CHINA EASTERN AIRLINES CORP LTD
Form 20-F
April 25, 2018
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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14550

(Exact Name of Registrant as Specified in Its Charter)

China Eastern Airlines Corporation Limited	**The People s Republic of China**
(Translation of Registrant s Name Into English)	**(Jurisdiction of Incorporation or Organization)**

Kong Gang San Road, Number 92

Shanghai, 200335

People s Republic of China

Tel: (8621) 6268-6268

Fax: (8621) 6268-6116

(Address and Contact Details of the Board Secretariat s Office)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
American Depositary Shares	The New York Stock Exchange
Ordinary H Shares, par value RMB1.00 per share	The New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares. The Ordinary H Shares are also listed and traded on The Stock Exchange of Hong Kong Limited.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2017, 9,808,485,682 Ordinary Domestic Shares, par value RMB1.00 per share, were issued and outstanding, and 4,659,100,000 Ordinary H Shares par value RMB1.00 per share, were issued and outstanding. H Shares are Ordinary Shares of the Company listed on The Stock Exchange of Hong Kong Limited. Each American Depositary Share represents 50 Ordinary H Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the *Securities Exchange Act of 1934* .. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of *Regulation S-T* during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of large accelerated filer , accelerated filer and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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SUPPLEMENTAL INFORMATION AND EXCHANGE RATES

In this Annual Report, unless otherwise specified, the term dollars , U.S. dollars or US$ refers to United States dollars, the lawful currency of the United States of America, or the United States or the U.S.; the term Renminbi or RMB refers to Renminbi, the lawful currency of The People s Republic of China, or China or the PRC; the term Hong Kong dollars or HK$ refers to Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of China, or Hong Kong; the term SGD refers to Singapore dollars, the lawful currency of the Republic of Singapore; the term JPY refers to Japan Yen, the lawful currency of Japan; the term EUR refers to EURO, the lawful currency of EMU member countries and the term KRW refers to Korea Won, the lawful currency of the Republic of Korea. Any discrepancies in the tables included herein between the amounts listed and the totals are due to rounding.

In this Annual Report, the term we , us , our , our/the Company , or our Group refers to China Eastern Airlines Corporation Limited, a joint stock limited company incorporated under the laws of the PRC on April 14, 1995, and our subsidiaries, or, in respect of references to any time prior to the incorporation of China Eastern Airlines Corporation Limited, the core airline business carried on by its predecessor, China Eastern Airlines, which was assumed by China Eastern Airlines Corporation Limited pursuant to the restructuring described in this Annual Report. The term CEA Holding refers to our parent, China Eastern Air Holding Company, which was established on October 11, 2002 as a result of the merger of our former controlling shareholder, Eastern Air Group Company, or EA Group, with China Northwest Airlines Company and Yunnan Airlines Company.

For the purpose of this Annual Report, references to The People s Republic of China, China and the PRC do not include Hong Kong, Taiwan, or the Macau Special Administrative Region of China, or Macau.

See Item 3. Key Information Exchange Rate Information for details of exchange rates.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain information contained in this Annual Report may be deemed to constitute forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- the impact of changes in the policies of the Civil Aviation Administration of China, or the CAAC, regarding route rights;

- the impact of the CAAC policies regarding the restructuring of the airline industry in China;

- the impact of macroeconomic fluctuations (including the fluctuations of oil prices, and interest and exchange rates);

- certain statements with respect to trends in prices, volumes, operations, margins, risk management, overall market trends and exchange rates;

our fleet development plans, including, without limitation, related financing, schedule, intended use and planned disposition;

our expansion plan of the cargo operations;

our expansion plans, including possible acquisition of other airlines;

our marketing plans, including the establishment of additional sales offices;

our plan to add new pilots; and

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the impact of unusual events on our business and operations.

The words or phrases aim , anticipate , believe , continue , could , estimate , expect , going forward , intenc plan , potential , predict , project , seek , should , will , would , and similar expressions or the negatives there relate to our Company or its management, are intended to identify forward-looking statements within the meaning of Section 27A of the *Securities Act of 1933*, as amended, and Section 21E of the *Securities and Exchange Act of 1934*, as amended, or the Exchange Act. These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements are, by their nature, subject to inherent risks and uncertainties, some of which are beyond our control, and are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement, including, without limitation:

changes in political, economic, legal and social conditions in China;

any changes in the regulatory policies of the CAAC;

the development of the high-speed rail network in the PRC;

fluctuations of interest rates and foreign exchange rates;

the availability of qualified flight personnel and airport facilities;

the effects of competition on the demand for and price of our services;

the availability and cost of aviation fuel, including but not limited to pricing trends and risks associated with fuel hedging;

any significant depreciation of Renminbi or Hong Kong dollars against U.S. dollars, Japanese yen or Euro, the currencies in which the majority of our borrowings are denominated;

our ability to obtain adequate financing, including any required external debt and acceptable bank guarantees; and

general economic conditions in markets where we operate.

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GLOSSARY OF TECHNICAL TERMS

Capacity measurements

ATK (available tonne-kilometers)	the number of tonnes of capacity available for the carriage of revenue load (passengers and cargo) multiplied by the distance flown
ASK (available seat kilometers)	the number of seats made available for sale multiplied by the distance flown
AFTK (available freight tonne-kilometers)	the number of tonnes of capacity available for the carriage of cargo and mail multiplied by the distance flown

Traffic measurements

revenue passenger-kilometers or RPK	the number of passengers carried multiplied by the distance flown
revenue freight tonne-kilometers or RFTK	cargo and mail load in tonnes multiplied by the distance flown
revenue passenger tonne-kilometers or RPTK	passenger load in tonnes multiplied by the distance flown
revenue tonne-kilometers or RTK	load (passenger and cargo) in tonnes multiplied by the distance flown

Load factors

overall load factor	tonne-kilometers expressed as a percentage of ATK
passenger load factor	passenger-kilometers expressed as a percentage of ASK

Yield and cost measurements

passenger yield (revenue per passenger-kilometer)	revenue from passenger operations divided by passenger-kilometers
cargo and mail yield (revenue per cargo and mail tonne-kilometer)	revenue from cargo and mail operations divided by cargo and mail tonne-kilometers
average yield (revenue per total tonne-kilometer)	revenue from airline operations divided by tonne-kilometers
unit cost	operating expenses divided by ATK
Tonne	a metric ton, equivalent to 2,204.6 lbs

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

Pursuant to U.S. Securities and Exchange Commission (SEC or Securities and Exchange Commission) Release 33-8879 *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP* eliminating the requirement for foreign private issuers to reconcile their financial statements to U.S. GAAP, we prepare our financial statements based on International Financial Reporting Standards, or IFRSs, as issued by the International Accounting Standards Board, or the IASB, and no longer provide a reconciliation between IFRSs and U.S. GAAP.

Our consolidated financial statements as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 included in this Annual Report on Form 20-F have been prepared in accordance with IFRSs.

We make an explicit and unreserved statement of compliance with IFRSs with respect to our consolidated financial statements as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 included in this Annual Report. Ernst & Young Hua Ming LLP, our current independent registered public accounting firm in the PRC, has issued an unqualified auditor s report on our consolidated statement of financial position as of December 31, 2017 and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended December 31, 2017. The selected financial data from the consolidated profit or loss and other comprehensive income for the years ended December 31, 2014, 2015 and 2016 and the selected financial data from the consolidated financial position as of December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRSs, and audited by Ernst & Young, an independent registered public accounting firm in Hong Kong. The selected financial data from the consolidated profit or loss and other comprehensive income for the year ended December 31, 2013 and the selected financial data from the consolidated financial position as of December 31, 2013 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRSs, and audited by Ernst & Young Hua Ming LLP, an independent registered public accounting firm in the PRC.

The following tables present selected consolidated profit or loss and comprehensive income data for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 and selected consolidated statements of financial position data as of December 31, 2013, 2014, 2015, 2016 and 2017 that were prepared under IFRSs. The selected financial information as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 has been derived from, and should be read in conjunction with, the audited consolidated financial statements and their notes included elsewhere in this Annual Report.

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	Year Ended December 31,				
	2013	2014	2015	2016	2017
	RMB	RMB	RMB	RMB	RMB
	(*in millions, except per share or per ADS data*)				
Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:					
Revenues	88,245	90,185	93,969	98,904	102,475
(Loss)/gain on fair value changes of derivative financial instruments	18	11	6	2	(311)
Other operating income and gains	2,725	3,685	5,269	5,469	7,481
Operating expenses	(89,412)	(87,823)	(86,619)	(91,889)	(100,525)
Operating profit	1,576	6,058	12,625	12,486	9,431
Finance income / (costs), net	576	(2,072)	(7,110)	(6,176)	(1,072)
Profit before income tax	2,217	4,113	5,667	6,497	8,610
Profit for the year attributable to the equity holders of the Company	2,373	3,410	4,537	4,498	6,342
Basic and fully diluted earnings per share (1)	0.20	0.27	0.35	0.33	0.44
Basic and fully diluted earnings per ADS	9.81	13.45	17.5	16.5	22.0

(1) The calculation of earnings per share for 2013 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,091,881,000 ordinary shares in issue. The calculation of earnings per share for 2014 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,674,269,000 ordinary shares in issue. The calculation of earnings per share for 2015 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,818,509,000 ordinary shares in issue. The calculation of earnings per share for 2016 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 13,811,136,000 ordinary shares in issue. The calculation of earnings per share for 2017 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 14,467,585,682 ordinary shares in issue.

	As of December 31,				
	2013	2014	2015	2016	2017
	RMB	RMB	RMB	RMB	RMB
	(in millions)				
Consolidated Statements of Financial Position Data:					
Cash and cash equivalents	1,995	1,355	9,080	1,695	4,605
Net current liabilities	(40,472)	(42,887)	(51,309)	(52,194)	(62,035)
Non-current assets	127,458	147,586	174,914	196,436	211,434
Long term borrowings, including current portion	(36,175)	(41,210)	(43,675)	(29,749)	(28,842)
Obligations under finance leases, including current portion	(23,135)	(38,695)	(52,399)	(61,041)	(66,868)
Total share capital and reserves attributable to the equity holders of the Company	26,902	29,974	37,411	49,450	55,360
Non-current liabilities	(58,404)	(72,928)	(83,674)	(91,876)	(90,621)

Total assets less current liabilities	86,986	104,699	123,605	144,242	149,399
Total assets	140,068	165,829	197,992	212,324	229,727
Net assets	28,582	31,771	39,931	52,366	58,778

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Exchange Rate Information

We present our historical consolidated financial statements in Renminbi. For the convenience of the reader, certain pricing information is presented in U.S. dollars and certain contractual and other amounts that are in Renminbi or Hong Kong dollars amounts include a U.S. dollar equivalent. Unless otherwise noted, all translations from RMB to U.S. dollars, from Hong Kong dollars to U.S. dollars, from U.S. dollars to RMB and from U.S. dollars to Hong Kong dollars in this Annual Report were made at the rate of RMB6.5063 to US$1.00 and HK$7.8128 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve Board on December 29, 2017. We make no representation that the Renminbi, Hong Kong dollar or U.S. dollar amounts referred to in this Annual Report could have been or could be converted into U.S. dollars, Hong Kong dollars or Renminbi, as the case may be, at any particular rate or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade.

On April 13, 2018, the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board were RMB6.2725=US$1.00 and HK$7.8499=US$1.00. The following table sets forth information concerning exchange rates between the RMB, Hong Kong dollar and the U.S. dollar for the periods indicated. The source of these rates is the Federal Reserve Statistical Release.

	RMB per US$1.00 (1)		HK$ per US$1.00 (1)	
	High	Low	High	Low
October 2017	6.6533	6.5712	7.8106	7.7996
November 2017	6.6385	6.5967	7.8118	7.7955
December 2017	6.6210	6.5063	7.8228	7.8050
January 2018	6.5263	6.2841	7.8230	7.8161
February 2018	6.3471	6.2649	7.8267	7.8183
March 2018	6.3565	6.2685	7.8486	7.8275
April 2018 (up to April 13, 2018)	6.3045	6.2655	7.8499	7.8482

The following table sets forth the average rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods indicated. The exchange rate refers to the exchange rate as set forth in the G. 5A statistical release of the Federal Reserve Board.

	RMB per US$1.00 (1)	HK$ per US$1.00 (1)
2013	6.1478	7.7565
2014	6.1620	7.7545
2015	6.2827	7.7524
2016	6.6400	7.7620
2017	6.7569	7.7926

Source: Federal Reserve Statistical Release

(1)

Averages are based on daily noon buying rates for cable transfers in New York City certified for customs purposes by the Federal Reserve Bank of New York.

Selected Operating Data

The following table sets forth certain of our operating data for the five years ended December 31, 2017, which is not audited. All references in this Annual Report to our cargo operations, statistics or revenues include figures for cargo and mail.

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	Year Ended December 31,					
	2013	2014	2015	2016 (non-comparable basis) [1]	2016 (comparable basis)[2]	2017
Selected Airline Operating Data:						
Capacity:						
ATK (millions)	21,714.8	22,538.5	25,203.0	28,002.3	25,097.6	27,396.9
ASK (millions)	152,075.2	160,585.1	181,792.9	206,249.3		225,996.3
AFTK (millions)	8,028.0	8,085.8	8,841.7	9,439.9	6,535.2	7,057.3
Traffic:						
Revenue passenger-kilometers (millions)	120,461.1	127,749.9	146,342.43	167,529.2		183,182.0
Revenue tonne-kilometers (millions)	15,551.8	16,122.4	17,820.4	19,712.9	17,333.1	18,856.1
Revenue freight tonne-kilometers (millions)	4,857.2	4,802.4	4,865.1	4,875.2	2,495.4	2,663.0
Hours flown (thousands)	1,540.4	1,625.1	1,804.4	1,956.5	1,918.8	2,072.7
Number of passengers carried (thousands)	79,093.7	83,811.5	93,780.0	101,741.6		110,811.4
Weight of cargo carried (millions of kilograms)	1,410.3	1,363.3	1,399.4	1,395.0	929.3	933.3
Load Factor:						
Overall load factor (%)	71.6	71.5	70.7	70.4	69.1	68.8
Passenger load factor (%)	79.2	79.6	80.5	81.2		81.1
Yield and Cost Statistics (including fuel surcharge) (RMB):						
Passenger yield (passenger revenue/ passenger- kilometers)	0.61	0.61	0.56	0.52		0.52
Cargo and mail yield (cargo and mail revenue/cargo and mail tonne-kilometers)	1.57	1.55	1.33	1.25	1.25	1.36
Average yield (passenger and cargo revenue/ tonne-kilometers)	5.18	5.28	4.94	4.71	5.18	5.25
Unit cost (operating expenses/ATK)	4.12	3.90	3.44	3.28	3.66	3.67

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Notes:

(1) On November 29, 2016, we entered into an equity transfer agreement with Eastern Airlines Industry Investment Company Limited (Eastern Airlines Industry Investment), in relation to the transfer of 100% equity interests in Eastern Airlines Logistics Co., Ltd. (Eastern Logistics) held by us to Eastern Airlines Industry Investment. China Cargo Airlines Co., Ltd (China Cargo Airlines), a non-wholly owned subsidiary of Eastern Logistics, operated nine freighters then. On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet. Under non-comparable basis, our operating data in 2016 comprised of our whole cargo freight data during the period from February to December 2016.

(2) Under comparable basis, our operating data in 2016 did not include our whole cargo freight data during the period from February to December 2016.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to our Business

We may suffer losses in the event of an accident or incident involving our aircraft or the aircraft of any other airline.

As an airline company operating a large fleet, an accident or incident involving one of our aircraft could result in delays and require repair or replacement of a damaged aircraft, which could result in consequential temporary or permanent losses from disruption of service and/or significant liability to injured passengers and others. Unforeseeable or unpredictable events such as inclement weather, mechanical failures, human error, aircraft defects and other force majeure events may affect flight safety, which could result in accidents and/or incidents of passenger injuries or deaths that could lead to significant injury and loss claims. Although we believe that we currently maintain liability insurance in amounts and of the types generally consistent with industry practice, the amount of such coverage may not be adequate to cover the costs related to an accident or incident in full, which could damage our results of operations and financial condition. In addition, any aircraft accident or incident, even if fully insured, could cause a public perception that we are not as safe or reliable as other airlines, which could harm our competitive position and result in a decrease in our operating revenues. Moreover, a major accident or incident involving an aircraft of our competitors may cause the demand for air travel in general to decrease. In particular, certain of our competitors in the Asia Pacific region experienced major aircraft accidents and incidents in 2014, some of which involved destinations and routes that we cover. These accidents and incidents were highly publicized in the media and may have affected public perception of certain air travel routes. The occurrence of any of the foregoing could adversely affect our results of operations and financial condition.

Our indebtedness and other financial obligations may have a material adverse effect on our liquidity and operations.

We have a substantial amount of debt, lease and other financial obligations, and will continue to do so in the future. As of December 31, 2017, our total liabilities were approximately RMB170,949 million and our current liabilities exceeded our current assets by approximately RMB62,035 million. Our total interest-bearing liabilities (including long-term and short-term borrowings, finance leases payable and bonds payable) as of December 31, 2016 and 2017 were approximately RMB117,773 million and RMB130,669 million, respectively, of which short-term liabilities accounted for approximately 30.0% and 37.0%, respectively. Our substantial indebtedness and other financial obligations could materially and adversely affect our business and operations, including being required to dedicate additional cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the funds available for operations, maintenance and service improvements and future business opportunities, increasing our vulnerability to economic recessions, reducing our flexibility in responding to changing business and economic conditions, placing us at a disadvantage compared to competitors with lower debt, limiting our ability to arrange for additional financing for working capital, capital expenditures and other general corporate purposes, at all or on terms that are acceptable to us.

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Moreover, we are largely dependent upon cash flows generated from our operations and external financing to meet our debt repayment obligations and working capital requirements, which may reduce the funds available for other business purposes. If our operating cash flow is materially and adversely affected by factors such as increased competition, a significant decrease in demand for our services, or a significant increase in jet fuel prices, our liquidity would be materially and adversely affected. We also try to secure sufficient financing through financing arrangements with domestic and foreign banks in China as well as from debt and equity capital markets. However, our ability to obtain financing may be affected by our financial position and leverage, our credit rating and investor perception of the aviation industry, as well as prevailing economic conditions and the cost of financing in general. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.

In addition, the airline industry overall is characterized by a high degree of operating leverage. Due to high fixed costs, including payments made in connection with aircraft leases, and landing and infrastructure fees which are set by government authorities and not within our control, the expenses relating to flight operations do not vary proportionately with the number of passengers carried, while revenues generated from a particular flight are directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a decrease in revenues may result in a disproportionately higher decrease in profits.

We may not be able to secure future financing at terms acceptable to us or at all.

We require significant amounts of external financing to meet our capital commitments for acquiring and upgrading aircraft and flight equipment and for other general corporate needs. As of December 31, 2017, we had total unutilized credit facilities of approximately RMB59.47 billion from various banks. We expect to roll over these bank facilities in the near future. In addition, we generally acquire aircraft through either long-term capital leases or operating leases. In the past, we have obtained guarantees from Chinese banks in respect of payments under our foreign loan and capital lease obligations. However, we cannot assure you that we will be able to roll over our bank facilities or continue to obtain bank guarantees in the future. Unavailability of credit facilities or guarantees from Chinese banks or the increased cost of such guarantees may materially and adversely affect our ability to borrow additional funds or enter into international aircraft lease financing or other additional financing on acceptable terms In addition, if we are not able to arrange financing for our aircraft on order, we may seek to defer aircraft deliveries or use cash from operations or other sources to acquire the aircraft.

Our ability to obtain financing may also be impaired by our financial position, leverage and credit rating. In addition, factors beyond our control, such as recent global market and economic conditions, volatile oil prices, and the tightening of credit markets may result in limited availability of financing and increased volatility in credit and equity markets, which may materially adversely affect our ability to secure financing at reasonable costs or at all. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to expand our operations, purchase new aircraft, pursue business opportunities we believe to be desirable, withstand any future downturn in our business, or respond to increased competition or changing economic conditions may be impaired. We have and in the future will likely continue to have substantial debts. As a result, the interest costs associated with these debts might impair our future profitability.

We are subject to the risk of fuel price fluctuations.

Jet fuel is one of the major expenses of airlines. Significant fluctuations of international oil prices will significantly impact jet fuel prices and our revenue from fuel surcharge and accordingly our results of operations. In 2017, our total aircraft fuel cost was approximately RMB25,131 million, representing an increase of approximately 28.1% from approximately RMB19,626 million in 2016, which was mainly due to an increase in average price of oil as the

Organization of Petroleum Exporting Countries (OPEC) and other oil suppliers efficiently squeezed excess supply of oil in the market and the political upheaval in the Middle East increased the uncertainty of oil production, and to a lesser extent, an increase in the volume of refueling from 2016 to 2017. In 2017, our total aircraft fuel cost accounted for approximately 25.0% of our total operating expenses, as compared to approximately 21.4% in 2016.

The fluctuations of international crude oil prices and adjustments on domestic jet fuel prices by the National Development and Reform Commission (the NDRC) have a significant impact on our profitability. Our results of operation and financial condition are affected by any significant fluctuations that may occur, which are generally due to factors beyond our control. As such, we generally alleviate the pressure from the rise in operating costs arising from the increase in aviation fuel by imposing fuel surcharges, which, however, are subject to government regulations. In order to control fuel costs, we have also entered into fuel hedging transactions using financial derivative products linked to the price of underlying assets such as United States WTI crude oil and Singapore jet fuel during previous years.

Since 2009, the PRC government required prior governmental approval for entering into fuel hedging contracts. We may, from time to time, seek approval from the PRC government to enter into overseas fuel hedging contracts. However, these hedging strategies may not always be effective and high fluctuations in aviation fuel prices exceeding the locked-in price ranges may result in losses. Significant decline in fuel prices may substantially increase the costs associated with such fuel hedging arrangements. In addition, where we may, from time to time, seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, such fuel hedging transactions will provide any particular level of protection against increased fuel costs. In 2017, we did not engage in any aviation fuel hedging activities.

We are subject to the risk of exchange rate fluctuations.

We operate our business in many countries and territories. We generate revenue in different currencies, and our foreign currency liabilities are typically much higher than our foreign currency assets. Our purchases and leases of aircraft are mainly priced and settled in foreign currencies such as U.S. dollars. Fluctuations in exchange rates will affect our costs incurred from foreign purchases such as aircraft, flight equipment and aviation fuel, and take-off and landing charges in foreign airports. As of December 31, 2017, our total interest-bearing liabilities denominated in foreign currencies, amounted to approximately RMB46,789 million, of which U.S. dollar liabilities accounted for approximately 78.7% of the total amount. Therefore, a significant fluctuation in the U.S. dollar exchange rates will subject us to significant foreign exchange loss/gain arising from the exchange of foreign currency denominated liabilities, which would affect our profitability and business development. We typically use hedging contracts for foreign currencies to reduce the foreign exchange risks for foreign currency revenues generated from flight ticket sales and expenses required to be paid in foreign currencies. As of December 31, 2017, the outstanding foreign currency hedging contracts held by us amounted to a notional amount of US$829 million, which will expire in 2018, compared with US$440 million as of December 31, 2016.

We recorded net foreign exchange gains of approximately RMB2,001 million in 2017, whereas our net foreign exchange losses were approximately RMB3,574 million for 2016. As a result of the large value of existing net foreign currency liabilities denominated in U.S. dollars, our results would be adversely affected if the Renminbi depreciates against the U.S. dollar or the rate of appreciation of the Renminbi against the U.S. dollar decreases in the future. In 2017 and the first quarter of 2018, we expanded our financing channels by issuing guaranteed bonds and credit enhanced bonds denominated in SGD and JPY, and proactively optimized the mix of currency denomination of our debts. As of December 31, 2017, our proportion of U.S. dollar-denominated debts out of our total liabilities decreased to approximately 28.2%. Our foreign exchange fluctuation risks are also subject to other factors beyond our control.

We are subject to the risk of interest rate fluctuations.

Our total interest-bearing liabilities (including long-term and short-term loans and finance leases payable) as of December 31, 2016 and 2017 were approximately RMB117,773 million and RMB130,669 million, respectively, of which short-term liabilities accounted for approximately 30.0% and 37.0%, respectively, and long-term liabilities accounted for approximately 70.0% and 63.0%, respectively. Most of the long-term interest-bearing liabilities were liabilities with floating interest rates. Both the short-term liabilities and long-term interest-bearing liabilities were affected by fluctuations in current market interest rates.

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Our interest-bearing liabilities were primarily denominated in RMB and USD. As of December 31, 2016 and December 31, 2017, our liabilities denominated in RMB accounted for approximately 49.1% and 64.2% of our total liabilities, respectively, and liabilities denominated in USD accounted for approximately 44.9% and 28.2% of our total liabilities, respectively. Fluctuations in interest rates of interest-bearing liabilities denominated in these two currencies have and will continue to have significant impact on our finance costs. As of December 31, 2017, the average interest rates of our RMB-denominated liabilities, USD-denominated liabilities, EUR-denominated liabilities, SGD-denominated liabilities and KRW-denominated liabilities was approximately 3.9%, 2.6%, 0.3%, 2.8% and 2.3%, respectively. In the first quarter of 2018, we also issued credit enhanced bonds denominated in JPY with total principal of JPY50.0 billion due in 2021, bearing fixed interest at the rate of 0.33% per annum and 0.64% per annum for different tranches. To cope with the risk of interest rate fluctuation, we strategically changed our debt portfolio by replacing our USD-denominated liabilities with floating interest rates with USD-denominated liabilities with fixed interest rates. As of December 31, 2017, our USD-denominated liabilities with fixed interest rate was approximately USD1,980 million and accounted for approximately 49.8% of our total long-term USD-denominated liabilities, increasing from approximately 16.7% as of December 31, 2015. As of December 31, 2017, our outstanding foreign currency interest rate swap contracts amounted to a notional amount of USD1,420 million, as compared to USD1,636 million as of December 31, 2016. These contracts will expire between 2018 and 2025. We will continue to optimize our liability structure to lower relevant risks by taking consideration of various factors including the market environment, interest rates and strategic plan. However, we cannot assure you that the relevant lending rates may not increase in the future for reasons beyond our control, which may adversely affect our business, prospects, cash flows, financial condition and results of operations. In addition, we expect to issue bonds and notes or enter into additional loan agreements and aircraft leases in the future to fund our operations and capital expenditures, and the cost of financing for these obligations will depend greatly on market interest rates.

Increases in insurance costs or reductions in insurance coverage may have adverse impact our results of operations and financial condition.

We could be exposed to significant liability or loss if our property or operations were to be affected by a natural catastrophe or other event, including aircraft accidents. We maintain insurance policies but we are not fully insured against all potential hazards and risks incident to our business. If we are unable to obtain sufficient insurance with acceptable terms or if the coverage obtained is insufficient relative to actual liability or losses that we experience, whether due to insurance market conditions, policy limitations and exclusions or otherwise, our results of operations and financial condition could be adversely affected.

We may experience difficulty integrating our acquisitions, which could result in a material adverse effect on our operations and financial condition.

We may from time to time expand our business through acquisition of airlines or airline-related businesses. We are devoting significant resources to the integration of our operations in order to achieve the anticipated synergies and benefits of the absorption and acquisitions mentioned above. See Item 4. Information on the Company for details. However, such acquisitions involve uncertainties and a number of risks, including:

- difficulty with integrating the assets, operations and technologies of the acquired airlines or airline-related businesses, including their employees, corporate cultures, managerial systems, processes, procedures and management information systems and services;

complying with the laws, regulations and policies that are applicable to the acquired businesses;

failure to achieve the anticipated synergies, cost savings or revenue-enhancing opportunities resulting from the acquisition of such airlines or airline-related businesses;

managing relationships with employees, customers and business partners during the course of integration of new businesses;

- attracting, training and motivating members of our management and workforce;

- accessing our debt, equity or other capital resources to fund acquisitions, which may divert financial resources otherwise available for other purposes;

- diverting significant management attention and resources from our other businesses;

- strengthening our operational, financial and management controls, particularly those of our newly acquired assets and subsidiaries, to maintain the reliability of our reporting processes;

- difficulty with exercising control and supervision over the newly acquired operations, including failure to implement and communicate our safety management procedures resulting in additional safety hazards and risks;

- increased financial pressure resulting from the assumption of recorded and unrecorded liabilities of the acquired airlines or airline-related businesses; and

- the risk that any such acquisitions may not close due to failure to obtain the required government approvals.

We cannot assure you that we will not have difficulties in assimilating the operations, technologies, services and products of newly acquired companies or businesses. Moreover, the continued integration of our acquired companies into our Company depends significantly on integrating the employees of our acquired companies with our employees and on maintaining productive employee relations. In the event that we are unable to efficiently and effectively integrate newly acquired companies or airline-related businesses into our Company, we may be unable to achieve the objectives or anticipated synergies of such acquisitions and such acquisitions may adversely impact the operations and financial results of our existing businesses.

We may be unable to retain key management personnel or pilots.

We are dependent on the experience and industry knowledge of our key management personnel and pilots, and there can be no assurance that we will be able to retain them. Any inability to retain our key management employees or pilots, or attract and retain additional qualified management employees or pilots, could have a negative impact on our operations and profitability.

Our controlling shareholder, CEA Holding, holds a majority interest in our Company, and its interests may not be aligned with other shareholders.

Most of the major airlines in China are currently majority-owned by either the central government or provincial or municipal governments in China. As of December 31, 2017, CEA Holding holds directly or indirectly 56.38% of our Company s equity stake on behalf of the PRC government. As a result, CEA Holding could potentially elect the majority of the board of directors of the Company (Board of Directors or the Board) and otherwise be able to control us. CEA Holding also has sufficient voting control to effect transactions without the concurrence of our minority shareholders. The interests of the PRC government as the ultimate controlling shareholder of our Company and most of the other major PRC airlines could conflict with the interests of our minority shareholders. Although the CAAC currently has a policy of equal treatment of all PRC airlines, we cannot assure you that the CAAC will not favor other PRC airlines over our Company.

As our controlling shareholder, CEA Holding has the ability to exercise controlling influence over our business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- acquisition or disposition of assets;

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issuance of any additional shares or other equity securities;

the timing and amount of dividend payments; and

the management of our Company.

We engage in related party transactions, which may result in conflict of interests.

We have engaged in, from time to time, and may continue to engage in, in the future, a variety of transactions with CEA Holding and its various members, from whom we receive a number of important services, including support for in-flight catering and assistance with importation of aircraft, flight equipment and spare parts. Because we are controlled by CEA Holding and CEA Holding may have interests that conflict with our interests, we cannot assure you that CEA Holding will not take actions that will serve its interests over the Company s interests.

We may not be able to accurately report our financial results or prevent fraud if we fail to maintain effective internal controls over financial reporting, resulting in adverse investor perception, which in turn could have a material adverse effect on our reputation and the performance of our shares and ADSs.

We are required under relevant United States securities laws and regulations to disclose in the reports that we file or submit under the Exchange Act to the SEC, including our annual report on Form 20-F, a management report assessing the effectiveness of our internal controls over financial reporting at the end of the fiscal year. Our registered public accounting firm is also required to provide an attestation report on the effectiveness of our internal controls over financial reporting. Our management concluded that our internal controls over financial reporting were effective as of December 31, 2017. However, we may discover other deficiencies or material weaknesses in the course of our future evaluation of our internal controls over financial reporting and we may be unable to address and rectify such deficiencies in a timely manner. Any failure to maintain effective internal controls over financial reporting could lead to diminished investor confidence in the reliability of our consolidated financial statements, thereby adversely affecting our business, operations, and reputation, including negatively affecting our performance in the securities markets and decreasing potential opportunities to obtain financing in the capital markets.

As part of our business strategy, we have adopted various measures to develop the international side of our business and to enhance our competitiveness in the international long-distance flight routes. Due to the differences in certain legal and market environments, we have encountered certain challenges during the course of developing our overseas business. We have already adopted and will continue to implement measures in order to enhance the internal controls of our overseas offices and to continue the development of our overseas business.

Any failure or disruption of our computer, communications, flight equipment or other technology systems could have an adverse impact on our business operations, profitability, reputation and customer services.

We rely heavily on computer, communications, flight equipment and other technology systems to operate our business and enhance customer service. Substantially all of our tickets are issued to passengers as electronic tickets, and we depend on our computerized reservation system to be able to issue, track and accept these electronic tickets. In addition, we rely on other automated systems for crew scheduling, flight dispatch and other operational needs. These systems could be disrupted due to various events, including natural disasters, power failures, terrorist attacks, equipment failures, software failures, computer viruses, cyber attacks and other events beyond our control. We cannot assure you that the measures we have taken to reduce the risk of some of these potential disruptions are adequate to prevent disruptions to or failures of these systems. Any substantial or repeated failure of or disruption to these systems could result in the loss of important data and/or flight delays, and could have an adverse impact on our business operations, profitability, reputation and customer services, including being liable for paying compensation to our customers.

We are subject to cyber security risks and may incur increasing costs in an effort to minimize those risks.

The nature of our business involves the receipt and storage of personal information about our customers. We have a program in place to detect and respond to data security incidents. To date, all incidents we have encountered have been insignificant. If we commit a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop using our services. The loss of consumer confidence from a significant data security breach could hurt our reputation and adversely affect our business, result of operations and financial condition.

Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants, costs incurred in connection with the notifications to employees, suppliers or the general public as part of our notification obligations to the various government authorities that govern our business, or costs to dedicate significant resources to system repairs or other increase cyber security protection. We may also be required to pay fines in connection with stolen customer, employee or other confidential information, or incur significant litigation or other costs.

Interruptions or disruptions of service at one or more airports in our primary market could have an adverse impact on us.

Our business is heavily dependent on our operations at our core hub airports in Shanghai, namely, Hongqiao International Airport and Pudong International Airport and our regional hub airports in Xi an and Kunming. Each of these operations includes flights that connect our primary market to other major cities. Any significant interruptions or disruptions of service at one or more of our primary market airports could adversely impact our operations.

Any adverse public health developments, including SARS, Ebola, avian flu, or influenza A (H1N1), or the occurrence of natural disasters may, among other things, lead to travel restrictions and reduced levels of economic activity in the affected areas, which may in turn significantly reduce demand for our services and have a material adverse effect on our financial condition and results of operations.

