

## **AIR CHINA LIMITED<sup>1</sup>**

### **1. Introduction**

Air China is a Commercial Chinese airline established in 1988, who is dedicated to serving passengers with credibility, convenience, comfort and choice. It is a well-known firm that operates in international and domestic markets where it has obtained reputation through the years with the objective of becoming the world's leading airline.

Nowadays, Air China is the only Chinese civil aviation enterprise that is in the World's top 500 Most Influential Brands and it is leading and serving as an example to domestic airlines in passenger, cargo transportation and other related services.

### **2. History**

Air China Limited was founded in 1988. Its predecessor was known as Air China International Corporation. Air China Limited was born as a result of a decision to split into six regional airlines who were operating divisions of the Civil Aviation Administration of China (CAAC), a monopolistic civil airline owned by the state in the People's Republic of China who operated from 1949. By then, Air China was headquartered in Beijing and handled intercontinental flights with the CAAC's long and medium haul Boeing aircrafts.

<b>1988</b>	Air China Limited was founded.
<b>2002</b>	Air China International integrated the air transportation resources of China Southwest Airlines and China National Aviation Company to form a new entity which began doing domestic flights.
<b>2002</b>	Only a single fatal accident in 2002, and a couple of overcome hijacks have been recorded.

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<sup>1</sup> Case written by Víctor Caparrós, Thomas Mustafa, Oscar Orellana and Lucas Parés, with the supervision of Professor Oriol Amat. Universitat Pompeu Fabra, 2020.

<b>2004</b>	The company was listed in both Hong Kong and London stock exchange.
<b>2006</b>	Air China floated in the domestic A-shares market and joined the Star Alliance, the world's largest airline alliance.
<b>2009</b>	The company bought \$19.3 million of shares from Air Macau who was not in the best financial situations Its stake in Air Macau from 51% to 80.9%.
<b>2010</b>	It expanded further its shareholding regarding Shenzhen Airlines, thus becoming its main controlling shareholder and improving its domestic flight network.
<b>2011</b>	Air China became the first international carrier to ever receive the highest Spanish tourism industry award.
<b>2011</b>	Integration of plane and bus tickets and also it became the first company to implement Wi-Fi on board.
<b>2012</b>	Air China spent USD \$813 million to raise its stake in Cathay Pacific from 17.5% to 30%.
<b>2013 - 2016</b>	Direct flights to destinations such as Hawaii, Houston, Havana, Johannesburg, Montreal and Vancouver were implemented.
<b>2016</b>	Air China's inflight magazine Wings of China faced accusations of racism when they stated "London is generally a safe place to travel, however precautions are needed when entering areas mainly populated by Indians, Pakistanis and black people".
<b>2018</b>	First direct flight Barcelona-Pekin.
<b>2018</b>	In 2018, the brand of Air China was selected as one of the World's 500 Most Influential Brands released by the World Brand Lab.

Figure 1. Major historical events of Air China

### 3. Industry

#### 3.1. SWOT Analysis of the Airline Industry

<b>Internal</b>	<p><b>STRENGTHS</b></p> <p>1- Increased propensity to fly.  2- Associated public acceptance of air travel as both a fast and safe way to travel. It has the safety record.  3- Airline staff is highly trained and experienced.  4- Airlines have the ability to segment the market to establish different levels of service and pricing decisions.</p>	<p><b>WEAKNESSES</b></p> <p>1- High operating leverage with high fixed costs due to high gross margins and that the aircraft is expensive and requires huge capital outlays.  2- High impact on sales and reputation due to workers' strikes and protests.  3- High communication costs. It is required continual communication and monitoring over large geographic areas  4- Airlines have difficulty making quick schedule and aircraft changes due to staffing commitments.</p>

