



Investor Conference

Accountability · Innovation · Dedication · Customer Orientation

Aerospace Industrial Development Corporation

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Date: April 18, 2018



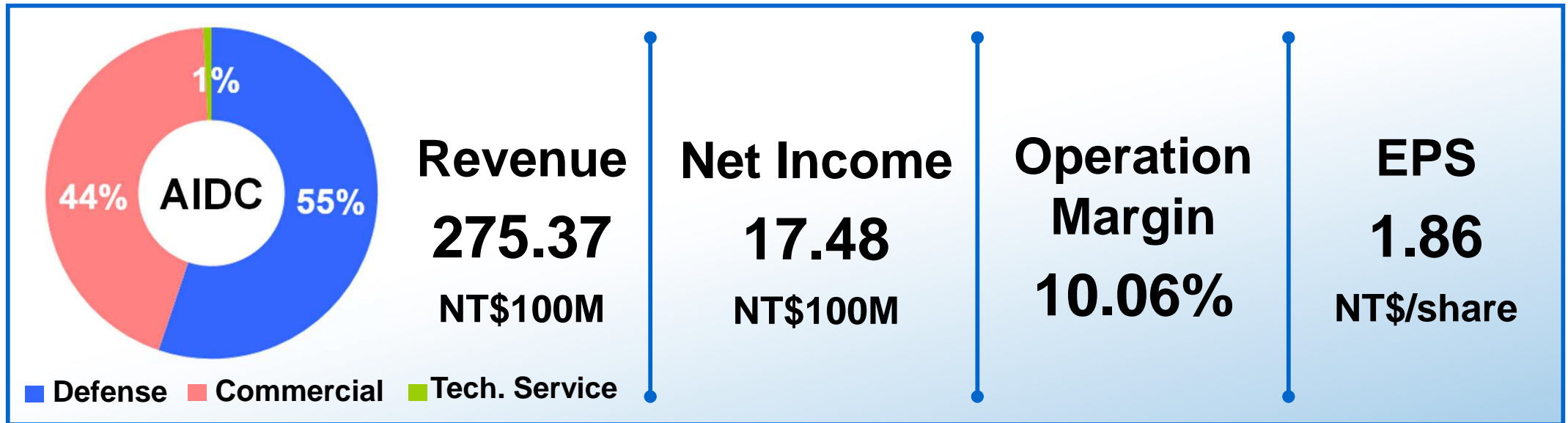
- I. FY 2017 Business Results**
- II. Global Market Outlook**
- III. Business Status**
- IV. Endeavors & Prospects**



I. FY 2017 Business Results

2634

1. AIDC's revenue for FY 2017 hit a new record amidst strong global competition and stringent demands for quality, efficiency and cost reduction by international aerospace companies.
2. To enhance profitability, AIDC continued to implement lean production initiatives and coupled with better control of cost and expenditure, AIDC sustained a 10 percent operating margin, an average of the global A&D sector*, despite the currency exchange loss caused by the depreciation of U.S. dollar.



* Note: Global operating margin is based on Deloitte's annual Global Aerospace and Defense Sector Performance Study.

II. Global Market Outlook

1. Defense Industry

- (1) According to Stockholm International Peace Research Institute (SIPRI), the total world military expenditure rose to \$1,686 billion in 2016, an increase of 0.4 percent in real terms from 2015, which accounted for 2.2 percent of the global GDP.
- (2) Asia & Oceania topped military expenditure growth in 2016 which were related to the tensions in regions such as the Korean Peninsula, East China Sea, South China Sea, and India and Pakistan.
- (3) Taiwan holds an important geostrategic position in the Asia-Pacific Region therefore by maintaining strong air force and navy presence will help to stabilize the region.