Adverse public health epidemics or pandemics could disrupt businesses and the national economy of China and other countries where we do business. The outbreak of Severe Acute Respiratory Syndrome, or SARS, in early 2003 led to a significant decline in travel volumes and business activities and substantially affected businesses in Asia. Moreover, some Asian countries, including China, have encountered incidents of the H5N1 strain of avian flu, many of which have resulted in fatalities. In addition, outbreaks of, and sporadic human infection with, influenza A (H1N1) in 2009, a highly contagious acute respiratory disease, were reported in Mexico and an increasing number of countries around the world, some cases resulting in fatalities. In addition, in April 2013, there has been an ongoing outbreak of the H7N9 strain of avian flu, which has largely been centered in eastern China, and has resulted in fatalities in that region, including Shanghai. Furthermore, in 2014, an outbreak of Ebola virus, a highly contagious hemorrhagic fever with a relatively high fatality rate, in certain African countries resulted in confirmed cases in the United States and Europe. We are unable to predict the potential impact, if any, that the outbreak of influenza A (H1N1) or any other serious contagious disease or the effects of another outbreak of SARS, any strain of avian flu or Ebola may have on our business.

Natural disasters, such as earthquakes, snowstorms, floods or volcanic eruptions such as that of Eyjafjallajökull in Iceland in April and May of 2010 and the natural disasters in Japan in early 2011 may disrupt or seriously affect air travel activity. Any period of sustained disruption to the airline industry may have a material adverse effect on our business, financial condition and results of operations.

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Terrorist attacks or the fear of such attacks, even if not made directly on the airline industry, could negatively affect the Company and the airline industry as a whole. The travel industry continues to face on-going security concerns and cost burdens.

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on September 11, 2001 in the United States. The CAAC has also implemented increased security measures in relation to the potential threat of terrorist attacks. Terrorist attacks, even if not made directly towards us or on the airline industry, or the fear of or the precautions taken in anticipation of such attacks (including elevated threat warnings or selective cancellation or redirection of flights) could materially and adversely affect us and the entire airline industry. In addition, potential or actual terrorist attacks may result in substantial flight disruption costs caused by grounding of fleet, significant increase of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and RPK. International terrorist attacks targeting aircraft and airport not only directly threatens our flight safety, aviation security, operational safety and the safety of overseas institutions and employees, but also brings about on-going adverse impact on the outbound tourism demand for places where terrorist attacks have taken place.

Risks Relating to the Aviation Industry

Our business is subject to extensive government regulation.

The Chinese civil aviation industry is subject to a high degree of regulation by the CAAC. Regulatory policies issued or implemented by the CAAC encompass virtually every aspect of airline operations, including, among other things:

- route allocation;
- pricing of domestic airfares;
- administration of air traffic control systems and certain airports;
- jet fuel pricing;
- air carrier certifications and air operator certification;
- aircraft registration and aircraft airworthiness certification; and
- airport expense policy.

Our ability to provide services on international routes is subject to a variety of bilateral civil air transport agreements between China and other countries, international aviation conventions and local aviation laws. As a result of government regulations, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability.

The downward trend in domestic and global economy could affect air travel.

The airline industry is highly cyclical, and the level of demand for air travel is correlated to the strength of domestic and global economies. Robust demand for our air transportation services depends largely on favorable general economic conditions, including the strength of global and local economies, low unemployment, strong consumer confidence and availability of consumer and business credit. In 2017, the global economy had a steady recovery. Simultaneous economic growth were shown in developed economies, major emerging economies and developing countries. China s economy had a steady to good growth which was better than expected. The economic structures continued to optimize and the contributions of the service industry continued to increase. Benefited from the favorable continual recovery of the global economy, the global aviation industry had a continuous rise in the demand of travelers. The China s civil aviation maintained its relatively fast growth rate. However, we cannot assure you that such recovery and growth will continue in the future. The global economy is facing uncertainties, such as the rise of trade protectionism and the occasional occurrence of geopolitical risks. If the macroeconomic climate worsens or trading dispute and conflicts are created, our operations and financial condition may be adversely affected.

We operate in a highly competitive industry.

We face intense competition in each of the domestic, regional and international markets that we serve. In our domestic market, we compete against all airlines that have the same routes, including smaller domestic airlines that have lower operating costs. In the regional and international markets, we compete against international airlines that have significantly longer operating history, better brand recognition, or more resources, such as large sales networks or sophisticated reservation systems. See the section headed Item 4. Information on the Company Business Overview Competition for more details. The public s perception of safety of Chinese airlines could also materially and adversely affect our ability to compete against our international competitors. To stay competitive, we have, from time to time in the past, lowered airfares for certain of our routes, and we may continue to do so in the future. Increased competition and pricing pressures may have a material adverse effect on our financial condition and results of operations.

We expect to face substantial competition from the rapid development of the Chinese rail network.

The PRC government is aggressively implementing the expansion of its high-speed rail network, which has provided train services at a speed of up to 350 kilometers per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of rail network, improvements in railway service quality, increased passenger capacity and urban center accessibility could enhance the competitiveness of the railway service and negatively affect our market share on some of our key routes, in particular our routes of between 500 km to 800 km. The high-speed railway routes between Shanghai and Kunming, Baoji and Lanzhou and Xi an and Chengdu commenced operations in 2017, and has affected our Xi an and Chengdu route, Guiyang and Kunming route, Xi an and Xining route and Xi an and Lanzhou route. Increased competition and pricing pressures from the railway service may have an adverse effect on our business, financial condition and results of operations.

Limitations on foreign ownership of PRC airlines may affect our access to funding in the international equity capital markets or pursuing business opportunities.

The current CAAC policies limit foreign ownership of PRC airlines. Under these rules, non-PRC, Hong Kong, Macau or Taiwan residents cannot hold a majority equity interest in a PRC airline. As of December 31, 2017, approximately 32.20% of our total outstanding shares were held by non-PRC, Hong Kong, Macau or Taiwan residents or legal entities (excluding the qualified foreign institutional investors that are approved to invest in the A Share market of the PRC). As a result, our access to funding in the international equity capital markets may be limited. This restriction may also limit the opportunities available to us to obtain funding or other benefits through the creation of equity-based strategic alliances with foreign carriers. We cannot assure you that the CAAC will not increase these limits on foreign ownership of PRC airlines in the future.

Any jet fuel shortages or any increase in jet fuel prices may materially and adversely affect our financial condition and results of operations.

The availability and prices of jet fuel have a significant impact on our financial condition and results of operations. In the past, jet fuel shortages have occurred in China and, on limited occasions, required us to delay or cancel flights. Although jet fuel shortages have not occurred since the end of 1993, we cannot assure you that jet fuel shortages will not occur in the future. Fuel prices continue to be susceptible to, among other factors, political unrest in various parts of the world, OPEC policies, the rapid growth of the economies of certain countries, including China and India, the inventory levels carried by industries, the amount of reserves built by governments, disruptions to production and refining facilities and weather conditions. Fuel efficiency of our aircraft decreases as they advance in age which results in an overall increase in our aviation fuel costs. The foregoing and other factors that impact the global supply and demand for jet fuel may affect our financial performance due to its sensitivity to fuel prices.

In 2017, fuel prices recovered from the previous decline as the OPEC and other oil suppliers efficiently squeezed excess supply of oil in the market and the political upheaval in the Middle East increased the uncertainty of oil production. Setting aside the adjustment in factors such as fuel surcharge, if the average price of jet fuel had increased or decreased by 5%, our jet fuel costs would have increased or decreased by approximately RMB1,257 million in 2017. In addition, the NDRC adjusts gasoline and diesel prices in China from time to time, taking into account the changes in international oil prices, thereby affecting aviation fuel prices. In 2017, we have not conducted aviation fuel hedging activities. As such, we cannot assure you that jet fuel prices will not fluctuate further in the future. Due to the highly competitive nature of the airline industry, we may be unable to fully or effectively pass on to our customers any future increase in jet fuel costs.

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The airline industry is subject to increasing environmental regulations, which would increase costs and affect profitability.

In recent years, regulatory authorities in China and other countries have issued a number of directives and other regulations to address, among other things, aircraft noise and engine emissions, the use and handling of hazardous materials, aircraft age and environmental contamination remedial clean-up measures. These requirements impose high fees, taxes and substantial ongoing compliance costs on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life.

We have significant expenditures in respect of environmental compliance, which may affect our operations and financial condition. For example, all of our B737NG and some of our A320 series aircraft newly introduced are equipped with a winglet or sharklet, an additional lifting surface to reduce fuel consumption and noises. We also took measures to reduce the impact of our operations on the environment by optimizing our route network and flight schedules as well as installing energy-saving environmentally friendly engines. In addition, we continue to improve the energy efficiency of our fleet by introducing aircraft with energy-saving technologies, such as B737-8 Max and by retiring old aircraft. However, these measures have resulted in significant costs and expenditures. We expect to continue to incur significant costs and expenditures on an ongoing basis to comply with environmental regulations, which could restrict our ability to modify or expand facilities or continue operations.

Our results of operations tend to be volatile and fluctuate due to seasonality.

The aviation industry is characterized by annual high and low travel seasons. Our operating revenue is substantially dependent on the passenger and cargo traffic volume carried, which is subject to seasonal and other changes in traffic patterns, the availability of appropriate time slots for our flights and alternative routes, the degree of competition from other airlines and alternate means of transportation, as well as other factors that may influence passenger travel demand and cargo and mail volume. As a result, our results tend to be volatile and subject to rapid and unexpected change.

Risks Relating to the PRC

Changes in the economic policies of the PRC government may materially affect our business, financial condition and results of operations.

Since the late 1970s, the PRC government has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. These policies and measures may be modified or revised from time to time. Adverse changes in economic and social conditions in China, in the policies of the PRC government or in the laws and regulations of China, if any, may have a material adverse effect on the overall economic growth of China and investments in and profitability of the domestic airline industry. These developments, in turn, may have a material adverse effect on our business, financial condition and results of operations.

Changes in the foreign exchange regulations in the PRC may result in fluctuations of the Renminbi and adversely affect our ability to pay dividends or to satisfy our foreign currency liabilities.

A significant portion of our revenue and operating expenses are denominated in Renminbi, while a portion of our revenue, capital expenditures and debts are denominated in U.S. dollars and other foreign currencies. The Renminbi is currently freely convertible in the current account, which includes payment of dividends, trade and service-related foreign currency transactions, but not in the capital account, which includes foreign direct investment, unless approval from or registration or filing with the relevant authorities, is obtained. As a foreign invested enterprise approved by the PRC Ministry of Commerce (the MOFCOM), we can purchase foreign currencies without the approval of State Administration of Foreign Exchange (the SAFE) for settlement of current account transactions, including for the purpose of dividend payment, by providing commercial documents evidencing these transactions. We can also retain foreign currencies in our current accounts, subject to a maximum amount approved by SAFE, to satisfy foreign currency liabilities or pay dividends. The relevant PRC government authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future. Foreign currency transactions in the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to raise foreign capital through debt or equity financing, including through loans or capital contributions. We cannot assure you that we will be able to obtain sufficient foreign currencies to pay dividends, if any, or satisfy our foreign currency liabilities.

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Furthermore, the value of the Renminbi against the U.S. dollar and other currencies may fluctuate significantly and is affected by, among other things, the PRC government policies, domestic and international economic and political conditions and changes in the supply and demand of the currency. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy resulted in appreciation of the Renminbi against the U.S. dollar by approximately 7.0% in 2008. While there was no material appreciation of Renminbi against the U.S. dollar in 2009, the Renminbi appreciated by approximately 3.0% against the U.S. dollar in 2010 and by approximately 5.1% in 2011. In April 2012, the PBOC widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 1.0% from the PBOC central parity rate, effective April 16, 2012. In March 2014, the PBOC further widened the daily trading band of the Renminbi against the U.S. dollar, and the Renminbi was allowed to appreciate or depreciate by 2% against the U.S. dollar from the daily central parity rate, effective March 17, 2014. On August 11, 2015, the PBOC executed a 2% devaluation in the Renminbi. Within the following two days, the Renminbi depreciated 3.5% against the U.S. dollar. The Renminbi depreciated 6.7% against the U.S. dollar from January 4, 2016 to December 30, 2016. The Renminbi appreciated 6.3% against the U.S. dollar for the year ended December 31, 2017. However, it remains unclear what further fluctuations may occur or what impact this will have on the value of the Renminbi. It is possible that the PRC government could adopt a more flexible foreign exchange policy, which could result in further and more significant revaluations of the Renminbi against the U.S. dollar or any other foreign currency. Any resulting fluctuations in exchange rates as a result of such policy changes may have an adverse effect on our financial condition and results of operations.

Our operations may be adversely affected by rising inflation rates in the PRC.

Increase in inflation is due to many factors beyond our control, such as rising production and labor costs, high debts, changes in the PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. The national consumer price index, which is an indicator of the inflation, was 1.4%, 2.0% and 1.6% in 2015, 2016 and 2017, respectively. The national consumer price index was 1.5%, 2.9% and 2.1% in January, February and March, 2018, respectively. We cannot assure you that inflation rates will not increase in the future. If inflation rates rise beyond our expectations, the costs of our business operations may become significantly higher than anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures in the PRC may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

Any withdrawal of, or changes to, tax incentives in the PRC may adversely affect our results of operations and financial condition.

Prior to January 1, 2008, except for a number of preferential tax treatment schemes available to various enterprises, industries and locations, business enterprises in China were subject to an enterprise income tax rate of 33% under the relevant PRC Enterprise Income Tax Law. On March 16, 2007, China passed a new enterprise income tax law, or the EIT Law, which took effect on January 1, 2008 and amended on February 24, 2017. The EIT Law imposes a uniform income tax rate of 25% for domestic enterprises and foreign invested enterprises. Business enterprises enjoying preferential tax treatment that was extended for a fixed term prior to January 1, 2008 will still be entitled to such treatment until such fixed term expires. Certain of our subsidiaries are entitled to preferential tax treatment, allowing us to enjoy a lower effective tax rate that would not otherwise be available to us. To the extent that there are any increases in the applicable effective tax rate, withdrawals of, or changes in, our preferential tax treatment or tax exemptions, our tax liability may increase correspondingly.

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Uncertainties embodied in the PRC legal system may limit certain legal protection available to investors.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Legislation over the past 20 years has significantly enhanced the protection afforded to foreign investors in China. However, the interpretation and enforcement of some of these laws and regulations involve uncertainties that may limit the legal protection available to investors. Such uncertainties pervade as the legal system in the PRC continues to evolve. Even where adequate laws exist in the PRC, the enforcement of the existing laws or contracts may be uncertain and sporadic, and it may be difficult to obtain swift and equitable enforcement, including enforcing a foreign judgment. In addition, the PRC legal system is based on written statutes and their interpretation; prior court decisions may be cited as reference but have limited authority as precedents. As such, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention. We have full or majority board control over the management and operation of all of our subsidiaries established in the PRC. The control over these PRC entities and the exercise of shareholder rights are subject to their respective articles of association and PRC laws applicable to foreign-invested enterprises in the PRC, which may be different from the laws of other developed jurisdictions.

The PRC has not developed a fully integrated legal system and certain recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. The relative lack of experience of the PRC s judiciary in many cases also creates additional uncertainty as to the outcome of any litigation. In addition, interpretation of statutes and regulations may be subject to government policies reflecting domestic political changes. Furthermore, in case of new laws and regulations, the interpretation, implementation and enforcement of these laws and regulations would involve uncertainties due to the lack of established practice or published court decisions available for reference. We cannot predict the future legal development in the PRC, including promulgation of new laws, changes to existing laws or interpretation or enforcement thereof, or inconsistencies between the local rules and regulations and the national law. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published in a timely manner or at all) that may have a retroactive effect. As a result, we may not be aware of any violations until sometime after the violation has occurred. This may also limit the remedies available to investors and to us in the event of any claims or disputes with third parties.

The auditors reports included in this annual report are prepared by relying on audit work which is not inspected by the Public Company Accounting Oversight Board and, as such, investors may be deprived of the benefits of such inspection.

Auditors of companies that are registered with the SEC and traded publicly in the United States, including our independent registered public accounting firm, must be registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, and are required by the laws of the United States to undergo regular inspections by the PCAOB to assess their compliance with the laws of the United States and professional standards. Because we have substantial operations within China, our auditor relied on its China affiliate to perform audits on our consolidated financial statements, and the PCAOB is currently unable to conduct inspections of the work done by our auditor as it relates to our operations without the approval of the Chinese authorities, our auditor s work related to our operations in China is not currently inspected by the PCAOB. This lack of PCAOB inspection of audit work performed in China prevents the PCAOB from regularly evaluating the audit work performed by any auditor in China including our auditor. As a result, investors may be deprived of the full benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections of audit work performed in China makes it more difficult to evaluate the effectiveness of our auditor s audit procedures as compared to auditors in other jurisdictions that are subject to PCAOB inspections for all their work. Investors may lose confidence in our reported financial information and procedures and the quality of our consolidated financial statements.

Proceedings instituted by the SEC against certain PRC-based accounting firms, including the China affiliate of our independent registered public accounting firm, could result in financial statements being determined not to comply with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms in China, including the Chinese affiliate of our then independent registered public accounting firm, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. On February 12, 2014, four of these PRC-based accounting firms appealed to the SEC against this decision. In February 2015, each of the four PRC-based accounting firms agreed to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to provide the SEC with access to the Chinese firms audit documents via the China Securities Regulatory Commission (the CSRC). If the firms do not follow these procedures, the SEC could impose sanctions such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined not to be in compliance with the requirements of the Exchange Act, and possibly delisting of the securities. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based U.S.-listed companies and the market price of our ADSs may be adversely affected.

If the Chinese affiliate of our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to find another registered public accounting firm in a timely manner to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such determination could ultimately lead to our delisting from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Item 4. Information on the Company

A. History and Development of the Company

Our registered office is located at 66 Airport Street, Pudong International Airport, Shanghai, China, 201202. Our principal executive office and mailing address is Kong Gang San Road, Number 92, Shanghai, 200335, China. The telephone number of our principal executive office is (86-21) 6268-6268 and the fax number for the Board Secretariat s office is (86-21) 6268-6116. We currently do not have an agent for service of process in the United States.

Our Company, China Eastern Airlines Corporation Limited was established on April 14, 1995 under the laws of China as a company limited by shares in connection with the restructuring of our predecessor and our initial public offering. We are commercially known in the industry as China Eastern Airlines. Our predecessor was one of the six original airlines established in 1988 as part of the decentralization of the airline industry in China undertaken in connection with China s overall economic reform efforts. Prior to 1988, the CAAC was responsible for all aspects of civil aviation in China, including the regulation and operation of China s airlines and airports. In connection with our initial public offering, our predecessor was restructured into two separate legal entities, our Company and EA Group. According to the restructuring arrangement, by operation of law, our Company succeeded to substantially all of the assets and liabilities relating to the airline business of our predecessor. EA Group succeeded to our predecessor s assets and liabilities that do not directly relate to the airline operations and do not compete with our businesses. Assets transferred to EA Group included our predecessor s equity interests in companies engaged in import and export, real estate, advertising, in-flight catering, tourism and certain other businesses. In connection with the restructuring, we entered into various agreements with EA Group and its subsidiaries for the provision of certain services to our Company. CEA Holding assumed the rights and liabilities of EA Group under these agreements after it was formed by merging EA Group, Yunnan Airlines Company and China Northwest Airlines Company in October 2002. See Item 7. Major Shareholders and Related Party Transactions for more details.

The following chart sets forth the organizational structure of our Company and our significant subsidiaries as of December 31, 2017:

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In February 1997, we completed our initial public offering of 1,566,950,000 ordinary H Shares, par value RMB1.00 per share, and listed our ordinary H Shares on The Stock Exchange of Hong Kong Limited, or the Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange), and American Depositary Shares, or ADSs, representing our H Shares, on the New York Stock Exchange. In October 1997, we completed a public offering of 300,000,000 new ordinary domestic shares in the form of A Shares to public shareholders in China and listed such new shares on the Shanghai Stock Exchange. H Shares are our ordinary shares listed on the Hong Kong Stock Exchange, and A Shares are our ordinary shares listed on the Shanghai Stock Exchange. Our H Shares and A Shares are identical in respect of all rights and preferences, except that the listed A Shares may only be held by Chinese domestic investors and certain qualified foreign institutional investors. For information regarding our share capital structure, see Item 10.B Memorandum and Articles of Association Description of the Shares. In addition, dividends on the A Shares are payable in Renminbi.

Since our initial public offering, we have expanded our operations through acquisitions and joint ventures.

On June 12, 2012, the Board of Directors resolved and approved to issue corporate bonds in the aggregate principal amount of not more than RMB8.8 billion and for a term of not more than ten years for a single or multiple issuances. We received the CSRC approval for this issuance on December 12, 2012. On March 20, 2013, we issued the first tranche of the corporate bonds in the amount of RMB4.8 billion at 5.05% due 2023. The use of proceeds from this issuance was to repay bank loans, improve our financing structure and replenish our short-term working capital.

On September 11, 2012, the Board of Directors resolved and approved the Proposal for the non-public issuance of A Shares to specific placees by China Eastern Airlines Corporation Limited and the Proposal for the non-public issuance of H Shares to specific placees by China Eastern Airlines Corporation Limited, according to which, (i) CEA Holdings and CES Finance would subscribe in cash for 241,547,927 and 457,317,073 new A Shares, respectively, at the subscription price of RMB3.28 per share; and (ii) CES Global Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of CEA Holding, (CES Global) would subscribe in cash for 698,865,000 new H Shares (nominal value of RMB1.00 each) at the subscription price of HK$2.32 per share. On January 31, 2013, the CSRC approved our proposed issue of no more than 698,865,000 new H Shares with a nominal value of RMB1.00 each. The Public Offering Review Committee of the CSRC reviewed and conditionally approved our application relating to the non-public issue of new A Shares of the Company on February 25, 2012.

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On December 27, 2012, our wholly-owned subsidiary, Shanghai Airlines Tours entered into an agreement with Eastern Tourism and Shanghai Dongmei to acquire 45% and 55% of the issued share capital of Xi an Dongmei Aviation Travel Co. Ltd, held by them respectively for a consideration of approximately RMB3.3 million comprising approximately RMB1.5 million payable to Eastern Tourism and approximately RMB1.8 million payable to Shanghai Dongmei.

On December 27, 2012, our wholly-owned subsidiary, Shanghai Airlines Tours also entered into another agreement with Eastern Tourism and Shanghai Dongmei to acquire 45% and 55% of the issued share capital of Kunming Dongmei, held by them respectively for a consideration of approximately RMB10.6 million comprising RMB4.7 million payable to Eastern Tourism and approximately RMB5.8 million payable to Shanghai Dongmei.

On January 10, 2013, our wholly-owned subsidiary, Shanghai Airlines Tours entered into an agreement with Eastern Tourism to acquire the entire issued share capital of Eastern Travel held by Eastern Tourism Investment Group Co., Ltd for consideration of approximately RMB11.9 million.

On April 9, 2013, the Company obtained an approval from the CSRC, pursuant to which the CSRC approved the non-public issue by the Company for no more than 698,865,000 new A Shares. On April 16, 2013, the procedure for registration of the new A Shares with the Shanghai Branch of China Securities Depository & Clearing Co. Ltd. was completed. The 698,865,000 new A Shares, at an issue price of RMB3.28 per share, under this issue are subject to a lock-up period of 36 months from the completion date of the issue and are expected to be listed on April 17, 2016.

On June 21, 2013, we completed the issuance of new H Shares. A total of 698,865,000 new H Shares were issued, at the price of HK$2.32 per share, to CES Global.

On October 29, 2013, the Board of Directors resolved and approved that the Company inject RMB36 million into CES Media.

On July 17, 2014, Eastern Air Overseas (Hong Kong) Corporation Limited (EAO) our wholly-owned subsidiary, and Jetstar Hong Kong Airways Limited (Jetstar Hong Kong), an associated company of the Company, entered into a loan agreement, pursuant to which EAO will provide a loan of US$60 million to Jetstar Hong Kong at fair market interest rates. The principal of the loan was repaid on April 30, 2015.

On August 15, 2014, Shanghai Airlines Tours, our wholly-owned subsidiary, entered into an equity transfer agreement with Eastern Tourism, pursuant to which, Shanghai Airlines Tours acquired 72.84% equity interest in Shanghai Dongmei from Eastern Tourism with consideration of RMB32,147,700. This acquisition has been completed and Shanghai Dongmei has become our indirect holding company.

On December 22, 2014, our Company, CEA Holding and CES Finance (as shareholders of Eastern Air Finance agreed to inject a total of RMB1,500 million into Eastern Air Finance in proportion according to their respective shareholding in Eastern Air Finance. In February 2015, we contributed a pro-rata amount of RMB375 million in cash.

On March 29, 2015, China United Airlines, our wholly-owned subsidiary, fully adopted the low-cost carrier service model.

On May 30, 2015, we received approval from the Ministry of Industry and Information Technology to offer in-flight Wi-Fi services using KU-band satellite onboard 21 aircraft.

On July 9, 2015 we entered into the B737 Aircraft Purchase Agreement with Boeing Company in Shanghai to purchase fifty B737 series aircraft from Boeing Company.

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On July 27, 2015, we entered into a conditional subscription agreement (Subscription Agreement) with Delta Air Lines, Inc. (**Delta Air Lines**), pursuant to which Delta Air Lines agreed to subscribe for 465,910,000 shares of the newly issued ordinary H shares of the Company in an amount of HK$3,488,895,000, representing approximately 3.5% of the total share capital of the Company. On September 9, 2015, we completed the issue of 465,910,000 ordinary H shares to Delta Airlines, with a par value of RMB1.00 each at an issue price of HK$7.49 per share.

On August 14, 2015, the Board of Directors approved the Resolution on the Termination of the Proposed Establishment of Jetstar Hong Kong and its Winding Up . The Board of Directors considers that the termination of the proposed establishment of Jetstar Hong Kong will have no material adverse impact on the financial conditions and production and operation of the Company.

On August 28, 2015, we formally established the foreign airlines service center.

On September 1, 2015, Delta Air Lines and we entered into a marketing agreement and a letter of confirmation on the Subscription Agreement. Pursuant to the marketing agreement, both parties will have greater cooperation in terms of code-share, revenue management, schedule coordination, sales cooperation, airport facilities sharing, frequent-flyer program, lounge and system investment as well as staff exchange. Pursuant to the letter of confirmation on the Subscription Agreement, as of September 1, 2015, all conditions precedent to the Subscription Agreement had been fulfilled except for those conditions that will be fulfilled on the completion date of share subscription. On September 9, 2015, we completed the issue of 465,910,000 ordinary H shares with a par value of RMB1.00 each at an issue price of HK$7.49 per share.

On November 6, 2015, the Civil Aviation Administration of China officially announced and granted the Safe Flight Diamond Award , the highest award for flight safety in the PRC civil aviation industry, to the Company.

In January 2016, we received the Approval for the Non-Public Issuance of A Shares by China Eastern Airlines Corporation Limited (Zheng Jian Xu Ke [2016] No. 8) issued by the CSRC, approving us to issue not more than 2,329,192,546 A Shares by way of non-public issuance.

On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet.

On November 16, 2017, EAO issued corporate SGD-denominated guaranteed bonds in an amount of SGD500,000,000 at 2.8% due 2020, which was listed on the Hong Kong Stock Exchange on November 17, 2017. The Company guaranteed the bond issue. See Note 34 to the consolidated financial statements for more information.

On March 1, 2018, we entered into contractual operation agreement and operation cost agreement with China Cargo Airlines, pursuant to which, China Cargo Airlines (as contractor) will operate the bellyhold space business and reimburse the contractual fee to us, and we will reimburse the operation cost of the bellyhold space business to China Cargo Airlines.

On March 9, 2018, the Company issued JPY-denominated credit enhanced bonds (Series 1 JPY10,000,000,000 0.33% Bonds due 2021, Series 2 JPY20,000,000,000 0.64% Bonds due 2021 and Series 3 JPY20,000,000,000 0.64% Bonds due 2021), which was listed on the professional oriented TOKYO PRO-BOND Market of the Tokyo Stock Exchange on March 19, 2018. See Note 49 to the consolidated financial statements for the issuance of JPY bonds.

The material development of our indebtedness is set out in Note 34 and Note 49 to the consolidated financial statements. The capital expenditure is set out in Item 5 in this Annual Report.

B. Business Overview

We were one of the three largest air carriers in China in terms of several indicators including number of passengers carried, ATK and ASK in 2017 and is an important domestic airline based in and serving Shanghai, which is considered to be the international financial and shipping center of China. The primary focus of our business is the operation of civil aviation, including the provision of passenger, cargo, mail delivery, tour operations and other extended transportation services.

We operate most of our flights through our three hubs located in eastern, northwestern and southwestern China, namely Shanghai, Xi an and Kunming, respectively. With Shanghai as our core hub and Xi an and Kunming as our regional hubs, we believe that we will benefit from the level of development and growth opportunities in eastern, northern and western China as a whole by providing direct services between various cities in those regions and between those regions and other major cities in China. We have steadily fostered the construction of a flight system for these core hubs by introducing new flight destinations and increasing the frequency of certain flights, thereby enhancing our transfer and connection capability in these hub markets.

Our domestic routes contributed approximately 65.7% of our total passenger revenues in 2017. Our most heavily traveled domestic routes generally link Shanghai to the large commercial and business centers of China, such as Beijing, Guangzhou and Shenzhen. We have set up subsidiaries in 15 provinces and cities including Shanghai, Beijing, Yunnan, Shaanxi, Jiangsu, Zhejiang, Anhui, Jiangxi, Shandong, Hubei, Shanxi, Gansu, Sichuan, Hebei and Guangdong by the end of 2017. Our flight routes include all provincial capital cities in China and specifically designated cities. In 2017, we opened new routes including routes to Cebu, Jakarta from Shanghai Pudong and to Prague from Xi an, and cancelled routes to Bangkok from Zhengzhou and Jeju from Beijing. As of December 31, 2017, we served a route network that covers 1,074 domestic and foreign destinations in 177 countries through SkyTeam, an international airlines alliance.

Our passenger traffic volume (as measured in revenue passenger-kilometers, or RPKs) increased by 9.3% from approximately 167,529 million in 2016 to approximately 183,182 million in 2017. As we transferred 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment in February 2017, our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTKs) decreased by 45.4% from approximately 4,875 million in 2016 to approximately 2,663 million in 2017 under the basis that our operating data in 2016 include our whole cargo freight data during the period from February to December 2016 (under non-comparable basis). Our cargo and mail traffic volume (as measured in revenue freight tonne-kilometers, or RFTK) increased by 6.7% from approximately 2,495 million in 2016 to approximately 2,663 million in 2017 under the basis that our operating data in 2016 did not include our whole cargo freight data during the period from February to December 2016 (under comparable basis). As a result, our traffic volume (as measured in RTKs) decreased by 4.3% from approximately 19,713 million in 2016 to approximately 18,856 million in 2017 under the non-comparable basis and increased by 8.8% from approximately 17,333 million in 2016 to approximately 18,856 million in 2017 under the comparable basis.

Awards

We have received many awards, recognitions and accolades through the years. Fortune Magazine recognized us as one of the Most Innovative PRC Companies in 2011, and our China Eastern Airlines brand was awarded China s Famous Trademark by the State Administration for Industry and Commerce in 2011. In addition, in 2012 we received various recognitions and awards, including Golden Tripod Prize , which was the highest award awarded at the 8th Annual Meeting of China s Securities Market, Golden Bauhinia Award for The Listed Company with Best Brand Value 2012 by China Securities, 2012 Best Mid-Cap Company and Best Managed Company in China by Asiamoney Magazine, Top 50 Most Valuable Chinese Brands by WPP, a global brand communication and public relations firm, 2012 TOP 25 CSR (Corporate Social Responsibility) Ranking by Fortune China Magazine, 2012 China State-owned Listed Enterprise Social Responsibility Rankings Top 20 by Southern Weekly, The Best Board of Directors of State-owned Listed Holding Companies of China Top 20 by various major financial media, including Moneyweek, Healthy China Best Employee Health & Benefit Unit by Health Times, a major newspaper in China focusing on health and lifestyle, and Tsinghua University, Internal Audit Leading Enterprises in terms of Risk Management and Internal Audit by China Institute of Internal Audit, Best 100 Employers by zhaopin.com, a major online recruiting website in China, and The World s Most Improved Airline by SKYTRAX, a United Kingdom-based aviation research organization. In 2013, we received the National 1 May Award Certificate and were honored as one of the 2013 Top Ten Companies with the Best Corporate Social Responsibility by Fortune China Magazine, Best Mid-cap Company by Hong Kong Asiamoney Magazine for the second consecutive year, Top 50 Most Valuable Chinese Brands in 2013 by WPP, a global brand communication and public relations firm, the Golden Bauhinia Award of the Best Listed Company and Listed Company with the Best Investor s Relations Management by Ta Kung Pao and one of the Best 100 Employers by zhaopin.com. In 2014, our charity campaign Love at China Eastern Airlines was awarded the Gold Award at the First Chinese Young Volunteers Services Contest. The Love at China Eastern Airlines campaign has organized activities such as visiting welfare and nursing homes, subsidizing Hope Schools and schools for urban and rural migrant workers children and teaching school children with hearing and speaking impairment, running blood donation programs, and other activities for environmental protection. The campaign launched 5,179 projects with 274,979 staff and members taking participation, serving a total of 233,353 people in need. Through interaction with the community, we have established a charity brand image of delivering love and serving the community . In 2015, Love at China Eastern Airlines launched 530 projects all year round, with 26,119 staff participating, serving a total of 40,166 people.

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In 2014, we were recognized as Top 50 Most Valuable Chinese Brands by WPP, a global brand communication firm, as well as being awarded the China Securities Golden Bauhinia Award and ranked first as the Best Listed Company Award by Ta Kung Pao in Hong Kong for three consecutive years; and ranked among top 10 in terms of Most Competitive Asia Airline 2014 and Most Popular Asia Airline 2014 in the 5th World Airline Competitiveness Rankings.

In 2015, we were bestowed a number of awards, such as Best China Airline at the 8th TTG (Asia Media) China Travel Awards, China Securities Golden Bauhinia Award Listed Company with the Most Valuable Brand for four consecutive years and Best Innovative Listed Company granted by Hong Kong Ta Kung Pao, as well as 2014-2015 Most Respectable Chinese Enterprise and 2015 Chinese Best Business Model Innovation Award by the Economic Observer and 21st Century Business Herald, respectively.

In 2016, we successively won the 9th TTG China Tourism Awards Best China Airlines , and were awarded 2016 Asian Tourism Red Coral Award Most Popular Airline Brand , Asia Pacific 2016 Excellence Aviation Award and International Carbon Gold Award Social Citizenship Award by the 2016 Asian Tourism Industry Annual Conference, the CAPA Communication Center and the World Environmental Protection (Economy and Environment) Conference respectively.

In 2017, we were awarded the International Carbon-Value Award Social Citizen Award by the World Economic and Environmental Conference and were rated as a Targeted Poverty Alleviation Demonstration Enterprise by the World Charity Forum. We were granted China Securities Golden Bauhinia Award for six consecutive years, recognized as one of the Top 30 Most Valuable Chinese Brand by Wire & Plastic Products Group (WPP), the world s largest brand communication group. We were also awarded as one of the World s 500 Most Valuable Brands by the famous brand appraisal organization Brand Finance, Gold Ranking accredited by IATA, and awards such as Feike Travel Awards , Best Employer Award in Aviation Industry , The Most Admired Company in China , Top 10 Influencing Airlines , To 50 Chinese Brand with Overseas Social Influence and The Best Performing Airline by various authoritative institutions.