<b>External</b>	<p><b>OPPORTUNITIES</b></p> <p>1- Offers opportunities for leisure and business destinations.</p> <p>2- Technology advances can result in cost savings.</p> <p>3- Technology can increase revenue due to customer-friendly service enhancements like in-flight internet access.</p>	<p><b>THREATS</b></p> <p>1- Economic downturns negatively affects leisure, optional travel, as well as business travel.</p> <p>2- The price of fuel. An upward spike can destabilize the business model.</p> <p>3- A plague or terrorist attack anywhere in the world can negatively affect air travel.</p> <p>4- Government intervention can result in new costly rules or unexpected new international competition.</p>

Figure 2. SWOT analysis Airline Industry

### 3.2. Airline Industry and operating profit

The Airline Industry has been increasing and growing due to many factors such as the growing population, new technology advances and the propensity of people to fly. In that way, it could be said that this industry is going well at a global level.

Moreover, at a National level, the airline industry is being consolidated as one of the important ones in China even if it was not a very strong industry compared to other countries in early years.

In this industry, it is important to highlight that profits are very susceptible to economic downturns and the price of the fuel, as we can see in Figure 3.

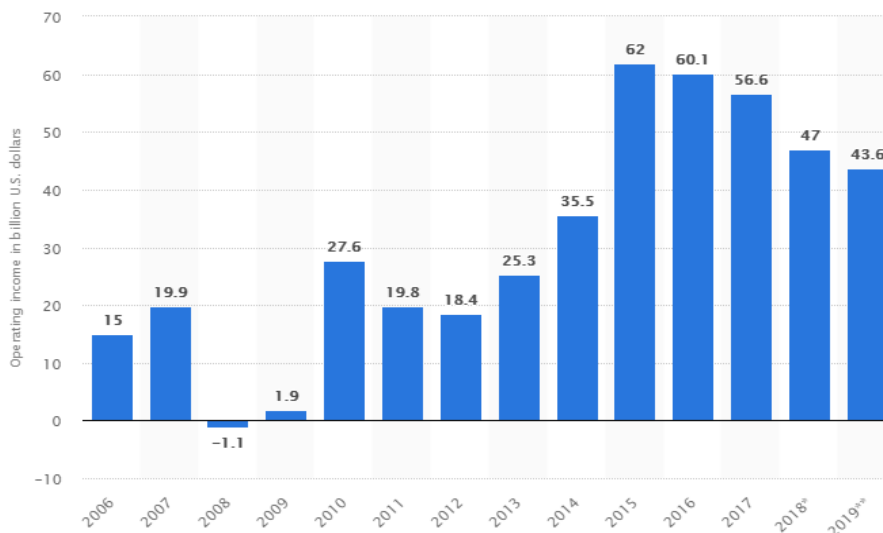


Figure 3. Operating profit of commercial airlines worldwide from 2006 to 2017

Source: <https://www.statista.com/statistics/227242/operating-income-of-commercial-airlines-worldwide/>

- During the global crisis (2008 and 2009) results were negative.
- From 2015 commercial airlines register great profits because the price of the fuel decrease that year from 100\$ to 40\$-50\$.

However, the susceptibility of the operating profit to economic downturns and the price of fuel, the industry has been growing fast, increasing the passenger's number.

### **3.3. Main Competitors**

It is necessary to split Air China's competitors between domestic and international because of the difference in the market share and the functioning of the market in China.

#### **3.3.1. Domestic Market**

The domestic market represents 65% of the Air China's profits and it is currently the third largest commercial airway in China, behind Southern Airlines and Eastern Airlines. However, Air China also differentiates because provides exclusive flight services to the government, top-ranking foreign officials and visitors to China as well as emergency flight services.

The presence of international companies in China is almost inexistent since the Chinese are the only ones operating in the domestic market, so the main competition of Air China is the other Chinese companies:

- Nine State operated airlines in China, among them, the named "Big Four" (Air China, Eastern Airlines, China Southern Airlines and Hainan Airlines), which are the ones with similar size and scope that have almost all the market share.
- Around other 40 other civilian-run airways such as Spring Airlines, Juneayao Airlines, Okay Airways...

