



# Shandong Airlines Co., Ltd.

## Summary of Annual Report 2017

### I. Important Notice

The summary is abstract from full-text of annual report, for more details of operating results, financial condition and future development plan of the Company; investors should found in the full-text of annual report that published on media appointed by CSRC.

Other directors attending the Meeting for annual report deliberation except for the followed

Name of director absent	Title for absent director	Reasons for absent	Attorney
Jiang Chengda	Director	Work causes	Miao Liubin
Wang Mingyuan	Director	Work causes	Xu Chuanyu

The profit distribution plan that deliberated and approved by the Board is: based on total stock issued 400,000,000 shares, distributed 2.50Yuan (tax included) bonus in cash for every 10-share hold by all shareholders, 0 shares bonus issued (tax included) and no capitalizing of common reserves carried out.

### II. Basic information of the company

#### 1. Company profile

Short form of the stock	Shanhang-B	Stock code	200152
Stock exchange for listing	Shenzhen Stock Exchange		
Person/Way to contact	Secretary of the Board	Rep. of security affairs	
Name	Dong Qiantang	Fan Peng	
Office add.	1/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	3/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	
Fax.	0531-85698767 ext.8679	0531-85698767 ext.8679	
Tel.	0531-82085939	0531-82085586	
E-mail	dongqt@shandongair.com.cn	fanp@shandongair.com.cn	

#### 2. Main business or product introduction in the reporting period

The Company is mainly engaged in international and domestic air passenger and cargo transportation business; hotel catering; aircraft maintenance; civil aviation personnel training; insurance agency; airline agency business; ground services related to main business; sales of aviation materials, general merchandise, food, health foods, handicrafts, souvenirs, etc., and retail sales of tobacco; leasing of aviation materials; leasing of premises, rental of houses; business services; hotel accommodation agents and ticket agents; conference services; transport agency services, air cargo storage; and labor services. Among them, international and domestic air passenger and



cargo transportation business is the Company's main business.

For more than 20 years, the company has always been giving first priority to “ensure safety, pay close attention to efficiency, and strive to punctuality and quality service”. As of the end of 2017, the company has 113 airplanes of Boeing B737 series, and enters into the ranks of large airlines. At present, the company bases its headquarters in Jinan and has branch offices and flight bases in Qingdao, Yantai, Xiamen, Chongqing, Beijing, Urumqi and Guiyang. The company operates more than 200 domestic, international and regional air routes, every week more than 3,700 flights fly to more than 80 large and medium-sized cities across the country, as well as the regional routes to Hong Kong and Taiwan, and the international routes to South Korea, Japan, Thailand, Cambodia and India.

### 3. Main accounting data and financial indexes

#### (1) Main accounting data and financial indexes for recently three years

In RMB

	2017	2016	Changes over last year	2015
Operating income	16,484,713,152.23	13,742,365,545.56	19.96%	12,108,963,139.11
Net profit attributable to shareholders of the listed company	490,353,408.15	532,834,567.17	-7.97%	532,260,993.04
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	388,452,214.55	409,577,360.28	-5.16%	387,733,814.57
Net cash flow arising from operating activities	1,854,418,122.23	2,427,055,988.42	-23.59%	2,424,457,843.01
Basic earnings per share (RMB/Share)	1.23	1.33	-7.52%	1.33
Diluted earnings per share (RMB/Share)	1.23	1.33	-7.52%	1.33
Weighted average ROE	12.19%	14.88%	2.69 percentage points down	17.22%
	End of 2017	End of 2016	Changes over end of last year	End of 2015
Total assets	13,351,422,839.91	12,741,974,788.53	4.78%	12,748,902,597.96
Net assets attributable to shareholder of listed company	4,253,141,013.93	3,836,172,828.06	10.87%	3,365,013,204.57

#### (2) Quarterly main financial index

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	3,858,202,194.45	3,692,592,547.47	5,011,301,663.17	3,922,616,747.14
Net profit attributable to shareholders of the listed company	138,708,221.70	-48,615,130.87	662,161,220.43	-261,900,903.11
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	110,366,318.98	-79,158,792.98	629,139,503.98	-271,894,815.43
Net cash flow arising from operating activities	36,510,056.32	612,643,788.64	1,538,074,574.27	-332,810,297.00



#### 4. Shares and shareholders

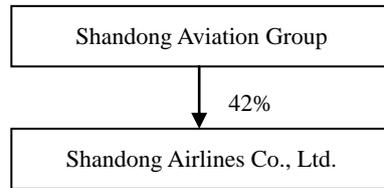
##### (1) Particulars about common stock shareholders, preference shareholders with voting rights recovered and top ten shareholders

