



Chairman's Statement

Dear shareholders,

I am pleased to present the report on the financial results of the Group for the year ended 31 December 2019. On behalf of the entire staff of the Group, I would like to extend my sincere thanks to the Shareholders.

**Chairman
Liu Shaoyong**





Business Review

In 2019, the growth of the global economy has slowed down and various unstable uncertainties affecting economic development have increased significantly. The downward pressure on China's economy has increased, but the overall economic operation has been stable and maintained a relatively rapid growth. The annual GDP (Gross Domestic Product) in China increased by 6.1%. Affected by the macroeconomic downturn, the growth of the global civil aviation industry has slowed down. In 2019, the total passenger traffic volume of the global airline industry only increased by 4.2% year-on-year. The growth of China's civil aviation industry has also slowed down, with the total passenger traffic volume for the year increased by 7.9% year-on-year, yet still higher than the global average.

The Group adheres to maintaining a highly responsible attitude towards the safety of its passengers and employees. Based on the prudent business philosophy and professional analysis and judgment, the Group always insists on prioritizing safe operation, maintains strategic stability in operations, persists in deepening reforms, and focuses on fine operations to strengthen risk management and control, seizes development opportunities, and has achieved reasonable growth in results of operations.



In 2019, the Group carried 130.297 million passengers, representing a year-on-year increase of 7.5%; under the IFRS, the Group achieved operating revenue of RMB120,986 million in 2019, representing a year-on-year increase of 4.95% and achieved the net profit attributable to shareholders of the parent company of RMB3,192 million, representing a year-on-year increase of 18.31%; under PRC Accounting Standards, the Group achieved operating revenue of RMB120,860 million in 2019, representing a year-on-year increase of 5.16%, and achieved the net profit attributable to shareholders of the parent company of RMB3,195 million, representing a year-on-year increase of 17.94%.

Review of Operations

Safe Operation

The Group adheres to the civil aviation safety lifeline and with zero tolerance for hidden safety hazards, and has maintained a stable safety situation throughout the Year. In terms of risk management and control, the Group has scientifically analyzed and properly handled the safety hazards of the flight model B737 MAX 8, which resulted in suspending the commercial operation of such model. Also, the Group has studied the risks of new aircraft and new routes in advance and speeded up the verification and flight testing on new air navigation technologies to continuously strengthen the foundation for safe development. In terms of mechanism establishment, the Group has improved the relevant rules and regulations and implementation rules of its safe production responsibility system to further consolidate safe responsibilities. The Group has also provided training and revised its operation manual regarding CCAR121-R5 (*Rules of Qualification Review for Large Aircraft Carriers in Public Aviation Transport, the fifth revision*). In terms of system construction, the Group has built a ground-to-air supporting platform which has provided professional support for more than 100 flights, established an engine functionality management platform and promoted air defense safety informationalization construction. In terms of safety supervision, the Group has actively carried out drills on safe production emergency plans, and strengthened safety supervision in areas including flight, air defense, maintenance, and network information.

In 2019, the Group's fleet had 2,394,000 safe flying hours in total, which have increased by 8.5% compared to the same period last year. The Group's fleet had 988,000 take-off and landing flights, which have increased by 7.0% compared to the same period last year.

Hub Network

The Group has continued to strengthen its hub network strategy, coordinated the planning of the two core hubs of Beijing and Shanghai, and successfully opened a new era of operation and development of “two cities, four airports and dual core hubs”^{Note 1} in Beijing and Shanghai. Based on the strategy of the integrated development of Beijing-Tianjin-Hebei region, the Group has completed the construction of CEA Base in Beijing Daxing International Airport with high quality, and the base has been put into operation, making the Group the first base airline to obtain the final acceptance of the construction. China United Airlines, a low-cost airline under the Group, has been relocated from Beijing Nanyuan Airport to Beijing Daxing International Airport, as the first airline to officially operate in Beijing Daxing International Airport. The Beijing-Shanghai express (Shanghai Hongqiao-Beijing Capital), in which the Group heavily invested is still in operation in Beijing Capital International Airport. Based on the national strategy of “Yangtze River Delta Integration”, the Group has continued to strengthen its construction on the core hub in Shanghai, actively strived for operational resources, served the transformation of Shanghai into the city of “five centres” and coordinated the development of the regional economy. Along with the official operation of the Satellite Terminal S1 of Pudong, transit connection efficiency has been significantly increased, resulting in a great improvement in travel experience of passengers. Also, with the optimization in the network layout of the Shanghai Hongqiao International Airport covering major domestic business cities, the Group has improved the operational quality of its business express routes and quasi express routes. With the synergy of the two core hubs of Beijing and Shanghai, the Group will establish a new layout of the global route network in an invincible trend.