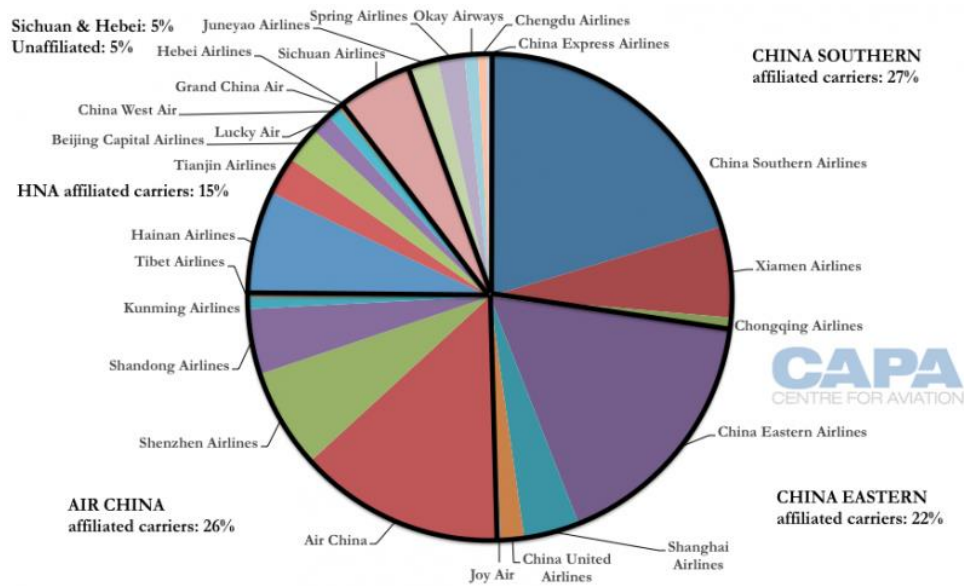


Figure 4. Domestic market share of the main Chinese airlines (Air China affiliates includes Shenzhen Airline carriers). Source: CAPA CENTRE FOR AVIATION

### 3.3.2. In the international market

All of foreign competitors except one, Emirates Group, are mainly from USA or Europe and they started their activities almost one century ago while Air China was born just 30 years ago.

Air China is the 10th largest airline in global market and it is not far away from its Chinese competitors but there is a critical aspect to consider: if we take the number of countries where these airlines operate, Air China and the other two Chinese airlines are below in the ranking (cause: most of the business activity and revenues come from the activity in the Chinese domestic market).

Leading airline groups listed by 2017 US dollar revenues

Rank	2017	2016	Airline/Group	Country	Revenue	Change %	
					2017 (\$m)	Local	US\$
1	(1)		<b>American Airlines</b>	<b>USA</b>	<b>42,207</b>	<b>5.0</b>	
			Envoy Air	USA	1,157	9.3	
2	(2)		<b>Delta Air Lines</b>	<b>USA</b>	<b>41,244</b>	<b>4.0</b>	
3	(4)		<b>Lufthansa Group</b>	<b>Germany</b>	<b>40,449</b>	<b>12.4</b>	<b>16.2</b>
			Lufthansa (network)	Germany	26,509	6.7	10.0
			Swiss	Switzerland	4,821	5.7	6.6
			Lufthansa Cargo	Germany	2,869	24.9	21.1
			Eurowings <sup>EST</sup>	Germany	3,087	31.8	35.9
			Austrian	Austria	2,681	9.5	12.9
			Brussels Airlines	Belgium	1,508	4.3	7.6
4	(3)		<b>United Continental</b>	<b>USA</b>	<b>37,736</b>	<b>3.2</b>	
5	(6)		<b>FedEx</b>	<b>USA</b>	<b>36,172</b>	<b>32.2</b>	
6	(5)		<b>Air France-KLM Group</b>	<b>France</b>	<b>29,313</b>	<b>3.8</b>	<b>7.0</b>
			Air France	France	17,995	2.7	5.9
			KLM	Netherlands	11,755	5.5	8.8
			Transavia Group	Netherlands	1,633	17.9	21.6
7	(7)		<b>Emirates Group</b>	<b>UAE</b>	<b>27,882</b>	<b>8.1</b>	<b>8.1</b>
8	(8)		<b>IAG</b>	<b>UK</b>	<b>26,116</b>	<b>1.8</b>	<b>4.9</b>
			British Airways	UK	15,954	7.2	4.1
			Iberia	Spain	5,633	6.9	10.2
			Vueling Airlines	Spain	2,399	3.1	6.3
			Aer Lingus	Ireland	2,113	5.3	8.5
9	(9)		<b>Southwest Airlines</b>	<b>USA</b>	<b>21,171</b>	<b>3.7</b>	
10	(11)		<b>China Southern Air</b>	<b>China</b>	<b>18,987</b>	<b>11.2</b>	<b>9.9</b>
			Xiamen Airlines	China	4,457	44.1	42.5
			<b>Air China</b>	<b>China</b>	<b>18,425</b>	<b>7.7</b>	<b>6.5</b>
			Shenzhen Airlines	China	4,107	6.5	5.3
			Air China Cargo	China	1,673	48.9	47.2