In Share

Total common stock shareholders in reporting period-end	15,396	Total common stock shareholders at end of last month before annual report disclosed	15,481	Total preference shareholders with voting rights recovered at end of reporting period	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed	0
<b>Top ten shareholders</b>							
Full name of Shareholders	Nature of shareholder	Proportion of shares held	Amount of shares held	Amount of restricted shares held	Number of shares pledged/frozen		
					State of share	Amount	
Shandong Aviation Group	State-owned legal person	42.00%	168,004,000	168,004,000			
Air China Limited	State-owned legal person	22.80%	91,200,000	91,200,000			
NORGES BANK	Foreign legal person	0.87%	3,498,479	0			
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.74%	2,960,917	0			
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	Foreign legal person	0.64%	2,549,500	0			
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.43%	1,735,020	0			
Hou Chunhu	Domestic nature person	0.42%	1,693,945	0			
Chen Jingjian	Domestic nature person	0.39%	1,554,400	0			
ISHARES CORE MSCI EMERGING MARKETS ETF	Foreign legal person	0.37%	1,463,824	0			
Wang Jingqing	Domestic nature person	0.31%	1,249,953	0			
Explanation on related relationship or concerted action among the abovementioned shareholders		<p>1. Shandong Aviation Group(SDA) is the first largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares;</p> <p>2. Air China Limited is the second largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares;</p> <p>3. Among the above top ten shareholders, Air China Limited is the first largest shareholder of the SDA, and there exists no associated relationship between SDA and Air China and the other shareholders, and they don't belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders.</p>					

##### (2) Total preferred stock shareholders of the Company and shares held by top ten shareholders with preferred stock held

The Company had no shareholders with preferred stock held in the reporting.

**(3) Property right and controlling relationships between the actual controllers of the Company and the Company is as follows:****5. Corporate bonds**

Whether or not the Company public offering corporation bonds in stock exchange, which undue or without payment in full at maturity on the approval date for annual report disclosed

No

**III. Discussion and analysis of business****1. Introduction of operation in the reporting period**

In 2017, the company maintained a healthy development trend with steady progress, overall completed the intended objectives of various tasks of production and management, achieved a total of 3 million hours of safe flight, and won the “Three Stars Award” for safe flight of civil aviation; completed the annual benefit target, successfully established the Beijing Branch Office, made a major breakthrough in entering the hub market; and won the “China Quality Award”.

- **The security situation remained stable.** The transportation business totally guaranteed about 401,600 hours of safe flight and 193,900 flights, an increase of 13.8% and 14.0% respectively on a year-on-year basis. No company-caused aviation accidents or the above unsafe incidents occurred. The safety quality evaluation index was 10.54. A total of 194,935 flights were guaranteed, the average flight punctuality rate was 70.16%, a decrease of 9.92% on a year-on-year basis; successfully guaranteed 45 flights for important missions and dedicated class III or above, and the flight punctuality rate was 87%.

- **Successfully completed the benefit goals.** Completed a total transport turnover of 3,230 million ton kilometers, passenger transport volume of 23,474,000 person-time, and cargo and mail transport volume of 165,000 tons (including wet lease), an increase of 21.1%, 22.2%, and 6.1% respectively on a year-on-year basis; achieved operating income of 16484.71 million Yuan, and total profit of 650.92 million Yuan; passenger load factor was 83.2%, an increase of 5.3% over the same period of last year, and the cargo and mail load factor was 40.8%, a decrease of 0.2% on a year-on-year basis.

- **The quality of service had a steady rise.** The CSS (Customer Satisfaction Survey) overall achieved a score of 96.37, an increase of 0.04 over the same period of last year. The effective customer complaint rate was 0.13 pieces per ten thousand person-times, a decrease of 0.03 pieces per ten thousand person-times on a year-on-year basis; the annual effective complaint rate has maintained the lowest among the major airlines for the fourth consecutive year according to the publication of Civil Aviation Administration.

The civil aviation authority media service ranked No. 4, and won the “Best Airline for Civil Aviation Service” award. The company has been awarded as China Top 500 Most Valuable Brand for ten consecutive years with the brand value of 34.645 billion Yuan, an increase of 6.117 billion Yuan over the previous year, ranking No. 100.

The company mainly carried out the following work:

**(i) Continue to carry out security improvement and rectification to consolidate the security foundation**

The first is to implement the concept of safety development and pay close attention to the implementation of safety responsibilities. Conscientiously implement the spirit of General Secretary Xi Jinping on the important instructions for safety work; properly handle the relationship between safety and development, safety and efficiency, speed and scale, speed and quality. The second is to further improve the security system and continue to increase the management and control efforts to grass-roots security. The third is to further promote the construction of “three bases” and ensure the security assurance capabilities. The fourth is to maintain zero tolerance for



potential safety risks and continuously improve the risk prevention and control capabilities. Strengthen the prevention management, normalize the safety inspections, and focus on the style development, process improvement and organization optimization for problems so as to cure the hidden dangers at the source. Successfully complete the air transportation for major events such as the 19<sup>th</sup> National Congress of the Party and the BRICS Summit. Maintain a stable production trend in public safety, fire safety, internal security, vehicle safety, etc.

