq-Jann S.Rd.,Taiwan Taoyuan Int'L Airport, Dayuan, Taoyuan City, Taiwan	Maintenance, manufacturing, processing and sales of aircraft, engine and parts	2,000,450	2,000,450	508,928,512	80.00%	9,473,422	1,993,732	1,613,613	Notes 1 and 5
The Company	Evergreen Airline Services Corp.	6-1 Harnq-Jann S.Rd., Taiwan Taoyuan Int'L Airport, Dayuan Dist., Taoyuan City, 33758, Taiwan	Aviation grand service	111,180	111,179	31,327,211	56.33%	857,207	104,930	59,107	Note 1
The Company	Evergreen Sky Catering Corp.	No.3, Hangqin N. Rd.,Dayuan Dist., Taoyuan City, Taiwan	The provision of in-flight meals in sky catering and the sales of food	498,000	498,000	66,283,800	49.80%	2,106,594	528,533	263,209	Note 1
The Company	Evergreen Air Cargo Services Corp.	No.8-1, Hangcin N. Rd.,Dayuan Dist., Taoyuan City, Taiwan	Air cargo entrepot	740,348	740,348	72,750,000	60.625%	1,502,758	288,250	174,751	Note 1
The Company	Evergreen Aviation Precision Corp.	No. 528, Sec. 1, Chenggong Rd., Guanyin Dist., Taoyuan City 32844, Taiwan(R.O.C)	Manufacture of aircraft parts	1,200,000	1,200,000	120,000,000	40.00%	438,718	(554,214)	(221,686)	Notes 1 and 5
The Company	Hsiang Li Investment Corp.	1F,117,Sec. 2,Chang An E. Rd., Taipei, Taiwan	Investment business	25,000	25,000	2,680,000	100.00%	57,653	4,821	4,821	Note 1
The Company	Evergreen Security Corp.	4-5F., No. 111, Songjiang Rd., Zhongshan Dist., Taipei City 104, Taiwan	Security services	25,000	25,000	6,336,000	31.25%	111,665	49,790	15,560	Note 2
Evergreen Aviation Technologies Corp.	Evergreen Aviation Precision Corp.	No. 528, Sec. 1, Chenggong Rd., Guanyin Dist., Taoyuan City 32844, Taiwan(R.O.C)	Manufacture of aircraft parts	900,000	900,000	90,000,000	30.00%	329,039	(554,214)	(166,264)	Notes 1 and 5
Evergreen Aviation Technologies Corp.	GE Evergreen Engine Services Corp.	6F., No. 8, Sec. 3, Minsheng E. Rd., Zhongshan Dist., Taipei City 104, Taiwan	Manufacture of aircraft and parts	90,482	90,482	9,048,165	19.90%	169,742	414,641	83,820	Note 3
Evergreen Airways Service (Macau) Ltd.	Menzies Macau Airport Services Ltd.	Airport Logistic Business Center Room 52 Macau International Airport Avenida do Aeroporto, Taipa, Macau	Ground handling	8,032	8,032	no issue	20.00%	96,985	374,362	74,873	Note 3

Note 1: List of subsidiaries of the Company.

Note 2: Investments were accounted for using equity method.

Note 3: Investments of subsidiaries of the Company were accounted for using equity method.

Note 4: RTW Air Services(S) Pte. Ltd. has completed liquidation process in August, 2018.

Note 5: A resolution was approved during the two separate board meetings of Evergreen Aviation Technology Corp. (EGAT) and Evergreen Aviation Precision Corp. (EGAP) to merge EGAT and EGAP, with EGAT being the surviving company, and EGAP, the dissolved entity. The merger date was set on February 28, 2019.

EVA AIRWAYS CORP.
Notes To Parent Company Only Financial Statement

Table 8 Information on Investment in Mainland China :

1.Information on Investment in Mainland China :

Investee Company	Main Business and Products	Total Amount of Paid-in Capital (RMB in Thousands)		Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net Income (Losses) of the Investee	Direct/Indirect Shareholding (%) by the Company	Share of Profits/Losses (Note 2)	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	RMB	254,480	2	138,784	-	-	138,784	80,429	14.00%	11,260	223,856	85,129
Airport Air Cargo Service(Xiamen) Co., Ltd.	Forwarding and storage of air cargo, truck freight transportation, other transportation auxiliary industry	RMB	14,000	2	61,418	-	-	61,418	114,723	14.00%	16,061	107,754	38,399

(Note 1) Ways to Invest in Mainland China :

1. Investment in Mainland China companies by remittance through a third region.
2. Investment in Mainland China companies through a company invested and established in a third region.
3. Investment in Mainland China companies through an existing company established in a third region
4. Direct investment in Mainland China.
5. Other methods of investing in Mainland China. EX : Entrusted investment

(Note 2) The financial statements of the investee company were audited by the global accounting firm in a cooperation with R.O.C. accounting firm.