1 “Two cities” refers to Beijing and Shanghai, the two core hub cities and “four airports” refers to Beijing Daxing International Airport, Beijing Capital International Airport, Shanghai Pudong International Airport and Shanghai Hongqiao International Airport.

The Group has focused on the core hubs of Beijing and Shanghai, and the regional hubs such as Xi'an and Kunming to continuously optimize its route network layout and flight capacity allocation to strengthen the Group's market share and influence. In 2019, the Group's market shares in hubs such as Shanghai, Beijing, Kunming and Xi'an were 40.6%, 18.3%, 37.2% and 29.4%, respectively. Through the scientific matching of routes and flight capacity and the optimization of transit connection procedures, the effect of hub network has gradually appeared. OD yield of the three hubs, namely Shanghai Pudong, Xi'an and Kunming, significantly increased by 11.6%, 34.4% and 9.9%, respectively. The transit passengers of the three hubs, namely Shanghai Pudong, Kunming, and Xi'an amounted to 3,488,000 passengers, 1,658,000 passengers and 580,000 passengers, respectively, representing a year-on-year increase of 11.1%, 3.0% and 7.8%, respectively. In addition, the Group has actively seized the opportunity of the construction of new airports in Qingdao and Chengdu by deploying production facilities in advance and planning the route network in advance in order to broaden the Group's development space in the Qingdao and Chengdu markets.

As at the end of 2019, with the route network connection within SkyTeam Airline Alliance members, the route network of the Group reached 1,150 destinations in 175 countries. The Group has operated 137 Belt and Road routes in total in 65 countries along the Belt and Road, covering 40 cities in 18 countries.

Fine Operations and Lean Management

The Group has strengthened its fine operations, focused on the improvement of customer experience, and taken the flight punctuality rate as the standard for unified allocation and management of operating resources to improve the quality of flight operations. The Group has improved its flight punctuality management system construction and institutional construction, promoted its service system construction, realized visualized tracking of flight operation and rapidly handled unpunctual flight to drive a comprehensive improvement of the level of the digital management of flight operations. In 2019, the flight punctuality rate of the Group was 81.84%, representing a year-on-year increase of 1.65 percentage points, which is higher than the civil aviation industry average.



Through lean management, the Group has continuously reduced its unit operating costs and improved the operating efficiency, and reduced fuel costs in the various aspects such as the introduction of new models, design of route, flight operations, take-off, landing and taxiing, aircraft maintenance and training and incentives. Available tonne-kilometres fuel consumption in 2019 decreased by 4.4% year-on-year, and the estimated cumulative reduction in the volume of refueling was 195,500 tonnes. The Group's daily utilization rate of passenger aircraft was 9.55 hours per aircraft, representing a year-on-year increase of 0.12 hour per aircraft. Through the strengthening in fine management and control of increasing revenues and reducing expenditures and exercising due prudence in spending, and strictly managing and controlling major expenditures, the growth in operating costs of the Group in 2019 was lower than that in flight capacity and revenue.

Product Marketing and Customer Management

The Group has achieved steady growth in passenger revenue by actively expanding auxiliary products, optimizing sales channels, and developing and maintaining customer resources.

Designing and launching various auxiliary and non-aviation products. The Group has actively established its branded fare products series, completed the branded fare products launching campaign in 63 direct routes in Southeast Asia, Hong Kong and Macao, expanded auxiliary products such as upgrades, preferred seats and excess baggages, newly added prepaid baggage products in its official website, customized and increased the release of personalized overnight transit products and pre-sale route products, enriched CEA member point redemption products and optimized points payment function. The revenue from auxiliary products such as upgrades and preferred seats has presented a rapid growth trend, with a year-on-year increase of 44.5% and 35.0%, respectively.

Optimizing and broadening sales channels. Through the in-depth customer travelling behaviour analysis and the optimization of sales policies, the Group has strengthened the synergy of sales policies across all channels. The Company has made available the sales of auxiliary products such as preferred seats available on its official website and main OTA channels. Moreover, the Group has promoted various points marketing campaigns by combining point sales with diversified travel products and services.