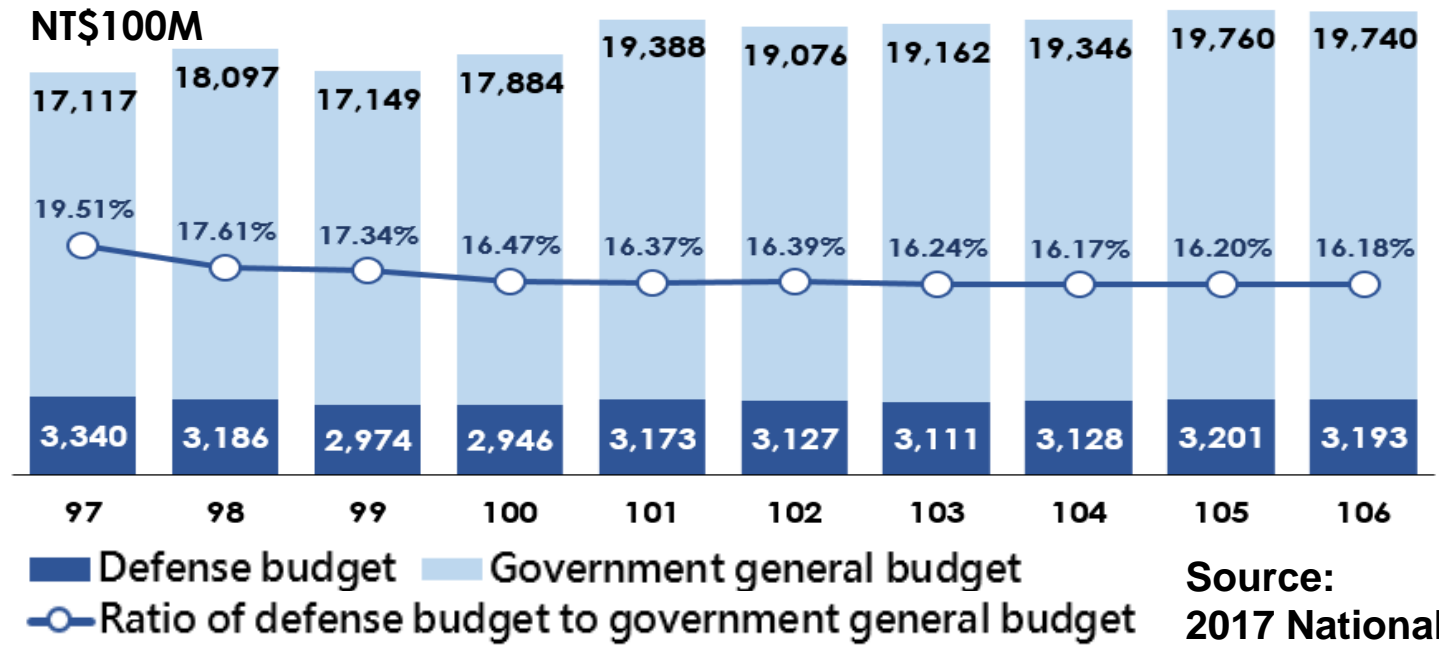


Source: 2017 National Defense Report

II. Global Market Outlook (cont'd)

1. Defense Industry

- (4) ROCAF is the primary customer of our defense business. The military is working to integrate resources, enhance defense technology implementation, promote indigenous development of weapons, and by “mutual reinforcement of the economy and defense” to build up a sound foundation for self-reliant national defense.
- (5) Per 2017 National Defense Report, the average defense budget in the past 10 years was 313.8 billion NT dollars, which accounted for 16.85% of the central government’s general budget; and for the last 5 years accounted for 1.8% of the GDP.



Source:
2017 National
Defense Report

2. Commercial Aviation

Commercial A/C

Backlog increased by 1.9 times in the past 10 years



2017-2027 Forecast

Deliveries
8,300

Market Value
US\$249 billion



Business Jet

2018-2022 Forecast

Honeywell
THE POWER OF CONNECTED

Deliveries

4,000~4,200

- ◆ Latin America tops the demand with 35%
- ◆ Requirement: upward for medical, search and rescue; sluggish for oil and gas businesses



Helicopter

2017-2031 Forecast

Deliveries
221,720

Market Value
US\$1.2 trillion



Aero Engine

Source: Airbus, Boeing, Honeywell, Forecast International websites, compiled by AIDC

II. Global Market Outlook (cont'd)

3. Supplier Requirements of International Companies



Present



- Habits
- Management
- Design
- Manufacturing
- Inspection

Past



Present



- Buyer's Market
 $\text{Profit} = \text{Price} - \text{Cost}$
- Seller's Market
 $\text{Price} = \text{Cost} + \text{Profit}$

Past



Present



- Flexible
Adjustment
- On time

Past



Present



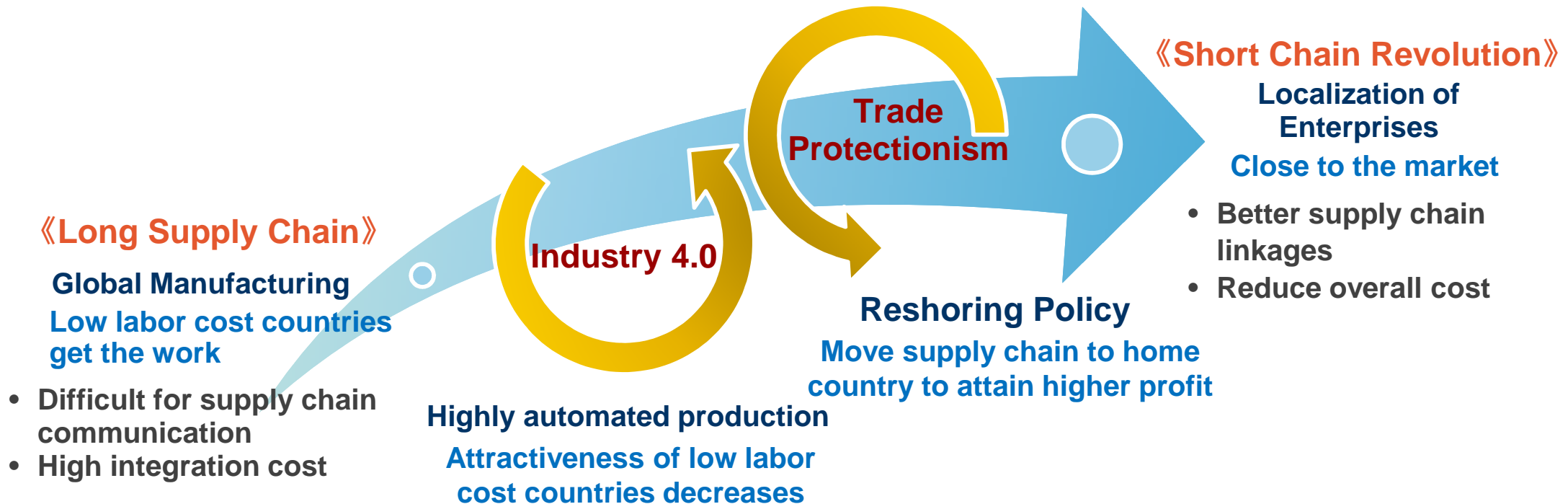
- Create
Values for
Customers
- Contract
Compliance