Our Operations by Activity

The following table sets forth our traffic revenues by activity for each of the years ended December 31, 2015, 2016 and 2017:

	Year Ended December 31,		
	2015	**2016**	**2017**
	(RMB million)	(RMB million)	(RMB million)
Traffic revenues			
Passenger	78,585	83,577	91,564
Cargo and mail	6,491	5,977	3,623
Total traffic revenues	**85,076**	**89,554**	**95,187**

Passenger Operations

The following table sets forth our certain passenger operating statistics by route for each of the years ended December 31, 2015, 2016 and 2017:

	Year Ended December 31,		
	2015	2016	2017
Passenger Traffic (in RPKs) (millions)	146,341	167,529	183,182
Domestic	98,304	106,361	117,033
Regional (Hong Kong, Macau and Taiwan)	4,189	4,347	4,758
International	43,848	56,821	61,391
Passenger Capacity (in ASKs) (millions)	181,792	206,249	225,996
Domestic	121,019	129,460	141,067
Regional (Hong Kong, Macau and Taiwan)	5,509	5,612	5,948
International	55,264	71,177	78,981
Passenger Yield (RMB)	0.56	0.52	0.52
Domestic	0.55	0.53	0.54
Regional (Hong Kong, Macau and Taiwan)	0.75	0.71	0.72
International	0.56	0.47	0.47
Passenger Load Factor (%)	80.50	81.23	81.06
Domestic	81.23	82.16	82.96
Regional (Hong Kong, Macau and Taiwan)	76.04	77.45	79.99
International	79.34	79.83	77.73

In 2015, we conducted significant optimization of our fleet structure, and increased our fleet to 551 aircrafts as of the end of 2015, and the variety of our aircraft models was streamlined to 13 models by the end of 2015. In respect of passenger transportation, we actively seized the opportunities brought about by international low oil prices and robust demand for outbound tourism, and achieved impressive growth in passenger transportation by responding proactively to adverse factors such as geopolitical instability around the globe, terrorist attacks outside China, MERS cases in South Korea and impact on short-haul routes due to formation of a high-speed railway network in 2015. Efforts have been made to foster the construction of hubs and negotiate time slots in hub and core markets in order to promote superb connectivity. In respect of freight transportation and logistics, we tightened our cost control, optimized production structure, broadened marketing channels and strived to stabilize transportation prices in 2015. In 2015, we further strengthened our cooperation with both member and non-member airlines of SkyTeam Alliance to widen the scope of cooperation and improve the quality of cooperation. In September 2015, we entered into a strategic partnership with Delta Air Lines to deepen our cooperation in terms of code-share, cabin sharing and joint sales. By forming an industry-leading route network, both parties implemented codeshare on 123 routes, including 9 international major routes and 114 domestic routes in the PRC and the USA. Through offering joint sales to corporate customers, the influential power of the North American corporate customers was increased. As for the European market, we and Air France have realized interline transit services for flights departing and arriving at Shanghai, Dalian, Paris and Nice. In the Australian market, the joint operation with Qantas was officially commenced to launch codeshare on major routes such as Shanghai-Sydney and Shanghai-Melbourne routes, in order to launch in-depth cooperative projects including customer base sharing.

In 2015, we put in available seat kilometers (ASK) of approximately 181,792.90 million passenger-kilometers, representing an increase of approximately 13.2% from 2014. Number of passengers carried in 2015 was approximately 93.8 million, representing an increase of approximately 11.9% from 2014. Passenger load factor in

2015 was approximately 80.5%, representing an increase of approximately 1.2% from 2014. Passenger revenue in 2015 amounted to approximately RMB78,585 million, representing an increase of approximately 4.4% from 2014.

In 2015, we enhanced Shanghai core hub and Xi an and Kunming regional hubs, and established and extended our aviation transportation network in major markets with high market influence such as Beijing, Nanjing and Qingdao to cover 1,057 destinations in 179 countries. We strove for additions of air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilization rate and consolidated and expanded market share in the three largest hubs and core markets. Based on the SkyTeam Alliance platform, we enhanced our strategic cooperation with Delta Air Lines and cooperated with Air France and Qantas to develop a highly efficient and convenient flight network which covered the whole country and connected to the whole wide world.

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In 2016, we continued to update and optimize our fleet structure, introducing new aircrafts continually and retiring outdated model aircrafts. As of the end of 2016, our average flight age was 5.4 years. We mainly introduce long haul B777 series aircrafts in trans-Pacific routes; mid-to-long-haul A330 series aircrafts in China-Europe routes, China-Australia and domestic business routes; A320 series and B737 series aircrafts in domestic and surrounding countries and regions routes, which we believe enhances the matching level between fleet models and routes, transportation capacities and relevant markets. In 2016, we continued to deepen and expand our cooperation with external partners. Relying on the SkyTeam Alliance platform, we continued to enhance our cooperation with member airlines in the SkyTeam Alliance. In collaboration with Delta Air Lines, based on pre-existing trans-Pacific routes and destinations in the PRC and the USA, we further extended our network of cooperative routes to Canada, Mexico, Southeast Asian and South American regions, achieving a total of 252 codeshare routes. In collaboration with Air France-KLM Group (Air France-KLM), based on our jointly operated routes and code-share coverage, we increased our joint marketing efforts to corporate customers in the French market.

In 2016, we proactively promoted the establishment of transportation hubs with the opening of various international routes for long-haul flights and an enhanced coverage of our transportation network. With Shanghai as the core hub, we added six international routes for long-haul flights to our network, connecting Shanghai and Prague, Amsterdam, Madrid, St. Petersburg, Chicago and Brisbane, respectively. We provided more frequent flight services on routes connecting Shanghai and New York City, Los Angeles, Sydney and Melbourne. We added routes connecting Kunming and Sydney, Qingdao and San Francisco, Nanjing and Vancouver and Hangzhou and Sydney. Last, we stabilized the allocation of our flight capacities for Japan, Korea and Southeast Asia markets. As a result of these enhanced transit connection and expanded transit routes structures, in 2016, we experienced approximately 26.8%, 63.8% and 43.1% year-on-year growth in passenger flight capacity for Europe, North America and Australia markets, respectively; and our inter-airline transit volume and revenue grew by 24.2% and 21.4%, respectively. As of the end of 2016, by connecting to the route networks of other SkyTeam member airlines, our flights had access to 1,062 destinations in 177 countries.

In 2016, we put in available seat kilometers (ASK) of approximately 206,249.27 million passenger-kilometers, representing an increase of approximately 13.5% from 2015. Number of passengers carried in 2016 was approximately 101.74 million, representing an increase of approximately 8.5% from 2015. Passenger load factor in 2016 was approximately 81.2%, representing an increase of approximately 0.7% from 2015. Passenger revenue in 2016 amounted to approximately RMB83,577 million, representing an increase of approximately 6.4% from 2015.

In 2016, we further strengthened our Shanghai core hub and Xi an and Kunming regional hubs. The aggregated number of transits connecting origin to destination of the three hubs reached 6,075, an increase of 13.8% as compared to 2015. In respect of the number of transits connecting origin to destination , Pudong reached 4,083, an increase of 17.9% as compared to 2015, Kunming reached 1,384, an increase of 9.1% as compared to 2015, and Xi an reached 608, which was similar to 2015. The three hubs transported approximately 4.51 million passengers, an increase of 27.0% as compared to 2015. Among them, our Shanghai hub transported approximately 2.99 million passengers, an increase of 27.2% as compared to 2015, comprising 25.6% of transit flights; our Kunming hub transported approximately 1.18 million passengers, an increase of 18.7% as compared with 2015, comprising 16.1% of transit flights; and Xi an hub transported approximately 340,000 passengers, an increase of 64.7% as compared to 2015, comprising of 6.9% transit flights.

In 2017, in view of a relatively complicated external environment and intensifying competition, we embrace challenges by seizing new development opportunities such as the One Belt One Road initiative, free trade port in Shanghai, the construction of the new airport in Beijing and the full access to electronic devices on aircraft.

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According to the Approval of the feasibility study report of the construction of new airport in Beijing by the NDRC and the Notice regarding the matters of the construction of airline base project at the new airport in Beijing by CAAC, the new airport in Beijing is located along the north bank of Yongding River, and between Yu Fa Town and Li Xian Town, Daxing District, Beijing and Guangyang District, Lang Fang, Hebei. Being the major base airline of the new airport in Beijing, we will undertake base construction according to the target of bearing 40% of the traffic flow of the new airport in Beijing. In February 2017, we have gained the approval from the NDRC in regards of the base project at the new airport in Beijing. After the commencement of operation of the new airport in Beijing in 2019, we will grasp the developmental opportunities derived from the coordinated development of Beijing, Tianjin and Hebei, especially the construction of Xiong an New District by the State, to actively strive for routes and time slot resources. Leveraging on the SkyTeam Airline Alliance platform, we will construct international coverage of our route networks to provide convenient, highly efficient and quality outbound travelling services for travelers.

In 2017, we focused on the operation and development of the passenger transportation business. We continued to optimize e-commerce platform functions. For e-commerce, we expedited the construction of our in-flight internet connection platform. The scale of the aircraft fleet with Wi-Fi installed ranked at the top nationwide and we took the lead in allowing the use of portable electronic devices on flight in the PRC. As at the end of 2017, internet access has become available in all our 74 wide-body aircraft with the coverage of major business routes in Europe, the U.S., Australia and China. Internet Access In the Air enhanced customers in-flight experience. We also upgraded and improved our 11 overseas websites, and a total of 12 updates were made to our mobile application. Furthermore, we introduced new service products such as pre-flight ordering of in-flight meals via mobile application, with an aim to optimize service experiences of customers. We strengthened the shopping mall points operations by introducing diversified point redemption products such as oversized baggage redemption and continued to increase the revenue from the sales of non-aviation points, where the revenue from the sales of nonaviation points increased by 149% compared to last year.

In 2017, we continued to optimized our fleet structure. We introduced a total of 73 aircraft of major models and a total of 18 aircraft retired. With the introduction of B737-8MAX series aircraft and the gradual retirement of B767 series aircraft, our fleet structure has been made younger. In 2017, we continued to deepen and expand our cooperation with external partners. We deepened the comprehensive partnership with Delta by further expanding the code-share coverage and jointly deepened marketing cooperation by expanding channels and markets. We also strengthened our business partnership with AFK by further expanding our code-share coverage with it. Capitalized on the cooperation platform of SkyTeam Airline Alliance, we have newly launched code-share cooperation with Air Europa Líneas Aéreas, S.A.U. (IATA code: UX) from Spain and Czech Airlines j.s.c. (IATA code: OK). In addition, we attached importance to and continued to strengthen the cooperation with airlines which are not members of SkyTeam Airline Alliance. In collaborating with Qantas Airways Limited (IATA code: QF), we launched enhanced cooperation in joint operation and sales, and points earning and redeeming of frequent flyer program. We commenced to launch code-sharing cooperation with Jet Airways (India) Ltd. (IATA code: 9W) and Air Mauritius Limited (IATA code: MK), and discussion on bilateral cooperation of frequent flyers with WestJet Airlines Ltd. (IATA code: WS).

In 2017, we strengthened the research on the route network planning of Beijing s new hub, and actively promoted the construction project of our base in the new airport in Beijing. We conducted seasonal improvements and adjustments on transportation capacity, and introduced Beijing-Hangzhou-Sydney, Kunming-Sydney and Wuhan-Sydney routes in accordance with the characteristics of European, American and Australian markets in recent years. In view of the changing demand for the Korean market, we reduced transportation capacity and changed to use smaller aircraft. We also introduced routes such as Shanghai-Jakarta, Shanghai-Cebu, Xi an-Prague and Shenzhen-Krabi so as to be in line with the State s One Belt One Road initiative. As at the end of 2017, with the matching route networks with the SkyTeam Airline Alliance members, our route networks reached 177 countries and 1,074 destinations.

In 2017, we put in available seat kilometers (ASK) of approximately 225,996 million passenger-kilometers, representing an increase of approximately 9.6% from 2016. Number of passengers carried in 2017 was approximately 111 million, representing an increase of approximately 8.9% from 2016. Passenger load factor in 2017 was approximately 81.1%, representing a decrease of approximately 0.17 percentage point from 2016. Passenger revenue in 2017 amounted to approximately RMB91,564 million, representing an increase of approximately 9.6% from 2016.

In 2017, we further strengthened our Shanghai core hub and Xi an and Kunming regional hubs. The aggregated number of transits connecting origin to destination of the three hubs reached 6,489, an increase of 6.8% as compared to last year. In respect of the number of transits connecting origin to destination , Pudong reached 4,225, an increase of 3.5% as compared to last year, Kunming reached 1,608, an increase of 16.2% as compared to last year, and Xi an reached 656, an increase of 7.9% as compared to last year. The three hubs transported approximately 4.98 million passengers, an increase of approximately 10.5% as compared to last year. Among them, our Shanghai hub transported approximately 3.02 million passengers, an increase of approximately 1.2% as compared to last year, comprising 24.3% of transit flights; our Kunming hub transported approximately 1.45 million passengers, an increase of approximately 22.7% as compared with last year, comprising 17.7% of transit flights; and Xi an hub transported approximately 0.51 million passengers, an increase of approximately 50.3% as compared to last year, comprising of 8.6% transit flights.

Cargo and Mail Operations

The following table sets forth certain of our cargo and mail operations statistics by route for each of the years ended December 31, 2015, 2016 and 2017:

	Year Ended December 31,			
	2015	**2016 (Non-comparable basis)(1)**	**2016 (Comparable basis) (2)**	**2017**
Cargo and Mail Traffic (in RFTKs) (millions)	4,865	4,875	2,495	2,663
Domestic	948	964	927	896
Regional (Hong Kong, Macau and Taiwan)	126	126	38	45
International	3,791	3,786	1,530	1723
Cargo and Mail Capacity (in AFTKs) (millions)	8,842	9,440	6,535	7,057
Domestic	2,337	2,221	2,163	2,278
Regional (Hong Kong, Macau and Taiwan)	281	270	148	188
International	6,224	6,949	4,224	4,592
Cargo and Mail Yield (RMB)	1.33	1.25	1.25	1.36
Domestic	1.09	1.07	1.10	1.10
Regional (Hong Kong, Macau and Taiwan)	3.01	2.98	3.04	3.56
International	1.34	1.24	1.30	1.44
Cargo and Mail Load Factor (%)	55.02	51.64	38.20	37.70
Domestic	40.57	43.39	42.90	39.30
Regional (Hong Kong, Macau and Taiwan)	44.82	46.51	25.70	23.90
International	60.91	54.48	36.20	37.50

Notes:

(1) On November 29, 2016, we entered into an equity transfer agreement with Eastern Airlines Industry Investment, in relation to the transfer of 100% equity interests in Eastern Logistics held by us to Eastern Airlines Industry

Investment. China Cargo Airlines, a non-wholly owned subsidiary of Eastern Logistics, operated nine freighters then. On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet. Under non-comparable basis, our operating data in 2016 comprised of our whole cargo freight data during the period from February to December 2016.

(2) Under comparable basis, our operating data in 2016 did not include our whole cargo freight data during the period from February to December 2016.

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On November 29, 2016, we entered into an equity transfer agreement with Eastern Airlines Industry Investment, in relation to the transfer of 100% equity interests in Eastern Logistics held by us to Eastern Airlines Industry Investment. China Cargo Airlines, a non-wholly subsidiary of Eastern Logistics, operated a total of nine freighters then. On February 8, 2017, we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Airlines Industry Investment and the nine freighters operated by China Cargo Airlines ceased to be included in our fleet. After completion of the disposal, we will focus on air passenger transportation business and continue to improve our operating and management ability. Also, on November 29, 2016, we and Eastern Logistics entered into the freight logistics daily connected transactions framework agreement. See Item 7. Major Shareholders and Related Party Transactions - Related Party Transactions - Related Business Transactions - Eastern Logistics, an indirectly owned subsidiary of CEA Holding - Freight Logistics Daily Connected Transactions Framework Agreement with Eastern Logistics .

On January 1, 2017, to avoid the competition between the bellyhold space business operated by us and the all-cargo aircraft freight business operated by China Cargo Airlines, we entered into the bellyhold space management agreement with China Cargo Airlines (Bellyhold Space Management Agreement) to entrust China Cargo Airlines for the operation of the bellyhold space business for a term of three years, which commenced on January 1, 2017. On March 1, 2018, we entered into contractual operation agreement and operation cost agreement with China Cargo Airlines, pursuant to which, China Cargo Airlines (as contractor) will operate the bellyhold space business and reimburse the contractual fee to us, and we will reimburse the operation cost of the bellyhold space business to China Cargo Airlines. The Bellyhold Space Management Agreement has been superseded by the contractual operation agreement dated March 1, 2018 entered into between the Company and China Cargo Airlines since March 31, 2018.

Our Operations by Geographical Area

Our revenues (net of business tax) by geographical area are analyzed based on the following criteria:

Traffic revenue from services within the PRC (excluding Hong Kong Special Administrative Region (Hong Kong), Macau Special Administrative Region (Macau) and Taiwan, (collectively known as Regional))is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets excluding Regional is classified as international operations.

Revenue from ticket handling services, ground services, cargo handling service and other miscellaneous services is classified based on where the services are performed.

The following table sets forth our revenues by geographical area for each of the three years ended December 31, 2017:

	2015	**2016**	**2017**
	(RMB million)	(RMB million)	(RMB million)
Domestic	61,222	63,730	67,923
Regional (Hong Kong, Macau and Taiwan)	3,569	3,516	3,624
International	29,178	31,658	30,928
Total	**93,969**	**98,904**	**102,475**

Regulation

The PRC Civil Aviation Law provides the framework for regulation of many important aspects of civil aviation activities in China, including:

- the administration of airports and air traffic control systems;
- aircraft registration and aircraft airworthiness certification;
- operational safety standards; and
- the liabilities of carriers.

The Chinese airline industry is also subject to a high degree of regulation by the CAAC. Regulations issued or implemented by the CAAC encompass virtually every aspect of airline operations, including route allocation, domestic airfare, licensing of pilots, operational safety standards, aircraft acquisition, aircraft airworthiness certification, fuel prices, standards for aircraft maintenance and air traffic control and standards for airport operations. Although the PRC airlines operate under the supervision and regulation of the CAAC, they are accorded a significant degree of operational autonomy. These areas of operational autonomy include:

- whether to apply for any route;
- the allocation of aircraft among routes;
- the airfare pricing for the international and regional passenger routes;
- the airfare pricing within the limit provided by the CAAC for the domestic passenger routes;
- the acquisition of aircraft and spare parts;
- the training and supervision of personnel; and
- many other areas of day-to-day operations.

Although we have generally been allocated adequate routes in the past to accommodate our expansion plans and other changes in our operations, those routes are subject to allocation and re-allocation in response to changes in governmental policies or otherwise at the discretion of the CAAC. Consequently, we cannot assure you that our route structure will be adequate to satisfy our expansion plans.

The CAAC has established regulatory policies intended to promote controlled growth of the Chinese airline industry. We believe those policies will be beneficial to the development of and prospects for the Chinese airline industry as a whole. Nevertheless, those regulatory policies could limit our flexibility to respond to changes in market conditions, competition or our cost structure. Moreover, while we generally benefits from regulatory policies that are beneficial to the airline industry in China as a whole, the implementation of specific regulatory policies may from time to time materially and adversely affect our business operations.

Because we provide services on international routes, we are also subject to a variety of bilateral civil air transport agreements between China and other countries. In addition, China is a contracting state as well as a permanent member of the International Civil Aviation Organization, an agency of the United Nations established in 1947 to assist in the planning and development of the international air transportation. The International Civil Aviation Organization establishes technical standards for the international airline industry. China is also a party to a number of other international aviation conventions. Our business operations are also subject to these international aviation conventions, as well as certain foreign country aviation regulations and local aviation laws with respect to route allocation, landing rights and related flight operation regulation.

Domestic Route Rights

Chinese airlines must obtain from the CAAC the right to carry passengers or cargo on any domestic route. The CAAC s policy on domestic route rights is to assign routes to the airline or airlines suitable for a particular route. The CAAC will take into account whether an applicant for a route is based at the point of origin or termination of a particular route. This policy benefits airlines, such as us, that have a hub located at each of the active air traffic centers in China. The CAAC also considers other factors that will make a particular airline suitable for an additional route, including the applicant s safety record, previous on-time performance and level of service and availability of aircraft and pilots. The CAAC will consider the market conditions applicable to any given route before such route is allocated to one or more airlines. Generally, the CAAC will permit additional airlines to service a route that is already being serviced only when there is strong demand for a particular route relative to the available supply. The CAAC s current general policy is to require the passenger load factor of one or two airlines on a particular route to reach a certain level before another carrier is permitted to commence operations on such route.

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Regional Route Rights

Hong Kong routes and the corresponding landing rights were formerly derived from the Sino-British air services agreement. In February 2000, the PRC government, acting through the CAAC, and Hong Kong signed the Air Transportation Arrangement between mainland China and Hong Kong. The Air Transportation Arrangement provides for equal opportunity for airlines based in Hong Kong and mainland China. Competition from airlines based in Hong Kong increased after the execution of the Air Transportation Arrangement. The CAAC normally will not allocate an international route or a Hong Kong route to more than one domestic airline unless certain criteria, including minimum load factors on existing flights, are met. There is more than one Chinese airline company on certain of our Hong Kong routes.

The CAAC and the Economic Development and Labor Bureau of Hong Kong entered into an agreement in 2007 to further expand the Air Transportation Arrangement. This agreement increases the routes between Hong Kong and mainland China to expand coverage to most major cities in mainland China. The capacity limits for passenger and/or cargo services on most routes will also be gradually lifted. Beginning in 2007, each side designated three airline companies to operate passenger and/or cargo flights and another airline company to operate all-cargo flights on the majority of the routes between Hong Kong and mainland China.

On December 15, 2008, mainland China and Taiwan commenced direct air and sea transport and postal services, ending a nearly six-decade ban on regular links between the two sides since 1949. Under a historic agreement signed by the governments of mainland China and Taiwan in early November 2008, the new air links expanded from weekend charters to a daily service, with the two sides operating a total of 108 flights per week in 2008 and approximately 270 and 370 regular direct flights per week in 2009 and 2010, respectively. Mainland China and Taiwan agreed to increase flight destinations for air links between the two sides in mainland China to 33 airports in various PRC cities in 2010, while flight destinations in Taiwan continue to include eight airports in various cities in Taiwan. At the end of 2012, the two sides agreed to increase the total number of flights to 616 per week and to increase the total number of destination airports in mainland China and Taiwan to 64. The two sides also previously agreed to launch chartered cargo flights between two terminals in mainland China, namely, Shanghai Pudong and Guangzhou airports, and two terminals in Taiwan, namely, Taoyuan and Kaohsiung airports. On August 12, 2013, the two sides agreed to increase the total number of flights to 670 per week and add three terminals of chartered cargo flights in mainland China, namely, Tianjin, Zhengzhou and Ningbo airports. At the end of 2014, mainland China and Taiwan agreed to increase the total number of flights to 924 per week and to increase the total number of destination airports in mainland China to 65. In April 2015, the fifth batch of Mainland pilot cities was opened for individual tour to Taiwan, including Haikou, Hohhot, Lanzhou, Yinchuan, Changzhou, Zhoushan, Huizhou, Weihai, Longyan, Guilin and Xuzhou, and the number of Mainland cities with free line tour to Taiwan has reached 47.

International Route Rights

International route rights, along with the corresponding landing rights, are derived from air services agreements negotiated between the PRC government, acting through the CAAC, and the government of the relevant foreign country. Each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain points within each country. The CAAC awards the relevant route to an airline based on various criteria, including:

- availability of appropriate aircraft and flight personnel;

- safety record;
- on-time performance; and
- hub location.

Although hub location is an important criterion, an airline may be awarded a route that does not originate from an airport where it has a hub. The route rights awarded do not have a fixed expiry date and can be terminated at the discretion of the CAAC.

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Airfare Pricing Policy

The PRC Civil Aviation Law provides that airfares for domestic routes are determined jointly by the CAAC and the agency of the State Council responsible for price control, primarily based upon average airline operating costs and market conditions.

The CAAC and the NDRC jointly publish pricing guidelines from time to time, which set forth the basic airfare levels and permitted ranges. Pursuant to the current pricing guidelines, the basic airfares for most domestic routes are the published airfares implemented by Chinese airlines immediately prior to the approval of the Pricing Reform Plan. Except for certain domestic routes, the actual airfare set by each Chinese airline for its domestic routes cannot be 25% than the basic airfare. Domestic routes that are not subject to the deviation range restrictions include short-haul routes between cities in the same province or autonomous region, or between a municipality and adjacent provinces, autonomous regions or another municipality. Certain tourist routes and routes served by only one Chinese airline are not subject to the bottom range restriction. The CAAC and the NDRC will announce the routes that are not subject to the deviation range restrictions through the airfare information system known as Airtis.net. Chinese airlines may apply to the CAAC and the NDRC for exemption from the bottom range restriction for a particular route. Chinese airlines are also required to file the actual airfare they set for their domestic routes within the ranges through Airtis.net 30 days prior to its implementation.

The CAAC and the NDRC will regularly review the average operating costs of Chinese airlines, and may adjust the basic airfares for particular domestic routes that, in their view, are not at a reasonable level. The CAAC and NDRC jointly issued a notice on April 13, 2010, effective on June 1, 2010, pursuant to which airlines may set first-class and business-class airfares in accordance with market prices, subject to relevant PRC laws. Such pricing must be filed 30 days before effectiveness with the CAAC and NDRC. Efforts by the Chinese regulators to promote a sale market with fair competition will also help provide a favorable environment for our business growth.

At the end of 2014, the CAAC and the NDRC jointly promulgated The Notice on Further Improving the Problems About Civil Aviation Domestic Air Transport Price Policy, which lifted the control over the civil domestic airlines cargo freight rate and changed the prices of specific airlines from government-oriented pricing to market-oriented pricing.

At the end of 2015, the CAAC announced the *Implementation Opinion on the Reform of Mechanism of Prices and Service Fee in Civil Aviation Transport*, which sets the goal to generally lift the control over the prices and service fee in competitive part of civil aviation transport by 2017, and to generally set up a basically optimized, scientific, standardized, transparent and market-oriented pricing regulatory system by 2020.

In October 2016, the CAAC and the NDRC jointly promulgated the *Circular on the Further Reform of Passenger Transport Price Policy in Civil Aviation Domestic Air Transport*, which loosened the control over the civil domestic airlines passenger transportation and changed the prices from government-oriented pricing to market-oriented pricing. According to the circular, the price of routes under 800km or routes above 800km that are in competition with high-speed rails for passenger transportation can be determined independently.

At the end of 2017, the CAAC and the NDRC jointly promulgated the *Notice on Further Improving the Problems about Passenger Transport Price Policy in Civil Aviation Domestic Air Transport*, given greater freedom to set fares on more domestic routes.

Under the PRC Civil Aviation Law, maximum airfares on regional and international routes are set in accordance with the terms of the air services agreements pursuant to which these routes are operated. In the absence of an air services agreement, airfares are set by the airlines themselves or by the CAAC with reference to comparable market prices, taking into account the international airfare standards established through the coordination of the International Air Transport Association, which organizes periodic air traffic conferences for coordinating international airfares. Discounts are permitted on regional and international routes. For the airline industry in China as a whole, the airfare per kilometer is substantially higher for regional and international routes than that for domestic routes.

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Acquisition of Aircraft and Spare Parts

We are permitted to import aircraft, aircraft spare parts and other equipment for our own use from manufacturers through EAIEC, which is 55% owned by CEA Holding and 45% owned by our Company. This gives us a sale market with fair competition flexibility with our inventory management by allowing us to maintain a relatively lower overall inventory level of aircraft parts and equipment than we otherwise would have to maintain. We are still required to obtain approval from the NDRC and may be subject to appraisal of the relevant competent authorities for any import of aircraft. We generally pay a commission to EAIEC in connection with these imports.

Domestic Fuel Supply and Pricing

The Civil Aviation Oil Supply Company, or the CAOSC, which is supervised by the State-owned Assets Supervision and Administration Commission, or the SASAC, is currently the dominant civil aviation fuel supply company in China. We currently purchase a significant portion of our domestic fuel supply from CAOSC. The PRC government determines the fuel price at which the CAOSC acquires fuel from domestic suppliers and the CAAC issues a guidance price. The retail price at which the CAOSC resells fuel to airline customers is set within a specified range based on this guidance price.

In 2005, the NDRC, the CAAC and the China Air Transport Association jointly launched the linkage mechanism for aviation fuel prices and transportation prices by airline companies. The fuel surcharge standards for domestic passenger routes were adjusted according to a series of notices regarding the adjustments of passenger fuel surcharges on domestic routes issued by the NDRC and the CAAC from 2006 to 2008. In the second half of 2008, international crude oil prices decreased significantly, leading the NDRC and the CAAC to release an announcement on January 14, 2009 to suspend fuel surcharges for domestic passenger routes with effect from January 15, 2009. A Notice Concerning the Relevant Issues on Establishment Linkage Mechanism for Passenger Fuel Surcharges on Domestic Routes and the Price of Domestic Aviation Coal Oil Fuel by NDRC and CAAC, with effect from November 14, 2009, provided that fuel surcharges shall be charged by the airlines, at the airline s discretion, but within certain limits as set forth in the notice. On March 31, 2010, the NDRC and CAAC issued the Notice Regarding the Publication of Passenger Fuel Surcharges Rate on Domestic Routes, which reduced the standard fuel surcharge by 3.1% for domestic routes. In addition, on March 31, 2011, the NDRC and CAAC issued another similar notice, which further adjusted the standard fuel surcharge downwards. From August 1, 2011, according to the *Announcement on the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel,* issued by the NDRC and CAAC, the rate of domestic route fuel surcharges will be adjusted each month if the difference in consolidated purchase costs for domestic aviation coal oil fuel exceeds RMB250 per ton.

On March 24, 2015, the CAAC and the NDRC jointly promulgated the *Notice on Adjustment of the Linking Mechanism for Fuel Surcharges and Aviation Coal Oil Fuel in Passenger Transport of Domestic Airlines*, in which they decided to increase the base price of aviation coal oil fuel form RMB4,140 per ton to RMB5,000 per ton.

Safety

The CAAC has made the continued improvement of air traffic safety in China a high priority. The CAAC is responsible for the establishment of operational safety, maintenance and training standards for all Chinese airlines, which have been formulated based on international standards. Each Chinese airline is required to provide flight safety reports to the CAAC, including reports of flight incidents or accidents involving its aircraft, which occurred during the relevant reporting period and other safety related problems. The CAAC conducts safety inspections on each airline periodically.

The CAAC oversees the training of most Chinese airline pilots through its operation of the pilot training college. The CAAC implements a unified pilot certification process applicable to all Chinese airline pilots and is responsible for the issuance, renewal, suspension and cancellation of pilot licenses. Each pilot is required to pass the CAAC-administered examinations before obtaining a pilot license and is subject to an annual examination in order to have such certification renewed.

All aircraft operated by Chinese airlines, other than a limited number of leased aircraft registered in foreign countries, are required to be registered with the CAAC. All of our aircraft are registered with the CAAC. All aircraft operated by Chinese airlines must have a valid certificate of airworthiness issued and annually renewed by the CAAC. In addition, maintenance permits are issued to a Chinese airline only after the maintenance capabilities of that Chinese airline have been examined and assessed by the CAAC. These maintenance permits are renewed annually. All aircraft operated by Chinese airlines may be maintained and repaired only by CAAC certified maintenance facilities, whether located within or outside China. Aircraft maintenance personnel must be certified by the CAAC before assuming aircraft maintenance posts.

In early 2013, the CAAC amended the original Civil Aviation Incidents Standards and published the new Civil Aviation Incidents Standards which became effective as of March 1, 2013. The CAAC amended the *Management Rules on Safety Information of Civil Aviation* which became effective on April 4, 2016 and required that related Chinese airlines should arrange a certain number of specialists that satisfied with special requirements to take charge of the management of safety information. The CAAC promulgated the new *Administrative Provisions on Emergencies of China s Civil Aviation* which became effective from April 17, 2016 and formulated the duties and responsibilities of Chinese airlines on the prevention and emergency preparedness, prediction and early warning, emergency disposal, handling and other emergency work of civil aviation. We will ensure our relevant employees implement the new standards, which will enable us to enhance our daily operations. For more information on the safety standards and measures implemented by us, see Maintenance and Safety Safety. In 2016, the CAAC promulgated the new *Administrative Provisions on Civil Aviation Safety Information.* As a result, we formulated new internal regulations on aviation safety information to strengthen the safety of our information system.

Security

The CAAC establishes and oversees the implementation of security standards and regulations based on the PRC laws and standards established by international civil aviation organizations. Each airline is required to submit to the CAAC an aviation security handbook describing specific security procedures established by the airline for the day-to-day operations and security training for staff. Such security procedures must be formulated based on the relevant CAAC regulations. Chinese airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements and applicable local laws. We believe that we comply with all applicable security regulations.

Environmental Regulation

We are subject to a number of environmental laws and regulations issued by regulatory authorities in China including the Environment Protection Law of the PRC, the Prevention and Control of Noise Pollution Law of the PRC, the Environmental Protection Tax Law of the PRC, Implementing Regulations of Environmental Protection Tax Law of the PRC, Notice on Developing Carbon Reporting and Verification and Emissions Monitoring Plan of 2016 and 2017, the Notice on Printing and Distributing the List of Quota Management Units of Shanghai Carbon Emission Trading (2017 Edition). We believe that we comply with all applicable noise and environmental regulations in material aspects.

Chinese Airport Policy

Prior to September 2003, all civilian airports in China were operated directly by the CAAC or by provincial or municipal governments. In September 2003, as part of the restructuring of the aviation industry in China, the CAAC transferred 93 civilian airports to provincial or municipal governments. The CAAC retained the authority to determine the take-off and landing charges, as well as charges on airlines for the use of airports and airport services. Prior to 2004, Chinese airlines were generally required to collect from their passengers on behalf of the CAAC a levy for contribution to the civil aviation infrastructure fund, which was used for improving China s civilian airport facilities. Our revenue for the previous years is shown net of this levy. In 2003, the levy was 5% of domestic airfares and 2% of international airfares. The levy was waived by the CAAC from May 1, 2003 to December 31, 2003. With effect from September 2004, the civil aviation infrastructure levies, now paid to the Ministry of Finance of the PRC (MOF), have been reflected in airfares of Chinese airlines rather than collected as a separate levy.