Actively developing and maintaining customer resources of the Group. The Group has strengthened the construction of professional service teams for corporate clients, the sales revenue from the clients of the Group has increased by 14.3% year-on-year. The Group has intensified the cooperation with channels such as TMC, and the number of the third-party clients of the Group has increased by 38.7% year-on-year. The Group has actively maintained and developed frequent flyer members. As at the end of 2019, the number of frequent flyer members of the Company's "Eastern Miles" has reached 42,680 thousand, representing a year-on-year increase of 7.7%.

In 2019, the Group's passenger transportation capacity was 270,254 million seat-kilometres, representing a year-on-year increase of 10.38%. The passenger revenue of the Group amounted to RMB110,416 million, representing a year-on-year increase of 5.85%.

Passenger Services and Brand Building

The Group does "addition" to services. The Group is step by step providing all-round service of "100% boarding bridge usage, 100% connection, 100% automatic baggage sorting, 60 minutes for MCT" in the Beijing Daxing International Airport and the Satellite Terminal S1 of Pudong. The Group has launched China's first Aviation Sign Language application^{Note 2} at the CEA Special Care Service Counter at Shanghai Hongqiao International Airport and Shanghai Pudong International Airport to provide a convenient service experience for hearing-impaired passengers. Platinum card mobile self-upgrades support has been available on 161 domestic websites.

2 Hearing-impaired passengers can use the sign language simultaneous translation application in front of the CEA Special Care Service Counter at the Shanghai Pudong International Airport and Shanghai Hongqiao International Airport. By clicking the "One-click video sign language translation" button, they can quickly be connected to the professional translation team in backstage to get online real-time sign language translation.

Chairman's Statement

The Group does “subtraction” to services. The Group is the first airline to apply passive permanent electronic baggage tag which has significantly lowered the error rate of abnormal luggage transport, with a year-on-year decrease of 12.1% in the rate of complaints from all channels. The Group has optimized service standards for high-end members and passengers, as well as on-board catering standards. The Group has advocated safe and quiet cabin services, reduced waste of resources, revised flight punctuality management measures to reduce flight delays caused by its own reasons.

The Group does “multiplication” to its brand. The Group provided full support to the second China International Import Expo, successfully accomplished the transportation service task for the second “Belt and Road” Summit Forum. The Group’s “Lingyan” brand was re-awarded the certification of “Shanghai Brand”^{Note 3}. The Group was recognized as one of the “Top 50 Most Valuable Chinese Brands” by Wire & Plastic Products Group (WPP), a global brand communication group, for eight consecutive years, awarded as the “Best China Airline” in the “TTG China Travel Awards” for the fifth consecutive year, recognized as the “Model Brand” in the Grand Ceremony of China Brands 2019, recognized as one of the “Top 20 Chinese Enterprise Global Image”, awarded as one of the “World’s 500 Most Valuable Brands” by Brand Finance, a British brand appraisal organization and recognized as one of the 2019 BrandZ “Top 100 Most Valuable Chinese Brands of 2019”.

In January 2020, the Company launched a new membership system for the “Eastern Miles” to change the frequent flyer points accumulation system from mileage based to income based, introduced “CEA Wallet”, a combination payment of “points + cash” to integrate frequent flyer’s accounts, CEA points and bank account binding, which allows its passengers to pay for the purchase of products from the Company and other suppliers, increasing the scenarios for CEA points consumption and enhancing the value of CEA points.

3 The “Shanghai Brand” certification is a brand standard system independently developed by Shanghai relevant authority in accordance with the principles of “market orientating, corporate entities, and international mutual recognition” and based on the local standards of the “General Requirements for Shanghai Brand Evaluation”.

External Partnerships and Strategic Synergy

The Group has intensified its comprehensive cooperation with strategic partners and core partners to improve the capacity of international routes and enhance the quality of cooperation.

For the core markets of Shanghai and Beijing, leveraging on the operation of the Satellite Terminal S1 of Pudong and Beijing Daxing International Airport, the Group worked with SkyTeam Airline Alliance members and other important partners to carry out the plan for route network optimization connection, as well as the development of ground service procedure and standards, explore ground operating cooperation opportunities, design passenger travel plan portfolio products and continue to expand the code-sharing scope. As at the end of 2019, the Group’s code-sharing covers 347 flight route destinations, 1,007 routes and 4,617 flights.

For the North American market, with the cooperation with Delta in the Satellite Terminal S1 of Pudong, the Group implemented operation in the same terminal with Delta and both the Group and Delta have increased in revenue from cooperation, including mutual sales revenue and revenue from SPA (special allocation agreements), representing a year-on-year increase of approximately 17%.