Past

4. Global Economic Outlook

(1) Short Chain Revolution

1. Long supply chains which focus on labor cost are being challenged by short chains.
2. AIDC is moving toward high-value-added business and pursuing to be the top tier supplier in the global supply chain. AIDC established a subsidiary in the U.S. in 2016 to assure timely responses to customers' requirements.



4. Global Economic Outlook

(2) U.S. - China Trade War

1. China announced tariffs on U.S. airplanes, which was a setback for Boeing and gave rival Airbus a leg-up in the China market. This may eventually push China toward the European market.
2. As AIDC maintains a long-term supply chain relation with Boeing and Airbus, regardless of the outcome of the trade war AIDC will continue to supply aircraft structures, components & engine parts to both companies.

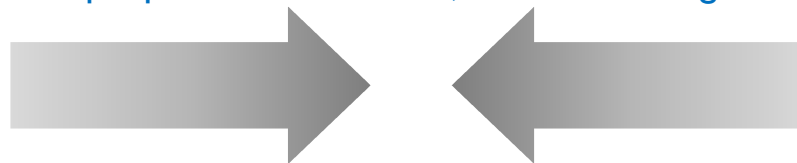


《Section 232 of the Trade Expansion Act》

US is imposing hefty tariffs on steel and aluminum imports, China is not exempt.

《Section 301 of the Trade Act》

US proposes tariffs on 1,300 Chinese goods.



