

Air China Limited Announces 2016 Annual Results

Hong Kong – March 30, 2017 — Air China Limited (“Air China” or “the Company,” together with its subsidiaries, collectively “the Group”) (HKEX: 00753; LSE: AIRC; SSE: 601111; ADR OTC: AIRYY), today announced its full year results for the 12 months ended December 31, 2016 (“the Period”).

Business Highlights

- Turnover rose year-on-year by 4.62% to RMB115.145 billion.
- Operating expenses increased year-on-year by 3.29% to RMB97.612 billion
- Profit attributable to shareholders dropped by 3.60% to RMB6.809 billion
- Earnings per share decreased year-on-year by 3.60% to RMB 0.55

In 2016, while the global economy gradually regained its momentum, China managed to secure a steady economic growth. The demand in the global air passenger market remained strong as China’s civil aviation industry continued its double-digit growth, while the global air cargo market remained sluggish and trapped in a challenging operating environment. With the erupting geopolitical events, intensifying industrial competition and constantly appreciating US dollars, the challenges are getting even more severe. Firm and determined, the Group adhered to its guidelines of sound operation and sustainable development as it coped with the changes in the market with proper tactics, expanded its global presence and improved its operational efficiency with strict cost control, resulting in enhanced profitability of its principal businesses and a secured leading position in the industry.

Financial Highlights

In 2016, Air passenger revenue was RMB 100.280 billion, a year-on-year increase of 4.54%. Air cargo revenue was RMB 8.305 billion, a year-on-year decline of 1.69%.

Operating expenses increased 3.29% year-on-year. Jet fuel cost reduced by 8.57% year-on-year to RMB 2.061 billion, mainly due to the decline in jet fuel price.

The Group recorded an operating profit of RMB 17.533 billion in 2016, up 12.74% year-on-year. Although exchange rate fluctuations caused a loss of RMB4.234 billion, owing to profitability in the main business, we still registered RMB6.809 billion of profit attributable to equity shareholders, representing a year-on-year decrease of 3.60%.

Business Review

Passengers

During the Period, the Group carried a total of 96.61 million passengers, a year-on-year increase of 7.56%. Passenger capacity, measured by Available Seat Kilometers (ASK), increased by 8.56% to 233.218 billion. Capacity for domestic, international routes rose by 5.42% and 16.04% respectively, while capacity for regional dropped by 4.42%. Overall passenger traffic, measured by Revenue Passenger Kilometers (RPK) increased by 9.58% to 188.158 billion. Traffic on domestic, international and regional routes increased by 6.54%, 16.56% and 0.65% respectively. Passenger load factor rose by 0.75 percentage points to 80.68%.

In 2016, the Group introduced 54 aircraft, including seven new B787-9 passenger aircraft, and phased out 21 aircraft, building up a fleet of 623 aircraft with an average age of 6.36 years. The Company sensibly allocated its transport capacity relying on its pre-judgment on market demand, aiming to balance the whole structure. In response to the changes in the market demand triggered by the adverse factors such as the terrorist crisis in Europe, the Company sensibly reduced the international flights to the affected countries and relocated the wide-body aircraft to the domestic trunk line market. While maintaining the investment and optimisation efforts at our international operations, the Company gradually increased the strength in the domestic market, and at the same time, steadily reduced the number of unprofitable routes through fine-tuning of our yield management system, which significantly improved the profitability as a whole.

During the period, the Company launched 45 new routes, both domestic and international, constantly advanced the hub network strategy. | As the largest carrier between China and Europe and between China and America, the company has been continuously optimizing its global network coverage, with increasingly improved flight linkage and a significant growth of 49% in the volume of connecting passengers between international flights. As of December 31, 2016, passenger traffic routes have reached 378, covering six continents, including 102 international, 14 regional and 262 domestic routes. The Company's network covered 41 countries (regions) and 176 cities, including 64 international, 3 regional and 109 domestic cities. Through the Star Alliance, the Company's network further extends to 1,330 destinations in 192 countries.