The Company recognized share of profit of subsidiaries and associates accounted for using equity method by how many shares the Company holds.

(Note 3) The investment in Shanghai Airlines Cargo Intl.Co.,Ltd was authorized by the Investment Commission. The amount of investment was \$748,721(USD23,361 thousand dollars).

Shanghai Airlines Cargo Intl.Co.,Ltd has completed liquidation process in July, 2014.

(Note 4) The investment in China Cargo Airlines Co.,Ltd was authorized by the Investment Commission. The amount of investment was \$1,453,728(USD50,337 thousand dollars).

China Cargo Airlines Co.,Ltd has completed shares transfer in January, 2016.

2.Limitation on investment in Mainland China :

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2018 (USD in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (Note) (USD in Thousands)	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
NTD 2,402,651 (USD 79,781)	NTD 2,456,862 (USD 80,562)	38,149,361

Note : Investment amounts in Mainland China were translated to TWD at the exchange rates of the dates of the remittance;

investment amounts authorized by Investment Commission, MOEA were translated to TWD at the exchange rates of the dates of the authorization.

3. Significant transactions : None.

EVA AIRWAYS CORP.

Statement of cash and cash equivalents

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

Item	Amount
Cash on hand	\$ 9
Petty cash	82,170
Demand deposit	2,685,962
Check deposit	128,336
Time deposit (Note)	<u>37,034,223</u>
Total	<u>\$ 39,930,700</u>

Note: the period of time deposit was 1~3 months; the range of interest rate was 0.46%~3.55%.

**Statement of financial assets at fair value through
profit or loss — current**

(Expressed in Thousands of New Taiwan Dollars/Units)

Name of financial instrument	Description	Book Value				Fair value		
		Units	Unit price (dollar)	Acquisition cost	Gains on valuation	Total amount	Unit price (dollar)	Total amount
Mega Diamond Money Market Fund	Monetary Market Fund/ Issued by Mega International Investment Trust Co.,Ltd.	28,056	12.48	\$ 350,000	1,311	351,311	12.52	351,311
Jih Sun Money Market Fund	Monetary Market Fund/ Issued by JihSun Securities Investment Trust Co.,Ltd.	10,170	14.76	<u>150,069</u>	<u>377</u>	<u>150,446</u>	14.79	<u>150,446</u>
				<u>\$ 500,069</u>	<u>1,688</u>	<u>501,757</u>		<u>501,757</u>

EVA AIRWAYS CORP.
Statement of notes receivable
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
A Company	\$ 328,368
B Company	194,311
C Company	166,118
D Company	129,556
Others (Note 1)	<u>114,990</u>
Total	<u>\$ 933,343</u>

Note 1: The amount of individual client included in others did not exceed 5% of the account balance.

Statement of accounts receivable

<u>Item</u>	<u>Amount</u>
E Company	\$ 948,810
Others (Note 1)	<u>5,325,041</u>
Subtotal	6,273,851
Less: allowance for impairment	<u>(95,537)</u>
Total	<u>\$ 6,178,314</u>

Note 1: The amount of individual client included in others did not exceed 5% of the account balance.

EVA AIRWAYS CORP.

Statement of inventories

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Cost</u>	<u>Net realizable value</u>
Aircraft spare parts	\$ 217,806	503,003
Consumables for use and merchandise for in-flight sales	1,310,178	1,310,178
Fuel for aircraft and others	<u>48,693</u>	48,693
	<u>\$ 1,576,677</u>	

Statement of other current assets

<u>Items</u>	<u>Amount</u>
Prepaid expenses:	
Prepaid rental of aircraft	\$ 502,172
Tax overpaid retained for offsetting the future tax payable	127,401
Prepaid tax	24,866
Others	<u>126,612</u>
Subtotal	<u>781,051</u>
Other current assets — others:	
Receivables for payment on behalf of others	\$ 34,999
Others	<u>245,484</u>
Subtotal	<u>280,483</u>
Other receivables:	
Other receivable — related parties	\$ 326,012
Others	<u>205,809</u>
Subtotal	<u>531,821</u>
Total	<u>\$ 1,593,355</u>