《China hits back at US》

China hits US with new tariffs on 106 imports



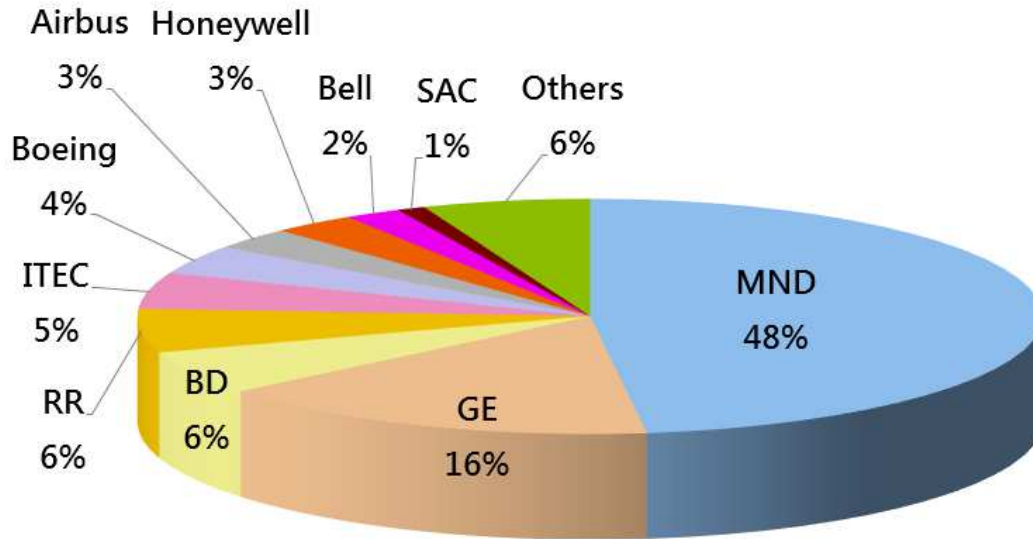


III. Business Status

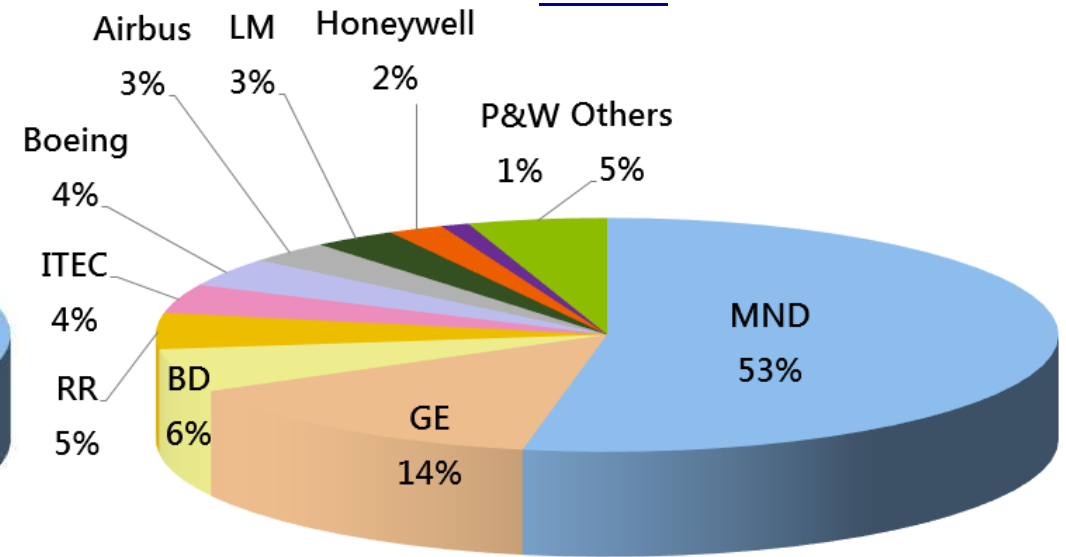
1. Top Ten Customers

With a market-oriented business strategy, AIDC maintains military and commercial businesses in parallel development, and is highly recognized by the MND and aerospace giants.

2016



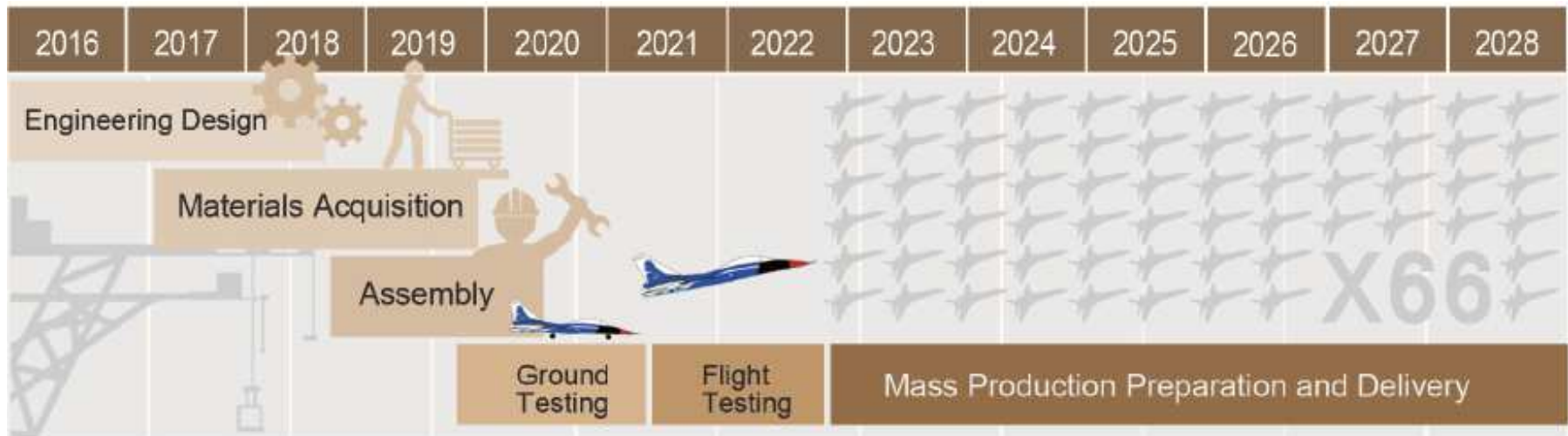
2017



- MND (Ministry of National Defense)
- GE (GE Aviation)
- BD (Bombardier Aerospace)
- RR (Rolls-Royce)
- ITEC (International Turbine Engine Company)
- Boeing
- Airbus
- LM (Lockheed Martin)
- P&W (Pratt & Whitney)
- Others
- Honeywell International Inc.
- Bell Helicopter Textron
- SAC (Sikorsky Aircraft Corporation)

2. Advanced Jet Trainer (AJT) Program Update

- (1) Background: ROCAF budgeted NT\$68.6 billion to build 66 AJTs from 2017-2028
- (2) Schedule: Per 2017 National Defense Report, master program schedule is as below:



- (3) Status: AIDC was awarded the AJT commission contract on 25 April 2017, the program is progressing as scheduled. Phase I outsourcing was completed on 6 Dec. 2017 with Phase II scheduled to begin on 24 April 2018.

3. Benefits of New Facilities

《ECMC》

Production of RR Trent XWB and GE Leap Cases

Estimated to reach full capability in Q4 2018



《TACC-19 Composite Plant》

Dedicated to production of A320 series Aft Belly Fairing composite parts

Estimated to reach full capability in H2 2019



《F-16A/B Upgrade & Maintenance Building》

For F-16 upgrade purpose;

