



# Shandong Airlines Co., Ltd. Summary of Annual Report 2018

## 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

Director not personally attended	Title of the director not personally attended	Reasons for absent	Mandatory
Wang Mingyuan	Director	Job-related reason	Xu Chuanyu
Wang Jieming	Director	Job-related reason	Li Xiuqin
Lv Hongbing	Independent Director	Job-related reason	Xu Xiangyi
Duan Yalin	Independent Director	Job-related reason	Hu Yuanmu

Prompt of non-standard audit opinion

Applicable     Not applicable

The profit distribution plan that deliberated and approved by the Board is: Based on total stock issued 400,000,000 shares, distributed 2.00 Yuan (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.

Profit distribution pre-plan of preferred stock deliberated and approved by the Board in the reporting period

Applicable     Not applicable

## 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	
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Tel.	0531-82085939	0531-82085586	
E-mail	dongqt@sda.cn	fanp@sda.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 2018, the company has 122 airplanes of Boeing B737 series, and striding 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 Taiwan region of China, 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

	2018	2017	Changes over last year	2016
Operating income	18,765,953,326.74	16,484,713,152.23	13.84%	13,742,365,545.56
Net profit attributable to shareholders of the listed company	347,379,314.89	490,353,408.15	-29.16%	532,834,567.17
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	132,549,289.96	388,452,214.55	-65.88%	409,577,360.28
Net cash flow arising from operating activities	2,450,017,519.48	1,870,048,122.23	31.01%	2,427,055,988.42
Basic earnings per share (RMB/Share)	0.87	1.23	-29.27%	1.33
Diluted earnings per share (RMB/Share)	0.87	1.23	-29.27%	1.33
Weighted average ROE	7.94%	12.19%	4.25 percentage points down	14.88%
	End of 2018	End of 2017	Changes over end of last year	End of 2016
Total assets	16,563,979,100.41	13,351,422,839.91	24.06%	12,741,974,788.53
Net assets attributable to shareholder of listed company	4,471,325,978.28	4,253,141,013.93	5.13%	3,836,172,828.06

#### (2) Quarterly main financial index

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	4,496,320,014.09	4,232,958,550.56	5,715,619,936.36	4,321,054,825.73



Net profit attributable to shareholders of the listed company	248,925,753.30	-45,195,048.65	612,878,294.50	-469,229,684.26
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	186,835,480.93	-124,926,168.36	582,643,401.11	-512,003,423.72
Net cash flow arising from operating activities	607,015,387.20	251,882,775.68	1,769,003,548.15	-177,884,191.55

Whether there are significant differences between the above-mentioned financial index or its total number and the relevant financial index disclosed in the company's quarterly report and semi-annual report

Yes  No

#### 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	15,411	Total common stock shareholders at end of last month before annual report disclosed	15,381	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
Top ten shareholders							
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	0.66%	2,636,000	0			
ISHARES CORE MSCI EMERGING MARKETS ETF	Foreign legal person	0.51%	2,035,324	0			
VANGUARD TOTAL INTERNATIONAL STOCK INDEX	Foreign legal person	0.47%	1,872,902	0			

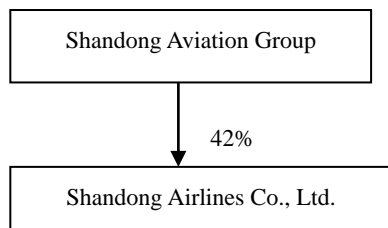


FUND						
Hou Chunhu	Domestic nature person	0.43%	1,731,045	0		
Chen Jingjian	Domestic nature person	0.40%	1,595,200	0		
Wang Jingqing	Domestic nature person	0.32%	1,279,053	0		
Explanation on related relationship or concerted action among the above mentioned shareholders		<p>1. Shandong Aviation Group(SDA) 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 persons acting in concert 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 2018, the Company has basically completed the intended target, and various works of operation are maintaining healthy development with steady progress.

—Safety position is generally stable: In transpiration, we have ensured security flight of about 434,100 hours and 205,800 vehicles, a respective increase of 8.1% and 6.1% on a year-on-year basis.

— Obvious improvement in operation efficiency: On-time performance was 81.64%, a 11.48 percentage points up from a year earlier, and ranks the No.2 in the industry; at second half of the year, we won the championship six times in succession of punctuality rate for large airlines in China within the Asia Pacific Area.