EVA AIRWAYS CORP.
Statement of changes in financial assets at fair value through
other comprehensive income – non-current
For the year ended December 31, 2018
(Expressed in Thousands of New Taiwan Dollars/ Shares)

Name of financial instrument	Description	Beginning balance		Effects of retrospective application	Addition		Decrease		Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Ending balance		Collateral
		Share	Fair value		Share	Amount	Share	Amount		Share	Fair value	
Share	Everest Investment Holdings Ltd.	Note 1	\$ 15,021	-	-	-	-	-	1,471	Note 1	16,492	None
Share	Trade-Van Information Services Co.	8,502	265,275	-	-	-	-	-	12,754	8,502	278,029	None
Share	Central Reinsurance Corporation	33,527	586,717	-	1,676	-	-	-	13,494	35,203	600,211	None
Share	Taiwan High Speed Rail Corporation	13,882	326,227	-	-	-	(13,882)	(341,071)	14,844	-	-	None
Share	UNI Airways Corp	28,899	357,479	-	1,445	-	-	-	21,211	30,344	378,690	None
Share	Evergreen Steel Corp	38,202	921,041	-	-	-	-	-	113,841	38,202	1,034,882	None
Share	Chung Hwa Express Corp	1,000	31,660	-	-	-	-	-	(1,850)	1,000	29,810	None
Share	Pan-Pacific Venture Capital Co., Ltd	13	116	-	-	-	(13)	(663)	547	-	-	None
Share	Star Alliance Services Gmbh	-	-	8,474	-	-	-	-	(303)	-	8,171	None
			<u>\$ 2,503,536</u>	<u>8,474</u>		<u>-</u>		<u>(341,734)</u>	<u>176,009</u>		<u>2,346,285</u>	

Note 1: Including 211 thousand shares of common stock and 21 thousand shares of preferred stock.

EVA AIRWAYS CORP.
Statement of changes in investments accounted for using equity method
For the year ended December 31, 2018
(Expressed in Thousands of New Taiwan Dollars/ Shares)

Name	Beginning balance		Addition		Decrease		Exchange differences on translation of investee's financial statement	Unrealized gains (losses) on financial instrument	Capital surplus	Remeasurements of the net defined benefit plans	Ending balance			Market price or net assets value		
	Shares	Amount	Shares	Amount	Shares	Amount					Amount	Share holdings (%)	Shares	Unit price	Amount	Collateral
Sky Castle Investment. Ltd.	5,500	\$ 362,586	-	26,748	-	-	(4,224)	-	-	-	385,110	100	5,500	-	385,110	None
Evergreen Airways Service (Macau) Ltd.	No issue	134,368	-	76,354	-	(54,226)	6,174	19	-	-	162,689	99	No issue	-	162,689	None
RTW Air Services (S) Pte. Ltd.	735	26,985	-	16,825	-	(29,289)	(14,521)	-	-	-	-	-	-	-	-	None (Note 1)
PT Perdana Andalan Air Service	41	38,186	-	3,954	-	(11,730)	(716)	-	-	357	30,051	51	41	-	30,051	None
EVA Flight Training Academy	10,000	461,734	-	307,200	-	(29,166)	14,220	-	-	-	753,988	100	10,000	-	753,988	None
Evergreen Aviation Technologies Corp.	508,929	8,370,422	-	1,625,471	-	(508,929)	6,158	-	-	(19,700)	9,473,422	80	508,929	-	9,655,321	None
Evergreen Airline Services Corp.	28,479	828,309	-	59,108	-	(8,544)	-	(1,128)	-	(20,538)	857,207	56.33	31,327	-	857,207	None
Evergreen Sky Catering Corp.	60,258	1,912,727	-	263,209	-	(60,258)	-	-	-	(9,084)	2,106,594	49.8	66,284	-	2,106,594	None
Evergreen Air Cargo Services Corp.	72,750	1,423,330	-	174,751	-	(87,300)	-	-	-	(8,023)	1,502,758	60.625	72,750	-	1,502,758	None
Evergreen Aviation Precision Corp.	120,000	660,379	-	-	-	(221,686)	-	-	-	25	438,718	40	120,000	-	438,718	None
Hsiang Li Investment Corp.	2,680	99,507	-	4,821	-	(47,725)	-	1,050	-	-	57,653	100	2,680	-	57,653	None
Evergreen Security Corp.	6,336	97,140	-	15,560	-	-	-	-	-	(1,035)	111,665	31.25	6,336	-	111,665	None
Total		<u>\$ 14,415,673</u>		<u>2,574,001</u>		<u>(1,058,853)</u>	<u>7,091</u>	<u>(59)</u>	<u>-</u>	<u>(57,998)</u>	<u>15,879,855</u>					

Note 1: RTW Air Services(s) Pte. Ltd. has completed liquidation process in August, 2018.