Expecting to bring in long-term and stable aircraft maintenance business

Has reached full capability

Assembly Plant



Painting Shop



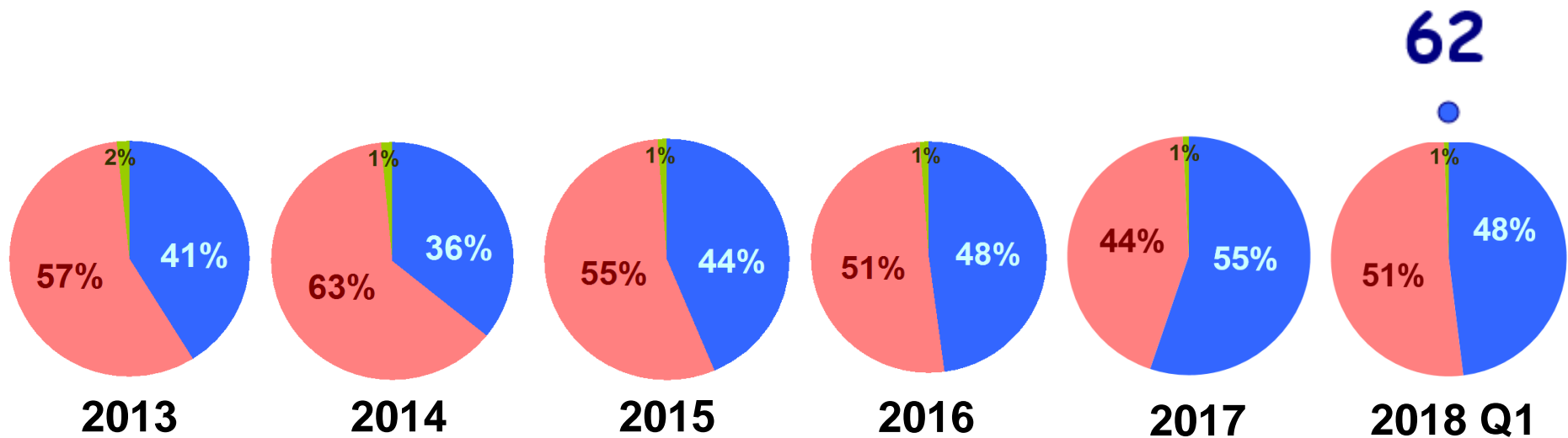


III. Business Status (cont'd)

4. Financial Review

(1) Revenues of recent years

AIDC's business includes 3 major sectors, namely Defense, Commercial aviation, and Technology service, whereas each sector supports and compensates the other sectors which helps to attain steady growth.



Revenue Defense Commercial Tech. Service

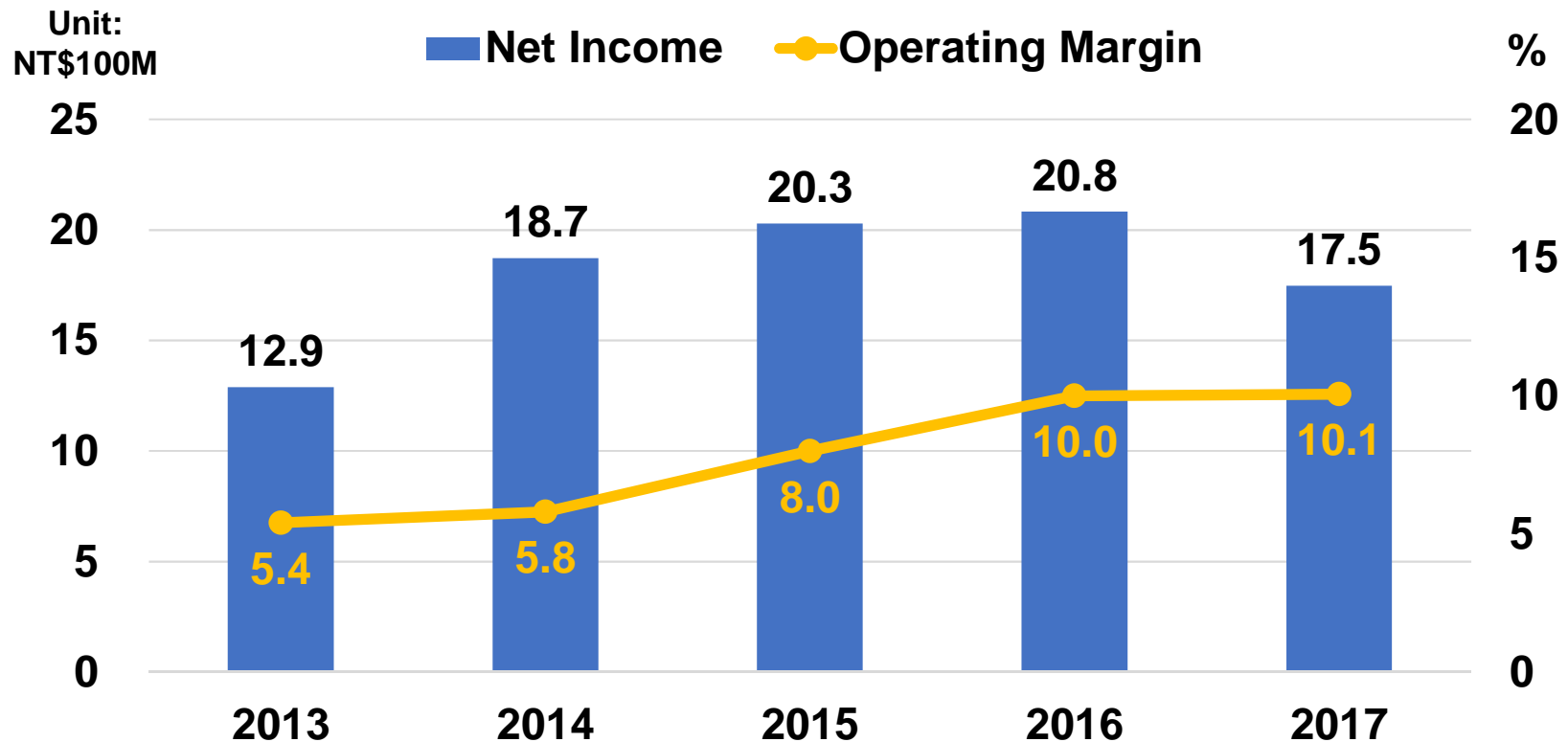


III. Business Status (cont'd)

4. Financial Review

(2) 2017 Income

Revenue and operation margin of 2017 continued to grow to a new high, yet net income declined due to currency exchange loss caused by depreciation of the U.S. dollar.

