Air China Limited Announces 2014 Annual Results

Hong Kong – March 26, 2015 — 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 results¹ for the 12 months ended December 31, 2014 (“the Period”).

Results Highlights

- Turnover was RMB105.884 billion, a year-on-year increase of 7.85%
- Operating expenses were RMB98.623 billion, a year-on-year increase of 4.85%
- Profit attributable to shareholders was RMB3.817 billion, representing a year-on-year increase of 16.97%
- Earnings per share were RMB0.31, a year-on-year increase of 16.95%

In 2014, the global economy recovered moderately while China continued to experience a slowdown in its economic growth. The global air passenger market sustained growth while the air cargo market steadily recovered. Although falling oil prices have helped alleviate the pressure on operating costs, intensified industry competition, relatively slow-down growth in demand and exchange rate volatility have posed considerable challenges to the aviation industry. Facing these challenges, the Group adhered to the strategy combining steady and prudent operation with sustainable development, optimised operation arrangement, promoted hub network strategy, strengthened cost management, and enhanced strategic synergies. As a result, profitability of its core business continued to strengthen and the quality of its earnings improved markedly.

¹ All statistics are stated according to IFRS
Financial Highlights

In 2014, the Group recorded a turnover of RMB105.884 billion, representing an increase of 7.85% over last year.

Air passenger revenue was RMB92.599 billion, a year-on-year increase of 6.77%. Air cargo revenue was RMB8.786 billion, a year-on-year increase of 11.55%.

Operating expenses increased by 4.85% to RMB98.623 billion, up from RMB94.063 billion reported in 2013. Jet fuel costs recorded a year-on-year increase of 2.43%, mainly affected by the increase in flight hours and the decrease in average oil price. The Group recorded a net foreign exchange loss of RMB360 million as compared to a net foreign exchange gain of RMB1.938 billion for the same period of last year.

Profit from operations increased by 76.35% from the corresponding period last year to RMB7.262 billion. Profit attributable to shareholders increased by 16.97% from RMB3.264 billion to RMB3.817 billion.

The Board recommends the payment of a dividend of RMB0.5223 (including tax) per ten shares for the year ended 31 December 2014, totaling approximately RMB683 million based on the Company’s total issued shares of 13,084,751,004. A proposal for the dividend payment is to be submitted for consideration at the 2014 Annual General Meeting.

Business Review

Passengers

During the year, the Group carried a total of 83.01 million passengers, a year-on-year increase of 6.87%. Passenger capacity, measured by Available Seat Kilometers (ASK), rose by 10.22% to 193.631 billion. Capacity for domestic, international and regional routes climbed by 6.71%, 17.50% and 13.45% respectively. Overall passenger traffic, measured by Revenue Passenger Kilometers (RPK), increased by 8.96% to 154.684 billion. Traffic on domestic, international and regional routes increased by 6.11%, 14.65% and 14.31% respectively. Passenger load factor was
79.89%, a year-on-year decrease of 0.93 percentage points. Yield per RPK was RMB0.60, down by 2.01% over 2013.

In 2014, based on the particular conditions in specific regional markets, the Company deployed rational capacity, effectively optimised the structure of routes and aircraft including matching of routes and aircraft through more precise scheduling. Internationally, the Company continued to increase its investment in routes to Europe and the US riding on its core B777-300ER and A330-300 fleets. It has increased the utilisation of wide-body aircraft where it holds competitive advantages, enhanced the capacity of the Japan and Korea routes with faster growth in customer flow promptly, optimised the structure of the routes in Australia and adjusted capacity deployment in its Southeast Asia routes. Domestically, the Company managed to moderate the capacity growth of domestic routes while increasing capacity deployment in both the middle and western regions of China. The matching of aircraft types, routes and markets also continued to improve.

The Company further enhanced renovation and reform to accelerate the transformation of sales and marketing models. Through the mobile Internet, it introduced B2C mobile application platform to diversify sales models. To stimulate customer demand, it introduced a number of new products, such as upgrade coupon, seat selection fee and standby at boarding gate, and thus established a range of products generating ancillary revenue. It launched a reform in yield management model by commissioning a new yield management system to help consolidate competitive edge in base market. With IT measures, it enhanced the consolidation and management of customer resources to help identifying target customers and achieving precision marketing. As international revenue accounts for an ever-increasing share of its total revenue, the company strengthened overseas sales and marketing capability by focusing on the improvement of organisational functions, marketing expertise, sales network and marketing tools. In addition, the Company strived to expand the revenue contribution from premium classes, e-commerce activities and frequent flyer programs. During the year, premium classes recorded a year-on-year increase in sales revenue of 8.2%, while e-commerce and frequent flyers recorded year-on-year growth of 25.6% and 10.9% respectively.