On December 28, 2007, the CAAC and the NDRC released the Implementing Scheme for the Civil Aviation Airport Charges Reform Implementation Plan, which was implemented on March 1, 2008. This new plan divides airport charges into three parts: charges related to airline businesses; charges related to important non-airline items; and other non-airline charges. The charges related to airline businesses and important non-airline items must follow the national guided prices, in which the standard prices are rarely increased, while reduced rates can be negotiated between the airport or the service provider and the users. The plan grants us the right to negotiate with airports on the airport charges.

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The civil aviation infrastructure levy was paid to the MOF and refunded again from July 1, 2008 to June 30, 2009, according to one of the ten measures announced by the CAAC in December 2008 in response to the global economic downturn. The refunded levy for China s aviation industry amounted to approximately RMB4,000 million in total. The ten measures also include measures to enhance safety, reduce taxes, invest in infrastructure and optimize the airspace and air routes.

Limitation on Foreign Ownership

The CAAC s present policies limit foreign ownership in Chinese airlines. Under these limits, non-Chinese residents and Hong Kong, Macau or Taiwan residents cannot hold a majority of our total outstanding shares individually or together. For PRC air transportation companies, pursuant to the new Catalog of Industries for Guiding Foreign Investment, jointly promulgated by the NDRC and MOC on July 28, 2017, Chinese investors should be the controlling shareholders of a PRC air transportation company and the total shares held by foreign investment enterprises and its associated enterprises are not permitted to exceed 25% of the total shares of a Chinese airline.

Domestic Investment

According to the Regulations on Domestic Investment in Civil Aviation Industry issued by the Ministry of Transport of PRC and effected on January 19, 2018, public air transport companies that require special management for domestic investment can keep a relative state-owned holding in its equity structure. The state-owned shares ratio requirement of major civil transport airports is loosened. Moreover, investment restrictions among various entities in the civil aviation industry are further liberalized.

Competition

Domestic

We compete against our domestic competitors primarily based on safety, quality of service and frequency of scheduled flights. With the combination of our dominant position in Shanghai, our route network and our continued commitment to safety and service quality, we believe that we are well-positioned to compete against our domestic competitors in the growing airline industry in China. However, domestic competition from other Chinese airlines has been increasing recently as our competitors have increased capacity and expanded operations by adding new routes or additional flights to existing routes and acquiring other airlines. In addition, we have faced intense competition from entrants to our domestic markets as new investments into China s civil aviation industry have been made following the CAAC s relaxation of certain private-sector investment rules in July 2005. In December 2008, the CAAC announced ten measures to protect and encourage the domestic aviation industry, one of which provides that no new Chinese airlines will be licensed to incorporate and operate aviation businesses before 2010. In October 2010, the CAAC announced that the suspension of approvals for new Chinese airlines companies would continue for an indefinite period. However, if the restriction is lifted in the future, we expect that competition from other Chinese airlines on our routes will further intensify.

There are currently more than 50 Chinese airlines in mainland China, and we compete with many of them on various domestic routes. All of these airlines operate under the regulatory supervision of the CAAC. Our Company, Air China Limited, or Air China, which is based in Beijing and listed on the Hong Kong Stock Exchange and the London Stock Exchange, and China Southern Airlines Company Limited, or China Southern, which is based in Guangzhou and listed on the Hong Kong Stock Exchange and the New York Stock Exchange, are the three leading air carriers in China.

Each of the domestic airlines competes against other airlines operating the same routes or flying indirect routes to the same destinations. Our principal competitors in the domestic market are China Southern and Air China, which also provide transportation services on some of our routes, principally routes originating from the major air transportation hubs in China, such as Shanghai, Guangzhou and Beijing. Some of these routes are among our most heavily traveled routes. Since most of the major domestic airlines operate routes from their respective hubs to Shanghai, we also compete against virtually all of the major domestic airlines on these routes. In addition, we are facing increasing competition from certain low-cost carriers, such as Spring Airlines, in the domestic market. Spring Airlines competes with us, as it operates daily domestic routes to certain destinations such as Harbin, Shenyang, Guangzhou, Xiamen, Sanya, Kunming and Chongqing, which are covered in our domestic routes. The Twelfth Five-Year Plan for civil aviation industry in China encourages low-cost airlines to enter into major logistics market gradually. In February 2014, CAAC issued Guidance on Facilitating Low-cost Aviation Development which aims at supporting the development of domestic low-cost airlines. This will further intensify the competition in domestic aviation market. However, we believe we are well-positioned to compete against domestic low-cost carriers due to our expansive route network, competitive pricing, greater availability of flight services to these destinations and strong brand name.

Domestic Rail

The PRC government is aggressively implementing the expansion of its domestic high-speed rail network, which has provided train services at speeds of up to 350 km per hour connecting major cities such as Beijing, Shanghai, Guangzhou and Hong Kong. The expansion of the coverage of this network and improvements in railway service quality, increased passenger capacity and stations located closer to urban centers than competing airports could enhance the relative competitiveness of the railway service and affect our market share on some of our key routes, in particular our routes between 500 km to 800 km. The high-speed railway routes between Shanghai and Kunming, Baoji and Lanzhou and Xi an and Chengdu commenced operations in 2017, and has affected our Xi an and Chengdu route, Guiyang and Kunming route, Xi an and Xining route and Xi an and Lanzhou route.

With the establishment of a PRC national high-speed railway network, we will inevitably face increasing competition and pricing pressures from this railway service. Therefore, we have been taking active measures in decreasing the number of short-haul routes that overlap with such high-speed train routes, as well as adjusting certain airfare prices on affected routes, facilitating air-to-railway transfers and allocating flight resources to alternative routes or medium-to-long-haul routes that have higher profitability, higher demand and lessened competition. In addition, in 2013, we developed ground connection services such as Air-Rail Service and Air-Bus Service and cooperated with Disney, brand hotel groups, and renowned international travel enterprises to develop travel products. In 2017, our Air-Rail Service and Air-Bus Service developed steadily with increased routes in Yangtze River Delta, Xi an, Lanzhou and other cities and regions. We expect to continue exploring cooperation opportunities with domestic railway authorities, while maintaining and strengthening our other competitive advantages, which include providing high quality services, increasing our pre-sale product promotions and developing our transfer services.

Regional

Our Hong Kong routes are highly competitive. We currently operate approximately 20 flight routes between various cities in mainland China and Hong Kong. The primary competitors on our Hong Kong routes are Cathay Pacific Airways (Cathay), Hong Kong Dragon Airlines Limited (Dragonair) and HongKong Airlines. Cathay, Dragonair and HongKong Airlines compete with us on several of these routes, particularly the Shanghai-Hong Kong route. We also face competition from Spring Airlines on our Shanghai-Hong Kong and Shanghai-Macau routes. In addition, we face competition from HK Express on our Kunming-Hong Kong route. The Air Transportation Arrangement signed between the PRC government and the administrative government of Hong Kong in February, 2000 provides for equal opportunity for airlines based in Hong Kong and mainland China. As a result, Dragonair has increased the frequency of its flights on several of our Hong Kong routes, resulting in intensified competition.

The policy restraint on direct flights between Taiwan and mainland China has been further loosened in the past few years but there has been no further negotiation on the expansion of such arrangement between Taiwan and mainland China since mid-2016. We currently operate flights to Taipei from Shanghai, Xi an, Kunming, Changzhou, Hefei, Huai an, Yinchuan, Nanchang, Lanzhou, Lijiang, Ningbo, Nanjing, Qingdao, Huangshan, Taiyuan, Wuhuan, Wuxi. We currently compete with China Airlines and EVA Air on our Shanghai-Taipei, Nanjing-Taipei, Wuhan-Taipei, Xi an-Taipei and Qingdao-Taipei routes. However, given the arrangement is subject to the political relationship between Taiwan and mainland China, any deterioration in such political relationship may cause the discontinuity or disruption in the flight arrangement. As one of the several airlines offering Taiwan-mainland China direct flight services, we cannot assure you that we will maintain or will continue to be allocated sufficient Taiwan-mainland China routes, or our results will not be aversely impacted.

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We compete with Air Macau on the Shanghai Pudong-Macau route. Air Macau s routes also provide an alternative to our Hong Kong routes for passengers travelling between Taiwan and mainland China.

International

We compete with Air China, China Southern and many other well-established foreign carriers on our international routes. Most of our international competitors are very well-known international carriers and are substantially larger than we are and have substantially greater financial resources than we do. Many of our international competitors also have significantly longer operating histories and greater name recognition than we do. Some international passengers, who may perceive these airlines to be safer and provide better service than Chinese airlines in general, may prefer to travel on these airlines. In addition, many of our international competitors have more extensive sales networks and utilize more developed reservation systems than ours, or engage in promotional activities, such as frequent flyer programs, that may be more popular than ours and effectively enhance their ability to attract international passengers.

To improve our competitive position in international markets, we have established additional dedicated overseas sales offices, launched our own frequent flyer program, participated in Asia Miles , a popular frequent flyer program in Asia, and entered into code-sharing arrangements with a number of foreign airlines. We have also improved our online reservation and payment system. In addition, in June 2011, we joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes, among others, international carriers such as Delta, China Southern, Alitalia, Air France and KLM. As a member of SkyTeam alliance, our Elite members can enjoy approximately 516 lounges worldwide. In 2013, we implemented code-sharing programs covering 242 routes with 11 SkyTeam member airlines. See Marketing and Sales SkyTeam Alliance. In the meantime, we also started code-sharing cooperation with seven non-SkyTeam member airlines, covering more than 150 routes, including Japan Airlines Corporation and Qantas Airways Limited. In 2014, we proactively promoted international cooperation among members and non-members airlines of SkyTeam Alliance at various levels and expanded its route network to increase its brand recognition. We implemented transit service cooperation with China Airlines, Delta Airlines and Air France between different terminals at Shanghai Pudong International Airport. We facilitate joint sales by optimizing transit connection with Delta Airlines and enhanced co-operations with Air France by increasing the number of code-share flights. We also comprehensively improved cooperation on the China-Australia route by establishing joint operation with Qantas.

In 2015, we actively responded to the industry competition, strove for additions of air traffic rights and time slot resources in hub markets and core markets, steadily improved the aircraft utilization rate and consolidated and expanded market share in the three largest hubs and core markets. Based on the SkyTeam Alliance platform, we enhanced our strategic cooperation with Delta Air Lines and cooperated with Air France and Qantas to develop a highly efficient and convenient flight network, which covered the whole country and connected to the whole world.

In 2016, we proactively promoted the establishment of transportation hubs with the opening of various international routes for long-haul flights and an enhanced coverage of our transportation network. With Shanghai as the core hub, we added six international routes for long-haul flights to our network, connecting Shanghai and Prague, Amsterdam, Madrid, St. Petersburg, Chicago and Brisbane, respectively. We provided more frequent flight services on routes connecting Shanghai and New York City, Los Angeles, Sydney and Melbourne. We added routes connecting Kunming and Sydney, Qingdao and San Francisco, Nanjing and Vancouver and Hangzhou and Sydney. Last, we stabilized the allocation of our flight capacities for Japan, Korea and Southeast Asia markets. As a result of these enhanced transit connection and expanded transit routes structures. Meanwhile, we also continued to strengthen our cooperation with airlines which are not members of the SkyTeam Alliance. We and Qantas Airways opened up our respective VIP lounges in the PRC and Australia to each other. Through cooperating with British Airways, Royal Brunei Airlines and China Express Airlines in code sharing, we optimized our transit connection at London Heathrow

Airport and enhanced the level of coverage of our route network in Southeast Asia.

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In 2017, we actively responded to the competition in international market. We have strengthened our cooperation with Air-France KLM and Delta to further extend our international route and improve our competitiveness and reputation in the international market. Relying on the cooperation platform of SkyTeam Airline Alliance, we have newly launched code-share cooperation with Air Europa Líneas Aéreas, S.A.U. (IATA code: UX) from Spain and Czech Airlines j.s.c. (IATA code: OK). In addition, the agreement of Fully Opening of the Aviation Market between China and Australia has intensified the competition in the Australian market, yet, it has caused us to strengthen our cooperation within the SkyTeam Airline Alliance, especially joining hands with Qantas Airlines, a cooperative partner, to expand the route network and share the infrastructure and resources of the main bases of both parties. We deepened our cooperation with Qantas Airlines in terms of code sharing, joint operation and sales. We commenced to launch code-sharing cooperation with Jet Airways (India) Ltd. (IATA code: 9W) and Air Mauritius Limited (IATA code: MK). In 2017, we also proactively adjust our capacities in international routes according to the market situation.

Maintenance and Safety

The rapid increase in air traffic volume in China in recent years has put pressure on many components of China s airline industry, including air traffic control systems, the availability of qualified flight personnel and airport facilities. In recent years, the CAAC has placed increasing emphasis on the safety of airline operations in China and has implemented a number of measures aimed at improving the safety record of the airlines. Our ability to provide safe air transportation in the future depends on the availability of qualified and experienced pilots in China and the improvement of maintenance services, national air traffic control and navigational systems and ground control operations at Chinese airports. We have a good safety record and regard the safety of our flights as the most important component of our operations.

Maintenance Capability

Through our cooperation with service providers and ventures with other companies, we currently perform regular repair and maintenance checks on all of our aircraft, which include D1 checks, C checks and other maintenance services for certain aircraft and other flight equipment. We also perform certain maintenance services for other Chinese and international airlines. We have four main maintenance bases in Shanghai, Kunming and Xi an and several maintenance bases in our provincial hubs including Taiyuan, Qingdao and etc. Our primary aircraft maintenance base is at Pudong International Airport. We employed approximately 11,993 workers as maintenance and engineering personnel as of December 31, 2017. We prepared our own training plan for our employees to meet the requirements of certain regulations and the needs for future development. In order to enhance our maintenance capabilities and to reduce our maintenance costs, we have acquired additional maintenance equipment, tools and fixtures and other assets over the past few years, such as airborne testing and aircraft data recovery and analysis equipment. Our avionics equipment is primarily maintained and repaired at our electronic maintenance equipment center located in Shanghai.

We entered into a joint venture with Honeywell International Inc. (Honeywell), formerly Allied Signal Inc., in Shanghai for performing maintenance and repairs on aircraft wheel assemblies and brakes. Since October 1997, we have operated a maintenance hangar at Hongqiao International Airport, which has the capacity to house two wide-body aircraft. We and Rockwell Collins International Inc. of the United States have also co-established Collins Aviation Maintenance Service Shanghai Limited, which is primarily engaged in the provision of repair and maintenance services for avionics and aircraft in-flight entertainment facilities in China. We and Rockwell Collins International Inc. hold 35% and 65%, respectively, of the equity interests in the joint venture. Moreover, in November 2002, we, jointly with Aircraft Engineering Investment Limited, established Shanghai Eastern Aircraft Maintenance Limited, in which we hold 60% of the equity interests, to provide supplemental avionics and other maintenance services to us. STA, which was established in 2004 by us and Singapore Technologies Aerospace Ltd. under a joint venture agreement dated March 10, 2003, also provides us with aircraft maintenance, repair and overhaul services. In

2017, we entered into two agreements with Honeywell and we expect to save US$0.8 million of repairing costs.

On November 6, 2007, we entered into a joint venture with United Technologies Corp., or UTC, to establish Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd., or Pratt & Whitney, for performing maintenance and repairs on aircraft engines. We and UTC contributed US$20,145,000 and US$19,355,000, respectively, to the registered capital and hold 51% and 49%, respectively, of the equity interests in the joint venture. Moreover, after our absorption of Shanghai Airlines, we took over its 15% equity interest in Boeing Shanghai Aviation Services Co., Ltd. (Boeing Shanghai). As of December 31, 2013, Boeing (China) Investment Co., Ltd., Shanghai Airport (Group) Co., Ltd. and Boeing (Asia) Services Investment Limited hold 35.3%, 25.0% and 24.7%, respectively, of the remaining equity interest. Boeing Shanghai was founded in 2006 with a registered capital of US$85,000,000, and operates a maintenance hangar with the capacity to provide aircraft modification and maintenance services for two wide-body aircraft and one narrow-body aircraft and provides aircraft modification and maintenance services. In addition, we also hold 50% of Shanghai Airlines previous equity interest in Shanghai Hute Aviation Technology Co., Ltd. (Shanghai Hute). The remaining equity interest is held by Sichuan Haite High-Tech Co., Ltd. Shanghai Hute was founded in 2003 with a registered capital of RMB30,000,000, and provides maintenance services for aviation equipment. The enhancement of our maintenance capabilities allows us to perform various maintenance operations in-house and continue to maintain lower spare parts inventory levels.

Since December 2014, we have adopted an innovative asset management model and established Eastern Airlines Technology Co. Ltd. (Eastern Technology), a wholly-owned subsidiary specializing in aircraft maintenance, to explore the transformation of supporting assets to operational assets. In 2015, Eastern Technology engaged in aircraft maintenance, raised its standards for aircraft maintenance and construction management to facilitate our centralized control over aircraft maintenance, and focused on high-end premium operations, such as providing maintenance services for aircraft for Chinese routes operated by international airlines and sharing of aviation equipment. In 2016, other airlines such as Singapore Airlines, AirAsia and Royal Brunei Airlines became customers of Eastern Technology, whose area of operation expanded to locations including Xi an, Jinan, Wuhan and Wuxi. In 2017, other airlines such as Macau Airlines, Delta, Asiana Airlines, Hong Kong Airlines and Malaysia Airlines became customers of Eastern Technology.

Safety

The provision of safe and reliable air services for all of our customers is one of our primary operational objectives. We implement uniform safety standards and safety-related training programs in all operations. Our flight safety management division monitors and supervises our flight safety. We have had a flight safety committee since the commencement of our business, comprised of members of our senior management, to formulate policies and implement routine safety checks at our Shanghai headquarters and all provincial hubs. The flight safety committee meets monthly to review our overall operation safety record during the most recent quarter and to adopt measures to improve flight safety based upon these reviews. We have also implemented an employee incentive program, using a system of monetary rewards and discipline, to encourage compliance with the CAAC safety standards and our safety procedures. We periodically evaluate the skills, experience and safety records of our pilots in order to maintain strict control over the quality of our pilot crews. In 2011, we were awarded the Flight Safety Five-star Award by CAAC for our commitment to aviation and operations safety.

In 2013, we continued to strengthen our Safety Management System (SMS). We issued work implementation plans that provided specific measures to address risks such as lighting strikes, hard aircraft landings and communication systems failures. In addition, we established the Nantong Airport training base to provide additional training programs for our flight crews. Furthermore, we formulated the Assessment and Remuneration Packages of Star-rating flight Crew Members , which commenced star-rating assessment of all flight crew members in terms of flight safety, flight quality, discipline and provision of services. The management of each of our provincial hub operations is responsible for the flight safety operations at the respective hub under the supervision of our flight safety management division.

We prepare monthly safety bulletins detailing recent developments in safety practices and procedures and distribute them to each of our flight crew, the maintenance department and the flight safety management department. The CAAC also requires us to prepare and submit semi-annual and annual flight safety reports.

Regarding the strengthening of the SMS, we have (i) organized training for the administrators of safety management of all operating units, deepened the understanding for the construction of SMS, laying the groundwork for SMS; (ii) followed our plans and orderly commenced the construction of the analytical network. We had a number of cooperation meetings, discussing the master framework, which carries the system. We also introduced the concept of safety indicators for operational progress, rendering safety management more comprehensible; and (iii) continuously improved the risks database of the relevant routes and airports, strengthening the application of the different databases on the actual process of operation.

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In 2014, we continued to facilitate the construction and application of the SMS and strictly implementing risk management. We also put greater efforts in safety inspection and supervision as well as fulfillment of responsibilities in relation to safety enhancement. We enhanced its flight training management and commenced specialized training covering pilots management and transition to B777-300ER aircraft to reinforce the foundations of flight safety. Emphasizing technology applications, we established a research institute of flight safety technology application to provide intellectual support to our ongoing safe operations.

All of our jet passenger aircraft pilots participated in the manufacturer training and support programs sponsored by Airbus and Boeing and are required to undergo recurrent flight simulator training and to participate in a flight theory course periodically. We use flight simulators for A320, A330, A340, B737NG, B737-300, B777 aircraft at our own training facility, the training facility located in the CAAC training center or overseas training facilities.

We placed great emphasis on ensuring safe operation and will continue to do so. In 2015, we established an integrated management and control model incorporating regional management, safety audit and safety supervision to further improve our safety management and control system, and pushed ahead the establishment of the Management of Risk Control System (MORCS) to enhance safety risk prevention on an ongoing basis. We have also promoted phase 2 of the Electronic Flight Bag, focusing on technical difficulties such as operation of above plateau airports, and has been enhancing our research capability in flying technology, providing psychological support to our pilots and improving emergency drills to implement in-flight safety requirements strictly.

In 2016, we further enhanced our safety management system by strengthening the enforcement of safety responsibilities, strengthening our safety supervision and inspection, strengthening our risk control over special routes and international routes for long-haul flights, enhancing our operational risk alert abilities, boosting the quality of training for our pilots, improving our system for developing talents with core skills, enhancing our ability in handling security-related contingencies, and strictly implementing safety requirements for our flights.

In 2017, through the formulation of safety management responsibility list, we strengthened procedure management and enforced safety management responsibilities. We also carried out safety management system effectiveness evaluation to enhance our abilities in identifying and managing material operational risks. In addition, we improved our emergency handbooks and emergency flows to enhance its ability in handling contingencies, as well as conducted comprehensive safety inspections and adopted specific prevention measures targeting material risk-prone areas to strengthen risk management. We made use of information technology to disseminate safety information and risk alerts quickly and strengthened the application of technology in safety management. We developed air defense information system to promote the integration of air security and ensured the safety of air defense. In 2017, we had 2,073,000 safe flying hours and 879,700 take-off and landing flights, which is an increase of 8.0% and 7.0%, respectively, over the same period of year 2016.

Cyber-security

With respect to our internal policies on cyber-security and internet safety, we have established an information safety management system and issued internal regulations on cyber-security, internal hardware and data safety systems to prevent loss of information due to cyber-security incidents, network outages or hardware incidents. We also plan to implement measures relating to the office environment information safety management and information system emergency management, information system access control, protection from any malicious software, management of information exchange tools and internal review and audit of information safety risks. Furthermore, we have entered into a strategic cooperation plan with the China Information Technology Security Evaluation Center by which their trained engineers evaluate our internal data security policies and cyber-security measures. In 2012, we established and announced two internal regulations relating to cyber-security, namely, China Eastern Airlines Information Security

Management Regulation and China Eastern Airlines Information System Application and Development Safety Regulation and in 2013, we established and announced another two internal regulations relating to cyber-security, namely, China Eastern Airlines Information Security Incident Management Regulation and China Eastern Airlines Information System Classification Measures, which we believe will strengthen our information safety management systems and overall cyber-security defenses. During the year ended December 31, 2014, we did not experience any material cyber-security incidents or related losses.

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In 2014, regarding the risks in relation to internet security of the aviation section, we took the following preventive measures: (i) putting in place a monitoring system; (ii) clarifying the responsibilities relating to internet, mainframe computer, operation and maintenance, product development and management; (iii) having internet security equipment; (iv) having manual inspection and(v) preparing for emergency response.

In June 2014, we promulgated documents Class I to V for CEA Information Security Management System, including directions, management requirements, operation manual and recorded output documents at security level, and passed the ISO27001 (international information security standard) certificate qualification in November 2014. Our internet security policy was synchronized with the ISO27001.

In 2015, we established a routine inspection system and a contingency mechanism for its reporting website for external security breach. The data loss prevention (DLP) project was implemented and our information security management system passed the ISO27000 certification. In the future, we will further improve our security code review and management system; promote the construction of IPS at the internet portal and the information technology disaster backup center to elevate the overall protection level on our information system security.

In 2016, we conducted information system emergency response training and commissioned the construction of our Xi an disaster backup facility. In addition, we implemented security code review and security protection around the boundaries of our internet and data center, optimized the multi-dimensional security protection system and elevated the overall security protection level on our information system.

In 2017, we based on the Three Centers in Two Places plan to promote our work on the construction of the Xi an data and disaster backup facility and the construction of a globalized basic assurance and service system. We optimized the multi-dimensional security protection system on the internet and the data center to prevent the attack of the WANNACRY ransomware effectively. We conducted information system emergency response training and relied on security code quality analysis to implement security code review and security protection. We also commenced security review for information system and enhanced emergency response of internet security, optimized the multi-dimensional security protection system on the internet and the data center and safeguarded the security of key information infrastructure, elevating the overall security protection standard on our information system. In 2017, our information security management system passed the ISO27001 review for certification renewal and the ISO20000 review.

We did not purchase any insurance for internet security.

Fuel Supplies

Jet fuel is one of the major expenses of airlines. Fuel costs represented approximately 25.0% of our total operating expenses in 2017. Our aviation fuel expenditure in 2017 was RMB25,131 million, representing an increase of 28.1% from RMB19,626 million in 2016. We currently purchase a significant portion of the aviation fuel for our domestic routes from regional branches of the CAOSC. Fuel costs in China are affected by costs at domestic refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for aviation fuel in certain regions of China. Fuel prices at six designated major airports in China, namely, the airports in Shanghai Pudong, Shanghai Hongqiao, Beijing, Guangzhou, Shenzhen and Tianjin, are set and adjusted once a month by the CAAC in accordance with prevailing fuel prices on the international market. For our international routes, we purchase a portion of our aviation fuel from foreign fuel suppliers located at the destinations of these routes, generally at international market prices. Significant fluctuations of international oil prices will significantly impact jet fuel prices and our revenue from fuel surcharge and accordingly our results of operations.

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In 2017, our total aircraft fuel cost was approximately RMB25,131 million, representing an increase of 28.1% from RMB19,626 million in 2016, which was mainly due to an increase in average price of fuel as the OPEC and other oil suppliers efficiently squeezed excess supply of oil in the market and the political upheaval in the Middle East increased the uncertainty of oil production, and to a lesser extent, an increase in the volume of refueling from 2016 to 2017. We cannot assure you that fuel prices will not fluctuate in the future. Further, due to the highly competitive nature of the airline industry and government regulation on airfare pricing, we may be unable to fully or effectively pass on to our customers any increased fuel costs we may encounter in the future. However, we intend to continue focusing on enhancing our jet fuel procurement policies and developing additional internal cost-control measures, which include streamlining the number of aircraft models in our fleet and optimizing route structures, which we believe will enable us to control our fuel costs.

Ground Facilities and Services

The center of our operations is Shanghai, one of China s principal air transportation hubs. Our Shanghai operations are based at Hongqiao International Airport and Pudong International Airport. We currently also operate from various other domestic airports. We have hangars, aircraft parking and other airport service facilities at these airports, and provide ground services in these locations.

We have our own ground services and other operational services, such as aircraft cleaning and refueling and the handling of passengers and cargo for our operations at Hongqiao International Airport and Pudong International Airport. We also provide ground services for many other airlines that operate to and from Hongqiao International Airport and Pudong International Airport.

In-flight meals and other catering services for our Shanghai-originated flights are provided primarily by Shanghai Eastern Air Catering Limited Liability Company, a joint venture company affiliated with CEA Holding. We generally contract with local catering companies for flights originating from other airports.

In 2017, we enhanced the flight management to reduce the delay in takeoff. We also improved our service in self check-in management by optimizing our internal management process. In addition, we deepened our cooperation with Air-France KLM, Delta and other members of the SkyTeam to provide through check-in services in various domestic airports and international airports.

Marketing and Sales

Passenger Operations

Our marketing strategy with respect to passenger operations is primarily aimed at increasing our market share for all categories of air travelers. With respect to our Hong Kong and international routes, we are permitted to market our services based on price. We have limited flexibility in setting our airfares for domestic routes and adjust our domestic airfares in response to market demand. As part of our overall marketing strategy, we emphasize our commitment to safety and service quality. We believe that emphasis on safety is a critical component of our ability to compete successfully.

We have also adopted customized strategies to market our services to particular travelers. We seek to establish long-term customer relationships with business entities that have significant air travel requirements. In order to attract and retain business travelers, we focus on the frequency of flights between major business centers, convenient transit services and an extensive sales network. We launched our initial frequent flyer program in 1998 and joined the Asia Miles frequent flyer program in April 2001 to attract and retain travelers. In August 2003, we upgraded and rebranded our frequent flyer program to Eastern Miles and introduced a series of new services, including, among others, instant registration of membership and mileage, online registration of mileage, and accumulation of mileage on expenses at certain hotels, restaurants and other service providers that are our strategic partners. As a result of our continual efforts to develop the Eastern Miles program, the number of members of the frequent flyer program reached over 22.8 million in 2014. The special services hotline 95530 call center was established and came into operation in 2004. In light of the expansion of national high-speed railway network, we have cooperated with the Shanghai Railway Bureau to launch Air-Rail Pass Transportation products. Our domestic and international flights together with the high-speed railway products at Shanghai Hongqiao International Airport and Shanghai Pudong International Airport, have formed an air-rail two-way transportation product, which has helped us broaden our customer resources.

In terms of our customer resources, we have actively explored and expanded our customer base of high-end business travelers to accelerate the development of group clients. In addition, we have fully promoted the expansion of Eastern Miles membership. In order to attract more members and to provide members with better experience in terms of diversity, comprehensiveness and flexibility, we have strengthened our cooperation with retail stores by increasing the number of co-operative stores, covering various industries such as financial services, hotel, car rental and health services. As of the end of 2017, frequent flyer members of Eastern Miles reached 33.4 million, increased by 14.3% compared to 2016. We actively launched marketing campaigns such as Members Day and 818 Big Sale , as well as increased the diversity of non-aviation point redemption channels and products, boosted the loyalty of our customers such that the ratio of frequent flyer members repeating their flights raised to 31.71%, representing an increase of 1.37 percentage points. Meanwhile, we placed emphasis on and strengthened the cooperation with travel management companies (TMC), online travel agency s (OTA) agents and major customers. Sales revenue from TMC increased by 38.92% compared to last year. Revenue from direct corporate customers increased by 25.07% compared to last year, the number of direct corporate customers increased to 4,027, increased by 27.1% compared to 2016

Our advertising, marketing and other promotional activities include the use of online platforms, radio, television and print advertisements. We plan to continue to use advertising and promotional campaigns to increase sales on new routes and competitive routes.

In 2016, China Eastern Airlines E-Commerce Co., Ltd. established an e-commerce platform by integrating our online and offline platforms. Ticket returns, rebooking and upgrades via multiple channels, such as our official website, mobile application and member website were launched with success. In 2017, 12 major updates were made to our mobile application.

Ticket Booking Systems

In 2002 and again in 2012, we upgraded our online ticket booking and payment system to facilitate customer purchases of tickets via the Internet. In 2012, we also expedited the construction of nine overseas websites in a variety of languages. Currently, our global website covers North America, Australia, Europe and Asia Pacific. We continue to encourage our customers to book and purchase tickets via the Internet by initiating various promotional campaigns, upgrading and expanding the services offered by our online sales system. In 2012, we introduced China Eastern Mobile E , a smartphone application that provides mobile flight booking, flight status and online checking services, which we believe will provide our customers with additional convenient, value-added services. In 2013, we introduced a new version of China Eastern Mobile E and increased the application of China Eastern Mobile E to 14 airports. In 2016, we introduced the English version of China Eastern Mobile E to our customers. In addition, we introduced M Website , a website portal that provides mobile flight booking, flight status and online checking services and applied several third-party payment platforms to our ticket booking system. We also increased the success rate of website payment. In addition, we updated the ability for sale activities and self-service.

In 2017, to expand direct sales channels effectively, we launched Air Tickets Market offline while strengthened online sales channels on our official website and mobile user terminals, continued to enhance our ability in direct sales. Our revenue from direct sales increased significantly by 34.3% as compared to 2016 representing 51.2% of revenue, which increased 11 percentage points as compared to 2016 while agency fee expenses reduced continuously. In 2017, the amount of tickets purchased from our official website and mobile application reached approximately 10.5 million and led to the revenue of approximately RMB10.2 billion, representing approximately 16% of the total revenue of ticket sales.

We also maintain an extensive domestic network of sales agents and representatives in order to promote in-person ticket sales and to assist customers. Direct sales are also promoted through the availability of our telephone reservation and confirmation services. In addition to our domestic sales agents located in various cities in mainland China, Hong Kong, Macau and Taiwan, we maintain overseas sales or representative offices worldwide, including: (i) North American locations such as Honolulu, Los Angeles, New York, San Francisco and Vancouver; (ii) European and Middle Eastern locations such as Frankfurt, Hamburg, London, Moscow, Paris, Rome, Madrid, Brussels and Munich; (iii) Asia-Pacific locations such as Seoul, Tokyo, Osaka, Nagoya, Fukuoka, Hiroshima, Sapporo, Niigata, Fukushima, Okinawa, Shizuoka, Kanazawa, Toyama, Nagasaki, Kagoshima, Okayama, Matsuyama, Singapore, Bangkok, Phuket, New Delhi, Kolkata, Kuala Lumpur, Ho Chi Minh, Bali, Dubai, Dhaka, Phnom Penh, Siem Reap, Vientiane, Yangon, Mandalay, Kathmandu and Maldives; and (iv) Australian locations such as Melbourne and Sydney.

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As of June 1, 2008, we stopped issuing paper tickets for air travel in accordance with a mandate from the International Air Transport Association (IATA). The IATA represents approximately 240 airlines and comprises approximately 84% of scheduled international air traffic. As a result of the mandate, we now issue electronic itineraries and receipts as well as electronic tickets to our passengers. We believe the transition to 100% electronic ticketing will decrease administrative costs, increase flexibility and travel options for passengers, in addition to benefiting the environment through the reduced need for paper. All of our direct passenger ticket sales are recorded on our computer systems. Most Chinese airlines, including us, are required to use the passenger reservation service system provided by the CAAC s computer information management center, which is linked with the computer systems of major Chinese commercial airlines. We have also entered into membership agreements with several international reservation systems, including ABACUS, the largest computer reservation system in southeast Asia, TOPAS of Korea, SABRE, GALILEO and WORLDSPAN of the United States, AMADEUS of Europe, INFINI and AXESS of Japan and Sirena-Travel of Russia, which have made it easier for customers and sales agents to make reservations and purchase tickets for our international flights. In addition, we have entered into distribution agreements with ABACUS, TOPAS, SABRE, GALILEO and AMADEUS.

SkyTeam Alliance

We officially joined SkyTeam, an international airlines alliance and frequent flyer mileage program that includes international carriers such as, among others, Delta, China Southern, Alitalia, Air France and KLM, on June 21, 2011.

By the end of 2015, we have entered into frequent flyer and airport lounges agreements with 20 SkyTeam member airlines and implemented code-sharing programs covering 670 routes, as well as 336 routes with non-SkyTeam member airlines, which has further broadened the coverage of our route network. By the end of 2016, we implemented code-sharing programs with 12 SkyTeam member airlines and the number of code sharing routes with non-SkyTeam member airlines increased by 52% as compared to 2015. We also cooperated with nine SkyTeam member airlines including Delta, Air France and KLM, China, Alitalia, Garuda Indonesia and Iberia in joint check-ins for 21 transit points. By the end of 2017, we implemented code-sharing programs with 14 SkyTeam member airlines. The two newly cooperated SkyTeam members are Air Europa Líneas Aéreas, S.A.U. (IATA code: UX) from Spain and Czech Airlines j.s.c. (IATA code: OK).