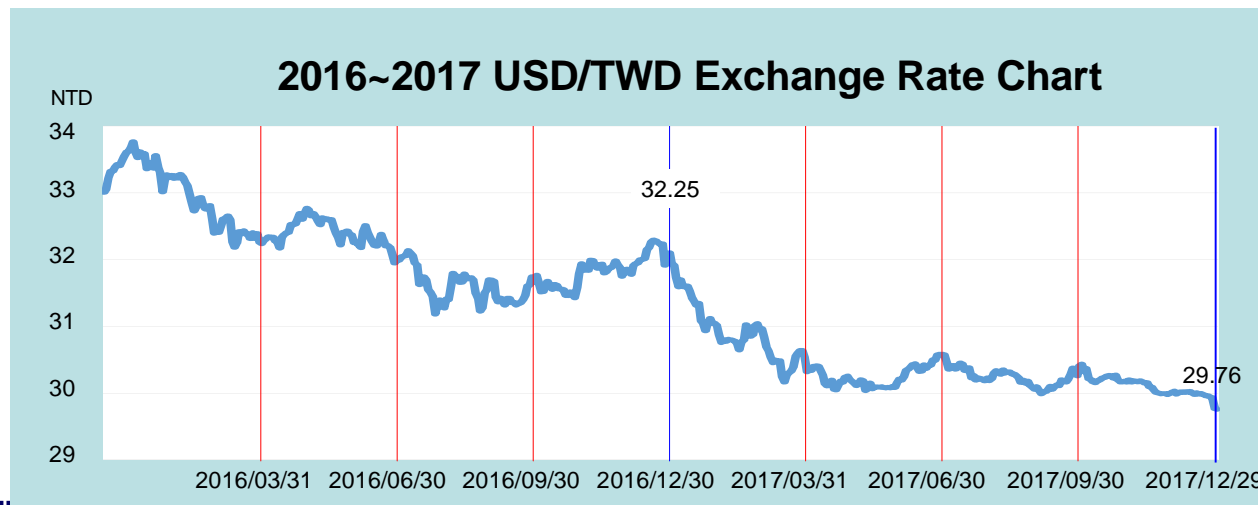




4. Financial Review

(3) Foreign Currency Management Improvements

1. US Dollar index fell in 2017 which led to a NT\$2.49 decline against NT Dollar, resulting in AIDC's foreign exchange loss of NT\$587 million.
2. AIDC's export business is in U.S. dollars, so is the import of raw materials. This operation model can provide natural hedging to alleviate currency exposure. AIDC maintains a certain level of foreign currency for major procurement requirements; for example; payment of systems and raw materials for AJT program needs and to ensure fluency of financial support.
3. As for foreign currency management, AIDC monitors on a daily basis exchange rate and market updates, and takes prompt actions; and holds "Currency Operation Performance Review and Strategy" meetings on a quarterly basis; "Ad Hoc" meetings will be called to respond to issues such as sharp currency fluctuations or significant international events.