EVA AIRWAYS CORP.
Statement of accounts payable
December 31, 2018
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
F Company	\$ 1,125,220
G Company	660,891
H Company	548,270
I Company	349,759
Others (Note 1)	<u>4,051,220</u>
Total	<u>\$ 6,735,360</u>

Note 1: The amount of individual vendor included in others did not exceed 5% of the account balance.

Statement of other payables

<u>Item</u>	<u>Amount</u>
Accrued expenses:	
Airport fee payable	1,066,658
Salary and wage payable	1,046,750
Other maintenance payable	726,086
Commission payable	655,169
Ground service fee payable	448,788
Others (Note 1)	<u>3,251,063</u>
Subtotal	<u>7,194,514</u>
Other payables:	
Payables on property, plant and equipment purchased	632,032
Others (Note 1)	<u>260,809</u>
Subtotal	<u>892,841</u>
Total	<u>\$ 8,087,355</u>

Note 1: The amount of each item in others did not exceed 5% of the account balance.

EVA AIRWAYS CORP.**Statement of contract liabilities— current and
other current liabilities****December 31, 2018****(Expressed in Thousands of New Taiwan Dollars)**

<u>Item</u>	<u>Amount</u>
Contract liabilities – current:	
Customer loyalty program and others	\$ <u><u>18,201,266</u></u>
Other current liabilities:	
Payables for receipts on behalf of others	\$ 4,489,123
Lease liabilities	925,286
Others	<u>84,143</u>
Total	\$ <u><u>5,498,552</u></u>

EVA AIRWAYS CORP.

Statement of bonds payable

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

	Description				Balance	
	Guarantee bank	Annual interest rate	Issue Date	Repayment method	Total issue	2018.12.31
The 19th unsecured bond	The Shanghai Commercial & Savings Bank, Ltd.	1.07 %	2016/12	Loan principal repay half on the 4th and 5th year respectively.	1,000,000	\$ 1,000,000
	Bank of Taiwan	1.07 %	2016/12	Loan principal repay half on the 4th and 5th year respectively.	2,500,000	2,500,000
	Mega International Commercial Bank	1.07 %	2016/12	Loan principal repay half on the 4th and 5th year respectively.	1,000,000	1,000,000
	Taiwan Cooperative Bank	1.07 %	2016/12	Loan principal repay half on the 4th and 5th year respectively.	1,000,000	1,000,000
	Hua Nan Commercial Bank	1.07 %	2016/12	Loan principal repay half on the 4th and 5th year respectively.	2,000,000	2,000,000
	Chang Hwa Commercial Bank	1.07 %	2016/12	Loan principal repay half on the 4th and 5th year respectively.	1,000,000	1,000,000
The third convertible bond			2017/10	Loan principal repay on the 5th year at expiry date.	7,000,000	6,607,923
Subtotal					15,500,000	15,107,923
Less: Current portion						-
						<u>\$ 15,107,923</u>

EVA AIRWAYS CORP.

Statement of long-term borrowings (1)