Figure 5. World leading Airlines 2017

Source: Wikipedia

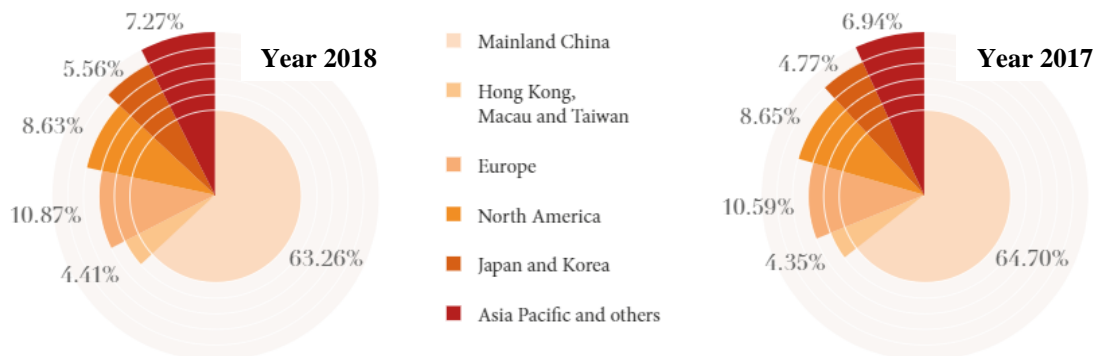
[https://en.m.wikipedia.org/wiki/World%27s\\_largest\\_airlines](https://en.m.wikipedia.org/wiki/World%27s_largest_airlines)

## 4. Present situation of the company

Regarding to the growth rate of passenger traffic it has slowed down, although it is still high at a global level. Air China Limited is paying attention to macro and industry changes and keep a close eye on market trends, in order to adjust route networks in a timely and effective manner.

On the other hand, not only is continuing to improve its resource allocation capability, but also optimizing the production organizations, achieving yearly improvements in aircraft utilization rate and average passenger load factor.

It also improved its control on the costs of large items, and should be highlighted that adjusted and optimized the debt structure aiming to reduce the impact of exchange rate fluctuations. Despite the unfavourable factors that this industry faces such as the complicated international situation, fluctuations in oil price and exchange rates, Air China achieved an industry control and quite dominant position at a national and an overwhelming international position.



**Figure 6. Air Passenger contributed by geographical segments**  
**Source: Air China Annual Report 2018**

### 4.1. Products and services offered

Improve Product and Service Competitiveness, Steadily Promote Brand Value. Implementing a philosophy of offering sincere service, Air China effectively enhanced passenger experience and a clear example of the innovation is the digital system, “Move under One Roof” programme, Luggage Hub Center and other projects proposed by Star Alliance. Moreover, the Company promoted the optimization and upgrading of aircraft seats, entertainment systems and cabin lighting products...