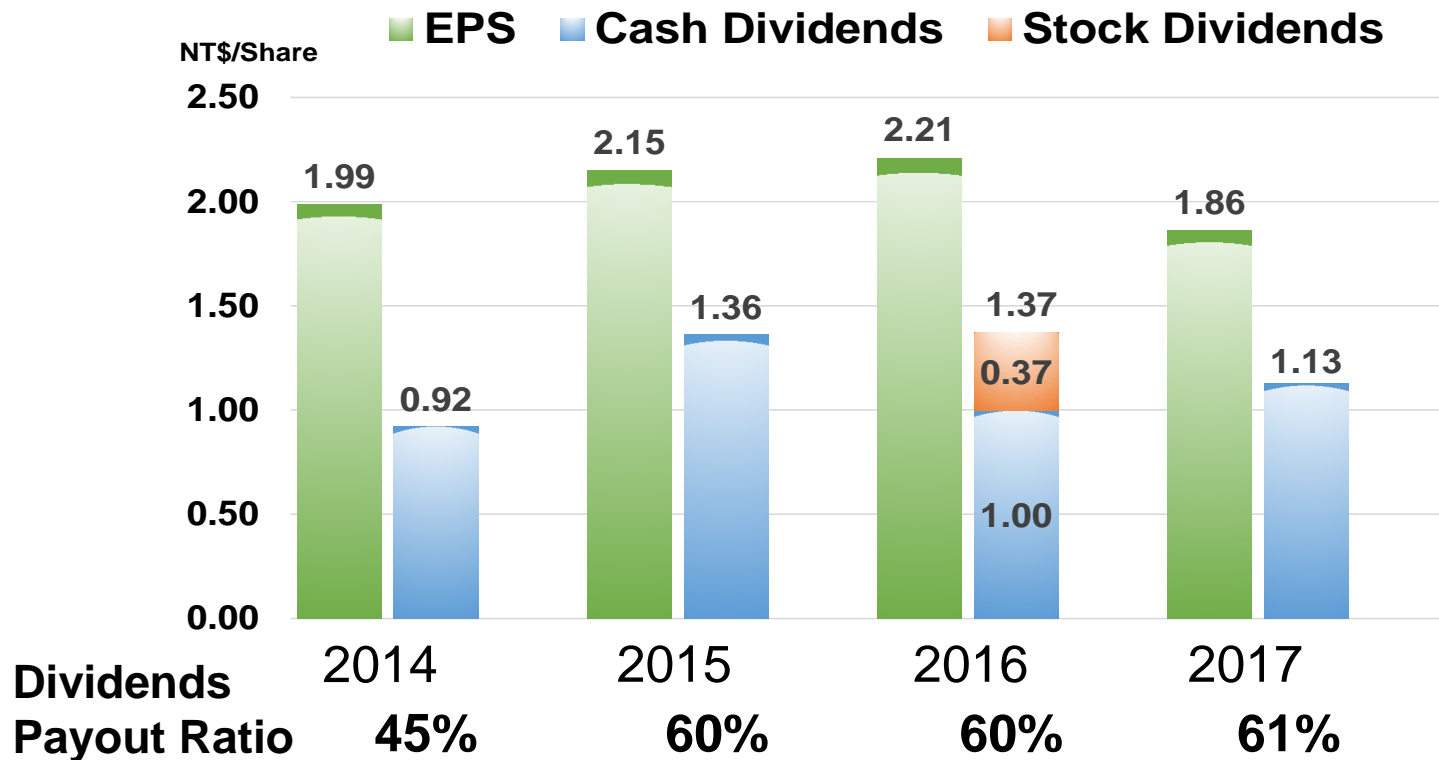




4. Financial Review

(4) Dividend Distribution

For 2017, after setting aside legal reserve and special reserve required for working capital, a cash dividend in the amount of NT\$1.13/share is to be distributed pending approval of the next Shareholders Meeting.



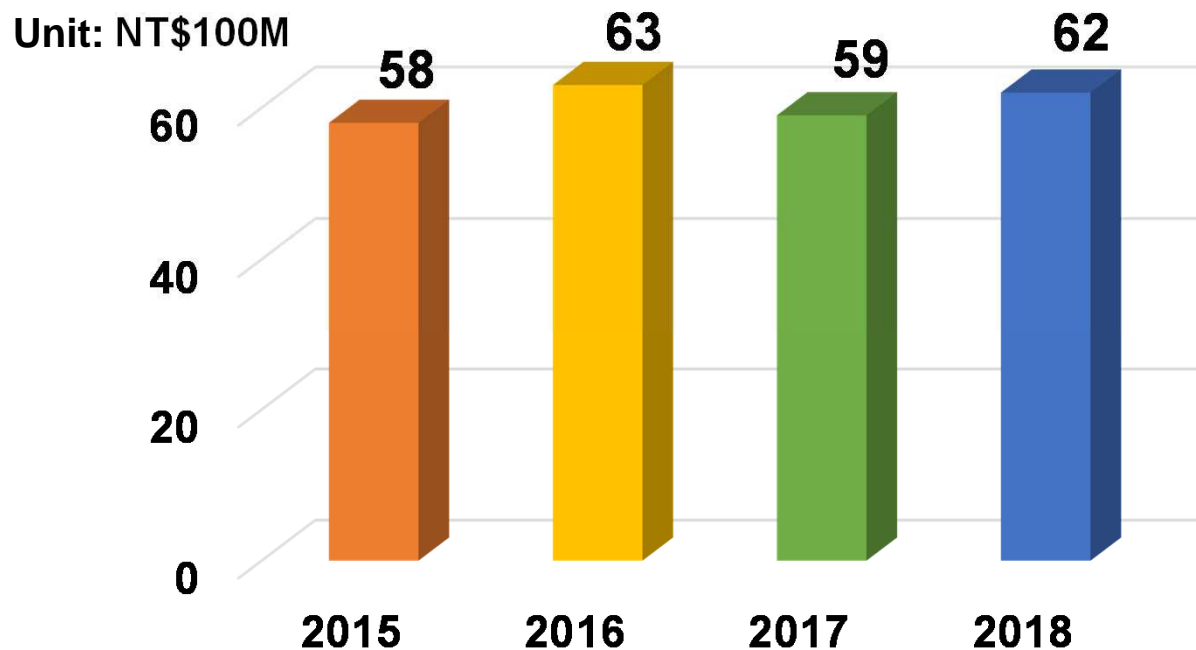
Note: Calculation base of 2017 EPS includes the number of stock dividend shares. EPS of 2014-2016 were retrospectively adjusted.