By connecting to the route networks of other SkyTeam member airlines, we are able to offer our passengers seamless transit to 25 destinations in 15 countries under a single plane ticket with direct luggage services as of December 31, 2017. Passengers may also enjoy the comfort of more than 600 VIP airport lounges of SkyTeam around the world. We believe this will be another benefit for our passengers, as they will be afforded additional flight options and frequent flyer mileage benefits through our SkyTeam alliance partners. In addition, we will benefit from possible codeshare and cooperative flight options, reduced costs and increased alliance-related marketing and promotion overseas.

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Tourism and Travel Services

In addition to our airline operations, we also generate commission revenues from tickets sold on behalf of other airlines. With our subsidiary, Shanghai Airlines, we derive revenue from tourism and travel services through Shanghai Airlines Tours. Shanghai Airlines Tours provides various business and leisure travel services, including inbound, outbound and domestic travel, conference and exhibition planning, flight chartering and plane ticket reservation, tour bus and hotel reservation and other related services. Shanghai Airlines Tours is a member of the China Association of Travel Services and Shanghai Association of Tourism (International and Domestic Travel Services divisions), as well as a member of Shanghai Association of Quality, and has been admitted into many international travel organizations including the IATA. Shanghai Airlines Tours has won several awards as a travel services provider, as well as awards and honors for its professional staff and vacation package offerings.

In 2017, Shanghai Airlines Tours continued to optimized its business and leisure travel services under two brands, namely, Shanghai Airlines Travel and Shanghai Airlines Holiday , by developing new tourism products and models. Shanghai Airlines Tours launched its online official store to expand its direct sale channels and consolidated its online and offline channels to make full use of its resources. It also successfully became the supplier of several government departments. In addition, Shanghai Airlines Tours strengthened the cooperation with our other subsidiaries to connect its business to ours to improve the overall service quality and performance.

Patents and Trademarks

We own or have obtained licenses to use various domestic and foreign patents, patent applications and trademarks related to our business. While patents, patent applications and trademarks are important to our competitive position, no single one is material to us as a whole. In addition, we own various trademarks related to our business. The most important trademark is the service trademark of China Eastern Airlines Corporation Limited. All of our trademarks are registered in China.

Insurance

The CAAC purchases fleet insurance from PICC Property and Casualty Company Limited (PICC), and China Pacific Property Insurance Company Ltd., on behalf of all Chinese airlines. PICC has reinsured a substantial portion of its aircraft insurance business through Lloyd s of London. The fleet insurance is subject to certain deductibles. The premium payable in connection with the insurance is allocated among all Chinese airlines based on the aircraft owned or leased by these airlines. Under the relevant PRC laws, the maximum civil liability of Chinese airlines for injuries to passengers traveling on domestic flights has been increased to RMB400,000 per passenger in March 2006, for which we also purchase insurance. As of July 31, 2006, the *Convention for the Unification of Certain Rules for International Carriage by Air* of 1999, or Montreal Convention, became effective in China. Under the Montreal Convention, carriers of international flights are strictly liable for proven damages up to 100,000 Special Drawing Rights and beyond that, carriers are only able to exclude liability if they can prove that the damage was not due to negligence or other wrongful act of the carrier (and its agents) or if the damage solely arose from the negligence or other wrongful act of a third party. We believe that we maintain adequate insurance coverage for the civil liability that can be imposed due to injuries to passengers under Chinese law, the Montreal Convention and any other agreement we are subject to. We also maintain hull all risk, hull war risk and aircraft legal liability insurance, including third party liability insurance, of the types and in amounts customary for Chinese airlines.

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C. Organizational Structure

See the section headed Item 4. Information on the Company History and Development of the Company .

D. Property, Plant And Equipment

Fleet

As of December 31, 2017, we operated a fleet of 637 aircraft, including 627 passenger aircraft, most with a seating capacity of over 100 seats and 10 business aircraft held under trust. In 2017, we introduced 73 aircraft of major models. With the introduction of B737-8MAX series aircraft and the gradual retirement of B767 series aircraft, our fleet age structure has been made younger. As we completed the transfer of 100% equity interest in Eastern Logistics to Eastern Investment on February 8, 2017, the fleet ceased to include the nine freighters operated by China Cargo Airlines.

We plan to continue to expand our scale in the future and to adjust and optimize our route network, thereby increasing our competitiveness and ability to create more attractive products and services to meet the needs of the market.

Existing Fleet

The following table sets forth the details of our fleet as of December 31, 2017:

						Units
No.	**Model**	**Self-owned**	**Under finance lease**	**Under operating lease**	**Sub-total**	**Average fleet age (Years)**
1	B777-300ER	9	11		20	1.9
2	A330-300	1	17	7	25	6.9
3	A330-200	15	15	3	33	5.3
4	B767	4			4	19.5
Total number of wide-body aircraft		**29**	**43**	**10**	**82**	**5.6**
5	A321	38	39		77	4.4
6	A320	79	52	48	179	7.1
7	A319	13	20	2	35	4.7
8	B737-800	46	62	84	192	3.9
9	B737-700	42	13	1	56	8.6
10	B737-8MAX		6		6	0.1
Total number of narrow-body aircraft		**218**	**192**	**135**	**545**	**5.5**
Total number of aircraft		**247**	**235**	**145**	**627**	**5.5**
Total number of aircraft held under trust					**10**	
Total number of aircraft					**637**	

The table below sets forth the daily average utilization rates of our jet passenger aircraft for each of the year ended December 31, 2017:

	2017 **(in hours)**
B777-300ER	14.1
B767	7.3
A330 Series	11.3
A320 Series	9.6
B737 Series	8.8

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Most of our jet passenger aircraft were manufactured by either Airbus or Boeing. On July 9, 2015, we entered into a purchase agreement with Boeing Company to purchase fifty new Boeing B737 series aircraft which are expected to be delivered to us in stages from 2017 to 2019. On August 14, 2015, we also entered into a purchase agreement with Airbus SAS to purchase fifteen new Airbus A330 series aircraft, which are expected to be delivered to us in stages from 2017 to 2018. On April 28, 2016, we entered into a purchase agreement with Boeing Company to purchase 15 B787-9 aircraft, which are expected to be delivered to us in stages from 2018 to 2021. On the same day, we also entered into a purchase agreement with Airbus SAS to purchase 20 Airbus A350-900 series aircraft, which are expected to be delivered to us in stages from 2018 to 2022.

Future Fleet Development

Our aircraft acquisition program focuses on aircraft that will modernize and rationalize our fleet to better meet the anticipated requirements of our route structure, taking into account aircraft size and fuel efficiency. Our aircraft acquisition program, however, is subject to the approval of the CAAC and the NDRC. Older aircraft models of high energy-consumption will be surrendered as appropriate. Details of the expected fleet plan from 2018 to 2019 are as follows:

	2018E		**2019E**	
	Introduction	**Retirement**	**Introduction**	**Retirement**
Model				
Passenger aircraft				
A319 Series				
A320 Series	16		25	
A321 Series				
A330 Series	8	10		
A350 Series	2		5	
B787 Series	4		6	
B777 Series				
B767 Series		4		
B737 Series	37	1	26	
Total number of passenger aircraft	**67**	**15**	**62**	

The actual quantity and time of the introduction and retirement of any of these aircraft or any additional aircraft may depend on such factors as general economic conditions, the levels of prevailing interest rates, foreign exchange rates, the level of inflation, credit conditions in the domestic and international markets, conditions in the aviation industry in China and globally, our financial condition and results of operations, our financing requirements, and the terms of any financing arrangements, such as finance leases, and other capital requirements. We believe that our aircraft acquisition plan will help us accomplish our expansion plans while maintaining an efficient fleet and ensuring alternative sources of supply.

Fleet Financing Arrangements

We generally acquire aircraft through internal funds, long-term capital leases or operating leases. Under the terms of most capital leases, we generally are obligated to make lease payments that finance most of the purchase price of the aircraft over the lease term. Upon the expiration of the lease term, we must either purchase the aircraft at a specified price or pay any amount by which such price exceeds the proceeds from the disposition of the aircraft to third parties. Alternatively, some capital leases provide for ownership of the aircraft to pass to us upon satisfaction of the final lease payment. Under capital leases, aircraft are generally leased for approximately the whole of their estimated working life, and the leases are either non-cancelable or cancelable only on a payment of a major penalty by the lessee. As a result, we bear substantially all of the economic risks and rewards of ownership of the aircraft held under capital leases. Operating leases, however, are customarily cancelable by the lessee on short notice and without major penalty. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

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Operating Facilities

As of December 31, 2017, we (including subsidiaries and branches) had operations on 660 parcels of land, occupying a total area of approximately 3.6 million square meters. In addition, as of December 31, 2017, we (including subsidiaries and branches) owned approximately 2,204 buildings. We and our major subsidiaries have obtained the land use rights certificates and building ownership certificates for certain parcels of land and buildings, and are currently in the process of applying for the certificates with respect to the five remaining parcels. We did not have any environmental issues that may have a material impact on our utilization of the assets in 2017.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our audited consolidated financial statements, together with the related notes, included elsewhere in this Annual Report. Our consolidated financial statements have been prepared in accordance with IFRSs. This discussion may include forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3. Key information D. Risk Factors or in other parts of this Annual Report.

Overview

Our primary business is the provision of domestic, regional (which includes Hong Kong, Macau and Taiwan) and international passenger services.

Our overall capacity on an available tonne kilometer, or ATK, basis increased by approximately 9.2% from approximately 25,098 million in 2016 to approximately 27,397 million in 2017 under comparable basis and decreased by 2.2% from approximately 28,002 million in 2016 to approximately 27,397 million in 2017 under non-comparable basis, and our passenger capacity on an available seat kilometer, or ASK, basis increased by 9.6% from approximately 206,249 million in 2016 to approximately 225,996 million in 2017. Total traffic on a revenue tonne kilometer, or RTK, basis increased by 8.8%, from approximately 17,333 million in 2016 to approximately 18,856 million in 2017 under comparable basis and decreased by 4.3% from approximately 19,713 million in 2016 to approximately 18,856 million in 2017 under non-comparable basis.

The historical results of operations discussed in this Annual Report may not be indicative of our future operating performance. Like those of other airlines, our operations depend substantially on overall passenger and cargo traffic volumes and are subject to seasonal and other variations that may influence passenger travel demand and cargo volume and may not be under our control, including unusual political events, changes in the domestic and global economies and other unforeseen events. Our operations will be affected by, among other things, fluctuations in aviation fuel prices, aircraft acquisition and leasing costs, maintenance expenses, take-off and landing charges, wages, salaries and benefits, other operating expenses and the rates of income taxes paid.

Our financial performance is also significantly affected by factors associated with operating in a highly regulated industry, as well as a number of other external variables, including political and economic conditions in China, competition, foreign exchange fluctuations and public perceptions of the safety of air travel with Chinese airlines. Because nearly every aspect of our airline operations is subject to the regulation of the CAAC, our operating revenues and expenses are directly affected by the CAAC regulations with respect to, among other things, domestic airfares, level of commissions paid to sales agents, the aviation fuel price, take-off and landing charges and route allocations. The nature and extent of airline competition and the ability of Chinese airlines to expand are also significantly affected by various CAAC regulations and policies. Changes in the CAAC s regulatory policies, or in the implementation of such policies, are therefore likely to have a significant impact on our future operations.

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Critical Accounting Policies

We prepare our consolidated financial statements in accordance with IFRSs which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. We have established procedures and processes to facilitate the making of such judgments in the preparation of our consolidated financial statements. Management has used the best information available but actual performance may differ from our management s estimates and future changes in key variables could change future reported amounts in our consolidated financial statements.

Revenue recognition and sales in advance of carriage

Revenue comprises the fair value of the consideration received or receivable for the provision of services and the sale of goods in the ordinary course of the Group s activities. Revenue is stated net of business taxes or value-added taxes, returns, rebates and discounts and after eliminating sales within the Group.

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

(i) Traffic revenues

Passenger, cargo and mail revenues are recognized as traffic revenues when the transportation services are provided. The value of sold but unused tickets is recognized as sales in advance of carriage (SIAC).

(ii) Ground service income and tour operation revenues

Revenues from the provision of ground services, tour, travel services and other travel related services are recognized when the services are rendered.

(iii) Cargo handling income

Revenues from the provision of cargo handling services are recognized when the services are rendered.

(iv) Commission income

Commission income represents amounts earned from other carriers in respect of sales made by the Group on their behalf, and is recognized in profit or loss upon ticket sales.

(v) Other revenue

Revenues from other operating businesses, including income derived from the provision of freight forwarding, are recognized when the services are rendered.

(vi) Frequent flyer programs

The Group operates frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passengers revenue attributable to the award of frequent flyer benefits is deferred and recognized when the miles have been redeemed or have expired.

(vii) Interest income

Interest income is recognized on a time-proportion basis using the effective interest rate method.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Intangible assets

(i) Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group s previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at December 31. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

(ii) Computer software costs

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives of 5 years. Costs associated with developing or maintaining computer software programs are recognized as expenses when incurred.

(iii) Others

Others relate to the capitalized costs incurred to acquire the use right of certain flight schedules (i.e. timeslots for flights taking off/landing) in Guangzhou Baiyun International Airport Co., Ltd. and Shanghai Pudong International Airport, respectively. These costs are amortized using the straight-line method over their useful lives of 3 years.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS

5, as further explained in the accounting policy for Non-current assets and disposal groups held for sale . The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

When each major aircraft overhaul is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment and is depreciated over the appropriate maintenance cycles. Components related to airframe overhaul cost, are depreciated on a straight-line basis over 5 to 7.5 years. Components related to engine overhaul costs, are depreciated between each overhaul period using the ratio of actual flying hours and estimated flying hours between overhauls. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognized and charged to profit or loss.

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Except for components related to overhaul costs, the depreciation method of which has been described in the preceding paragraph, other depreciation of property, plant and equipment is calculated using the straight-line method to write off their costs to their residual values over their estimated useful lives, as follows:

Owned and finance leased aircraft and engines	15 to 20 years
Other flight equipment, including rotables	10 years
Buildings	8 to 45 years
Other property, plant and equipment	3 to 20 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

(i) As lessee

Finance leases

Leases where the Group has acquired substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease s commencement at the lower of the fair value of the assets and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in the current portion of obligation under finance leases and obligations under finance leases, respectively. The interest element of the finance costs is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Leased assets are depreciated using a straight-line basis over their expected useful lives to residual values.

For sale and leaseback transactions resulting in a finance lease, the sales proceeds are recorded as a borrowing and the relevant assets are continued to be measured at their carry value.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

For sale and leaseback transactions resulting in an operating lease, differences between sales proceeds and net book values are recognized immediately in profit or loss, except to the extent that any profit or loss is compensated for by future lease payments at above or below the market value, then the profit or loss is deferred and amortized over the period for which the asset is expected to be used.

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(ii) As lessor

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income is recognized on a straight-line basis over the lease term.

Retirement benefits

(i) Defined contribution plans

The Group participates in schemes regarding pension and medical benefits for employees organized by the municipal governments of the relevant provinces. Contributions to these schemes are expensed as incurred.

The Group also implemented an additional defined contribution pension benefit scheme (annuity) for voluntary eligible employees. Contributions are made based on a percentage of the employees total salaries and are charged to profit or loss as incurred.

(ii) Defined benefit plan

The Group provides eligible retirees with certain post-retirement benefits including retirement subsidies, transportation allowance as well as other welfare. The defined post-retirement benefits are unfunded. The cost of providing benefits under the post-retirement benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under Wages, salaries and benefits and Finance costs in profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements net interest expense

Available-for-sale investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the other reserves until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss in other operating income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the other reserves to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as finance income and dividend income, respectively and are recognized in profit or loss as other operating income in accordance with the policies set out for Revenue recognition and sales in advance of carriage above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Critical Accounting Estimates and Judgments

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Revenue recognition

The Group recognizes traffic revenues in accordance with the accounting policy stated in note 3 to the financial statements. Unused tickets are recognized in traffic revenues upon legal expiration. Management periodically evaluates the balance in the SIAC and records any adjustments, which can be material, in the period the evaluation is completed.

These adjustments result from differences between the estimates of certain revenue transactions and the timing of recognizing revenue for any unused air tickets and the related sales price, and are impacted by various factors, including a complex pricing structure and interline agreements throughout the industry, which affect the timing of revenue recognition.

Frequent flyer program

The Group operates frequent flyer programs that provide travel awards to program members based on accumulated miles. A portion of passengers revenue attributable to the award credits of frequent flyer benefits is deferred and recognized when the award credits have been redeemed or have expired. The deferment of revenue is calculated based on the estimated fair values of the unredeemed award credits and expected redemption rate. The fair values of the unredeemed award credits is estimated based on the yearly average flight ticket prices and the expected redemption rate is estimated by reference to the historical trends of redemptions. Different judgments or estimates could significantly affect the estimated provision for frequent flyer programs and the results of operations.

Provision for costs of return condition checks for aircraft under operating leases

Provision for the estimated costs of return condition checks for aircraft and engines under operating leases is made based on the estimated costs for such return condition checks and taking into account anticipated flying hours, flying cycle and time frame between each overhaul. These judgments or estimates are based on historical experience on returning similar airframe models, actual costs incurred and aircraft status. Different judgments or estimates could significantly affect the estimated provision for costs of return condition checks.

Retirement benefits

The Group operates and maintains a defined retirement benefit plan which provides eligible retirees with benefits including retirement subsidies, travel allowance as well as other welfare. The cost of providing the aforementioned benefits in the defined retirement benefit plan is actuarially determined and recognized over the employee s service period by utilizing various actuarial assumptions and using the projected unit credit method in accordance with the accounting policy stated in note 3 to the financial statements. These assumptions include, without limitation, the selection of discount rate, annual rate of increase of per capita benefit payment and etc.. The discount rate is based on management s review of government bonds. The annual rate of increase of benefit payments is based on the general local economic conditions.

Additional information regarding the retirement benefit plan is disclosed in note 37 to the financial statements.

Deferred income tax

In assessing the amount of deferred tax assets that need to be recognized in accordance with the accounting policy stated in note 3 to the financial statements, the Group considers future taxable income and ongoing prudent and feasible tax planning strategies. In the event that the Group s estimates of projected future taxable income and benefits from available tax strategies are changed, or changes in current tax regulations are enacted that would impact the timing or extent of the Group s ability to utilize the tax benefits of deductible tax losses carried forward in the future, adjustments to the recorded amount of net deferred tax assets and taxation expense would be made.

Provision for flight equipment spare parts

Provision for flight equipment spare parts is made based on the difference between the carrying amount and the net realizable value. The net realizable value is estimated based on current market condition, historical experience and the Company s future operation plan for the aircraft and related spare parts. The net realizable value may be adjusted significantly due to the change of market condition and the future plan for the aircraft and related spare parts.

Depreciation of property, plant and equipment

Depreciation of components related to airframe and engine overhaul costs is based on the Group s historical experience with similar airframe and engine models and taking into account anticipated overhaul costs, timeframe between each overhaul, ratio of actual flying hours and estimated flying hours between overhauls. Different judgments or estimates could significantly affect the estimated depreciation charge and the results of operations.

Except for components related to engine overhaul costs, other property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The useful lives are based on the Group s historical experience with similar assets and taking into account anticipated technological changes. The Group reviews the estimated useful lives of assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Estimated impairment of property, plant and equipment and intangible assets

The Group tests whether property, plant and equipment and intangible assets have been impaired in accordance with the accounting policy stated in note 3 to the financial statements. The recoverable amount of the cash-generating unit has been determined based on fair value less cost to sell and value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets approved by management and certain key assumptions, such as passenger-kilometers yield level, load factor, aircraft utilization rate and discount rates.

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Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Operating Segments

In accordance with IFRS 8, segment disclosure has been presented in a manner that is consistent with the information used by the our chief operating decision-maker (CODM). Our CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the PRC Accounting Standards for Business Enterprises (the PRC Accounting Standards), which differ from IFRSs in certain aspects. The amount of each material reconciling items from the Group s reportable segment revenue and profit before income tax, arising from different accounting policies are set out in note 7(c) below.

A. Operating Result

The following tables set forth our summary consolidated statements of profit or loss and other comprehensive income and financial position data as of and for the years indicated:

	Year Ended December 31,				
	2013	**2014**	**2015**	**2016**	**2017**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
	(in millions, except per share or per ADS data)				
Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:					
Revenues	88,245	90,185	93,969	98,904	102,475
(Loss)/gain on fair value changes of derivative financial instruments	18	11	6	2	(311)
Other operating income and gains	2,725	3,685	5,269	5,469	7,481
Operating expenses	(89,412)	(87,823)	(86,619)	(91,889)	(100,525)
Operating profit	1,576	6,058	12,625	12,486	9,431
Finance income / (costs), net	576	(2,072)	(7,110)	(6,176)	(1,072)
Profit before income tax	2,217	4,113	5,667	6,497	8,610
Profit for the year attributable to the equity holders of the Company	2,373	3,410	4,537	4,498	6,342
Basic and fully diluted earnings per share (1)	0.20	0.27	0.35	0.33	0.44

	As of December 31,				
	2013	**2014**	**2015**	**2016**	**2017**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**
	(in millions)				

Consolidated Statements of Financial Position Data:					
Cash and cash equivalents	1,995	1,355	9,080	1,695	4,605
Net current liabilities	(40,472)	(42,887)	(51,309)	(52,194)	(62,035)
Non-current assets	127,458	147,586	174,914	196,436	211,434
Long term borrowings, including current portion	(36,175)	(41,210)	(43,675)	(29,749)	(28,842)
Obligations under finance leases, including current portion	(23,135)	(38,695)	(52,399)	(61,041)	(66,868)
Total share capital and reserves attributable to the equity holders of the Company	26,902	29,974	37,411	49,450	55,360
Non-current liabilities	(58,404)	(72,928)	(83,674)	(91,876)	(90,621)
Total assets less current liabilities	86,986	104,699	123,605	144,242	149,399

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(1) The calculation of earnings per share for 2013 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,091,881,000 ordinary shares in issue. The calculation of earnings per share for 2014 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,674,269,000 ordinary shares in issue. The calculation of earnings per share for 2015 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 12,818,509,000 ordinary shares in issue. The calculation of earnings per share for 2016 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 13,811,136,000 ordinary shares in issue. The calculation of earnings per share for 2017 is based on the net profit attributable to the equity holders of the Company divided by the weighted average number of 14,467,585,682 ordinary shares in issue.

2017 Compared to 2016

Revenues

Our revenues increased by approximately 3.6%, from approximately RMB98,904 million in 2016 to approximately RMB102,475 million in 2017. Revenues increased in our passenger business operations, primarily due to increased passenger demand and increase in scheduled flights, which was partially offset by decreased revenue in our cargo and mail business operations, primarily due to disposal of Eastern Logistics in 2017.

In 2017, we transported approximately 111 million passengers, representing an increase of approximately 8.9%, from approximately 102 million passengers in 2016. Our total passenger traffic (as measured in RPKs) increased by approximately 9.3%, from approximately 167,529 million in 2016 to approximately 183,182 million in 2017.

Our total cargo and mail traffic (as measured in RFTKs) increased by approximately 6.7%, from approximately 2,495 million in 2016 to approximately 2,663 million in 2017 under comparable basis and decreased by approximately 45.4% from approximately 4,875 million in 2016 to approximately 2,663 million in 2017 under non-comparable basis.

Our average yield for our passenger operations remained relatively stable at RMB0.517 in 2016 and RMB0.521 per in 2017.

Our average yield for our cargo and mail operations increased by approximately 8.8% from approximately RMB1.25 in 2016 to approximately RMB1.36 in 2017.

The following chart sets forth our revenue breakdown for 2016 and 2017:

	Year Ended December 31		**2017 vs. 2016**	
	2016	**2017**	**Increase (Decrease)**	**% Increase (Decrease)**
		(in millions of RMB)		
Traffic revenues	89,554	95,187	5,633	6.3
Passenger revenue	83,577	91,564	7,987	9.6
Cargo and mail revenue	5,977	3,623	(2,354)	(39.4)

Others (1)	9,350	7,288	(2,062)	(22.1)
Total Operating Revenue	98,904	102,475	3,571	3.6

(1) Includes tour operations income, ground service income, cargo handling income and processing income, commission income and others.

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Passenger revenues

Our passenger traffic revenues increased by approximately RMB7,987 million, or approximately 9.6%, from approximately RMB83,577 million in 2016 to approximately RMB91,564 million in 2017. This increase was primarily due to increased passenger demand and increase in scheduled flights, as well as robust demand for outbound tourism.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for approximately 65.7% of our total passenger traffic revenues in 2017, increased by approximately 11.2% from approximately RMB54,137 million in 2016 to approximately RMB60,180 million in 2017, primarily due to increased passenger demand. Compared to 2017, our domestic passenger traffic (as measured in RPKs) increased by approximately 10.0% from approximately 106,361 million in 2016 to approximately 117,033 million in 2017. The number of passengers carried on domestic routes increased by approximately 10.0% from approximately 84 million in 2016 to approximately 93 million in 2017. Our passenger-kilometers yield for domestic routes remained relatively stable at RMB0.53 per passenger-kilometer in 2016 and RMB0.54 in 2017.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for approximately 3.7% of our total passenger traffic revenues in 2017, increased by approximately 11.1% from approximately RMB3,078 million in 2016 to approximately RMB3,420 million in 2017, primarily due to the increase of passenger volume. Our regional passenger traffic (as measured in RPKs) increased by approximately 9.5% in 2017 from approximately 4,347 million in 2016 to approximately 4,758 million in 2017. The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by approximately 9.3% from approximately 3.2 million in 2016 to approximately 3.5 million in 2017. Our passenger-kilometers yield for regional routes remained relatively stable at RMB0.71 in 2016 and RMB0.72 in 2017.

International passenger traffic revenues, which accounted for approximately 30.6% of our total passenger traffic revenues in 2017, increased by approximately 6.1% from approximately RMB26,362 million in 2016 to approximately RMB27,964 million in 2017. The increase was primarily due to increased international passenger demand and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by approximately 8.0% in 2017 from approximately 56,821 million in 2016 to approximately 61,391 million in 2017. The number of passengers carried on international routes increased by approximately 2.5% from approximately 14.3 million in 2016 to approximately 14.7 million in 2017. Our passenger-kilometers yield for international routes remained relatively stable at RMB0.471 in 2016 and RMB0.470 in 2017.

Cargo and mail revenues

Our cargo and mail traffic revenues decreased by approximately 39.4%, from approximately RMB5,977 million in 2016 to approximately RMB3,623 million in 2017, which accounted for approximately 3.8% of our total traffic revenues in 2017. Cargo and mail yield increased by approximately 8.8% from approximately RMB1.25 in 2016 to approximately RMB1.36 in 2017.

Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for approximately 27.2% of our total cargo and mail traffic revenues in 2017, decreased from approximately RMB1,026 million in 2016 to approximately RMB985 million in 2017. This decrease was primarily due to the disposal of our interest in Eastern Logistics. Our freight tonne-kilometers yield for domestic routes remained relatively stable at RMB1.07 in 2016 and RMB1.10 in 2017 under non-comparable basis. Our freight tonne-kilometers yield for domestic routes remained stable at RMB1.10 in 2016 and RMB1.10 in 2017 under comparable basis.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for approximately 4.4% of our total cargo and mail traffic revenues in 2017, decreased by approximately 57.5%, from approximately RMB374 million in 2016 to approximately RMB159 million in 2017, mainly due to the disposal of our interest in Eastern Logistics. Our freight tonne-kilometers yield for regional routes increased from RMB2.98 in 2016 to RMB3.56 in 2017 under non-comparable basis. Our freight tonne-kilometers yield for regional routes increased from RMB3.04 in 2016 to RMB3.56 in 2017 under comparable basis.

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International cargo and mail traffic revenues, which accounted for approximately 68.4% of our total cargo and mail traffic revenues in 2017, decreased by approximately 45.8%, from approximately RMB4,576 million in 2016 to approximately RMB2,478 million in 2017, mainly due to the disposal of our interest in Eastern Logistics. Our freight tonne-kilometers yield for international routes increased from RMB1.24 in 2016 to RMB1.44 in 2017 under non-comparable basis. Our freight tonne-kilometers yield for international routes increased from RMB1.30 in 2016 to RMB1.44 in 2017 under comparable basis.

Other revenues

We also generated revenues from other services, including tour operations, airport ground services, cargo handling and processing services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues decreased by approximately 22.1% from approximately RMB9,350 million in 2016 to approximately RMB7,288 million in 2017, primarily due to disposal of Eastern Logistics, which also handles certain airport ground services, cargo handling and processing services.

Operating Expenses

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2016 and 2017:

	Year Ended December 31		2017 vs. 2016 (Increase)	% Increase
	2016	2017	Decrease	(Decrease)
		(in millions of RMB)		
Operating Expenses:				
Aircraft fuel expenses	(19,626)	(25,131)	(5,505)	28.0
Take-off and landing charges	(12,279)	(13,254)	(975)	7.9
Depreciation and amortization	(12,154)	(13,969)	(1,815)	14.9
Wages, salaries and benefits	(18,145)	(20,320)	(2,175)	12.0
Aircraft maintenance	(4,960)	(5,346)	(386)	7.8
Impairment charges	(29)	(491)	(462)	1,593.1
Food and beverages	(2,862)	(3,090)	(228)	8.0
Aircraft operating lease rentals	(4,779)	(4,318)	461	(9.6)
Other operating lease rentals	(868)	(836)	32	(3.7)
Selling and marketing expenses	(3,133)	(3,294)	(161)	5.1
Civil aviation development fund	(1,945)	(2,080)	(135)	6.9
Ground services and other expenses	(5,058)	(3,248)	1,810	(35.8)
(Loss)/gain on fair value changes of derivative financial instruments	2	(311)	(313)	(15,650.0)
Indirect operating expenses	(6,051)	(4,837)	1,214	(20.0)
Total Operating Expense	(91,887)	(100,525)	(8,638)	9.4

Our total operating expenses increased by approximately 9.4% from approximately RMB91,887 million in 2016 to approximately RMB100,525 million in 2017 primarily due to the influence of further expansion of our operational scale and the rapid growth in the passenger traffic volume and the number of passengers carried. Our various costs such as take-off and landing costs, food and beverages, and depreciation and amortization increased from the previous year. Our total operating expenses accounted for approximately 98.1% of our operating revenue in 2017, representing an increase from approximately 92.9% in 2016.

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Aircraft fuel expenses increased by approximately 28.0% from approximately RMB19,626 million in 2016 to approximately RMB25,131 million in 2017. The increase was primarily due to the increase in the volume of refueling by 4.5% and average fuel price by 22.5%.

Take-off and landing charges, which accounted for 13.2% of our total operating expenses in 2017, increased by 7.9% from approximately RMB12,279 million in 2016 to approximately RMB13,254 million in 2017, primarily due to the increase in our number of flights and the increase in our number of take-offs and landings. Meanwhile, the domestic take-off and landing charges increased due to the adjustment of pricing standards of China s airports (CAAC 2017 Notice No. 18).

Depreciation and amortization increased by approximately 14.9% from approximately RMB12,154 million in 2016 to approximately RMB13,969 million in 2017, primarily due to the net addition of aircraft self owned and under finance leases to our fleet in 2017. The increase in the number of aircraft and engines led to an increase in the original value of fixed assets and a corresponding increase in depreciation.

Wages, salaries and benefits, which accounted for approximately 20.2% of our total operating expenses in 2017, increased by approximately 12.0% from approximately RMB18,145 million in 2016 to approximately RMB20,320 million in 2017, primarily due to the combined effect of the increase in the number of flight-crew and maintenance personnel, the increase in flight hours and the rise in the standard flight hour fees. Additional information regarding the changes in our retirement benefits is disclosed in Note 37 to the consolidated financial statements.

Aircraft maintenance expenses, which accounted for approximately 5.3% of our total operating expenses in 2017, increased by approximately 7.8% from approximately RMB4,960 million in 2016 to approximately RMB5,346 million in 2017, primarily due to the net addition of nine wide-body aircraft and 46 narrow-body aircraft, which led to an increase in maintenance fees for aircraft and engines.

Food and beverage expenses increased by approximately 8.0% from approximately RMB2,862 million in 2016 to approximately RMB3,090 million in 2017, primarily due to the increase in the number of passengers carried and the rise in standards required for the provision of catering.

Aircraft operating lease rentals decreased by approximately 9.6% from approximately RMB4,779 million in 2016 to approximately RMB4,318 million in 2017, primarily due to the decrease of seven cargo aircraft under operating leases upon the disposal of the equity interest in Eastern Logistics.

Other operating lease rentals decreased by approximately 3.7% from approximately RMB868 million in 2016 to approximately RMB836 million in 2017, primarily due to the decrease of fees for ground assets under lease.

Selling and marketing expenses increased by approximately 5.1% from approximately RMB3,133 million in 2016 to approximately RMB3,294 million in 2017, primarily due to the increase in the proportion of direct sales for the year.

The amount of civil aviation development fund to the CAAC increased by approximately 6.9% from approximately RMB1,945 million in 2016 to approximately RMB2,080 million in 2017, primarily due to the increase in the length of miles flown in 2017.

Ground services and other expenses decreased by approximately 35.8% from approximately RMB5,058 million in 2016 to approximately RMB3,248 million in 2017, primarily due to the disposal of interest in Eastern Logistics in 2017.

Indirect operating expenses decreased by approximately 20.0% from approximately RMB6,051 million in 2016 to approximately RMB4,837 million in 2017, primarily due to the disposal of interest in Eastern Logistics in 2017.

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Fair Value Changes of Derivative Financial Instruments

Changes in fair value of derivative financial instruments was recorded a loss of approximately RMB311 million in 2017, as compared to a gain of approximately RMB2 million in 2016. The difference was mainly due to the fair value movement of forward foreign exchange contracts in 2017.

Other Operating Income and Gains

Our other operating income mainly consists of subsidy income from cooperative routes, the rest being income from disposal of a subsidiary and income from government grants. The total amount of our other operating income and gains increased by approximately 36.8% from approximately RMB5,469 million in 2016 to approximately RMB7,481 million in 2017, primarily due to the disposal of interest in Eastern Logistics.

Net Finance Costs

In 2017, our finance income was approximately RMB2,112 million, representing an increase of approximately RMB2,016 million from approximately RMB96 million in 2016. Finance costs amounted to approximately RMB3,184 million in 2017, representing a decrease of approximately RMB3,088 million in 2016, primarily due to net exchange gains arising from the appreciation of RMB of approximately RMB2,001 million during the year.