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Bank</u>	<u>Interest</u>	<u>Period</u>	<u>Amount</u>
Mortgage loan:				
Land construction mortgage loan	KGI Bank	1.36%~1.41%	2015/12/23~2022/12/23	\$ 870,000
Land construction mortgage loan	Bank of Taiwan	1.34%~1.34%	2016/01/18~2023/01/18	<u>3,150,000</u>
Subtotal				<u>4,020,000</u>
Aircraft mortgage loan	Hua Nan Commercial Bank	1.49%~1.54%	2014/05/21~2026/05/21	2,591,250
Aircraft mortgage loan	Hua Nan Commercial Bank	1.46%~1.51%	2015/10/27~2027/10/27	2,969,250
Aircraft mortgage loan	Bank of Taiwan	1.19%~1.19%	2008/05/20~2020/05/20	698,708
Aircraft mortgage loan	Bank of Taiwan	1.41%~1.51%	2016/08/30~2028/08/30	4,092,500
Aircraft mortgage loan	Bank of Taiwan	1.41%~1.51%	2014/06/25~2026/06/25	2,491,250
Aircraft mortgage loan	Taiwan Cooperative Bank	1.46%~1.51%	2014/09/01~2026/09/01	2,468,000
Aircraft mortgage loan	Mega International Commercial Bank	1.51%~1.52%	2015/03/27~2027/03/27	3,116,667
Aircraft mortgage loan	Mega International Commercial Bank	1.21%~1.22%	2017/12/28~2029/12/28	2,910,417
Aircraft mortgage loan	Chang Hwa Commercial Bank	1.46%~1.51%	2015/09/30~2027/09/30	2,935,500
Aircraft mortgage loan	Bank of China	1.46%~1.46%	2016/10/28~2028/10/28	400,000
Aircraft mortgage loan	Bank of China	1.46%~1.46%	2016/10/28~2028/10/28	400,000
Aircraft mortgage loan	Cathay United Bank	1.20%~1.21%	2017/09/22~2029/09/22	2,917,475
Aircraft mortgage loan	Mega International Commercial Bank and other bank group (Note 1)	1.11%~1.11%	2007/02/27~2019/02/27	216,543
Aircraft mortgage loan	Mega International Commercial Bank and other bank group (Note 2)	1.11%~1.11%	2007/09/04~2019/09/04	466,044
Aircraft mortgage loan	First Commercial Bank and other bank group (Note 3)	1.16%~1.16%	2008/06/12~2020/06/12	697,298
Aircraft mortgage loan	First Commercial Bank and other bank group (Note 3)	1.50%~1.50%	2010/11/25~2022/11/25	1,914,424
Aircraft mortgage loan	Taiwan Cooperative Bank and other bank group (Note 4)	1.16%~1.16%	2009/02/03~2021/02/03	1,162,767
Aircraft mortgage loan	Bank of Taiwan	1.28%~1.28%	2018/06/29~2030/06/29	3,583,208
Aircraft mortgage loan	E.SUN Bank	1.15%~1.15%	2018/02/23~2030/02/23	3,833,333
Aircraft mortgage loan	Chang Hwa Commercial Bank	1.26%~1.26%	2018/12/11~2030/12/11	<u>4,113,000</u>
Subtotal				<u>43,977,634</u>

Note 1: Syndicated Loan by Mega International Commercial Bank and other 12 banks.

Note 2: Syndicated Loan by Mega International Commercial Bank and other 15 banks.

Note 3: Syndicated Loan by First Commercial Bank and other 11 banks.

Note 4: Syndicated Loan by Taiwan Cooperative Bank and other 11 banks.

EVA AIRWAYS CORP.

Statement of long-term borrowings (2)

December 31, 2018

(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Bank</u>	<u>Interest</u>	<u>Period</u>	<u>Amount</u>
Medium and long-term credit loan	Cathay United Bank	1.26%~1.26%	2017/09/19~2022/09/19	\$ 500,000
	Bank of Taiwan	2.01%~2.01%	2015/05/28~2020/05/28	150,000
	Bank of Taiwan	1.21%~1.21%	2018/08/14~2023/08/14	1,000,000
	Hua Nan Commercial Bank	1.38%~1.38%	2014/02/18~2019/02/18	25,000
	Taiwan Cooperative Bank	1.31%~1.31%	2014/05/29~2019/05/29	166,666
	Chang Hwa Commercial Bank	1.36%~1.36%	2014/04/17~2019/04/17	50,000
	Chang Hwa Commercial Bank	1.31%~1.31%	2014/09/30~2019/09/30	100,000
	Chang Hwa Commercial Bank	1.31%~1.31%	2014/11/17~2019/11/17	100,000
	Chang Hwa Commercial Bank	1.26%~1.26%	2017/05/26~2022/05/26	1,500,000
	Bank of Communications	1.22%~1.23%	2016/02/25~2019/02/25	100,000
	Bank of Communications	1.22%~1.23%	2016/03/04~2019/03/04	200,000
	Sunny Bank	1.16%~1.16%	2016/08/26~2019/08/26	500,000
	O-Bank	1.20%~1.28%	2016/11/25~2021/11/10	360,000
	Bank of China	1.21%~1.21%	2016/12/05~2019/12/05	200,000
	First Commercial Bank	1.19%~1.19%	2016/12/23~2019/12/23	166,667
	First Commercial Bank	1.19%~1.19%	2017/06/19~2020/06/19	250,000
	JihSun International Bank	1.21%~1.22%	2016/12/28~2019/12/28	500,000
	Bank SinoPac	1.16%~1.17%	2017/06/29~2022/06/29	468,750
	Taiwan Business Bank	1.21%~1.21%	2017/06/07~2022/06/07	700,000
	Mega International Commercial Bank	1.21%~1.21%	2017/08/25~2022/08/25	800,000
	E.SUN Bank	1.21%~1.21%	2017/07/12~2020/07/12	500,000
	Land Bank of Taiwan	1.24%~1.33%	2018/01/12~2022/01/12	406,250
	Far Eastern Int'l Bank	1.21%~1.22%	2018/03/30~2023/03/30	500,000
	Bank SinoPac	1.17%~1.17%	2018/09/28~2023/09/28	500,000
	Yuanta Commercial Bank	1.23%~1.23%	2018/11/05~2021/11/05	1,000,000
	Bank of Kaohsiung	1.26%~1.26%	2018/11/09~2023/11/09	500,000
	CTBC Bank	1.16%~1.16%	2018/11/28~2021/11/28	480,000
	KGI Bank	1.16%~1.16%	2018/12/12~2021/09/12	1,000,000
	Taishin International Bank	1.25%~1.25%	2018/01/26~2021/01/26	<u>1,000,000</u>
Subtotal				<u>13,723,333</u>
Total				61,720,967
Less: Current portion				<u>(12,699,748)</u>
Total				<u>\$ 49,021,219</u>