Nowadays, not only aircraft have in-flight WIFI but they also started to provide cultural entertainment scenarios, providing more than 1,031 hours of aircraft entertainment in 28 languages for passengers in the first half of the year. Furthermore, the company has other sources of revenues, such as Air Cargo and other subsidiaries which do more than touristic services with passengers

In other words, currently, this company is focusing on increase the brand value thus, improving brand recognition.

#### **4.2. Customers, distribution channels**

The Company conducted an accurate marketing campaign to achieve better alignment between investment and market demand and matching of products and customers.

By focusing on the consumer needs and adapting to the new trends, this company increased the sales revenues and this is translated to a year-on-year growth of 4.3% in revenue. A clear example would be the development of the premium lines that satisfy the necessity of an important part of the target customers.

They also use as a channel the mobile platform, and the number of registered users of the application has reached 9.37 million, contributing sales revenue to increase; meaning that launching a payment method by which can be used for payment with cash and be spent in various traveling related scenarios. In this way, loyalty of customers has increased.

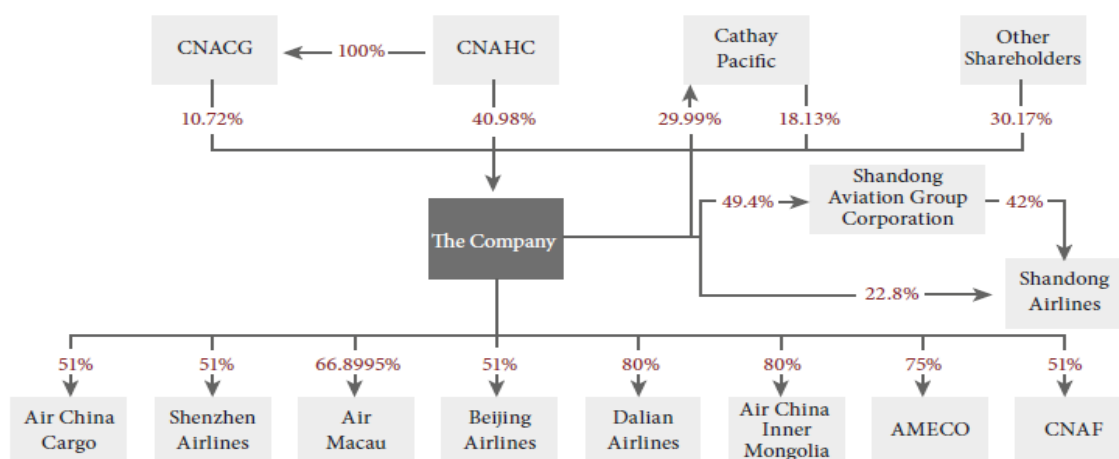
#### **4.3. Key success factors**

Innovation could be considered on the key factors of the business but also the way of adapting to the changes in the industry. Air China knows that and has been investing in new aircrafts.

The role of Chinese government has been crucial for the company in the past but also nowadays. As one of the “Big Four” public companies, it had plenty of help and concessions by the State, which fostered its growth and success. Even though the last liberalizations in the market, which imply a higher degree of competition, the company has a strong position to compete.

Have a clear vision is also important to develop a good strategy in the long term that will give success. Air China has a clear vision of its role in domestic market, where the company mainly operates, which consists in offering the most competitive prices among the airlines. On the other hand, in the international market in more focused on offering quality to have a good reputation between foreign customers.