For the European market, the Group has expanded joint operation routes with Air France KLM by adding new routes from Kunming and Wuhan to Paris, and intensified the cooperation in the aspects such as transfer mode of through check-in, corporate clients and joint sales. Each of the Group, Air France, KLM and Virgin Atlantic has optimized transit connections and service procedure at their respective hub airports by the joint cooperation in operating China-Europe routes for strengths and resources sharing. The Group has newly-shared code with Air Europa Spain.

For the Australian market, the in-depth cooperation with Qantas in the areas of code-sharing, allocation of flight capacity, joint marketing, resources sharing and personnel exchange has driven the growth in mutual sales revenue from cooperation.



For the Asia Pacific market, the Group has promoted the anti-monopoly approval for the joint cooperation with Japan Airlines and deepened the cooperation in the areas of route network and flight capacity sharing with Japan Airlines to strengthen the market position of the Group in Japanese routes. The Group has expanded mutual sales and SPA cooperation, as well as code-sharing scope with Juneyao Airlines.

Reform and Development

The Group attaches importance to reforms and actively promotes system and mechanism reform and the development of low-cost airline business, continuously enhances the role of reform and transformation in improving production and operation.

In relation to shareholding reforms, the Company and CEA Holding have successfully completed the cross-shareholding among Juneyao Airlines and Juneyao Group. As the result of the cross-shareholding, Eastern Airlines Industry Investment, a wholly-owned subsidiary of CEA Holding, holds 15% of shares of Juneyao Airlines, and Juneyao Airlines and Juneyao Group hold approximately 10% of shares of the Company in aggregate. The Company and Juneyao Airlines have appointed directors into each other's board of directors and special committee, building a comprehensive strategic partnership of "shareholding + business" in the benefits for further in-depth cooperation, synergy enhancement, sharing of strengths and integrated development between the two companies to better develop Shanghai aviation hub and serve the transformation of Shanghai into the city of "five centres".

In relation to system, mechanism and institutional reforms, the Group has continuously strengthened the systematization and connection of mechanism and institutional reforms to ensure safe operation, satisfy customer demands and create better operational efficiency. The Group has promoted the reforms in integration of marketing services and operational services to enhance business integration and resources allocation capabilities. The Group has improved the value creation based assessment mechanism. China United Airlines, a wholly-owned subsidiary of the Group, was recognized as a pilot enterprise of

National Mixed-Ownership Reform. Business Airlines, another wholly-owned subsidiary of the Group, has been changed to a "One Two Three" airline and operated domestically produced ARJ21 aircraft to meet the customer demands of regional markets, further enriching the operating brand series of CEA.

Corporate governance and social responsibility

The Group operates in an accountable and sustainable manner through actively engaging in social, economic and environmental responsibilities, boosting its own sustainable development and facilitating a more solid cooperation relationship with stakeholders.

The Company focuses on improving its corporate governance in strict compliance with domestic and overseas listing rules and the requirements of laws and regulations. The Company has revised its major regulations such as the Articles, rules for procedures for general meetings and rules for meetings of the supervisory committee, in order to enhance the development of the decision-making system of the Board and fully utilize the power of the Party leadership, integrating the Party's leadership into corporate governance. Such measures provide a solid political guarantee for the Company's production and operation, and reform and development.

The Group focuses on pollution prevention and control by facilitating the application of new technologies for energy conservation and emission reduction, speeding up the "diesel-to-electric" (replacement of diesel vehicle by electric vehicle) project in airports, promoting the replacement of Auxiliary Power Unit (APU) on aircraft and optimizing route design and flight operation. It is estimated that approximately 0.61 million tons of carbon emissions has been reduced throughout the year.

Focusing on the development objective of "Establishing a World-Class and Happy CEA", the Group has continuously promoted the construction of corporate culture by encouraging mutual development and sharing between the corporate and employees as well as solving practical problems of employees to show care and concern towards its employees.

Chairman's Statement

In 2019, through poverty alleviation projects, routes and flights as well as assignment of excellent young cadres to poor villages, the Group conducted poverty alleviation work through multiple aspects, such as capital, transportation, education, medical, industrial and talent. The poverty alleviation works are highly effective as reflected by the advance completion of targeted poverty elimination project in Cangyuan County and Shuangjiang County in Yunnan.

Internal Risk Control and Establishment of Rule of Law

Focusing on the main business of aviation, the Group prevented major risks. The Group attaches importance to comprehensive risk management and intensified the construction of internal risk control system by conducting special audits on key business areas. The Group has strengthened the management of capital assets and prevented major risks such as capital recovery, overseas operations and financial market volatility. The Group has prevented network security risks and created closed loop for information security. The security monitoring covered core system applications such as marketing, services, operations and maintenance. To strengthen protection for various types of data and information, the Group has set up the passenger information protection committee and established a sound passenger information protection team.