EVA AIRWAYS CORP.**Statement of lease liabilities****December 31, 2018****(Expressed in Thousands of New Taiwan Dollars)**

<u>Aircraft name</u>	<u>Unit(s)</u>	<u>Lease terms</u>	<u>Amount</u>
B-16703	1	2006/06~2024/06	\$ 1,509,738
B-16707	1	2007/05~2019/05	232,429
B-16709	1	2007/12~2019/12	<u>462,737</u>
			2,204,904
Less: Current portion			<u>(925,286)</u>
			<u><u>\$ 1,279,618</u></u>

**Statement of contract liabilities — non-current and
other non-current liabilities**

<u>Item</u>	<u>Amount</u>
Contract liabilities — non-current:	
Customer loyalty program	\$ <u><u>2,908,958</u></u>
Restoration obligations	\$ 19,576,977
Unrealized gains on disposal of property, plant and equipment	51,548
Unrealized gains	222,487
Others	<u>668,442</u>
Total	<u><u>\$ 20,519,454</u></u>

EVA AIRWAYS CORP.
Statement of operating revenue
For the year ended December 31, 2018
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Operating revenue:	
Revenue from passenger services	\$ 99,077,690
Revenue from cargo services	27,642,897
Others	<u>8,900,063</u>
Total	<u>\$ 135,620,650</u>

Statement of operating costs

<u>Item</u>	<u>Amount</u>
Cost of air freight services	\$ 72,451,273
Airport operating cost	15,306,176
Traveler service cost	16,983,945
Maintenance cost	9,736,892
Others	<u>3,152,881</u>
Total	<u>\$ 117,631,167</u>

EVA AIRWAYS CORP.
Statement of operating expense
For the year ended December 31, 2018
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Amount</u>
Salary expense	\$ 5,759,385
Commission expense	1,362,903
Advertising expense	775,820
Depreciation expense	720,144
Others (Note 1)	<u>3,376,089</u>
Total	<u>\$ 11,994,341</u>

Note 1: The amount of each item in others does not exceed 5% of the account balance.

Financial assets and liabilities at fair value through profit or loss were disclosed in note 6(b).

Financial assets and liabilities for hedging—current were disclosed in note 6(c).

Accounts receivable—related parties, other receivable—related parties, accounts payable—related parties and other payable—related parties were disclosed in note 6(d), 7 and 13.

Statement of changes in property, plant and equipment and statement of accumulated depreciation were disclosed in note 6(h).

Statement of changes in investment property and statement of accumulated depreciation were disclosed in note 6(i).

Statement of changes in intangible assets was disclosed in note 6(j).

Statement of other non-current assets was disclosed in note 6(k).

Statement of change in restoration obligations was disclosed in note 6(m).

Statement of deferred tax assets and liabilities was disclosed in note 6(p).

Statement of net defined benefit liabilities—non-current was disclosed in note 6(o).

Statement of other income was disclosed in note 6(w).

Statement of other gains and losses was disclosed in note 6(w).

Statement of finance costs was disclosed in note 6(w).