Air China Limited Announces 2014 Interim Results

Hong Kong — 26 August, 2014 — Air China Limited ("Air China" or "the Company," together with its subsidiaries, collectively "the Group") (HKEX: 753; LSE: AIRC; SSE: 601111: ADR OTC: AIRYY), today announced its interim results[1] for the six months ended 30 June, 2014 ("the Period").

Business Highlights

- Turnover rose year-on-year by 8.50% to RMB49.932 billion
- Operating expenses increased year-on-year by 6.72% to RMB47.589 billion
- Profit attributable to shareholders dropped year-on-year by 55.42% to RMB510 million
- Earnings per share decreased year-on-year by 55.42% to RMB0.04

In the first half of 2014, facing a complicated and volatile economic environment both internationally and domestically, coupled with an intensified competitive aviation market, the Group continued to push forward towards achieving several strategic objectives as it proactively adjusted its operational and sales tactics in a timely fashion. Therefore, its passenger and cargo transport business achieved an above average performance, although the RMB-to-US dollar exchange rate was volatile and has dragged down the overall performance for the first half of the year.

Financial Highlights

The Group has recorded a turnover of RMB49.932 billion in the first half of 2014, an increase of 8.50% from the same period last year.

Air passenger revenue was up 6.93% year-on-year to RMB43.559 billion, while air cargo revenue also climbed year-on-year by 5.98% to RMB3.953 billion.

Operating expenses increased by 6.72% from RMB44.592 billion in the corresponding period last year to RMB47.589 billion in the first half of 2014. Jet fuel cost also climbed by 4.99% from the corresponding period last year to RMB17.189 billion, which was a result of increased number of flights.

[1] All statistics are unaudited and stated according to IFRS.

Profit from operations increased by 64.27% from the corresponding period last year to RMB2.344 billion. However, under the influence of the depreciating RMB-to-US dollar exchange rate, the Group recorded a net exchange translation loss of RMB721milion as compared to a net exchange translation gain of RMB1.119 billion for the same period of last year.

Profit attributable to shareholders dropped 55.42% from RMB1.145 billion in the corresponding period last year to RMB510 million in the first half of 2014.

Business Review

In the first half of 2014, capacity measured by available ton kilometers (ATK) was 13.152 billion, representing an increase of 12.56%. Traffic measured by revenue ton kilometers (RTK) was 9.242 billion, representing a year-on-year increase of 9.77%.

Passengers

In the first half of 2014, Air China carried a total of 40.14 million passengers, representing an increase of 7.19% over the same period of the previous year. Its capacity measured in available seat kilometers (ASK) increased by 11.24% to 93.129 billion, of which the domestic, international and regional routes grew 7.05%, 20.64% and 13.48% respectively from the corresponding period last year. Its revenue passenger kilometers (RPK) increased by 10.53% to 75.054 billion, of which the domestic, international and regional routes grew 6.76%, 18.69% and 16.39% respectively from the corresponding period last year. Passenger load factor fell by 0.52 percentage points to 80.59%. Its passenger yield decreased by 3.33% to RMB0.58.

The Group has continued to optimise its fleet structure in the first half of 2014. As at 30 June 2014, the Group took delivery of 28 new aircraft and retired 13 old aircraft, thus reducing the average age of its fleet to 6.22 years (excluding aircraft under wet leases). Currently, the Group has 512 aircraft. The Company added 14 new aircraft and retired 14 old ones, including two transferred to Air China Cargo and one transferred to [Air China Inner Mongolia]. The Company now has a total of 316 aircraft, with the average age of the fleet at 6.28 years (excluding aircraft under wet lease).

The Company has continued to implement its hub network strategy through extending its international and domestic networks and further optimizing its flight waves. This strategy has proven beneficial as the value of its hubs continued to rise. As of 30 June 2014, the Company operated 323 passenger routes, including 79 international, 15 regional and 229 domestic routes. The Company's network covered 162 cities in 32 countries and regions globally, including 53 international, 3 regional and 106 domestic cities. Through the Star Alliance, the Company's route network extends to 1,328 destinations in 195 countries.

The Company has continued to closely track changing market demands. With the aim of maximizing marginal gains, it has rationally allocated its capacity and increased its international capacity. New routes including Beijing to Hawaii and Washington, from Chengdu to Yangon via Kunming and from Shanghai to Munich were launched and the frequency of some existing routes including Beijing to New York and Vancouver were also increased. For its Frankfurt, London, Paris and U.S. mainland routes where there was a relatively high concentration of business travelers, it has improved the passenger experience through exclusive use of B777-300ER aircraft. In view of the changing passenger trends in the wake of political instability in Southeast Asia, the Company has promptly reduced capacity there, shifting to high-yield regions such as Japan and Korea. To support moderate domestic growth, it has deployed new capacity mainly in the Central-Western and Northeastern regions of China.