The Company further implemented its hub network strategy to increase commercial value. By commissioning and increasing the frequency of a number of international and domestic routes, the Beijing hub has tightened its grip on the trunk route market. It also optimised its flight banks and increased the number of connecting flights. The Chengdu regional hub introduced a new international route from Kunming to Yangon.
and increased flights from Chengdu to second-tier cities in Western China, which further strengthened its competitive edge as a regional hub. The Shanghai international gateway launched a long-haul route to Munich, thus increasing the number of its direct European destinations to four.

The Company made steady progress in optimising its fleet in 2014 and has adjusted its deployment of capacity based on the change in market demand. During the year, 40 aircraft were introduced and 22 inefficient and obsolete aircraft were retired, rationalising the structure of the fleet. As of 31 December 2014, the Group operated a fleet of 540 aircraft with an average age of 6.08 years, while the Company operated a fleet of 334 aircraft with an average age of 6.04 years. The number of passenger routes reached 322, including 82 international, 15 regional and 225 domestic routes. The Company’s network covered 159 cities in 32 countries and regions globally, including 53 international, 3 regional and 103 domestic cities.

The Company continued to enhance business synergies with associated corporations in the Group, and actively expanded its co-operation with external partners. During the year, it strengthened the sharing of flight schedules and cooperation of frequent flyer programs among member airlines, and enhanced the co-operation in areas such as MRO resources consolidation, joint aircraft purchase, control and prevention of payment risks, and the management of overseas operations. It strengthened the co-operation with Cathay Pacific, Air China’s strategic partner, and the joint operation of flights between Hongkong and Beijing, Chengdu and Chongqing achieved tangible results. Within the Star Alliance, it gradually improved alliance products, promoted the cross benefits of brands and frequent flyer programs with a total of RMB2.71 billion contributed from alliance members to the Group’s revenue. It proactively expanded aviation co-operation by entering into memorandum of understanding on passenger service joint venture with Lufthansa, Air Canada and Air New Zealand, respectively. It also expanded co-operation with United Airlines and Austrian Airlines.

Driven by customer demand, the Company optimised its full-process service chain and improved customer experience through better management and technology. It successively launched several self-operated lounges at the Beijing and Shanghai airports, and created special passenger channels for the Beijing-Shanghai and Beijing-Hangzhou “premium express” routes’ passengers. It strengthened the co-ordination of operation departments to improve the punctuality of flights and further optimised ground services. It initiated and rolled out new cabin interior designs, added more in-flight entertainment programs, and introduced well-known brands to help
improve the quality of food and beverages, thus improving cabin service quality. It accelerated the in-flight network construction project and took the lead in the establishment of the “In-flight Internet Industry Alliance” with its partners from relevant industries. It actively expanded the scope of its self-services by upgrading self-service check-in product, developing and promoting online ticket and check-in, and full self-service baggage check, thus providing more convenience to passengers in their travelling.

**Cargo Business**

During the year, the AFTK and RFTK of Air China Cargo reached 10.148 billion and 5.691 billion, representing a year-on-year increase of 17.13% and 13.47%, respectively. The cargo and mail load factor decreased by 1.81 ppts to 56.08%. The cargo yield decreased by 1.70% to RMB1.54.

In 2014, the air cargo market showed signs of recovery. Seizing this opportunity, Air China Cargo vigorously promoted the transformation and upgrade of its business. The Company optimised its long-haul fleet structure, increased the utilisation rate of aircraft with competitive advantages, and reduced operating costs. It adjusted the structure of its US and Europe flight network, and explored new round-the-world freight routes. It continued to strengthen strategic co-operation with China Post Aviation in the charter business and achieved excellent operating results with the operation of the four B757F freighters. It improved the refined management of its belly hold services and maintained its competitiveness. It also established a market-driven management mechanism at its freight terminal to improve its efficiency. All these measures effectively improved the operating conditions of its cargo business, thus enabling Air China Cargo to make up the deficits and achieve profits.

**Outlook**

Mr. Cai Jianjiang, Chairman of Air China, said, “In 2015, the changes in the overall pattern of the industry and the more intense competition within and outside the industry are expected to present added challenges to the Company. Despite this, the improving development trend of the global civil aviation industry, the continued economic growth under ‘New Normal’ conditions and the increase in consumption standard and change of consumption structure of Chinese citizens have opened new scope for development and created new strategic opportunities for the development of the aviation industry in China. We will continue to adapt to the ‘New Normal’ conditions and push forward to achieve the goal of becoming a large network-oriented
airline which is competitive both domestically and in the international market. We will strive to achieve advances as we steadily grow our business, enhance profitability, improve our operations and management capability, consolidate our advantages and develop new momentum under the 'New Normal,' aiming to reward shareholders with better results and society with better services.”

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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 31 December 2014, the Company operated a fleet of 540 aircraft with an average age of 6.08 years (excluding aircraft under wet leases). Passenger traffic routes have reached to 322 routes, including 82 international, 15 regional and 225 domestic routes. The Company’s network covered 32 countries and regions globally and 159 cities, including 53 international, three regional and 103 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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