Profit Attributable to the Equity Holders of the Company

As a result of the foregoing, the net profit attributable to the equity holders of the Company increased by approximately 41.0% from approximately RMB4,498 million in 2016 to approximately RMB6,342 million in 2017. The increase is mainly due to the increase in revenue and other operating income and gains.

Property, Plant and Equipment

We had approximately RMB166,856 million of property, plant and equipment as of December 31, 2017, including, among other assets, aircraft, engines and flight equipment, representing a 8.9% increase from approximately RMB153,180 million in 2016. The increase is mainly due to an increase in the number of aircraft.

2016 Compared to 2015

Revenues

Our revenues increased by 5.3%, from RMB93,969 million in 2015 to RMB98,904 million in 2016. Revenues increased in our passenger business operations, primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, which was partially offset by decreased revenue in our cargo and mail business operations, primarily due to a general slowdown of the global economy that affected cargo demand and, consequently, our cargo volumes.

In 2016, we transported 101.74 million passengers, representing an increase of 8.5%, from 93.8 million passengers in 2015. Our total passenger traffic (as measured in RPKs) increased by 14.5%, from 146,342 million passenger-kilometers in 2015 to 167,529 million passenger-kilometers in 2016 and our total cargo and mail traffic (as measured in RFTKs) increased by 0.2%, from 4,865 million freight tonne-kilometers in 2015 to 4,875 million freight tonne- kilometers in 2016. Our average yield for our passenger operations decreased by 7.2% from RMB0.56 per passenger-kilometer in 2015 to RMB0.52 in 2016.

Our average yield for our cargo and mail operations decreased by 6.3%, from RMB1.33 per tonne-kilometer in 2015 to RMB1.25 per tonne-kilometer in 2016, primarily due to slumping cargo market and increasing competition from logistic companies that affected cargo demand and shipping fees.

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The following chart sets forth our revenue breakdown for 2015 and 2016:

	Year Ended December 31		2016 vs. 2015	
	2015	2016	Increase (Decrease)	% Increase (Decrease)
		(in millions of RMB)		
Traffic revenues	85,076	89,554	4,478	5.3
Passenger revenue	78,585	83,577	4,992	6.4
Cargo and mail revenue	6,491	5,977	(514)	(7.9)
Others (1)	8,893	9,350	457	5.1
Total Operating Revenue	93,969	98,904	4,935	5.3

(2) Includes tour operations income, ground service income, cargo handling income, commission income and others.

Passenger revenues

Our passenger traffic revenues increased by RMB4,992 million, or 6.4%, from RMB78,585 million in 2015 to RMB83,577 million in 2016. This increase was primarily due to increased passenger demand, aircraft utilization rates and increase in scheduled flights, as well as actively seizing the opportunities brought by the international low oil prices and robust demand for outbound tourism.

Our domestic passenger traffic revenues (excluding Hong Kong, Macau and Taiwan passenger revenues), which accounted for 64.8% of our total passenger traffic revenues in 2016, increased by 5.1%, from RMB51,523 million in 2015 to 54,137 million in 2016, primarily due to increased passenger demand. Compared to 2015, our domestic passenger traffic (as measured in RPKs) increased by 8.2%, from 98,304 million in 2015 to 106,361 million in 2016. The number of passengers carried on domestic routes increased by 7.4%, from 78.4 million in 2015 to 84.2 million in 2016. Our passenger-kilometers yield for domestic routes decreased by 2.6% from RMB0.55 per passenger-kilometer in 2015 to 0.53 in 2016.

Our regional passenger traffic revenues (representing Hong Kong, Macau and Taiwan passenger revenues) which accounted for 3.7% of our total passenger traffic revenues in 2016, decreased by 1.6%, from RMB3,129 million in 2015 to RMB3,078 million in 2016, primarily due to the decrease in our passenger-kilometers yield for regional routes. The number of passengers carried on Hong Kong, Macau and Taiwan routes increased by 4.0%, from 3.1 million in 2015 to 3.22 million in 2016. Our passenger-kilometers yield for regional routes decreased from RMB0.73 per passenger-kilometer in 2015 to 0.71 per passenger-kilometer in 2016.

International passenger traffic revenues, which accounted for 31.5% of our total passenger traffic revenues in 2016, increased by 10.2%, from RMB23,933 million in 2015 to RMB26,362 million in 2016. The increase was primarily due to increased international passenger demand, increased aircraft utilization rates and increase in our scheduled flights on international routes. Our international passenger traffic (as measured in RPKs) increased by 29.6% in 2016, from RMB43,848 million in 2015 to RMB56,821 million in 2016. The number of passengers carried on international routes increased by 16.8%, from 12.3 million in 2015 to 14.3 million in 2016. Our passenger-kilometers yield for international routes decreased from RMB0.56 per passenger-kilometer in 2015 to RMB0.47 per passenger-kilometer in 2016.

Cargo and mail revenues

Our cargo and mail traffic revenues decreased by 7.9%, from RMB6,491 million in 2015 to RMB5,977 million in 2016, which accounted for 6.7% of our total traffic revenues in 2016. Cargo and mail yield decreased by 6.3% from RMB1.33 in 2015 to RMB1.25 in 2016 per cargo tonne-kilometer, primarily due to the increased competition from other cargo carriers, which resulted in decreased shipping fees.

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Our domestic cargo and mail traffic revenues (excluding Hong Kong, Taiwan and Macau cargo and mail revenues), which accounted for 17.2% of our total cargo and mail traffic revenues in 2016, decreased from RMB1,036 million in 2015 to RMB1,026 million in 2016. This decrease was primarily due to the increased competition from private owned logistic companies, which resulted in decreased shipping fees and cargo. Our freight tonne-kilometers yield for domestic routes decreased from RMB1.09 per tonne-kilometer in 2015 to RMB1.07 per tonne-kilometer in 2016.

Our regional cargo and mail traffic revenues (representing Hong Kong, Macau and Taiwan cargo and mail traffic revenues), which accounted for 6.3% of our total cargo and mail traffic revenues in 2016, slightly decreased by 1.6%, from RMB380 million in 2015 to RMB374 million in 2016. Our freight tonne-kilometers yield for regional routes decreased from RMB3.01 per tonne-kilometer in 2015 to RMB2.98 per tonne-kilometer in 2016.

International cargo and mail traffic revenues, which accounted for 76.5% of our total cargo and mail traffic revenues in 2016, decreased by 9.8%, from RMB5,075 million in 2015 to RMB4,576 million in 2016, due to increased competition from foreign cargo carriers which resulted in decreased shipping fees. Our prices for cargo and mail transportation on international routes also decreased as our freight tonne-kilometers yield for international routes decreased from RMB1.34 per tonne-kilometer in 2015 to RMB1.24 per tonne-kilometer in 2016.

Other revenues

We also generated revenues from other services, including tour operations, airport ground services, cargo handling services and ticket handling services. These services include loading and unloading of cargo, aircraft cleaning and ground transportation of cargo and passenger luggage for aircraft arriving at or departing from Hongqiao International Airport and Pudong International Airport of Shanghai. We are currently the principal provider of airport ground services at both Hongqiao International Airport and Pudong International Airport. Our total other revenues increased by 5.1%, from RMB8,893 million in 2015 to 9,350 million in 2016.

Operating Expenses

The following chart sets forth a breakdown of our operating expenses for the years ended December 31, 2015 and 2016:

	Year Ended December 31		2016 vs. 2015	
	2015	**2016**	**Increase (Decrease)**	**% Increase (Decrease)**
		(in millions of RMB)		
Operating Expenses:				
Aircraft fuel expenses	(20,312)	(19,626)	(686)	(3.4)
Takeoff and landing charges	(10,851)	(12,279)	1,428	13.2
Depreciation and amortization	(10,471)	(12,154)	1,683	16.1
Wages, salaries and benefits	(16,459)	(18,145)	1,686	10.2
Aircraft maintenance	(4,304)	(4,960)	656	15.2
Impairment charges	(228)	(29)	(199)	(87.3)
Food and beverages	(2,469)	(2,862)	393	15.9

Aircraft operating lease rentals	(4,254)	(4,779)	525	12.3
Other operating lease rentals	(812)	(868)	56	6.9
Selling and marketing expenses	(3,651)	(3,133)	(518)	(14.2)
Civil aviation development fund	(1,826)	(1,945)	119	6.5
Ground services and other expenses	(5,479)	(5,058)	(421)	7.7
Indirect operating expenses	(5,503)	(6,051)	548	10.0
Total Operating Expense	(86,619)	(91,889)	5,270	6.1

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Our total operating expenses increased by 6.1%, from RMB86,619 million in 2015 to RMB91,889 million in 2016 primarily due to the influence of further expansion of our operational scale and the rapid growth in the passenger traffic volume and the number of passengers carried, our various costs such as take-off and landing costs, food and beverages, and depreciation and amortization increased from the previous year. Our total operating expenses as a percentage of our operating revenues increased from 92.2% in 2015 to 92.9% in 2016.

Aircraft fuel expenses decreased by 3.4%, from RMB20,312 million in 2015 to RMB19,626 million in 2016. The decrease was primarily due to the decrease in our average price of fuel by 13.62%, partially offset by an increase in ourvolume of refueling by 11.9%.

Take-off and landing charges, which accounted for 13.4% of our total operating expenses in 2016, increased by 13.2%, from RMB10,851 million in 2015 to RMB12,279 million in 2016, primarily due to the increase in our number of flights and the increase in our number of take-offs and landings. In particular, the numerous international routes newly launched by us and the increase in our number of flights for the North American routes led to more frequent international takeoffs and landings of wide-body aircrafts.

Depreciation and amortization increased by 16.1%, from RMB10,471 million in 2015 to RMB12,154 million in 2016, primarily due to the addition of 54 aircraft (self owned and under finance leases) to our fleet in 2016. The increase in the number of aircraft and engines led to an increase in the original value of fixed assets and a corresponding increase in depreciation.

Wages, salaries and benefits, which accounted for 19.7% of our total operating expenses in 2015, increased by 10.2%, from RMB16,459 million in 2015 to RMB 18,145 million, primarily due to the combined effect of the increase in the number of flight-crew and maintenance personnel, the increase in flight hours and the rise in the standard flight hour fees. Additional information regarding the changes in our retirement benefits is disclosed in Note 37 to the consolidated financial statements.

Aircraft maintenance expenses, which accounted for 5.4% of our total operating expenses in 2016, increased by 15.2%, from RMB4,304 million in 2015 to RMB4,960 million in 2016, primarily due the net addition of 7 wide-body aircraft and 39 narrow-body aircraft, which led to an increase in maintenance fees for aircraft and engines. Meanwhile, we fitted our A330 aircraft with in-flight Wi-Fi and retrofitted equipment such as required navigation performance (RNP) systems in 2016, resulting in an increase in maintenance fees.

Food and beverage expenses increased by 15.9% from RMB2,469 million in 2015 to RMB2,862 million in 2016, primarily due to the increase in the number of passengers in carriage, especially the combined effect of the increase in the number of travelers on international long-haul flights and the higher standards required for the provision of international catering.

Aircraft operating lease rentals increased by 12.3%, from RMB4,254 million in 2015 to RMB4,779 million in 2016, primarily due to the introduction of 18 new aircraft under operating leases by us and the retirement of 15 aircraft under operating leases in 2016. Owing to factors such as the market environment and the commodity price level, the introduction of the new aircraft resulted in a significant increase in rentals compared to the retired aircraft.

Other operating lease rentals increased by 6.9%, from RMB812 million in 2015 to RMB868 million in 2016, primarily due to the increase in leasehold properties (including properties such as counters and VIP lounges).

Selling and marketing expenses, which accounted for 3.4% of our total operating expenses in 2015, decreased by 14.2%, from RMB3,651 million in 2015 to RMB3,133 million in 2016, primarily due to the increase in the proportion of direct sales for the year and changes in the policy on agency causing a decrease in the handling fees of the agency businesses.

The amount of civil aviation infrastructure levies payable to the CAAC increased by 6.5%, from RMB1,826 million in 2015 to RMB1,945 million in 2016, primarily due to the increase in the length of miles flown in 2015.

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Ground services and other expenses decreased by 7.7%, from RMB5,479 million in 2015 to RMB5,058 million in 2016, primarily due to the decrease in the costs of subsidiaries.

Indirect operating expenses increased by 10.0%, from RMB5,503 million in 2015 to RMB6,051 million in 2016, primarily attributable to the significant increase in the costs associated with the expansion in the size of our fleet.

Fair Value Changes of Derivative Financial Instruments

Changes in fair value of derivative financial instruments decreased from a gain of RMB6 million in 2015 to a gain of RMB2 million in 2016. The difference was mainly due to the decrease in gains arising from fair value movement of interest rate swaps contracts.

Other Operating Income and Gains

Our other operating income mainly consists of income from cooperative routes, the rest being income from disposal of fixed assets and income from government grants. The total amount of our other operating income and gains increased by 3.8% from RMB5,269 million in 2015 to RMB5,469 million in 2016, primarily due to an increase in income from co-operation routes, income from government grants and gains from disposal of fixed assets. Other co-operation income represented income from co-operation routes granted to us by the PRC government and local governments as well as other subsidies granted by various local municipalities and other parties to encourage us to operate certain routes to cities where these municipalities are located.

Net Finance Costs

In 2016, our finance income was RMB96 million, representing an increase from RMB66 million in 2015, primarily due to an increase in the interest rates for our deposits which increased our interest income. Finance costs amounted to RMB6,272 million, representing a decrease of 12.6%, primarily due to the decrease in net exchange losses recognized during the year. In 2016, our exchange losses amounted to RMB3,543 million, representing a decrease of 29.0%.

Profit Attributable to the Equity Holders of the Company

As a result of the foregoing, the net profit attributable to the equity holders of the Company slightly decreased to RMB4,498 million in 2016, or 0.9%, as compared to a net profit of RMB4,537 million in 2015. The decrease is mainly due to the increase in income tax expense.

Property, Plant and Equipment

We had approximately RMB153,180 million of property, plant and equipment as of December 31, 2016, including, among other assets, aircraft, engines and flight equipment, representing a 15.0% increase from RMB133,242 million in 2015. The increase is mainly due to an increase in the number of aircrafts.

Inflation

According to the National Bureau of Statistics of China, China s overall national inflation rate, as represented by the general consumer price index, was approximately 2.6% in 2013, 2.1% in 2014, 1.4% in 2015, 2.0% in 2016 and 1.6% in 2017. Although neither inflation nor deflation in the past had any material adverse impact on our results of operations, we cannot assure you that the deflation or inflation of the Chinese economy in the future would not materially and adversely affect our financial condition and results of operations.

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B. Liquidity and Capital Resources

We typically finance our working capital requirements through a combination of funds generated from operations, bank loans and the issuance of corporate bonds. As a result, our liquidity could be materially and adversely affected if there is any delay in obtaining bank loans or a significant decrease in demand for our services.

As of December 31, 2015, 2016 and 2017, we had RMB9,080 million and RMB1,695 million and RMB4,605 million, respectively, in cash and cash equivalents; RMB66,712 million, RMB56,732 million and RMB63,801 million, respectively, in outstanding borrowings; and RMB35 million, RMB43 million and RMB51 million, respectively, in restricted bank deposits and short-term bank deposits. Our cash and cash equivalents primarily consists of cash on hand and deposits that are placed with banks and other financial institutions. We plan to use the remaining available cash for other capital expenditures, including expenditures for aircraft, engines and related equipment, as well as for working capital and other day-to-day operating purposes.

In addition, our current liabilities exceeded our current assets by approximately RMB62,035 million as of December 31, 2017. Therefore, the directors of the Company (Directors) have taken active steps to seek additional sources of financing to improve our liquidity position. As of December 31, 2017, we had total unutilized credit facilities of RMB59.47 billion from various banks. See the discussion below under Working Capital and Liabilities .

We believe that our current cash, cash equivalents, anticipated cash flow from operations, and the ability to obtain sufficient financing will enable us to operate, as well as to meet our anticipated cash needs for working capital and capital expenditure requirements for at least the next 12 months. However, additional cash may be required due to changing business conditions or other future developments, including any investments or acquisitions that we may decide to pursue.

Cash Flows from Operating Activities

In 2017, we generated a net cash inflow from operating activities of RMB19,572 million as a result of cash generated from operations of RMB21,108 million less income tax we paid in 2017. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB22,004 million and positive changes in working capital of RMB896 million. The operating profit before working capital changes of RMB22,004 million was a result of the profit before income tax of RMB8,610 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non-current assets of RMB13,769 million, (ii) net foreign exchange gain of RMB2,378 and (iii) interest expenses of RMB3,184 million. Positive changes in working capital mainly consisted of (i) sales in advance of carriage of RMB569 million and (ii) other payables and accruals of RMB340 million, partly offset by (i) other long-term liabilities of RMB728 million and (ii) prepayments and other receivables of RMB753 million.

In 2016, we generated a net cash inflow from operating activities of RMB24,893 million as a result of cash generated from operations of RMB26,154 million less income tax we paid in 2016. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB24,464 million and positive changes in working capital of RMB1,690 million. The operating profit before working capital changes of RMB24,464 million was a result of the profit before income tax of RMB6,497 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non- current assets of RMB12,345 million, (ii) net foreign exchange losses of RMB3,246 and (iii) interest expenses of RMB2,641 million. Positive changes in working capital mainly consisted of (i) sales in advance of carriage of RMB1,836 million and (ii) other payables and accruals of RMB1,424 million, partly offset by (i) other long-term liabilities of RMB883 million and (ii) prepayments and other receivables of RMB839 million.

In 2015, we generated a net cash inflow from operating activities of RMB24,325 million as a result of cash generated from operations of RMB25,535 million less income tax we paid in 2015. Our cash generated from operations was mainly due to operating profit before working capital changes of RMB23,620 million and positive changes in working capital of RMB1,915 million. The operating profit before working capital changes of RMB23,620 million was a result of the profit before income tax of RMB5,667 million, mainly adjusted for: (i) depreciation of property, plant and equipment and amortization of other non- current assets of RMB10,710 million, (ii) net foreign exchange losses of RMB5,480, and (iii) interest expenses of RMB2,075 million. Positive changes in working capital mainly consisted of (i) trade and bills payable of RMB1,629 million, and (ii) other long-term liabilities of RMB1,164 million, partly offset by prepayments and other receivables of RMB2,011 million.

Cash Flows from Investing Activities

In 2017, our net cash outflow from investing activities was RMB21,312 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of aircraft of RMB16,759 million and (ii) additions of property, plant and equipment of RMB7,796 million. These cash outflows were partly offset by proceeds from disposal of property, plant and equipment of RMB1,043 million and proceeds from disposal of interest in a subsidiary of RMB1,897 million.

In 2016, our net cash outflow from investing activities was RMB37,180 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB16,864 million and (ii) additions of property, plant and equipment of RMB21,533 million. These cash outflows were partly offset by (i) proceeds from disposal of assets classified as held for sale of RMB518 million and (ii) proceeds from disposal of property, plant and equipment of RMB690 million.

In 2015, our net cash outflow from investing activities was RMB27,800 million. Our net cash outflow for investing activities mainly consisted of (i) advanced payments on acquisition of new aircraft of RMB24,772 million and (ii) additions of property, plant and equipment of RMB8,609 million. These cash outflows were partly offset by (i) proceeds from disposal of assets classified as held for sale of RMB4,227 million and (ii) proceeds from disposal of property, plant and equipment of RMB1,294 million.

Cash Flows from Financing Activities

In 2017, our net cash inflow from financing activities was RMB4,708 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB33,629 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB12,320 million, (iii) proceeds from issuance of short-term debentures of RMB29,000 million and (iv) proceeds from issuance of long-term bonds of RMB2,451 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB18,383 million, (ii) repayments of long-term bank loans of RMB3,247 million, and (iii) repayments of short-term debentures of RMB36,000 million.

In 2016, our net cash inflow from financing activities was RMB4,634 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB39,159 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB26,545 million, (iii) proceeds from issuance of short-term debentures of RMB47,500 million and (iv) proceeds from issuance of long-term bonds of RMB12,526 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB36,728 million, (ii) repayments of long-term bank loans of RMB28,803 million, and (iii) repayments of short-term debentures of RMB46,000 million.

In 2015, our net cash inflow from financing activities was RMB11,083 million. Our net cash inflow for financing activities mainly consisted of (i) proceeds from draw down of short-term bank loans of RMB26,916 million, (ii) proceeds from draw down of long-term bank loans and other financing activities of RMB24,572 million, and (iii) proceeds from issuance of short-term debentures of RMB21,500 million. These cash inflows were partly offset by (i) repayments of short-term bank loans of RMB34,767 million, (ii) repayments of long-term bank loans of RMB10,540 million, and (iii) repayments of short-term debentures of RMB10,000 million.

Working Capital and Liabilities

We have, and in the future may continue to have, substantial debts. In addition, we generally operate with a working capital deficit. As of December 31, 2017, our current liabilities exceeded our current assets by RMB62,035 million. In comparison, our current liabilities exceeded our current assets by RMB52,194 million as of December 31, 2016. Our current liabilities increased by 18.0% primarily due to the increase in the current portion of borrowings. Our current assets increased by 15.1% in 2017 primarily due to the increase in cash and cash equivalents. Short-term loans outstanding totaled RMB28,842 million and RMB39,090 as of December 31, 2016 and 2017, respectively. Long-term outstanding bank loans totaled RMB27,890 million and RMB24,711 million as of December 31, 2016 and 2017, respectively.

As of December 31, 2017, our debt ratio, representing total liabilities divided by total assets, was 0.74. The interest expenses associated with these debts may impair our future profitability. We expect that cash from operations and bank borrowings will be sufficient to meet our operating cash flow requirements, although events that materially and adversely affect our operating results can also have a negative impact on liquidity.

Our consolidated interest-bearing borrowings as of December 31, 2016 and 2017 for the purpose of calculating the indebtedness were as follows:

	As of December 31,	
	2016	**2017**
	(RMB in millions)	
Secured	17,369	19,908
Unsecured	39,363	43,893
Total	56,732	63,801

Our maturity profile of interest-bearing borrowings as of December 31, 2016 and 2017 was as follows:

	As of December 31,	
	2016	**2017**
	(RMB in millions)	
Within one year	28,842	39,090
In the second year	4,833	6,527
In the third to fifth year inclusive	13,281	8,797
After the fifth year	9,776	9,387
Total	56,732	63,801

As of December 31, 2017, our interest rates relating to short-term borrowings ranged from 0.70% to 4.35%, while our fixed interest rates on our interest-bearing borrowings for long-term bank loans ranged from 3.10% to 3.48%. Our bank loans are denominated in Renminbi, U.S. dollars and Euros. As of December 31, 2017, our total bank loans denominated in Renminbi amounted to RMB83,880 million, our total bank loans denominated in U.S. dollars amounted to US$1,157 million and our total bank loans denominated in EUR amounted to EUR631 million.

On November 16, 2017, EAO issued corporate SGD-denominated bonds in an amount of SGD500,000,000 at 2.8% due 2020, which was listed on the Hong Kong Stock Exchange on November 17, 2017. The Company guaranteed the bond issue. See Note 34 to the consolidated financial statements for more information.

On March 9, 2018, the Company issued JPY-denominated credit enhanced bonds (Series 1 JPY10,000,000,000 0.33% Bonds due 2021, Series 2 JPY20,000,000,000 0.64% Bonds due 2021 and Series 3 JPY20,000,000,000 0.64% Bonds due 2021), which was listed on the professional oriented TOKYO PRO-BOND Market of the Tokyo Stock Exchange on March 19, 2018. See Note 49 to the consolidated financial statements for the issuance of JPY bonds.

We have entered into credit facility agreements to meet our future working capital needs. However, our ability to obtain financing may be affected by: (i) our results of operations, financial condition, cash flows and credit ratings; (ii) costs of financing in line with prevailing economic conditions and the status of the global financial markets; and (iii) our ability to obtain PRC government approvals required to access domestic or international financing or to undertake any project involving significant capital investment, which may include one or more approvals from the NDRC, SAFE, MOFCOM and/or the CSRC depending on the circumstances. If we are unable to obtain financing, for whatever reason, for a significant portion of our capital requirements, our ability to acquire new aircraft and to expand our operations may be materially and adversely affected.

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Capital Expenditures

As of December 31, 2017, according to the relevant agreements, we expect our capital expenditures for aircraft, engines and related equipment to be in aggregate approximately RMB87,030 million, including approximately RMB28,322 million in 2018 and approximately RMB27,516 million in 2019, in each case subject to contractually stipulated increases or any increase relating to inflation. We plan to finance our other capital commitments through a combination of funds generated from operations, existing credit facilities, bank loans, leasing arrangements and other external financing arrangements.

C. Research and Development, Patents and Licenses, etc.

None.

D. Trend Information

Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2017 to December 31, 2017 that are reasonably likely to have a material effect on our net revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

E. Off-balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements other than our operating lease arrangements:

- We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated entity;

- We have not entered into any obligations under any derivative contracts that are indexed to our own shares and classified as shareholder s equity, or that are not reflected in our consolidated financial statements; and

- We do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

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F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following tables set forth selected information regarding our outstanding contractual and commercial commitments as of December 31, 2017:

	Total	**Less Than 1 Year**	**1-2 Years**	**2-4 Years**	**More Than 4 Years**
Long-Term Debt (1)	9,055	4,131	1,020	2,317	1,587
Capital Leases (2)	66,868	9,241	8,162	22,847	26,618
Operating Leases (3)	20,936	3,380	2,723	7,268	7,565
Unconditional Purchase Obligations (4)	87,030	28,322	27,516	27,102	4,090
Other Long-term Obligations (5)(6)	3,724				
Post-retirement Benefit Obligations (5)	2,670				
Deferred Tax Liabilities (5)	18				
Short-term Bank Loans (7)	24,959	24,959			
Interest Obligations					
Under Finance Leases	13,282	2,410	2,246	5,048	3,578
Under Bank Loans	2,106	1,038	1,020	42	6
Fixed Rate	860	859		1	
Variable Rate (8)	1,246	179	1,020	41	6

Note

(1) Excludes interest.
(2) Primarily comprise amounts paid/due under leases for the acquisition of aircraft.
(3) Primarily comprise amounts paid/due under leases for the rental of aircraft, engines and flight equipment.
(4) Primarily comprise capital expenditures.
(5) Figures of payments due by period are not available.
(6) Other long-term obligations include long-term duties and levies payable, and fair value of unredeemed points awarded under our frequent flyer programs.
(7) Short-term bank loans are generally repayable within one year. As of December 31, 2017, the weighted average interest rate of our short-term bank loans was 1.53% per annum (2016: 2.55%).
(8) For our variable rate loans, interest rates range from six month LIBOR + 55% to six months LIBOR + 285%. Interest obligations relating to variable rate loans are calculated based on the relevant LIBOR rates as of December 31, 2017. A 25 basis points increase in the interest rate would increase interest expenses by RMB142 million.

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Other Commercial Commitments/Credit Facilities	Total Amounts Committed	Amount of Commitment Expiration Per Period Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(RMB in millions)				
Lines of Credit	59,465	52,626	6,800		39
Standby Letters of Credit					
Guarantees					
Total	59,465	52,626	6,800		39

Taxation

We had carried forward tax losses of approximately RMB167 million as of December 31, 2017, which can be used to set off against future taxable income between 2018 and 2022.

Prior to 2008, the Company and certain of its subsidiaries located in Pudong District, Shanghai, were entitled to a reduced rate of 15% pursuant to the preferential tax policy in Pudong District, Shanghai. Under China s EIT Law, which was approved by the National People s Congress on March 16, 2007 and became effective from January 1, 2008, the Company and its Pudong subsidiaries are entitled to a transitional arrangement to increase the applicable corporate income tax rate gradually to 25% over the next five years from 2008. China Eastern Yunnan Airlines Co., Ltd. (CEA Yunnan), a subsidiary of the Group, obtained approval from tax authorities and has been entitled to a reduced corporate income tax rate of 15% from January 1, 2011. The Company s Sichuan branch, Gansu branch and Xibei branch also obtained approvals from respective tax authorities and are entitled to a reduced corporate income tax rate of 15%. The subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax rate of 16.5% (2016:16.5%).

The Company and its subsidiaries except for CEA Yunnan, Sichuan branch, Gansu branch and Xibei branch and those incorporated in Hong Kong, are generally subject to income tax at the PRC standard corporate income tax rate of 25% (2016:16.5%).

New Pronouncements

For a detailed discussion of new accounting pronouncements, please see Note 2 to the consolidated financial statements.

G. Safe Harbor

See the section headed Cautionary Statement With Respect To Forward-Looking Statements .

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Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information concerning our current Directors, supervisors and senior management members. Except as disclosed below, none of our Directors, supervisors or members of our senior management was selected or chosen as a result of any arrangement or understanding with any major shareholders, customers, suppliers or others. There is no family relationship between any Director, supervisor or senior management member and any other Director, supervisor or senior management member of our Company.

Name	Age	Shares Owned	Position
Liu Shaoyong	59		Chairman of the Board of Directors
Ma Xulun	53		President and Vice Chairman
Li Yangmin	54	3,960 A Shares	Director and Vice President
Gu Jiadan	61		Director
Tang Bing	51		Director and Vice President
Tian Liuwen	58		Director and Vice President
Yuan Jun	58		Employee Representative Director
Li Ruoshan	69		Independent Non-executive Director
Ma Weihua	69		Independent Non-executive Director
Shao Ruiqing	60		Independent Non-executive Director
Cai Hongping	63		Independent Non-executive Director
Xi Sheng	55		Chairman of the Supervisory Committee
Ba Shengji	60		Supervisor
Hu Jidong	59		Supervisor
Feng Jinxiong	55		Supervisor
Jia Shaojun	50		Supervisor
Wu Yongliang	54	3,696 A Shares	Vice President and Chief Financial Officer
Feng Liang	53		Vice President
Feng Dehua	52		Vice President
Jiang Jiang	53		Vice President
Wang Jian	44		Board Secretary and Company Secretary

Directors

Mr. Liu Shaoyong, is currently the Chairman and party secretary of the Company and Chairman and party secretary of CEA Holding. Mr. Liu joined the civil aviation industry in 1978 and was appointed as vice president of China General Aviation Corporation, deputy director of Shanxi Provincial Civil Aviation Administration of the PRC, general manager of the Shanxi Branch of the Company, and director general of Flight Standard Department of CAAC.
Mr. Liu served as President of the Company from December 2000 to October 2002, vice minister of the CAAC from October 2002 to August 2004, president of China Southern Air Holding Company from August 2004 to December 2008, chairman of China Southern Airlines Co., Limited. from November 2004 to December 2008. Mr. Liu served as president and vice party secretary of CEA Holding from December 2008 to December 2016, and became the Chairman of the Company since February 2009. He served as the Chairman and party secretary of CEA Holding since

December 2016 and the party secretary of the Company since December 2017. Mr. Liu is also currently the member of the National Committee of the Chinese People s Political Consultative Conference, the council member of International Air Transport Association and the council member of Association for Relations Across the Taiwan Straits, and the vice chairman of International Advisory Board of School of Management, Fudan University. Mr. Liu graduated from the China Civil Aviation Flight College and obtained a Master of Business Administration degree from Tsinghua University. Mr. Liu holds the title of commanding pilot.

Mr. Ma Xulun, is currently the vice chairman, president and vice party committee secretary of the Company, vice chairman, president, and vice party secretary of CEA Holding. Mr. Ma was previously vice president of China Commodities Storing and Transportation Corporation, deputy director general of the Finance Department of the CAAC and vice president of Air China Corporation Limited. In 2002, after the restructuring of civil aviation industry he was appointed as vice president of general affairs of Air China Corporation Limited. Mr. Ma served as president and deputy party secretary of Air China Corporation Limited from September 2004 to January 2007. Mr. Ma became a party member of China National Aviation Holding Company from December 2004 to December 2008, and deputy general manager of China National Aviation Holding Company from January 2007 to December 2008. In December 2008, Mr. Ma was appointed as president and deputy party secretary of the Company and deputy party secretary of CEA Holding. Since February 2009, Mr. Ma has become a Director of the Company. Mr. Ma served as vice president of the Company with effect from November 2011. He served as party secretary of CEA Holding from November 2011 to December 2016. He served as vice chairman, president and vice party secretary of CEA Holding with effect from December 2016. Mr. Ma is also currently the deputy president of China Association for public companies, the vice president of Association of Shanghai Listed Companies and the director of Shanghai Chinese Overseas Friendship Association. Mr. Ma graduated from Shanxi University of Finance and Economics and Huazhong University of Science and Technology. Mr. Ma holds a master s degree and is a PRC Certified Public Accountant (CPA).

Mr. Li Yangmin, is currently a Director, vice party secretary and vice president of the Company, and vice party secretary and vice president of CEA Holding. Mr. Li joined the civil aviation industry in 1985. He was previously deputy general manager of the aircraft maintenance base and the manager of air route department of Northwest Company, general manager of the aircraft maintenance base of China Eastern Air Northwest Branch Company and vice president of China Eastern Air Northwest Branch Company. Since October 2005, he has also been a vice president of the Company. He served as Safety Director of the Company from July 2010 to December 2012. He has become a party member of CEA Holding since May 2011. He was appointed the Director of the Company with effect from June 2011 and served as the party secretary of the Company from June 2011 to December 2017. He served as the chairman of China Cargo Airlines Co., Limited. from February 2012 to January 2013. He served as the executive director of Eastern Logistics from December 2012 to June 2016. Since November 2014, he served as the Chairman of Eastern Air Yunnan. Since August 2016, he served as vice party secretary and vice president of CEA Holding. Since December 2017, he served as the vice party secretary of the Company. Mr. Li graduated from the Civil Aviation University of China and Northwestern Polytechnical University with master s degrees and obtained an Executive Master of Business Administration degree from Fudan University. He is also a qualified professor-level senior engineer.

Mr. Gu Jiadan, is currently a Director. Mr. Gu was the assistant to president, and the general manager of the commerce department and the party secretary of Shanghai Airlines Co., Limited From May 2005 to August 2009, he was the vice president and a party member of Shanghai Airlines. From August 2009 to January 2010, he was the acting president of Shanghai Airlines. From January 2010 to December 2016, he was a party member and vice president of CEA Holding. From January 2010 to July 2011, he served as the party secretary of Shanghai Airlines. He was appointed as a Director of the Company with effect from June 2012. Mr. Gu Jiadan holds a master s degree and is a senior economist.