During the period, the Company continued the strategic imperatives of business model transformation and innovation to optimize sales capability. Focused on three key areas - customers, products, and channels - the Company prioritizes frequent travelers, ancillary revenue and e-commerce as strategic targets for its business transformation to enhance its sales capabilities, and to build an air travel life ecosphere. 12 iterative upgrades have been rolled out for the mobile APP in respect of technology, service functions, customer experience and marketing capabilities, aiming to promote precise marketing and reinforce the e-commerce platform, which led to a 54% growth in e-commerce revenue, as compared to that of last year.

The Company further focused on quality and efficiency improvement and strengthened cost control. While the production scale is constantly increasing, the company tried to achieve a year-on-year decrease in the transportation costs through a strict control of large-cost process management and structural cost adjustment. The efforts in suppressing the receivables and inventory met with encouraging results, while the efforts in increasing direct sales and reducing distribution costs were also carried on with remarkable momentum, as a result of which the percentage of the direct sales increased by 40.6% with a further reduction of distribution costs. To cope with the risk of exchange rate fluctuations, the Company optimised the way it acquired aircraft to keep its US dollar debts under control while optimising the currency combination of its debts through early repayment and debt replacement within the permission of national policies, resulting in a significant decrease in the percentage of its US dollar debts, and effectively reducing the impact of exchange rate fluctuations.

The Company continuously enhanced comprehensive service management expertise with the focus on passenger experience improvement. The food and beverages served on board had been enriched to satisfy the specific tastes of customers. In order to improve the baggage transport and passenger transit service, the company launched the global baggage query call centre. The emergency response mechanism for massive flight delay in Beijing had been established to enhance the synergy with the airport. The company continued to promote the convenient travel services, especially the self-service and online service functions, so as to simplify the passenger travel procedures and effectively enhance the passengers' experience.

Cargo Business

In 2016, in the face of a more challenging operating environment, Air China Cargo steadily

improved its operating efficiency and managed to achieve sustained profitability. Air China Cargo maintained a sharp sense of the market movements as it constantly adjusted the allocation of transport capacity to ensure that the high-yield areas are prioritised and agreeable profit is achieved. It also strengthened the coordination of passenger and cargo transport resources, resulting in satisfactory belly space yield. Air China Cargo maintained continued profitability in the cargo stations. While consolidating the traditional businesses, it accelerated the cooperation with couriers and e-commerce companies, which laid the foundation for the diversified development.

During the Period, the AFTK of Air China Cargo increased by 6.30% year-on-year to 12.737 billion, while the RFTK increased by 6.66% year-on-year to 6.995 billion. The cargo and mail load factor increased by 0.19ppts to 54.92%.

Outlook

In 2017, the global economy will maintain its growth at a slow pace, while China will arrive at an important stage of economic “New Normal”, in which the consumers’ demand will continue to grow and the consumption structure will be upgraded at a faster speed with consumption itself playing a more important role in driving the economic growth. In this stage, the demand for air travel will continue to grow while oil prices and exchange rate fluctuations as well as geopolitical situation and increased competition in the industry may impose great challenges on the operation. The Group will continue its efforts to become a “large network-based airline with international competitive edge” while carrying on its reform to the depth, aiming to achieve a sound development, innovative marketing capability and consolidated competitive advantages, and reward its shareholders and society 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 of December 31, 2016, the Group operated a fleet of 623 aircraft with an average age of 6.36 years, while the Company operated a fleet of 381 aircraft with an average age of 6.46 years. Passenger traffic routes have reached 378, including 102 international, 14 regional and 262 domestic routes. The Company's network covered 41 countries and regions globally and 176 cities, including 64 international, 3 regional and 109 domestic cities. Through the Star Alliance, the Company's route network extends to 1,330 destinations in 192 countries. 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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