4. Financial Review

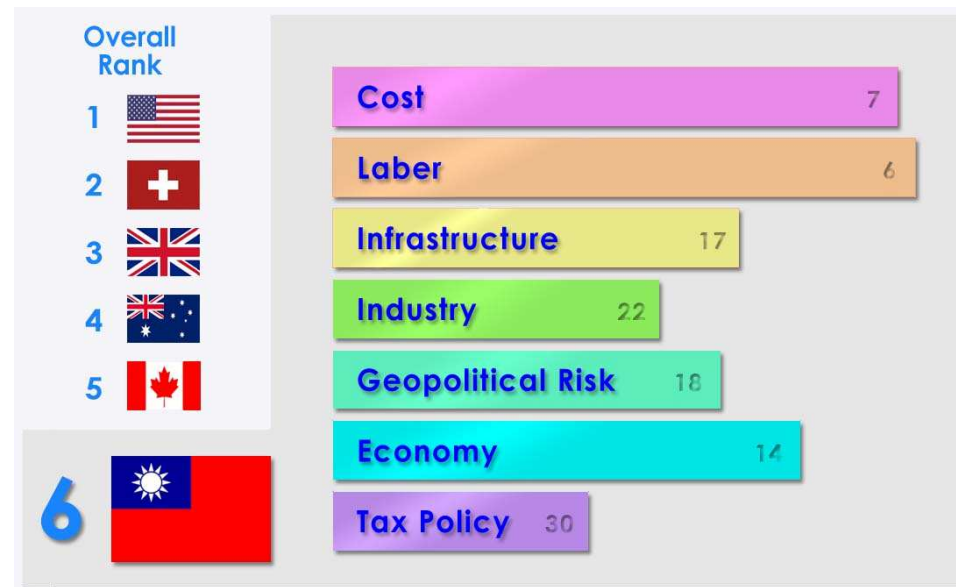
(5) Q1 2018 Revenue

Revenue of Q1 2018 was higher than Q1 2017.



1. Potential of Taiwan's Aerospace Manufacturing Industry

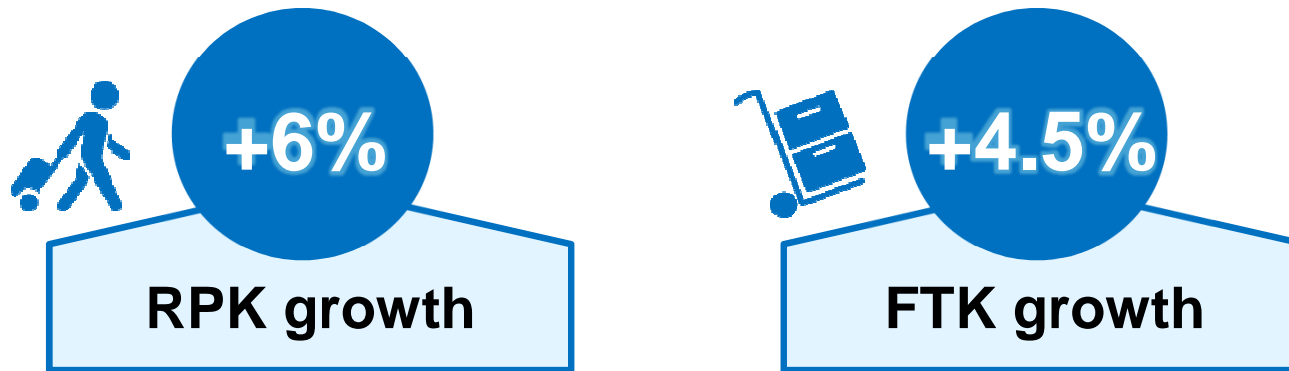
(1) Per PwC's* "2017 Aerospace Manufacturing Attractiveness Rankings" Report, Taiwan ranked 6th among 10 top countries by rank for aerospace attractiveness.



Note: PwC (PricewaterhouseCoopers)

(2) Per Deloitte's "2017 Global Aerospace and Defense Sector Financial Performance Study", AIDC ranked 9th in Asia (85th global) among 100 major global A&D companies ranked by 2016 revenue.

2. According to IATA's 2018 global air transport industry forecast, the expected results from emerging markets and global E-commerce will be a rise in passenger numbers and cargo volumes which will lead to growing demands for aviation manufacturing.



Note: RPK (Revenue Passenger Kilometer), FTK (Freight Tonne Kilometer)

Source: IATA (International Air Transport Association), edited by AIDC

3. In response to the opportunities and challenges of the industry, AIDC will focus its efforts in three major directions; namely; “Indigenous development of the AJT”, “Integration of supply chain”; and “Implementation of intelligent manufacturing”.



IV. Endeavors & Prospects (cont'd) **2634**

4. Business prospects in 2018 include:

(1) **Defense:** Revenue of F-16A/B Upgrade will gradually increase; along with contribution of the AJT program. The objective is to rollout the AJT prototype in September 2019.

(2) **Commercial:** AIDC will seize business opportunities provided by the transition of aircraft models and the dual source policy of international companies and will follow market trends to make flexible adjustments to capacity and proposal strategy. It is expected that ECMC and TACC-19 will step by step achieve full production capacity.

5. AIDC shall continue to go all out for the transformation and upgrade of Taiwan's aerospace industry and the safeguarding of national security.

— Thank You —