The Group has steadily promoted the construction of a "Rule of Law CEA" to provide legal protection and strong support for the its production and operation as well as deepening the implementation of in-depth reforms on various tasks. The Group continued to intensify the construction of a rule of law system, enhanced the awareness of the rule of law and consolidated the monitoring of legal affairs. The Group has strengthened prevention of legal risks, intensified management of legal compliance, and supported and protected the corporate reform and development by working on the rule of law. The Group has strengthened the team building of the rule of law working team, reinforced the construction of the legal affairs institution and launched rule of law promotion, education and business training.

OUTLOOK FOR 2020

The Group would like to bring to the attention of readers of this report that this report contains certain forward-looking statements, including forward-looking statements of international and domestic economies and the aviation industry, and descriptions of the Group's future operating plans for 2020 and beyond. Such forward-looking statements are subject to many uncertainties and risks. The actual events that occur may be different from forward-looking statements of the Group which, therefore, do not constitute any commitment by the Group to the future operating results.

In the beginning of 2020, the outbreak of the novel coronavirus pneumonia disease ("COVID-19") has increased downward pressure on the global economy, and the global aviation is facing tremendous challenges. The travel restriction measures implemented by many countries have greatly reduced the travel demands and willingness of passengers. The capacity of global airlines significantly decreased and some airlines have struggled to survive. As at the date of this report, the duration of COVID-19 all over the world remains greatly uncertain, which may increase and extend the impact on the recovery of travel demands. COVID-19 may catalyse new changes in the scale of the global air transport industry.

The Group has quickly responded to the strike of COVID-19 and strived to prevent and combat COVID-19 in the country, community and the Group. While ensuring the health and safety of employees and passengers, the Group, at the same time, adopted prudent operation strategies by suspending or adjusting operation of certain flights in a timely manner, actively supported and responded to the policies and appeals from different levels of government, regulatory units, industry organizations and other external institutions, implemented strict cost control measures, optimized fleet management approaches, negotiated with suppliers and related parties, suspended introduction of planes, optimized payment methods, reduced or delayed investment plans, and speeded up financing processes to ensure stable



operating cash flow. As of 25 March 2020, the Group has carried out 154 special COVID-19 prevention charter flights and sent 15,937 medical personnel and 3,634.54 tons of emergency supplies for COVID-19 prevention. The Group has also sent medical experts and supplies of COVID-19 prevention to Italy, Czech Republic and other countries. CEA Holding, the controlling shareholder of the Company, has donated RMB10 million to the affected areas for COVID-19 prevention and control.

Similar to most of the airline companies in the industry, the impact and influence of COVID-19 posed significant uncertainty on the international and domestic business of the Group and the general impact on the operation and financial condition of the Group for the year cannot be precisely predicted currently. The Group will treat the physical and mental health of employees and customers as first priority, and ensure the safe operation, as well as closely monitor the change in the situation of COVID-19 so as to adjust according to the market demand to lower the negative impact of COVID-19. In 2020, the Group will focus on the following on the basis of continuous effort in safe operation, marketing, service enhancement, and strengthening of the Party building:

1. Further optimization and strengthening of the measures for COVID-19 prevention and control to safeguard employees' safety and customers' benefits and to ensure safe and stable production operation during the outbreak of COVID-19.
2. Close monitoring of the change in COVID-19 and market condition, strengthening of the research and analysis of market and scientific prejudgment, proactively preparing for the market demand and the resumption of flight operation in the post-COVID-19 period, enhancing the fine operation capacity, and refining and strictly implementing measures to increase revenue and reduce cost, in order to reduce operation costs.
3. Capturing the external environment and the trend for industry development and formulate the 14th Five-Year Plan reasonably; continuous deepening of the reform of systems and mechanisms to promote key reform tasks.
4. Commitment to sustainable development and proactive fulfillment of social and environment responsibilities; adherence to the concept of green development, strengthening in construction of system for energy management, environmental protection as well as energy conservation and emission reduction; winning the battle against poverty to consolidate the result of poverty alleviation and elimination.
5. Strengthening of risk awareness with emphasis put on prevention and mitigation of significant risks, continuous optimization of the prevention mechanism and emergency drills for safety risks, financial risks, legal risk, internet safety risks and risk in outbreak of public health concern so as to enhance the capabilities in risk prevention.