## 5. Major subsidiaries and associates



**Figure 7. Organization chart of major subsidiaries and associates**  
**Source: Air China Annual Report 2018**

Subsidiary	Description
1. Air China Cargo	Air China Cargo takes Shanghai as its main long-haul air freighter operation base and is primarily engaged in air cargo and mail transportation. During the Reporting Period, Air China Cargo recorded consolidated revenue of ¥12,410 million, representing a year-on-year increase of 10.18%, of which cargo and mail transportation revenue amounted to ¥ 11,018 million, representing a year-on-year increase of 11.26%. The profit attributable to the equity shareholders was ¥ 389 million, representing a year-on-year decrease of 64.68%.
2. Shenzhen Airlines	Shenzhen Airlines principal business is the operation of passenger and cargo transportation. The registered capital of Shenzhen Airlines is 5,360,000,000. Air China holds 51% of its equity interest. During the Reporting Period, Shenzhen Airlines recorded a consolidated revenue of ¥31,119 million, representing a year-on-year increase of 12.56%, of which, air traffic revenue amounted to ¥30,325 million, representing a year-on-year increase of 13.01%. Profit before taxation was RMB1,001 million and profit after taxation was ¥918 million. The profit attributable to equity shareholders was ¥915 million, representing a

	year-on-year decrease of 36.33%.
3. Air Macau	Air Macau was established in 1994 and is an airline based in Macau. Air China holds 66.8995% of its equity interest. During the Reporting Period, Air Macau recorded a revenue of ¥3,372 million, representing a year-on-year increase of 19.07%, of which, air traffic revenue amounted to ¥3,342 million, representing a year-on-year increase of 18.84%. Profit after taxation was ¥180 million, representing a year-on-year increase of 156.28%.
4. Beijing Airlines	Beijing Airlines was established in 2011 with a registered capital of ¥1 billion. Air China holds 51% of its equity interest. Since 22 November 2018, Beijing Airlines has officially been approved to carry out public air transportation business in addition to its business charter service. During the Reporting Period, Beijing Airlines recorded a revenue of ¥179 million, representing a year-on-year increase of 42.75%, of which, air traffic revenue amounted to ¥177 million, representing a year-on-year increase of 40.87%. The loss for the year was RMB4 million, representing a year-on-year decrease of 89.55%.
5. Dalian Airlines	Dalian Airlines was established in 2011 with a registered capital of ¥1 billion. Air China holds 80% of its equity interest. During the Reporting Period, Dalian Airlines recorded a revenue of ¥1,695 million, representing a year-on-year increase of 14.35%, of which, air traffic revenue amounted to ¥1,691 million, representing a year-on-year increase of 14.40%. Profit after taxation was ¥128 million, representing a year-on-year decrease of 3.60%.
6. Air China Inner Mongolia	Air China Inner Mongolia was established in 2013 with a registered capital of RMB1 billion. Air China holds 80% of its equity interest. During the Reporting Period, Air China Inner Mongolia recorded a revenue of ¥1,397 million, representing a year-on-year increase of 24.53%, of which, air traffic revenue amounted to ¥1,381 million, representing a year-on-year increase of 25.88%. Profit after taxation was ¥149 million, representing a year-on-year increase of 53.44%
7. AMECO	AMECO was established in 1989 and is principally engaged in maintenance, repair and overhaul of aircraft, engines and components. The registered capital of AMECO is USD300,052,800, and Air China holds 75% of its equity interest. During the Reporting Period, AMECO recorded a revenue of ¥7,850 million, representing a year-on-year increase of 7.73%, and profit after taxation amounted to ¥176 million, representing a year-on-year increase of 6.39%.
8. CNAF	CNAF was established in 1994 and is principally engaged in the provision of financial services to CNAHC Group and the Group. The registered capital of CNAF is ¥1,127,961,864, with Air China holding 51% of its equity interest. During the Reporting Period, CNAF recorded a revenue of ¥300 million, representing a year-on-year decrease of