Mr. Tang Bing, is currently a Director, vice president of the Company, vice president and party member of CEA Holding. Mr. Tang joined the civil aviation industry in 1993. He served as vice executive president (general manager representing Chinese shareholder) of MTU Maintenance Zhuhai Co., Limited., office director of China Southern Airlines Holding Company and president of Chongqing Airlines Company Limited. From December 2007 to May 2009, he served as chief engineer and general manager of the Aircraft Engineering Department of China Southern Airlines Company Limited. From May 2009 to December 2009, he was appointed as president of the Beijing Branch of the Company and was the president of Shanghai Airlines from January 2010 to December 2011. He served as the chairman and executive director of Shanghai Airlines from January 2012 to January 2018, and was appointed a party member of CEA Holding in May 2011 and a Director of the Company in June 2012. Since December 2016, he served as the vice president of CEA Holding. Mr. Tang graduated from Nanjing University of Aeronautics and Astronautics majoring in electrical technology. He obtained a Master of Business Administration degree from the Administration Institute of Sun Yat-sen University, an Executive Master of Business Administration degree from the School of Economics and Management of Tsinghua University and a doctoral degree in economics from the Graduate School of Chinese Academy of Social Sciences. He is also a qualified senior engineer.

Mr. Tian Liuwen, is currently a Director, vice president of the Company and vice president and a party member of CEA Holding. Mr. Tian joined the civil aviation industry in 1985. Mr. Tian served as manager of the Beijing Sales Department under the Marketing and Sales Division of China General Aviation Corporation. He was also the head of the general manager office and chairman of the labor union and deputy general manager of the Shanxi Branch of the Company. From June 2002 to January 2008, he was the vice president and subsequently president of the Hebei Branch of the Company. From April 2005 to May 2007, he was the president of the Beijing Base of the Company. He served as general manager of Eastern Air Jiangsu, from January 2008 to December 2011. Since December 2011, he has been the vice president of the Company. From December 2011 to June 2013, he was the president of Shanghai Airlines. Since June 2014, he has been a party member of CEA Holding. Since June 2015, he has been a Director of the Company. Since December 2016, he served as the vice president of CEA Holding. Since January 2018, he served as the chairman of Eastern Air Jiangsu. Mr. Tian obtained an Executive Master of Business Administration degree from Nanjing University and is qualified as senior economist.

Mr. Yuan Jun, is currently an employee representative Director and chief human resources officer of the Company, employee representative director and head of Human Resources Department of CEA Holding and director of Eastern Airlines Industry Investment. Mr. Yuan entered civil aviation industry in 1997. From May 2007 to October 2011, Mr. Yuan was the deputy head and head of Work Department of Party Committee of the Company. From October 2011 to May 2016, he was the general manager of Human Resources Department of the Company. From July 2014, he served as the chief human resources officer of the Company. From June 2015 to September 2016, he concurrently served as the general manager of Ground Services Department and the deputy secretary of Party Committee of the Company. From September 2016, he served as the head of Human Resources Department of CEA Holding. Mr. Yuan holds an executive master s degree in business administration from Fudan University and a senior political work specialist qualification.

Mr. Li Ruoshan, is currently an independent non-executive Director. Mr. Li is currently a professor and PhD supervisor of the Accounting Department of the School of Management of Fudan University. He is also the vice president of the Shanghai Accounting Society and Shanghai Auditing Society. In 2001, Mr. Li was awarded the The Best 10 Independent Directors in China by the Shanghai Stock Exchange. Mr. Li graduated from Xiamen University, majoring in accounting and obtained the first doctoral degree in auditing in the PRC. He further studied abroad in the Katholieke Universiteit Leuven in Belgium and the Massachusetts Institute of Technology in the United States. Mr. Li was a deputy dean of the School of Economics and a deputy director of the Accounting Department of the School of Economics of Xiamen University; and a deputy dean of the School of Management, director of the Accounting Department, director of the Financial department of Fudan University, a member of the Consultant Professional Committee for Listed Companies of the Shanghai Stock Exchange and a consultant professional of the Committee for Accounting Standards of the Ministry of Finance. Mr. Li has been an independent non-executive Director of the Company since June 2013. He is also the independent director of companies such as SAIC Motor Corporation Limited, Shanghai Zhangjiang Hi-tech Park Development Co., Ltd. and Xi an Shaangu Power Co., Ltd, external supervisor of Industrial Bank Co., Ltd. and a director of Jiangsu Zhongnan Construction Group Co., Ltd.

Mr. Ma Weihua, is currently an independent non-executive Director. Mr. Ma is currently the director-general of Council of National Fund for Technology Transfer and Commercialization, a member of the Standing Council of China Society for Finance and Banking. Mr. Ma served as an executive director, president and chief executive officer of China Merchants Bank Co., Limited, the chairman of Wing Lung Bank Limited in Hong Kong, the chairman of CIGNA & CMC Life Insurance Company Limited and the chairman of China Merchants Fund Management Co., Limited. Mr. Ma obtained a doctorate degree in economics and is an adjunct professor at several higher educational institutions including Peking University and Tsinghua University. Mr. Ma has been the independent non-executive Director since October 2013 to present. Mr. Ma is currently an independent director of China World Trade Center Co., Limited, Postal Savings Bank of China Co., Limited and Legend Holdings Corporation at the same time and the

Chairman of the board of supervisors of Taikang Life Insurance Co., Limited and a non-executive director of Roadshow Holdings Limited.

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Mr. Shao Ruiqing, is currently an independent non-executive Director. Mr. Shao currently serves as a professor in accounting and a mentor to doctoral students at the Shanghai Lixin University of Commerce. Mr. Shao served as the deputy dean and dean of the School of Economics and Management of Shanghai Maritime University, the deputy dean of Shanghai Lixin University of Commerce and the independent director of China Shipping Haisheng Co., Limited., and SAIC Motor Corp Limited. Mr. Shao served as an independent non-executive Director of the Company from June 2010 to April 2014. Mr. Shao was awarded the special allowance by the State Council of the PRC in 1995. He is currently a consultative committee member of the Ministry of Transport, as an expert in finance and accounting and the deputy head of China Association of Communications Accountancy. Mr. Shao graduated from Shanghai Maritime University, Shanghai University of Finance and Economics and Tongji University with a bachelor s degree in economics, and master s and doctoral degrees in management. Mr. Shao has spent two and a half years studying and being senior visiting scholar in the U.K. and Australia. Mr. Shao is also an independent director of Tibet Urban Development And Investment Co., Ltd, Shenzhen Guangju Energy Co., Ltd., Huayu Automotive Systems Company Limited and Shanghai Carthane Co., Ltd.

Mr. Cai Hongping, is currently an independent non-executive Director. Mr. Cai currently serves as the chairman of AGIC Capital. He worked for the Industrial and Transportation Management Committee of the Shanghai Government and Sinopec Shanghai Petrochemical Company Limited (Sinopec Shanghai) from 1987 to 1991. He participated in the entire listing process of Sinopec Shanghai in Hong Kong and the United States and is one of the founders of H shares in the PRC. From 1992 to 1996, he acted as a member of the Overseas Listing Team for Chinese Enterprises under the Restructuring Committee of the State Council and the chairman of the Joint Committee of Board Secretaries for H Share Companies in the PRC. He served as a joint director of the investment banking division of Peregrine Investments Holdings Limited in Asia from 1997 to 2006, chairman of the investment banking division of UBS AG in Asia from 2006 to 2010, chairman of Deutsche Bank in the Asia Pacific region from 2010 to 2015, independent non-executive director of China Oceanwide Holdings Limited since November 2014 and independent director and chairman of the audit committee of Minmetals Development Co., Limited from April 2015 to December 2015. He became an external director of China Minmetals Corporation with effect from December 2015. He has been an independent non-executive Director of the Company since June 2016, an independent director of COSCO SHIPPING Development Co., Ltd. since July 2016, and an independent director of Bank of Communications Co., Ltd since June 2017. Mr. Cai graduated from Shanghai Fudan University, majoring in mass communications.

Supervisory Committee

As required by the PRC Company Law and our Articles of Association, our Company has a supervisory committee (the Supervisory Committee), whose primary duty is the supervision of our senior management, including our Board of Directors, managers and senior officers. Supervisory Committee consists of five supervisors.

Mr. Xi Sheng, is currently the chairman of Supervisory Committee of the Company, party member, vice president and chief auditor of CEA Holding. Mr. Xi served as the deputy head of the foreign affairs department II of the foreign funds utilization and application audit department and the head of the liaison and reception office of the foreign affairs department of the National Audit Office of the PRC and the deputy head of the PRC Audit Institute. He was also the deputy head and head of the fixed assets investment audit department of the National Audit Office of the PRC, and the party secretary and a special commissioner of the Harbin office of the National Audit Office of the PRC. He served as the head of the personnel and education department of the National Audit Office of the PRC from January 2007 to September 2009. He was the head of the audit department of CEA Holding from September 2009 to November 2012. Mr. Xi has served as the chief auditor of CEA Holding since September 2009. Since June 2012, he has been a supervisor of the Company. Since June 2016, he has been the chairman of Supervisory Committee of the Company. Since December 2017, he served as the head of the audit department of CEA Holding. Since January 2018, he served as the vice president and party member of CEA Holding. Mr. Xi is also the council member of China Institute of

Internal Audit, vice chairman of the 2nd session of supervisory committee of China Association for Public Companies and chairman of executive committee of Association of Certified International Investment Analysts. Mr. Xi graduated from Jiangxi University of Finance and Economics with undergraduate education background. He is a senior auditor, a Chinese Certified Public Accountant (CPA) and an International Certified Internal Auditor (CIA).

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Mr. Ba Shengji, is currently a supervisor of the Company and the chairman of the labor union of CEA Holding. Mr. Ba joined the civil aviation industry in 1978. He served as the section manager and deputy head of the finance department. He was the chief officer of the auditing office of the Company from March 1997 to October 1997, chief officer of the auditing office of CEA Holding from October 1997 to July 2000, head of the audit department of CEA Holding from July 2000 to January 2003, chief officer of disciplinary committee office, head of supervision department and head of audit department of CEA Holding from January 2003 to May 2003. He served as the deputy head of party disciplinary inspection group, chief officer of disciplinary committee office, head of supervision department and head of the audit department of CEA Holding from May 2003 to November 2006. He was the secretary of the disciplinary committee of the Company from November 2006 to November 2009 and the secretary of the disciplinary committee and chairman of the labor union of the Company from November 2009 to November 2011. He served as the deputy secretary of the party committee and secretary of the disciplinary committee of the Company from November 2011 to August 2013. Since June 2013, he has been a supervisor of the Company. He has served as the chairman of the labor union of CEA Holding since August 2013. Mr. Ba graduated from Shanghai Television University.

Mr. Hu Jidong, is currently a supervisor and chairman of the labor union of the Company and chief financial officer and vice chairman of the labor union of CEA Holding. Mr. Hu joined the civil aviation industry in 1977. He has been the deputy head of the party promotion department of the Company, deputy head and head of the party publicity department of CEA Holding, and head of the party publicity department of CEA Holding. He was the chairman of the labor union of the Company since December 2011, deputy party secretary of the Company from August 2013 to December 2017, secretary of the disciplinary committee of the Company from August 2013 to August 2014, and supervisor of the Company since June 2016. Since November 2017, he served as the chief financial officer and vice chairman of the labor union of CEA Holding. Mr. Hu Jidong graduated from Shanghai University with a major in cultural management and Fudan University with a major in administrative management.

Mr. Feng Jinxiong, is currently a supervisor of the Company and consultant of the audit department of CEA Holding. Mr. Feng joined the civil aviation industry in 1982, and served as deputy head and head of the Planning Department of the Company, head of the Finance Department and deputy chief accountant of CEA Holding, manager of the Human Resources Department of the Company, party secretary and vice president of CES Finance, and deputy general manager of the Shanghai Security Department of the Company. He also served as president of Eastern Air Wuhan from January 2007 to February 2009. He served as general manager of the Audit Department of the Company from February 2009 to December 2017. He has been a supervisor of the Company since March 2009. He has been the head of the audit department of CEA Holding from May 2014 to December 2017. Since December 2017, he served as consultant of the audit department of CEA Holding. Mr. Feng graduated from the Civil Aviation University of China and the Graduate School of the Chinese Academy of Social Sciences, holding a master s degree.

Mr. Jia Shaojun, is currently a supervisor of the Company. Mr. Jia was general manager of the financial department and secretary of party general branch of the financial department of the Company. He served as general manager of the finance and accounting department of the Company from December 2011 to November 2012 and head of the audit department of CEA Holding from November 2012 to May 2014. He has acted as head of the financial department of CEA Holding from May 2014 to December 2017. He has acted as supervisor of the Company since June 2016. Mr. Jia graduated from Civil Aviation College of China and Fudan University School of Management, holding an executive MBA degree. He is qualified as a senior accountant.

Senior Management

Mr. Wu Yongliang, is currently a vice president and chief financial officer of the Company, and vice president and party member of CEA Holding. Mr. Wu joined the civil aviation industry in 1984 and served as deputy head and subsequently head of the Finance Department of the Company, head of Planning and Finance Department of the Company and head of the Finance Department of CEA Holding. From April 2001 to March 2009, he served as deputy chief accountant and head of the Finance Department of CEA Holding. From April 2009 onwards, he has served as chief financial officer of the Company. He has been a vice president of the Company since December 2011. He has been a vice president and party member of CEA Holding since November 2017. Mr. Wu graduated from the Faculty of Economic Management of Civil Aviation University of China, majoring in planning and finance. He also graduated from Fudan University, majoring in business administration. Mr. Wu holds a MBA degree and is a certified accountant.

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Mr. Feng Liang, is currently a vice president and the chief engineer of the Company. Mr. Feng joined the civil aviation industry in 1986 and worked in the aircraft maintenance base routes department of the Company. From 1999 to 2006, he used to serve as the head of the aircraft maintenance base engineering technology department, chief engineer of the base and general manager of the base. He also served as the general manager of China Eastern Air Engineering & Technique after it was established in September 2006. He has served as the chief engineer of the Company since August 2010, the chief security officer of the Company from December 2012 to December 2014 and the vice president of the Company since August 2013. He has been an executive director of Eastern Technology since December 2014. Mr. Feng graduated from Civil Aviation University of China, majored in aircraft electrical equipment maintenance and obtained an MBA degree from Shanghai Jiao Tong University.

Mr. Feng Dehua, is currently a vice president of the Company and the deputy head of party disciplinary inspection group of CEA Holding. Mr. Feng joined the civil aviation industry in 1989, and has worked in China General Aviation Corporation, the Shanxi branch of the Company and the sales and marketing system department of the Company. From May 2009 to July 2009, Mr. Feng was the executive vice president for sales and marketing of passenger transportation department of the Company. From July 2009 to November 2011, he was the party secretary and vice president for sales and marketing of passenger transportation department of the Company. From November 2011 to August 2014, he was the president and deputy party secretary of the Beijing branch of the Company. From August 2014 to December 2017, he was the secretary of the Disciplinary Committee of the Company. Since September 2014, he has been a member of the Party Standing Committee of the Company. Since September 2014, he has been the deputy head of party disciplinary inspection group of CEA Holding. Since December 2017, he has been a vice president of the Company. Mr. Feng graduated from Shanxi Finance and Economics Institute majored in commercial business management and obtained an executive master s degree in business administration from Fudan University. He is qualified as a senior economist.

Mr. Jiang Jiang, is currently a vice president of the Company. Mr. Jiang joined the civil aviation industry in 1986, and has worked in the Civil Aviation Industry Airline Corporation and China General Aviation Corporation. From June 1999 to April 2005, he served as the deputy manager and manager of the flight division of the Shanxi Branch of the Company. From April 2005 to July 2010, he was the deputy general manager of the Shanxi Branch. From July 2010 to June 2014, he served as the general manager and the deputy secretary of the party committee of the Shanxi Branch. From June 2014 to December 2016, he served as the deputy secretary of the party committee of Eastern Air Wuhan. He served as director and general manager of Eastern Air Wuhan from June 2014 to April 2017. From December 2016 to February 2017, he has served as the person-in-charge of the safety operation management of the Company. Since February 2017, he has served as the vice president of the Company. Mr. Jiang graduated from the Flight College of Civil Aviation Flight University of China, majored in aviation transportation and obtained an Executive Master of Business Administration degree from Fudan University. He has the professional title of Level 1 pilot.

Mr. Wang Jian, is currently the Company s Board secretary and company secretary. Mr. Wang joined the Company in 1995 and served as deputy head of the Company s office and deputy general manager of the Shanghai Business Office of the Company. From September 2006 to May 2009, he was the deputy general manager in the Shanghai Base of China Southern Airlines Company Limited. He served as the head of the Board secretariat of the Company and a representative of the Company s Securities affairs from May 2009 to April 2012. He served as the Board secretary and the head of the Board secretariat of the Company from April 2012 to May 2016. He ceased to serve as the head of the Board secretariat in May 2016. During his term as secretary to the Board and his relevant work, he designed and promoted to implement several capital and strategic projects of the Company. Mr. Wang graduated from Shanghai Jiao Tong University and has an Master of Business Administration postgraduate degree from East China University of Science and Technology and an Executive Master of Business Administration degree from Tsinghua University as well as a qualification certificate for board secretaries of listed companies issued by the Shanghai Stock Exchange.

Retired Director, Supervisor and Senior Management During the Reporting Period

Mr. Xu Zhao, was a Director of the Company, and the chief accountant of CEA Holding during the reporting period. Mr. Xu served as engineer and accountant of Dongfeng Motor Group Company Limited, manager of the finance department of Shanghai Yanhua High Technology Limited Company, and chief financial officer of Shaanxi Heavy Duty Automobile Co., Limited. Mr. Xu has served as the chief accountant of CEA Holding from November 2006 to January 2018. He was a supervisor of the Company from June 2007 to November 2011. He has served as a Director of the Company from June 2012 to February 2018. Mr. Xu graduated from Chongqing University, majoring in moulding, and The Chinese University of Hong Kong, majoring in accounting, and holds a master s degree. Mr. Xu is qualified as an engineer and an accountant, and is a certified public accountant in the PRC.

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Mr. Sun Youwen, was a vice president of the Company during the reporting period. Mr. Sun joined the civil aviation industry in 1980, and served as a squadron leader and the leader of the Shanghai flight division. He served as the vice president of Eastern Air Jiangsu from April 2007 to November 2009 and the general manager of the Shanghai flight division of the Company from December 2009 to April 2012. He was appointed as the chief pilot of the Company and the general manager of the Shanghai flight division of the Company from April 2012 to March 2014 and has served as the vice president and chief pilot of the Company from March 2014 to July 2014. He has been a vice president of the Company from July 2014 to February 2017. Mr. Sun graduated from the Flight College of Civil Aviation Flight University of China, majored in aircraft driving and obtained an Executive Master of Business Administration degree from the Institute of Management of Fudan University.

B. Compensation

The aggregate amount of cash compensation paid by us to our Directors, supervisors and the senior management during 2017 for services performed as Directors, supervisors and officers or employees of our Company was approximately RMB8.7 million. In addition, Directors and supervisors who are also officers or employees of our Company receive certain other in-kind benefits which are provided to all of our employees.

Details of the emoluments paid to our Directors, supervisors and senior management for the year 2017 are as follows:

Name and Principal Position	Total RMB 000
Directors	
Liu Shaoyong*	
Ma Xulun*	
Xu Zhao*	
Gu Jiadan*	
Li Yangmin*	
Tang Bing*	
Tian Liuwen*	
Independent non-executive Directors	
Li Ruoshan	200
Shao Ruiqing	200
Ma Weihua	200
Cai Hongping	200
Supervisors	
Xi Sheng*	
Feng Jinxiong	584
Ba Shengji*	
Hu Jidong	1,549
Jia Shaojun*	
Senior Management	
Wu Yongliang	1,549
Feng Liang	1,549
Feng Dehua(1)	
Jiang Jiang(2)	921
Wang Jian	1,397

Sun Youwen(3)	399
Total	**8,748**

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* These Directors and supervisors of our Company received emoluments from CEA Holding, our parent company, part of which were in respect of their services to our Company and our subsidiaries. No apportionment has been made, as it is impracticable to apportion this amount between their services to us and their services to CEA Holding. Mr. Xu Zhao resigned on February 6, 2018.

(1) The term of service of Mr. Feng Dehua as the vice president started from December 24, 2017 and he started to receive remuneration as the vice president from January 2018.

(2) Mr. Jiang Jiang, the vice president, is a pilot whose salary includes flight service benefits. His term of service started from February 22, 2017. Therefore, the remuneration disclosure period was from March to December 2017.

(3) Mr. Sun Youwen is a pilot whose salary includes flight service benefits. The term of service of the vice president in 2017 was from January 1 to February 22, 2017. Therefore, the remuneration disclosure period was from January to February 2017.

During the year ended December 31, 2017, no Directors or supervisors of the Company waived their compensation.

C. Board Practices

All of our Directors and supervisors serve a term of three years or until such later date as their successors are elected or appointed. Directors and supervisors may serve consecutive terms. Two of the supervisors are employee representatives appointed by our employees, and the rest are appointed by the shareholders. The following table sets forth the number of years our current Directors, executive officers and supervisors have held their positions during their current term and the expiration of their current term.

Name [1]	Position	Held Position Since	Expiration of Term
Liu Shaoyong	Chairman of the Board of Directors	June 15, 2016	June 30, 2019
Ma Xulun	Vice Chairman	June 15, 2016	June 30, 2019
	President	June 15, 2016	June 30, 2019
Li Yangmin	Director	June 15, 2016	June 30, 2019
	Vice President	June 15, 2016	June 30, 2019
Xu Zhao	Director	June 15, 2016	February 6, 2018
Gu Jiadan	Director	June 15, 2016	June 30, 2019
Tang Bing	Director	June 15, 2016	June 30, 2019
	Vice President	June 15, 2016	June 30, 2019
Tian Liuwen	Director	June 15, 2016	June 30, 2019
	Vice President	June 15, 2016	June 30, 2019
Yuan Jun	Director	February 8, 2018	June 30, 2019
Li Ruoshan	Independent Non-executive Director	June 15, 2016	June 30, 2019
Ma Weihua	Independent Non-executive Director	June 15, 2016	June 30, 2019
Shao Ruiqing	Independent Non-executive Director	June 15, 2016	June 30, 2019
Cai Hongping	Independent Non-executive Director	June 15, 2016	June 30, 2019
Xi Sheng	Chairman of the Supervisory Committee	June 15, 2016	June 30, 2019
Ba Shengji	Supervisor	June 15, 2016	June 30, 2019
Hu Jidong	Supervisor	June 15, 2016	June 30, 2019
Feng Jinxiong	Supervisor	June 15, 2016	June 30, 2019
Jia Shaojun	Supervisor	June 15, 2016	June 30, 2019
Wu Yongliang	Vice President	June 15, 2016	June 30, 2019

	Chief Financial Officer	June 15, 2016	June 30, 2019
Feng Liang	Vice President	June 15, 2016	June 30, 2019
Feng Dehua	Vice President	December 25, 2017	June 30, 2019
Jiang Jiang	Vice President	February 22, 2017	June 30, 2019
Sun Youwen	Vice President	June 15, 2016	February 22, 2017
Wang Jian	Company Secretary	June 15, 2016	June 30, 2019

Note:

(1) On February 22, 2017, the fourth ordinary meeting of the eighth session of the Board of Directors of the Company appointed Mr. Jiang Jiang as a vice president of the Company for a term of office in line with the current session of the Board of Directors. On December 25, 2017, the ninth ordinary meeting of the eighth session of the Board of Directors of the Company appointed Mr. Feng Dehua as a vice president of the Company for a term of office in line with the current session of the Board of Directors. On February 6, 2018, Mr. Xu Zhao resigned as a Director. On February 8, 2018, Mr. Yuan Jun was elected as an employee representative Director at the general meeting of the employee representatives.

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None of our Directors, supervisors or members of our senior management has entered into any agreement or reached any understanding with us requiring our Company to pay any benefits as a result of termination of their services.

Audit and Risk Management Committee

Our Board of Directors established the audit committee in August 2000 in accordance with the listing rules of the Hong Kong Stock Exchange. Our Audit and Risk Management Committee comprised Mr. Li Ruoshan, Mr. Shao Ruiqing and Mr. Xu Zhao as the members of the Audit and Risk Management Committee and Mr. Li Ruoshan was appointed as the chairman of the Audit and Risk Management Committee in 2017. Due to Mr. Xu Zhao s resignation, on March 29, 2018, Mr. Cai Hongping was appointed as the member of the Audit and Risk Management Committee. Our Audit and Risk Management Committee comprises three members, which are all independent non-executive directors, and satisfies the requirements of Rule 10A-3 of the Exchange Act and NYSE Rule 303A.06 relating to audit committees, including the requirements relating to independence of the audit committee members.

The Audit and Risk Management Committee is authorized to, among other things, examine our internal control, internal audit and risk management systems, review auditing procedures and financial reports with our auditors, evaluate the overall risk management and corporate governance of our Company and prepare relevant recommendations to our Board of Directors. Subject to the approval of the shareholders meeting, the Audit and Risk Management Committee of our Company is also directly responsible for the appointment, compensation, retention and oversight of our external auditors, including resolving disagreements between management and the auditor regarding financial reporting. The external auditors report directly to the Audit and Risk Management Committee. The Audit and Risk Management Committee holds at least three meetings each year. The Audit and Risk Management Committee has established procedures for the receipt, retention and treatment of complaints received by our Company regarding accounting, internal controls or auditing matters, and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Audit and Risk Management Committee has the authority to engage independent counsel and other advisors, as it determines necessary, to carry out its duties. Our Company provides appropriate funding, as determined by the Audit and Risk Management Committee, for payment of compensation to the external auditors, advisors employed by the audit committee, if any, and ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties. The Audit and Risk Management Committee held eight meetings in 2017.

Nominations and Remuneration Committee

Our Nominations and Remuneration Committee comprises three members: Mr. Liu Shaoyong, the Chairman, Mr. Ma Weihua and Mr. Cai Hongping, both of whom are independent non-executive directors. Since June 15, 2016, when considering and approving nomination related matters, the Nominations and Remuneration Committee will be chaired by Mr. Liu Shaoyong; when considering and approving remuneration related matters, the Nominations and Remuneration Committee will be chaired by Mr. Ma Weihua.

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The Nominations and Remuneration Committee is authorized to make recommendations to our Board of Directors regarding its size and composition based on the relevant provisions of the Company Law and in the light of specific circumstances such as the characteristics of the Company s equity structure, determine standards and procedures for the nomination of Directors and senior management of the Company, examine the remuneration policies of Directors and senior management of the Company, review the performance of our Directors and senior management as well as determine their annual compensation level. The Nominations and Remuneration Committee submits to our Board of Directors or shareholders meeting for approval compensation plans and oversee the implementation of approved compensation plans. The Nominations and Remuneration Committee may consult financial, legal or other outside professional firms in carrying out its duties. The Nominations and Remuneration Committee held four meetings in 2017.

We follow our home country practice in relation to the composition of our Nominations and Remuneration Committee in reliance on the exemption provided under NYSE Corporate Governance Rule 303A.00 available to foreign private issuers. Our home country practice does not require us to establish a remuneration committee composed entirely of independent directors.

Planning and Development Committee

The Planning and Development Committee comprises three members: Mr. Li Yangmin and Mr. Tang Bing both of whom are Directors, and Mr. Shao Ruiqin, an independent non-executive director. Mr. Li Yangmin is the chairman of the committee.

The Planning and Development Committee, a specialized committee under our Board of Directors, is responsible for studying, considering, and developing plans and making recommendations with regard to the long-term development plans and material investment decisions of the Company. The members of the committee also oversee the implementation of such plans. The Planning and Development Committee held eight meetings in 2017.

Aviation Safety and Environment Committee

The Aviation Safety and Environment Committee comprises Mr. Ma Xulun and Mr. Li Yangmin, both of whom are Directors, and Mr. Li Ruoshan, an independent non-executive director. Mr. Ma Xulun serves as the chairman of the committee.

The Aviation Safety and Environment Committee, a specialized committee under the Board of Directors, is responsible for consistent implementation of relevant laws or regulations regarding national aviation safety and environmental protection, examining and overseeing the aviation safety management of the Company, studying, considering and making recommendations with regard to aviation safety duty plans and significant issues resulting from related safety duties as well as implementing such safety duty plans. In addition, the Aviation Safety and Environment Committee performs studies, and makes recommendations on significant environmental protection issues, including carbon emissions on our domestic and international aviation routes and carbon emission programs, and overseeing their implementation. The Aviation Safety and Environment Committee held two meetings in 2017.

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D. Employees

Our employees are members of a labor association, which represents employees with respect to labor disputes and certain other employee matters. We believe that we maintain good relations with our employees and with their labor association.

The table below sets forth the number of our employees as of December 31, 2015, 2016 and 2017, respectively:

	As of December 31,		
	2015	**2016**	**2017**
Pilots	6,386	6,759	7,332
Flight attendants and other aircrew staff	13,225	15,494	18,916
Maintenance personnel	10,890	11,621	11,847
Sales and marketing	3,980	4,739	4,378
Operation control	1,983	2,180	2,057
Information technology	707	860	920
Management	4,125	4,001	3,923
Ground Services and others	29,737	29,679	25,904
Total	**71,033**	**75,333**	**75,277**

In 2017, we ensured positive results from the large-scale trainings through organizing and coordinating resources, reasonably setting up courses and optimizing training cycles. We focused on different professional trainings, concentrated on the development of talent for the key positions and set up clear development and training plans for the targeted personnel. Altogether 49,663 people have completed trainings, 980 people dispatched; 205 tranches or 3,620 people have completed the five required trainings in the transportation industry, which are dispatch, information, flight operations, on-the-spot affairs and capabilities; 3,134 flight attendant trainees have completed 107 training tasks from the beginner class for the new flight attendants. We have also optimized the Sail Plan for Talents Development , a training program for new management trainees incorporating closed-door training with seminars, experiential and inspiring teaching. In addition, we promoted overseas study project, such as Rolls-Royce management improvement study project and Six Sigma Black Belt project.

See Note 37 to the consolidated financial statements for changes in our retirement benefits.

E. Share Ownership

See Item 6.A and Item 6.B above.

In 2012, we implemented an H shares appreciation rights scheme, under which H shares appreciation rights were granted to the Directors and senior management on November 30, 2012 at an exercise price of HK$2.67. The H share appreciation rights granted under this scheme are valid for a period of five years from the date of grant. The lock-up period of the share appreciation rights shall be the 24 months from the date of grant, during which no share appreciation right shall be exercised. Subject to the satisfaction of performance appraisal indicators, incentive recipients may exercise their share appreciation rights in equal instalments within three years after the expiration of the lock-up period.

There was no granting or exercise of rights under the H shares appreciation rights of our Company during 2013. The first tranche of H shares appreciation rights, amounting to one third of the total H shares appreciation rights of our

Company, was originally planned to be exercised on December 1, 2014. However, as our Company did not satisfy the exercising conditions in 2013, such tranche expired automatically.

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Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth certain information regarding ownership of our capital stock as of December 31, 2017 by all persons who were known to us to be the beneficial owners of 5% or more of any class of our issued share capital:

Title of Class	Identity of Person or Group	Amount Owned (%)	Percent of Class	Percent of Total Shares (%)
Domestic A Shares	CEA Holding (1)	5,530,240,000	56.38	38.23
H Shares	CES Global (2)	2,626,240,000	56.37	18.15
H Shares	HKSCC Nominees Limited (3)	4,182,503,289	89.77	28.91
H Shares	Delta Air Lines (4)	465,910,000	10.00	3.22

Notes:

Based on the information available to the Directors (including such information as was available on the website of the Hong Kong Stock Exchange) and so far as they are aware, as of December 31, 2017:

(1) Among such A shares, 5,072,922,927 A shares were held directly by CEA Holding; and 457,317,073 A shares were held directly by CES Finance, which in turn were entirely held by CEA Holding.

(2) Those H shares were held by CES Global in the capacity of beneficial owner, which in turn were entirely held by CEA Holding.

(3) Among the 4,182,503,289 H shares held by HKSCC Nominees Limited, 2,626,240,000 shares (representing approximately 62.79% of the Group s then total issued H shares) were held by CES Global in the capacity of beneficial owner, which in turn were entirely held by CEA Holding.

(4) Those H shares were held by Delta Air Lines, Inc. in the capacity of beneficial owner, and represented approximately 10.00% of the Group s then total issued H shares.

As of December 31, 2017, CEA Holding directly or indirectly held 56.38% of our issued and outstanding capital stock, and neither it nor HKSCC Nominees Limited has any voting rights different from those of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

As of December 31, 2017, there were 4,659,100,000 H Shares issued and outstanding. As of December 29, 2017 (December 30 and December 31, 2017 being a Saturday and a Sunday) and April 16, 2018, there were 43 and 42 registered holders, respectively, of American depositary receipts evidencing 1,974,935 and 1,925,427 ADSs, respectively. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons.

Our Company is currently a majority-owned subsidiary of CEA Holding. CEA Holding itself is a wholly state-owned enterprise under the administrative control of the SASAC. CEA Holding s shareholding in our Company is in the form of ordinary domestic shares, through which it, under the supervision of the SASAC, enjoys shareholders rights and benefits on behalf of the PRC government.

B. Related Party Transactions

Relationship with CEA Holding and Associated Companies

We enter into transactions from time to time with CEA Holding and its subsidiaries. For a description of such transactions, see Note 47 to the consolidated financial statements.

Related Business Transactions

As our Company and EA Group and its subsidiaries were a single group prior to the restructuring in 2002, certain arrangements among us have continued after the restructuring and the establishment of CEA Holding. Although we do not currently intend to enter into any equivalent contracts with third parties, each of these arrangements is non-exclusive.

Eastern Aviation Import and Export Corporation (EAIEC), a 55% owned subsidiary of CEA Holding

Import and Export Services (previously known as Import and Export Agency Services)

On August 30, 2013, we entered into an agreement relating to the renewal of the existing import and export agency agreement with EAIEC on substantially the same terms, pursuant to which EAIEC and its subsidiaries will from time to time as its agent provide the Group with agency services for the import and export of goods, including aircraft and related raw materials, accessories, machinery and equipment, together with related insurance and financial services, required in the daily airlines operations and civil aviation business of the Group. The Import and Export Agency Renewal Agreement was effective for a term of three years from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the existing Import and Export Agency Agreement with EAIEC, pursuant to which EAIEC and its subsidiaries will from time to time provide our Group with a range of import and export services including: (i) agency services for the import and export of goods, including aircraft and related raw materials, accessories, machinery and equipment, together with related insurance and financial services, required in the daily airlines operations and civil aviation business of the Group; (ii) the provision of transportation services as required by our Group in the conduct of foreign trade; and (iii) provision of aircraft on-board supplies. The Import and Export Services Renewal Agreement (previously known as Import and Export Agency Renewal Agreement) is effective for a term of three years, from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2017, we paid handling charges of approximately RMB145 million to EAIEC. We currently have certain balances with EAIEC, which are trade in nature, interest-free and payable within normal credit terms. See Note 47(c) to the consolidated financial statements for more details.