—Maintain sustainable profitability: we completed a RTK of 3538 million TK in the year, and passenger traffic volume came to 25,462,000 person-time, cargo and mail transport volume reached 170,100 tons, an increase of 11.10%, 9.88% and 4.86% on a y-o-y basis respectively; the operation revenue reached 18.77 billion Yuan, an increase of 13.84% from a year earlier; net profit has 0.35 billion Yuan, a decrease of 29.16 % from a year earlier. The passenger load factor (PLF) comes to 83.90%, a 0.75 percentage points up on a y-o-y basis; freight rate goes to 40.44%, a 0.32 percentage points down from a year earlier.

—Steady improvement in service quality: Passenger satisfaction achieved 93.78 scores, risen by 2.06 score on a year-on-year basis; passenger complaint rate was 0.692 times/ 10 thousand person, a 0.07 times/10 thousand person down; the acceptance of passenger complaint rate has the lowest rate in main airlines for five consecutive years; won the title of “Best Airlines for Civil Aviation Service” for continuous five years; awarded as the “Top 500 Most Valuable Brand in China” for eleven years in a row with brand value up to 41,652 million Yuan, which ranking increased to ninety-ninth.

The Company mainly carried out the following work:

##### 1. Continuously perfect safety management mechanism, improving the safety management & controlling efficiency

Firstly, improve the political positions and vigorously advocate the concept of safe development. Seriously study and implement General Secretary Xi Jinping’s important instructions for civil aviation work, correctly handle the relationship between safety and development, safety and efficiency, safety and normality, and safety and service, continue to strengthen the organization and leadership of safety work, and implement the concept of safe development. Secondly, focus on the system efficiency and continue to promote the construction of safety management system. Tease out the block safety responsibility interface, adjust the branch office structure and business processes, and the coordination of regional security control are enhanced. Thirdly, strengthen the management and control of qualifications and solidly carry out the construction of “three basics”. Fourthly, persist in the problem-oriented, and deepen the hidden problem management and the risk prevention and control.

##### 2. Optimize the operational management organization mechanism, and the operation quality is significantly improved

The first is to improve the flight normality control system and consolidate the operation quality foundation. Focus on the adjustment of flight operation guarantee duties of branch offices and sales departments, and consolidate the responsibility of grassroots security. The second is to strengthen the synergy linkage, and the operational efficiency is constantly improved. The third is to give play to the technological advantages and improve the scientific level of operational management. Based on the operational needs of large corps, build a production and operation information platform. Steadily promote the EFB (Electronic Flight Bag) project which has basically reached the industry leading level. Vigorously promote the application of HUD (Head-Up Display) and realize the takeoff at the capital airport with the low visibility of 90 meters.

##### 3. Vigorously increase income and reduce expenditures, and strive to achieve better returns

The first is to continue to improve the route network structure and optimize the productive resource allocation. Spare no effort in striving for the moment resource and improve the control of main bases. The second is to implement the refined marketing control and actively expand the revenue channels. Online marketing control platform, market analysis and sales control become more accurate and efficient. Improve the refund and rescheduling policies, increase the proportion of direct selling, and strengthen the development and maintenance of large customers. The third is to vigorously implement the cost control, and the cutting down of cost brings notable



results. The fourth is to actively obtain the synergy income and achieve strong support for efficiency work. The fifth is to scientifically grasp the market features, and the input and output are more matched. Make plans early according to the market features such as the Spring Festival travel season, the shoulder season, the summer vacation, and the off season. Through the overall arrangement of production inputs, the income-increasing ability in the peak season and the loss-reducing ability in the off season have been improved, therefore, the cost pressures such as oil prices and exchange have been effectively overcome, and better returns were achieved.

#### 4. Solidly promote the service innovation and continuously optimize the passenger experience

The first is to continue to improve the standard specifications and improve the service control effectiveness. The second is to promote the application of new technologies and implement the service innovation and upgrading. The third is to adhere to the problem-oriented, and improve the service weakness. Vigorously carry out the special treatment of luggage transport, continuously improve on-board broadcasting services, and optimize the food pairing. The fourth is to enrich the carrier, strengthen the publicity, and deepen the honest brand.

## 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	18,061,328,802.95	960,942,787.74	5.32%	12.95%	-25.87%	2.79 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

There Company has no accounting policy, estimates and calculation method changed in the period

### (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**

No changes in consolidation statement scope in the reporting period

Shandong Airlines Co., Ltd.

Legal representative: Sun Xiujiang

23 March 2019