**(ii) Actively respond to changes in the operating environment, and the order of flight production is basically stable**

The first is to focus on the source and process management, and strengthen the control of the normality of flights. Strengthen the control of important flights and focus on improving the regularity and accuracy of the first flight. The second is to make use of the advantages of information systems and new technologies to improve the performance of operational control. Continue to advance the HUD (Head Up Display) technology applications, achieve RVR (Runway Visual Range) 150 meters to take off for the first time in the industry. The third is to strengthen the construction of emergency response system and improve its disposal ability.

**(iii) Strive to increase income in peak season and reduce losses in off season, and realize the overall benefit targets**

The first is to accomplish the resource allocation and capacity distribution, and optimize the air route network structure. Actively fight for resources at all times and strengthen the main base; the successful establishment of Beijing Branch Office has created conditions for increasing investment in Beijing market; Optimize the fleet structure and complete the disposal of two CRJ-700 flights. The second is to improve the revenue control and promote the core competitiveness. Strengthen the application of revenue management informatization tools and achieve the closed-loop management of the entire sales process. Classify the management and control to air routes from multiple perspectives such as market sources, competitors, etc., and strengthen the overall optimization on the disadvantaged routes, loss-making routes, and inefficient routes; achieve the seat-kilometer income of 0.3852 Yuan, an increase of 0.0183 Yuan on a year-on-year basis through series of revenue-increasing measures, which reversed the decline of seat-kilometer income in successive years. The third is to improve the resource allocation level and achieve the efficient and orderly production organization. Under the premise of meeting the requirements of the bureau, scientifically reduce the air route and station-crossing time, strengthen the integrated management of crew resources and the refine the management of maintenance plans so as to improve the availability of aircraft, the execution rate of flights, and the attendance rate of crews. The fourth is to strengthen the cost management and control which has achieved good results. Scientifically formulate the cost control measures and establish the regular scheduling work mechanisms. Monitor the production costs for major projects, actively promote the energy-saving and emission reduction, and vigorously reduce the administrative costs. The fifth is to adhere to the open and shared development and achieve better collaborations and benefits. Take advantage of Air China's collaborative advantages and continuously deepen the collaborations in marketing, safe operation, aircraft maintenance, service management, IT support, strategic collaboration, resource sharing, and so on.

**(iv) Continue to strengthen service management and control, and service brand building has achieved initial success**

The first is to strengthen system design and focus on process management. Refine and precipitate the “Honest and Kind Shandong Airlines Service Quality Management Model”, and launch the “Service Evaluation Index”. The second is to carry out the special actions for service standardization and promotion, and continue to improve the key links. The third is to do a good job in brand building and dissemination, and enrich the connotation of “Honest and Kind Shandong Airlines”. Formulate and implement the air and ground kindness cultural reflection program, establish the “Air Confucius School”, and carry out a series of special service activities. Widely spread the brand building of honest and kind through media promotion conferences, industry service summits and other channels so as to constantly promote the brand influence of “Honest and Kind Shandong Airlines”.

**2. Whether the main business had major change in the reporting period**

Yes  No

**3. About the industries, products, or regions accounting for over 10% of the company's operating income or operating profit**

In RMB



Name	Operating revenue	Operating cost	Gross profit ratio	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating cost y-o-y	Increase/decrease of gross profit ratio y-o-y
Air transport service	15,987,913,698.16	1,294,211,135.63	8.09%	20.19%	-3.11%	3.12 percentage points down

#### 4. Whether the characteristics of management seasonal or cyclical need special attention

Yes  No

#### 5. In the reporting period, note of major changes in operating income, operating cost, total net profit attributable to common stock shareholders of listed company or composing the previous reporting period

Applicable  Not applicable

#### 6. Particular about suspended and delisting

Applicable  Not applicable

#### 7. Relevant items involving financial report

##### (1) Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year

On August 29, 2017, the company convened the 3<sup>rd</sup> temporary meeting of the sixth board of directors, which reviewed and passed the Proposal on Changes in Accounting Policies. According to the requirements of the “Accounting Standards for Business Enterprises No. 16 - Government Subsidies (Revision 2017) revised by the Ministry of Finance, the company revised the presentation of the financial statements, adjusted the government subsidies relate to daily activities and revenue occurred after January 1, 2017 from the “non-operating income” item in the income statement to the “other income” item in the income statement, the change has no significant impact on the company’s financial situation, operating results and cash flow.

##### (2) Major accounting errors within reporting period that needs retrospective restatement

No major accounting errors within reporting period that needs retrospective restatement for the Company in the period.

##### (3) Compare with last year’s financial report; explain changes in consolidation statement’s scope

① Shandong Jinping Air Foods Co., Ltd., is the wholly-owned subsidiary of the Company, mainly operates air food supply and catering service. The enterprise included in consolidate scope of the Company since 9<sup>th</sup> October 2017

② Shandong Airlines Qingdao Food Co., Ltd., is the wholly-owned subsidiary of the Company, mainly operates production and processing of the air food and delivery service. The enterprise included in consolidate scope of the Company since 9<sup>th</sup> October 2017

Board of Director of Shandong Airlines Co., Ltd.  
24 March 2018