China Eastern Airlines Media Co. Ltd. (CEA Media) (previously known as Eastern Aviation Advertising Service Co., Ltd. (Eastern Aviation Advertising)), a 55% owned subsidiary of CEA Holding

Advertising Service Agreement

On August 30, 2013, we entered into an agreement relating to the renewal of the existing advertising services agreement with Eastern Aviation Advertising on substantially the same terms, pursuant to which Eastern Aviation Advertising and its subsidiaries will from time to time provide the Group with multi-media advertising services to promote its business and to organize promotional functions and campaigns to enhance its reputation in the civil aviation industry. The Advertising Services Renewal Agreement was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the Existing Advertising Services Agreement with CEA Media on substantially the same terms, pursuant to which CEA Media and its subsidiaries will from time to time provide our Group with multi-media advertising services to promote our Group s business and to organize promotional functions and campaigns to enhance our Group s reputation in the civil aviation industry. The Advertising Services Renewal Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2017, we paid to Eastern Aviation Advertising approximately RMB23 million for advertising services.

Media Resources Agreement

On September 27, 2013, we entered into an agreement with CEA Media, pursuant to which we and certain of our subsidiaries agreed to transfer the exclusive rights to use certain media and advertising resources to CEA Media and certain of its subsidiaries for a period of 15 years (from January 1, 2014 to December 31, 2028). CEA Media is a subsidiary of and thus an associate of CEA Holding, which in turn is a controlling shareholder of the Company. For the year ended December 31, 2017, Eastern Aviation Advertising paid approximately RMB15 million in media royalty fees.

China Eastern Air Catering Investment Co., Ltd. (CEA Catering   ), a 55% owned subsidiary of CEA Holding with the remaining by our Company

Catering Service Agreements

On August 30, 2013, we entered into an agreement relating to the renewal of the existing catering services agreement with the Eastern Air Catering Company on substantially the same terms, pursuant to which the Eastern Air Catering Company and its subsidiaries would from time to time provide the Group with in-flight catering services (including the supply of in-flight meals and beverages, cutlery and tableware) and related storage and complementary services required in the daily airline operations and civil aviation business of the Group. The Eastern Air Catering Entities provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of the Group to accommodate its operation needs. The Catering Services Renewal Agreement was approved at the extraordinary general meeting of the Company held on October 29, 2013 and was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the Existing Catering Services Agreement with CEA Catering, pursuant to which CEA Catering and its subsidiaries (each an   Eastern Air Catering Entity   and collectively the   Eastern Air Catering Entities   ) will from time to time provide our Group with catering services (including the supply of meals and beverages, cutlery and tableware) and related storage and complementary services required in the day-to-day airline and ground operation of our Group. The Eastern Air Catering Entities provide their services in accordance with the specifications and schedules as from time to time specified by the relevant member(s) of our Group to accommodate the operational needs of our Group.

For the year ended December 31, 2017, we paid approximately RMB1,254 million to the subsidiaries of CEA Catering for the supply of in-flight meals and other services.

Eastern Air Group Finance Co., Ltd., (Eastern Finance   ), a 53.75% owned subsidiary of CEA Holding

On January 16, 2013, the Company entered into a supplemental agreement with Eastern Finance to further regulate the balances of our deposits and loans with Eastern Finance and its subsidiaries on a pre-condition that the agreed maximum daily balance of each of the deposits and the loans under the financial services agreement dated October 15, 2010 remained unchanged. On August 30, 2013, we entered into an agreement relating to the renewal of the existing financial services agreement with Eastern Finance and CES Finance, pursuant to which Eastern Finance and its subsidiaries (each an   Eastern Air Finance Entity   and collectively the   Eastern Air Finance Entities   ) and CES Finance and its subsidiaries (each a   CES Finance Entity   and collectively the   CES Finance Entities   ) will from time to time provide the Group with a range of financial services including: (i) deposit services by Eastern Air Finance Entities; (ii) loan and financing services by Eastern Air Finance Entities; and (iii) other financial services such as: (a) the provision of trust loans, financial guarantees, credit references by Eastern Air Finance Entities; and (b) broker services for future products (e.g. crude oil, foreign exchange and national debt) by CES Finance Entities (the scope of   other financial services   is not limited and different services may be provided to the Group as and when they are needed). The Financial Services Renewal Agreement was approved at the extraordinary general meeting of the Company held on October 29, 2013 and was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the Existing Financial Services Agreement with Eastern Finance and CES Finance, on substantially the same terms, pursuant to which Eastern Finance and its subsidiaries (each an   Eastern Air Finance Entity   and collectively the   Eastern Air Finance Entities   ) and CES Finance and its subsidiaries (each a   CES Finance Entity   and collectively the   CES Finance Entities   ) agreed from time to time provide our Group with a range of financial services including: (i) deposit services by the Eastern Air

Finance Entities; (ii) loan and financing services by the Eastern Air Finance Entities; and (iii) other financial services, such as: (a) the provision of services such as trust loans, financial guarantees and credit references by the Eastern Air Finance Entities; and (b) the provision of services such as broker services for future products (e.g. crude oil, foreign exchange and national debt) by the CES Finance Entities (the scope of other financial services is not limited and different services may be provided to the Group as and when they are needed). The Financial Services Renewal Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

As of December 31, 2017, we had deposits amounting to RMB4,053 million placed with Eastern Finance, which paid interest to us at 0.35% per annum.

CEA Development Co. (CEA Development), a wholly-owned subsidiary of CEA Holding

On August 30, 2013, we entered into an agreement relating to the renewal of the existing maintenance and repair services agreement with CEA Development on substantially the same terms, pursuant to which CEA Development and its subsidiaries (each a CEA Development Entity and collectively the CEA Development Entities) would from time to time provide certain services, including: (i) maintenance and repair services to our airplanes and automobiles that are used in ground services and daily operations; (ii) comprehensive services in relation to maintenance, repair and overhaul of aircraft, aviation equipment and ancillaries; (iii) various special vehicles and equipment for airline use, such as air stairs, freight cars, luggage trailers, garbage truck, aircraft portable water vehicle, aircraft sewage disposal vehicle, food cars, freight containers, freight board; (iv) aircraft on-board supplies; and (v) warehousing management (the Maintenance and Repair Services Renewal Agreement). Maintenance and Repair Services Renewal Agreement was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into the Complementary Services Renewal Agreement (previously known as the Existing Maintenance and Repair Services Agreement) with CEA Development, pursuant to which CEA Development and its subsidiaries (each a CEA Development Entity and collectively the CEA Development Entities) will from time to time provide our Group with a range of services including: (i) supply of equipment and materials and provision of maintenance and repair services to our automobiles and equipment; (ii) provision of property management services; (iii) provision of hotel accommodation services; and (iv) other complementary aviation services. The Complementary Services Renewal Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2017, production and maintenance services fees paid to CEA Development Entity amounted to approximately RMB121 million.

Eastern Logistics, an indirectly owned subsidiary of CEA Holding

<u>Disposal of the entire equity interest in Eastern Air Logistics</u>

On November 29, 2016, we entered into a disposal agreement with Eastern Airlines Industry Investment, pursuant to which, we have conditionally agreed to sell, and Eastern Airlines Industry Investment has conditionally agreed to purchase, our entire equity interest in Eastern Logistics at a consideration of RMB2,432,544,211.50, determined with reference to the relevant valuation report. Upon completion of the disposal on February 8, 2017, Eastern Logistics ceased to be our subsidiary.

<u>Freight Logistics Daily Connected Transactions Framework Agreement with Eastern Logistics</u>

As Eastern Logistics ceased to be our subsidiary, each member of the Eastern Logistics Group became a connected person of us. On November 29, 2016, we entered into the Freight Logistics Daily Connected Transactions Framework Agreement with Eastern Logistics. We will provide the following services to the Eastern Logistics Group, required for the daily operation of its freight logistics business: (i) aircraft maintenance and its ancillary support services; (ii) information technology support services; (iii) cleaning services; (iv) training services; and (v) other daily support services. The Eastern Logistics Group will provide us the following services required for our daily business operation: (i) apron transfer services, cargo terminal operation services and security inspection services; and (ii) other daily support services. The Freight Logistics Daily Connected Transactions Framework Agreement will be effective for a term of three years, commencing from the date on which the entire equity interest in Eastern Logistics was transferred from us to Eastern Airlines Industry Investment pursuant to the disposal agreement, and ending on December 31, 2019.

For the year ended December 31, 2017, the amount payable by Eastern Logistics to us for the freight logistics support services amounted to approximately RMB100 million and the amount payable by us to Eastern Logistics for the cargo terminal business support services amounted to approximately RMB281 million.

Bellyhold Space Management Agreement

On January 1, 2017, to avoid the competition between the bellyhold space business operated by us and the all-cargo aircraft freight business operated by China Cargo Airlines, the subsidiary of Eastern Logistics, after the completion of equity transfer in Eastern Logistics, we entered into the Bellyhold Space Management Agreement with China Cargo Airlines to entrust China Cargo Airlines for the operation of the bellyhold space business for a term of three years, which commenced on January 1, 2017. Pursuant to the Bellyhold Space Management Agreement, in respect of the entrusted management of bellyhold space business, we will pay management fee to China Cargo Airlines according to industry practice, including handling charges for the entrusted management and incentives for achieving specified sales targets.The Bellyhold Space Management Agreement is effective for a term of three years commencing January 1, 2017 until December 31, 2019.

For the year ended December 31, 2017, the actual amount incurred under the Bellyhold Space Management Agreement was approximately RMB117 million. The Bellyhold Space Management Agreement has been superseded by the contractual operation agreement dated March 1, 2018 entered into between the Company and China Cargo Airlines from March 31, 2018.

Contractual Operation Agreement and Operation Cost Agreement

On March 1, 2018, we entered into contractual operation agreement and operation cost agreement with China Cargo Airlines, pursuant to which, China Cargo Airlines (as contractor) will operate the bellyhold space business and reimburse the contractual fee to us, and we will reimburse the operation cost of the bellyhold space business to China Cargo Airlines. The term of the contractual operation agreement is from April 1, 2018 to December 31, 2032. The term of the operation cost agreement is from the effective date to December 31, 2032.

Shanghai Eastern Airlines Investment Co., Limited (Eastern Investment), a wholly-owned subsidiary of CEA Holding

Land Use Rights Transfer Agreement and the Buildings Compensation Agreement

On September 29, 2017, we entered into the land use rights transfer agreement and the buildings compensation agreement with Eastern Investment in Shanghai. Pursuant to the land use rights transfer agreement and the buildings compensation agreement, (i) we agreed to transfer to Eastern Investment the land use rights in respect of the target land together with the buildings thereon at the eastern district of Terminal One of the Shanghai Hongqiao International Airport; and (ii) Eastern Investment agreed to compensate us for the transfer of the buildings, at total consideration of approximately RMB808 million.

Property Leases

On August 30, 2013, we entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding on substantially the same terms. Pursuant to the Property Leasing Renewal Agreement, we leased the following properties from CEA Holding and its subsidiaries, for use in our daily airline and other business operations:

(i) a maximum of 36 land properties owned by CEA Northwest, covering an aggregate site area of approximately 713,632 square meters together with a total of 172 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 240,601 square meters;

(ii) a maximum of three land properties owned by CEA Yunnan, covering an aggregate site area of approximately 43,258 square meters together with a total of 24 building properties and related construction, infrastructure and facilities occupying an aggregate floor area of approximately 77,401 square meters;

(iii) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 8,853 square meters located in Shijiazhuang;

(iv) building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 63,552 square meters located in Taiyuan;

(v) a total of 7 building properties and related construction, infrastructure and facilities owned by CEA Holding, occupying an aggregate floor area of approximately 13,195 square meters located in Shanghai;

(vi) a total of 33 guest rooms in Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters located in Shanghai; and

(vii) other property facilities owned by CEA Holding as may be leased to us from time to time, due to our business needs

In addition to and on the terms and conditions to be further agreed, we will lease some of the properties legally owned or leased by us to subsidiaries of CEA Holding as needed by the subsidiaries of CEA Holding. The Property Leasing Renewal Agreement was effective for a term of three years, from January 1, 2014 to December 31, 2016.

On August 30, 2016, we entered into an agreement relating to the renewal of the existing property leasing agreement with CEA Holding. Pursuant to the property leasing renewal agreement, we will lease from CEA Holding and its subsidiaries the following properties, for use in our daily airlines and other business operations:

(a) altogether 17 land properties owned by CEA Holding in Lanzhou, Gansu, covering an aggregate site area of approximately 234,989 square meters together with a total of 81 building properties, construction, structures and other ancillary facilities occupying an aggregate floor area of approximately 54,290 square meters;

(b) altogether three land properties owned by CEA Holding in Kunming, Yunnan, covering an aggregate site area of 44,835 square meters together with a total of 24 building properties, construction, structures and other ancillary facilities occupying an aggregate floor area of approximately 67,992 square meters;

(c)

one building property, construction, structures and other ancillary facilities owned by CEA Holding in Shijiazhuang, occupying an aggregate floor area of approximately 8,853 square meters;

(d) a total of 67 building properties, construction, structures and other ancillary facilities owned by CEA Holding in Taiyuan, occupying an aggregate floor area of approximately 45,068 square meters;

(e) a total of 7 building properties, construction, structures and other ancillary facilities owned by CEA Holding in Shanghai, occupying an aggregate floor area of approximately 13,195 square meters;

(f) altogether 16 land properties owned by CEA Northwest, covering an aggregate site area of approximately 393,929 square meters together with a total of 115 building properties, construction, structures and other ancillary facilities occupying an aggregate floor area of approximately 88,440 square meters;

(g) a total of altogether 33 guest rooms in Eastern Hotel owned by CEA Holding, occupying an aggregate floor area of approximately 1,500 square meters located in Shanghai; and

(h) other land and property facilities owned by CEA Holding as may be leased to us from time to time due to our business and operational needs.

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In addition to the above and on terms and conditions to be further agreed, we leased some of the properties legally owned or leased by us to subsidiaries of CEA Holding as needed by the subsidiaries of CEA Holding. The property leasing renewal agreement was effective for a term of three years from January 1, 2017 to December 31, 2019.

For the year ended December 31, 2017, we paid a rental fee of RMB54 million under this property leasing renewal agreement.

Amendments to the Non-Competition Undertaking with CEA Holding

On December 22, 2017, we and CEA Holding entered into the supplemental agreement II to the reorganization and division agreement to amend the non-competition undertaking of CEA Holding as set out in article 3 of the supplemental agreement I to the reorganization and division agreement entered into by both parties in 1996.

Pursuant to article 3 of the supplemental agreement I, CEA Holding has undertaken to us that, so long as the we are listed in the PRC, Hong Kong or New York, if CEA Holding holds more than 35% of the issued shares of us or is deemed to be our controlling shareholder pursuant to the listing rules of relevant stock exchange(s) or relevant laws and regulations, CEA Holding shall not, in any place within or outside the PRC or in any way (including but not limited to carrying on through sole proprietorship, forming partnerships or joint ventures with others and holding shares or interests in other companies or enterprises, except that the shares held by CEA Holdings do not exceed 10% of our shares or enterprise as listed on a stock exchange) conduct any business or activities that is or may be in direct or indirect competition with our business.

Pursuant to the amendments, CEA Holding undertakes to us that so long as we are listed in the PRC, Hong Kong or New York, if CEA Holding holds more than 35% of the issued shares of us or is deemed to be our controlling shareholder pursuant to the listing rules of relevant stock exchange(s) or relevant laws and regulations, CEA Holding shall not, in any place within or outside the PRC or in any way, conduct any business or activities that is or may be in direct or indirect competition with our business, with an exception that CEA Holding will be allowed to conduct equity investment in any companies or enterprises that is or may be in direct or indirect competition with the principal business of the Company (the Competing Enterprise(s)), provided that CEA Holding and its controlled subsidiary(ies) (other than us) will not contravene any applicable laws and regulations as well as regulatory rules, control or be deemed to control such Competing Enterprises by the listing rules of relevant stock exchange(s) or relevant laws and regulations after the investment, and subject to certain conditions.

Guarantee by CEA Holding

As of December 31, 2015, bonds issued by us in an aggregate amount of RMB4.8 million guaranteed by CEA Holding. As of December 31, 2016, bonds issued by us in an aggregate amount of RMB7.8 million guaranteed by CEA Holding. As of December 31, 2017, bonds issued by us in an aggregate amount of RMB7.8 million guaranteed by CEA Holding. See Note 47(d) to the consolidated financial statements.

Guarantee by the Company

To Certain Subsidiaries

On January 17, 2017, the Board of Directors considered and approved that we shall provide, within the period from the effective date of the Board resolution to December 31, 2017, guarantee in the total amount of up to RMB1,000 million to China United Airlines, Shanghai Eastern Flight Training Co., Limited, Eastern Business Airlines Service Co., Limited, Eastern Technology, and their respective wholly-owned subsidiaries. The period of guarantee shall be the same as the period of subject obligations of the respective guaranteed parties and shall not exceed 10 years.

On December 22, 2017, the Board of Directors considered and approved that we shall provide, within the period from the effective date of the Board resolution to December 31, 2018, guarantee in the total amount of up to RMB1,000 million to China United Airlines, Shanghai Eastern Flight Training Co., Limited, Eastern Business Airlines Service Co., Limited, Eastern Technology, and their respective wholly-owned subsidiaries, and that Shanghai Airlines Tours International (Group) Co., Limited, a wholly-owned subsidiary of us, shall provide guarantee in the total amount of up to RMB10 million to Shanghai Dongmei Air Travel Co., Ltd. The period of guarantee shall be the same as the period of subject obligations of the respective guaranteed parties and shall not exceed 10 years.

To not more than 67 Special Purpose Vehicles

On January 19, 2018, with an aim to carry out the work of changing aircraft leasing from overseas operating lease to domestic operating lease for not more than 67 aircraft, the Board of Directors agreed us to invest and establish not more than 67 special purpose vehicles in Dongjiang Free Trade Port Zone of Tianjin with the aggregate guarantee amount not exceeding RMB9.8 billion. The term of each guarantee will not exceed 15 years commencing from the actual date when we provide guarantee to each special purpose vehicle. The guarantee was considered and approved at the general meeting of the Company held on February 8 2018.

Agreements in relation to Aircraft Finance Lease and Aircraft Operating Lease with CES Leasing

Master Lease Agreement

On May 5, 2015, we entered into a master lease agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to us in relation to 23 aircraft in accordance with the terms and conditions of the master lease agreement and the relevant implementation agreements. CES Leasing is a non-wholly owned subsidiary of CEA Holding, which in turn is the controlling shareholder of the Company.

2016 Aircraft Finance Lease Framework Agreement

On April 28, 2016, we entered into the 2016 Aircraft Finance Lease Framework Agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to us in relation to the leased aircraft, as and when we consider desirable, in our interests and the interests of the Shareholders as a whole in accordance with the terms and conditions of the 2016 Aircraft Finance Lease Framework Agreement and the relevant implementation agreements contemplated thereunder. The 2016 Aircraft Finance Lease Framework Agreement was effective for a term of one year commencing January 1, 2016.

2017 2019 Aircraft Finance Lease Framework Agreement

On April 28, 2016, we entered into the 2017 2019 Aircraft Finance Lease Framework Agreement with CES Leasing, pursuant to which CES Leasing agreed to provide finance leasing to us in relation to the Leased Aircraft, as and when we consider desirable, in our interests and the interests of the Shareholders as a whole in accordance with the terms and conditions of the 2017 2019 Aircraft Finance Lease Framework Agreement and the relevant implementation agreements contemplated thereunder. The 2017 2019 Aircraft Finance Lease Framework Agreement is effective for a term of three years, from January 1, 2017 to December 31, 2019.

Novation Agreement and Aircraft Operating Lease Agreement

On July 9 2015, we (as the purchaser) entered into the purchase agreement with Boeing Company (as the seller) regarding the acquisition of fifty brand new Boeing B737 series aircraft (the Purchase Agreement).

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On August 10, 2017, we entered into a novation agreement with CES Leasing, pursuant to which, (i) we agreed to novate, from the date of the novation agreement, our rights (including the purchase right) and obligations in and under the Purchase Agreement in respect of the five Boeing Aircraft, which are expected to be delivered by the Boeing Company to us in 2017 pursuant to the Purchase Agreement (the Five Boeing Aircraft) at nil consideration; and (ii) CES Leasing agreed to, from the date of the novation agreement, assume all of the rights (including the purchaser right) and obligations in and under the Purchase Agreement in respect of the Five Boeing Aircraft at nil consideration. The parties entered into the novation agreement at nil consideration.

On August 10, 2017, we entered into the aircraft operating lease agreement with CES Leasing, pursuant to which, CES Leasing agreed to provide operating leasing to us in relation to the Five Boeing Aircraft. The aircraft operating lease agreement is effective for a term of 144 months for each aircraft from the date on which each of the Five Boeing Aircraft is delivered. Delivery date would fall on the period between August 2017 and December 2017.

2018-2019 Aircraft and Engines Operating Lease Framework Agreement

On December 22, 2017, we entered into the 2018-2019 aircraft and engines operating lease framework agreement with CES Leasing, pursuant to which CES Leasing agreed to provide operating leasing to us in relation to the aircraft and aircraft engines. Upon successful bidding of the tender of the aircraft and/or aircraft engines during the period between January 1, 2018 and December 31, 2019 by CES Leasing, the term of each of the lease agreement under the 2018-2019 aircraft and engines operating lease framework agreement shall be not more than 144 months for each leasing of the aircraft and aircraft engines by CES Leasing to us.

For the year ended December 31, 2017, the actual amount incurred for aircraft finance lease services was approximately RMB1,997 million and the actual amount incurred for aircraft operating lease services was approximately RMB25 million.

Continuing Connected Transactions with Air France-KLM

On July 27 2017, a wholly-owned subsidiary of CEA Holding and Delta entered into a conditional subscription agreement with Air France-KLM, respectively, to acquire 10% newly issued shares in the share capital of Air France-KLM after the completion of issuance of additional shares. We entered into a marketing agreement with Air France-KLM to further strengthen the business partnership on the basis of good business relationship between the two parties.

On October 3, 2017, the trading of the fixed issuance of additional 10% shares to CEA Holding by Air France-KLM was completed in the Euronext. CEA Holding appointed Tang Bing, our Director and vice president as the director of Air France-KLM. According to the relevant requirements of the Shanghai Stock Exchange, the daily businesses such as joint operation and service security between us and Air France-KLM and its controlled subsidiaries constituted a continuing connected transaction of the Company under the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

On December 22, 2017, the Board of Directors considered and approved the relevant resolution regarding the 2017-2019 continuing connected transactions between Air France-KLM and us, pursuant to which, we will provide aircraft aviation transportation cooperation and support services to Air France-KLM and Air France-KLM will provide aircraft aviation transportation cooperation and support services to us. The Board of Directors also approved the 2017-2019 annual caps for the Air France-KLM aircraft aviation transportation cooperation and support services.

For the year ended December 31, 2017, the actual amount of the Air France-KLM aircraft aviation transportation cooperation and support services received by us was approximately RMB622 million and the actual amount of the Air France-KLM aircraft aviation transportation cooperation and support services paid by us was approximately RMB399 million.

C. Interests of Experts and Counsel

Not applicable.

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Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

Financial Statements

Please read Item 18. Financial Statements for information regarding our audited consolidated financial statements and other financial information.

Legal Proceedings

We are involved in routine litigation and other proceedings in the ordinary course of our business. We do not believe that any of these proceedings are likely to be material to our business operations, financial condition or results of operations.

Dividends and Dividend Policy

For the years ended December 31, 2010, 2011, 2012 and 2013, our Board of Directors did not recommend any dividend payouts due to our total accumulated losses of RMB12,855 million, RMB8,039 million, RMB4,967 million and RMB2,595 million, respectively. Under PRC law, we cannot convert funds from common reserves to increase our share capital during this period. Based on the audited financial statements of the Company under the *PRC Accounting Standards for Business Enterprises* as of and for the year 2014, the retained earnings of the parent company were RMB21 million as of December 31, 2014. Based on the audited financial statements of the Company under IFRSs as of and for the year 2014, the accumulated loss of the parent company was RMB385 million. Pursuant to the PRC Company Law and its Articles of Association, the Company must recover losses incurred in previous years with its profit for the year before any dividend distributions are made to its shareholders. The basis of dividend distribution of the Company is the distributable profit of the parent company, which is subject to the principle of adopting the lesser of the profit after tax under the PRC accounting standards and IFRSs. As of December 31, 2014, the Company has been recording accumulated losses under IFRSs. The Board of Directors recommended that no dividend be distributed for the year 2014 and share capital of the Company not be increased through capitalization of its capital reserve. Based on the audited financial statements of the Company under the *PRC Accounting Standards for Business Enterprises* as of and for the year 2015, the retained profits of the parent company were RMB1,680 million as of December 31, 2015. Based on the audited financial statements of the Company under IFRSs as of and for the year 2015, the retained profits of the parent company were RMB1,164 million.

In accordance with Rule 17 of Measures on the Administration of Securities Issuance and Underwriting by the CSRC, if listed companies with a plan for issuance of securities have any profit distribution proposal or proposal for capital increase with capital surplus, that has not yet been submitted to general meeting for voting or has been approved by shareholders general meeting but not yet implemented, the issuance of securities may only proceed after such proposals have been implemented. Given that the Company s application for non- public issuance of A shares was approved by the CSRC in January 2016 and will expire on July 5, 2016, if the Company had implemented profit distribution in 2015, approval for the profit distribution proposal would have been needed at the 2015 general meeting and the non-public issuance of A shares could only be implemented after the implementation of the profit distribution proposal. This would have narrowed the time frame for the non-public issuance of A shares or would even have made it impossible to implement, in which case the implementation of the Company s non-public issuance project and long-term development would have been severely hampered.

In consideration of factors such as shareholders interests and the Company s development, the profit distribution proposal recommended by the Board of Directors for the year 2015 is as follows: No profit shall be distributed for the year 2015 and no share capital of the Company shall be increased with its capital reserve. The Group profit distribution proposal for the year 2015 will be submitted to the 2015 annual general meeting for consideration. The Board of Directors also intends for, a cash dividend distribution in the interim period for the year 2016 of not less than 40% of the net profit of the Company of the year 2015 under the PRC Accounting Standards.

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On October 27, 2016, the interim profit distribution plan was approved at the extraordinary general meeting of the Company. The 2016 interim distribution was approximately RMB737.8 million in cash. Based on our total share capital of 14,467,585,682 shares, the cash distribution per share was RMB0.051 (before tax) in cash.

On March 30, 2017, the Board of Directors considered and approved the 2016 annual profit distribution proposal. It was recommended by the Board of Directors that the 2016 annual distribution be approximately RMB708.9 million in cash. Based on the total share capital of 14,467,585,682 shares of the Company, the cash distribution per share was RMB0.049 (before tax) in cash.

On September 25, 2017, the Board of Directors has not recommended any dividend for the six months ended June 30 2017.

On March 29, 2018, the Board of Directors considered and approved the 2017 annual profit distribution proposal. It was recommended by the Board of Directors that the 2017 annual distribution be approximately RMB740.3 million in cash. Based on the total share capital of 14,467,585,682 shares of the Company, the cash distribution per share would be RMB0.051 (before tax) in cash which will be distributed to holders of A shares of the Company in RMB and to holders of H shares of the Company in HKD.

The independent non-executive directors of the Company are of the view that the aforesaid annual profit distribution proposal is in line with the objective situation of the Company, in the long-term interests of the Company and its shareholders, in compliance with relevant laws, regulations and the articles of association of the Company, and not detrimental to the interests of investors (especially minority shareholders) of the Company.

The aforesaid profit distribution proposal of the Group is subject to consideration and approval by the shareholders at the 2017 general meeting of the Company. If the 2017 annual profit distribution proposal is approved at the general meeting, the Company expects that the cash distribution will be paid around August 1, 2018.

Our Board of Directors declares dividends, if any, in Renminbi, with respect to H Shares on a per share basis and pays such dividends in HK dollars. Any final dividend for a fiscal year is subject to shareholders approval. The Bank of New York Mellon (the BNYM), as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less conversion expenses. Under PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of the H Shares share proportionately on a per share basis in all dividends and other distributions declared by our Board of Directors, if any, based on the foreign exchange conversion rate published by PBOC, on the date of the distribution of the cash dividend.

We believe that our dividend policy strikes a balance between two important goals providing our shareholders with a competitive return on investment and assuring sufficient reinvestment of profits to enable us to achieve our strategic objectives. The declaration of dividends is subject to the discretion of our Board of Directors, which takes into account the following factors:

- our financial results;
- capital requirements;

contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;

our shareholders interests;

the effect on our creditworthiness;

general business and economic conditions; and

other factors our Board of Directors may deem relevant.

Pursuant to PRC laws and regulations, dividends may only be distributed after allowance has been made for: (i) recovery of losses, if any and (ii) allocations to the statutory surplus reserve. The allocation to the statutory surplus reserve is 10% of our net profit determined in accordance with PRC Generally Accepted Accounting Principles. Our distributable profits for the current fiscal year will be equal to our net profits determined in accordance with IFRSs, less allocations to the statutory surplus reserve.

B. Significant Changes

Significant Post Financial Statements Events

Not applicable.

Item 9. The Offer and Listing

A. Offer and Listing Details

The principal trading market for our H Shares is the Hong Kong Stock Exchange. The ADSs, each representing 50 H Shares, have been issued by BNYM as Depositary and are listed on the New York Stock Exchange. Prior to our initial public offering and subsequent listings on the New York Stock Exchange and the Hong Kong Stock Exchange on February 4 and 5, 1997, respectively, there was no market for our H Shares or ADSs. Our publicly traded domestic shares, or A shares, have been listed on the Shanghai Stock Exchange since November 5, 1997.

As of December 31, 2017, there were 4,659,100,000 H Shares issued and outstanding. As of December 29, 2017 (December 30 and December 31, 2017 being a Saturday and a Sunday) and April 16, 2018, there were 43 and 42 registered holders, respectively, of American depositary receipts evidencing 1,974,935 and 1,925,427 ADSs, respectively. Since nominees hold certain of the ADSs, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. A total of 9,808,485,682 domestic ordinary shares were also outstanding as of December 31, 2017.

The table below sets forth certain market information relating to the trading prices of our H Shares and ADSs in respect of the period from 2013 to April 16, 2018.

	Hong Kong Stock Exchange Price Per H Share (HK$)		New York Stock Exchange Price Per ADS (US$)	
	High	**Low**	**High**	**Low**
Yearly				
2013	3.72	2.24	23.67	14.76
2014	4.05	2.30	26.57	14.85
2015	7.56	2.33	49.50	22.13
2016	4.87	3.26	30.72	21.20
2017	5.67	3.57	36.14	23.11
Quarterly				
2016				
First Quarter 2016	4.35	3.32	27.34	21.20
Second Quarter 2016	4.64	3.86	30.72	25.31

Third Quarter 2016	4.58	3.57	29.72	22.98
Fourth Quarter 2016	3.77	3.32	24.32	21.43
2017				
First Quarter 2017	4.80	3.57	30.86	23.11
Second Quarter 2017	4.82	4.08	30.60	26.15
Third Quarter 2017	4.80	3.83	30.74	24.44
Fourth Quarter 2017	5.67	3.86	36.14	24.72
Monthly				
October 2017	4.07	3.87	25.97	24.72
November 2017	4.94	3.86	31.55	24.73
December 2017	5.67	4.45	36.14	28.55
First Quarter 2018				
January 2018	7.09	5.64	44.92	36.22
February 2018	7.14	5.81	45.06	37.50
March 2018	6.66	5.53	42.49	35.33
April 2018 (up to April 16, 2018)	6.11	5.61	38.52	35.72

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B. Plan of Distribution

Not applicable.

C. Markets

Our H shares are listed for trading on the Hong Kong Stock Exchange (Code: 00670), our ADSs are listed for trading on the New York Stock Exchange under the symbol CEA and our A shares are listed for trading on the Shanghai Stock Exchange (Code: 600115).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following is a brief summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of the English translation of our Articles of Association, as amended on February 8, 2018, is attached as an exhibit to this Annual Report on Form 20-F (which is incorporated by reference).

Selected Summary of the Articles of Association

We are a joint stock limited company established in accordance with the *Company Law of the People s Republic of China* (the Company Law), the State Council s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Share (the Special Regulations) and other relevant laws and regulations of the State. We are established by way of promotion with the approval under the document Ti Gai Sheng 1994 No. 140 of the PRC State Commission for Restructuring the Economic System. We are registered with and obtained a business license from China s State Administration Bureau of Industry and Commerce on April 14, 1995. Our business license number is 10001767-8. We changed our registration to Shanghai Administration for Industry and Commerce on October 18, 2002. The number of our Company s business license is: Qi Gu Hu Zong Zi No. 032138.

We were incorporated in the PRC for the purpose of providing the public with safe, punctual, comfortable, fast and convenient air transport services and other ancillary services, to enhance the cost-effectiveness of these services and to protect the lawful rights and interests of shareholders.

Board of Directors

The Board of Directors shall consist of eleven (11) directors, who are to be elected at the shareholders general meeting and will hold a term of office for three (3) years. At least one-third of the members of the Board of Directors shall be independent directors. The Directors are not required to hold shares of our Company.

Directors who are either directly or indirectly materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company (other than his contract of service with our Company) shall declare the nature and extent of his interests to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal is otherwise subject to the approval of the Board of Directors.

In accordance with our Articles, a director shall abstain from voting at a board meeting, the purpose of which is to approve contracts, transactions or arrangements that such director or any of his or her associates (as defined in the relevant rules governing the listing of securities) has a material interest in. Such director shall not be counted in the quorum for the relevant board meeting.

Unless the interested director discloses his interests in accordance with our Articles of Association and the contract, transaction or arrangement is approved by the Board of Directors at a meeting in which the interested director is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that director is materially interested is voidable at the instance of our Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested director. A director is also deemed to be interested in a contract, transaction or arrangement in which an associate of the director is interested.

Our Articles provide that our Company shall not in any manner pay taxes for or on behalf of a director or make directly or indirectly a loan to or provide any guarantee in connection with the making of a loan to a director of our Company or of our Company s holding company or any of their respective associates. However, the following transactions are not subject to such prohibition: (i) the provision by our Company of a loan or a guarantee of a loan to a company which is a subsidiary of our Company; (ii) the provision by our Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its directors, administrative officers to meet expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; (iii) our Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors or their respective associates in the ordinary course of its business on normal commercial terms, provided that the ordinary course of business of our Company includes the lending of money or the giving of guarantees.

Our Articles do not contain any requirements for (i) the directors power to vote compensation to themselves or any members of their body, in the absence of an independent quorum or (ii) the directors to retire by a specified age.

Description of the Shares

As of December 31, 2016, our share capital structure was as follows: 14,467,585,682 ordinary shares of which (a) 1,327,406,822 A shares subject to trading moratorium, which represented 9.18% of our share capital, were held by Shanghai Licheng Information Technology Consulting Co., Lim