The Company has promptly adjusted its sales tactics and upgraded its systems to enhance sales capability in response to market changes. It has implemented Origin and Destination yield management systems and Customer Relationship Management system through deploying resources in the markets where it holds competitive advantages. It has also optimized flight class structure to boost the revenue from premium classes during peak seasons and increase the sales amount of premium classes during low and flat seasons, so as to increase their proportion of overall revenue. In a noteworthy development, the number of PhoenixMiles members passed the 30 million threshold. Its frequent flyer program wins more than 200 contracted partners, further demonstration of its growth. As its frequent flyer services to members extended to catering, entertainment, travel, financial management and health and fitness, a positive benefit was an improvement in passenger loyalty. In another customer service innovation initiative, an e-commerce platform was rolled out on the internet which improved sales capability. The revenue from the premium classes, frequent flyers, corporate customers and e-commerce increased by 10%, 9.6%, 25% and 30% respectively.

The Company has continued to promote strategic synergy among members of the airlines in the Group in many aspects of the business which includes flight slot exchange, risk control in e-commerce payment, management of overseas operations, co-ordination of aircraft delivery and operating cost linkage. It has advanced cooperation with its strategic partner, Cathay Pacific Airways Limited in many areas, such as joint purchases, outpost maintenance, spare parts management, energy conservation and emissions reduction and training. Together, the two companies are to inject RMB2billion of capital into Air China Cargo to support its fleet restructuring and business transformation.

In addition to the efforts mentioned above, the Company has continued to enhance its service quality by collecting customers' service evaluation reports through satisfaction surveys conducted by itself and external organizations including the Star Alliance. This feedback mechanism captures customers' observations and suggestions in an accurate and timely manner, thus ensuring that the Company's services and products stay in line with passengers' expectations. The Group has continued to enhance its full-featured service chain and has focused on improving its services in flight transit, baggage transportation, in-flight catering and handling of flight irregularities. It has proactively created and continued to launch a series of new products and services such as self-rebooking, self-baggage check-in as well as security clearance via mobile QR code and boarding gate standby service. It has also promoted the use of mobile device and become the first domestic Chinese airline to implement both ground station and satellite communications technology services.

Cargo Business

The air cargo market has recovered moderately in the first half of the year. During this period, Air China Cargo recorded an increase of 14.95% year-on-year in available freight ton kilometers (AFTK) to 4,750 million, while revenue freight ton kilometers (RFTK) increased by 8.31% year-on-year to 2,563 million. Its cargo and mail load factor was 53.95%, a drop of 3.31 ppts as compared to the corresponding period last year. Yield per RFTK was RMB1.54, a year-on-year decrease of 2.53%.

Air China Cargo has focused on the structural adjustment of its cargo fleet and strengthening its organization to improve productivity. It has accelerated the introduction of its new B777Fs aircraft into its high-yielding European routes, which has helped to improve the operating efficiency of the cargo fleet while reducing operating costs, as fleet restructuring begins to yield benefits. The Group has also expanded its strategic cooperation with China Postal Airlines and increased the Nanjing centrally operating B757Fs aircrafts to three, thus achieving outstanding efficiency. It has also strengthened the synergy of its passenger and cargo operation and increased its bellyhold load factor through measures such as cabin swaps and standbys, which has delivered a clear improvement in operation quality.

Prospects

Mr. Cai Jianjiang, Chairman of Air China, said, “In the second half of 2014, China’s economy is likely to continue a trend of overall stable development. We expect that the passenger aviation business will maintain the growth observed in the first half of the year and the cargo business is likely to continue to improve. However, the industry should continue to face intensified internal and external competition, while exchange rates and oil prices remain uncertain. In light of these challenges, the Group will continue to implement measures to create new competitive advantages and to secure new development opportunities so that we can benefit the community with better services and reward our shareholders with better results.”

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About Air China

Air China Limited (Air China) is the national flag carrier of China and a leading provider of passenger, air cargo and airline-related services and products in China. Its operational headquarters is in Beijing, a major domestic and international hub in China. It also provides airline-related services, including aircraft maintenance, ground handling services in Beijing, Chengdu, and other locations. As at 30 June 2014, the Company operated a fleet of 316 aircraft with an average age of 6.28 years (excluding aircraft under wet leases). Passenger traffic routes have reached to 323 routes, including 79 international, 15 regional and 229 domestic routes. The Company's network covered 32 countries and regions globally and 162 cities, including 53 international, three regional and 106 domestic cities. Air China was listed on Hong Kong Stock Exchange and London Stock Exchange on December 15, 2004 under codes 00753 and AIRC respectively. On August 18, 2006, Air China was listed on Shanghai Stock Exchange under code 601111. For further details, please visit Air China's website: www.airchina.com.cn.

Safe Harbor Statement

This press release contains projections and forward-looking statements that reflect the company's current views with respect to future events and financial performance. These views are based on current assumptions which are subject to various risks and which may change over time. No assurance can be given that future events will occur that projections will be achieved, or that the company's assumptions are correct. Actual results may differ materially from those projected.

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