	0.85%, and profit after taxation of ¥92 million, representing a year-on-year increase of 18.57%.
9. Cathay Pacific	Cathay Pacific was established in 1946 in Hong Kong and is listed on the Hong Kong Stock Exchange. Air China holds 29.99% of its equity interest. During the Reporting Period, Cathay Pacific recorded a consolidated revenue of ¥95,073 million, representing a year-on-year increase of 12.95%, of which, air traffic revenue amounted to ¥86,834 million, representing a year-on-year increase of 11.13%. The profit attributable to equity shareholders for the year was ¥2,007 million, the loss attributable to equity shareholders in the same period last year was ¥1,089 million.
10. Shandong Airlines	Shandong Airlines was established in 1999 with a registered capital of ¥400 million. Air China and Shandong Aviation Group Corporation hold 22.8% and 42% of its equity interest, respectively, while Air China holds 49.4% of equity interest of Shandong Aviation Group Corporation. During the Reporting Period, Shandong Airlines recorded a consolidated revenue of ¥18,766 million, representing a year-on-year increase of 13.84%, of which air traffic revenue amounted to ¥18,061 million, representing a year-on-year increase of 12.95%. The profit attributable to equity shareholders was ¥347 million, representing a year-on-year decrease of 29.16%.

**Figure 8. Impact of the major subsidiaries and associates of Air China**

**Source: Air China Annual Report 2018**

## 6. Questions to be answered

1. Identify main qualitative strengths and weaknesses
2. Identify strengths and weaknesses from the financial statements
3. Calculate the Alternate Z Model Score for Airlines Companies and give an opinion about its performance of the last periods
4. Analyse the ratios of Air China and compare them to the ratios of domestic and international competitors
5. Analyse the key performance indicators of the airline industry (ASK, ATK...) and compare them with the competence
6. Prepare the Cause & Effect Diagram
7. Give recommendations after looking the Cause & Effect Diagram

## 7. APPENDIX: FINANCIAL STATEMENTS. Table 1. Consolidated balance sheets in , in million Chinese Yuan (RMB - ¥)

	International	Domestic	2018	%	2017	%	2016	%	2015	%	2014	%
<b>Non-current assets</b>	83,22%	91,82%	219,931,00	90,26%	214,884,64	91,19%	204,064,61	91,08%	193,419,82	90,54%	188,747,06	89,17%
Intangible assets			36,91	0,02%	76,02	0,03%	113,37	0,05%	35,90	0,02%	36,86	0,02%
Goodwill			1,099,98	0,45%	1,099,98	0,47%	1,099,98	0,49%	1,099,98	0,51%	1,099,98	0,52%
Fixed assets (*1)			193,579,66	79,45%	189,584,56	80,45%	179,325,13	80,04%	171,065,81	80,08%	166,864,91	78,83%
Lease prepayments			2,599,06	1,07%	3,300,12	1,40%	3,057,75	1,36%	3,034,21	1,42%	2,633,66	1,24%
Long-term financial investments (*2)			18,640,08	7,65%	16,113,67	6,84%	16,014,20	7,15%	13,323,61	6,24%	13,816,15	6,53%
Available for sale securities			0,00	0,00%	1,334,95	0,57%	1,150,66	0,51%	1,106,59	0,52%	713,67	0,34%
Deferred tax assets			2,840,32	1,17%	2,501,52	1,06%	3,054,04	1,36%	3,753,73	1,76%	3,581,84	1,69%
Other non-current assets			1,135,00	0,47%	873,81	0,37%	249,50	0,11%	0,00	0,00%	0,00	0,00%
<b>Current Assets</b>	16,78%	8,18%	23,726,11	9,74%	20,759,94	8,81%	19,986,34	8,92%	20,211,33	9,46%	22,922,63	10,83%
Non-current assets held for sale			0,00	0,00%	284,17	0,12%	913,13	0,41%	582,07	0,27%	460,03	0,22%
Inventory			1,877,49	0,77%	1,535,77	0,65%	1,680,63	0,75%	1,730,74	0,81%	1,100,18	0,52%
Accrued assets (*3)			9,594,41	3,94%	8,613,29	3,66%	7,016,63	3,13%	7,297,50	3,42%	7,199,75	3,40%
Restricted bank deposits			1,044,39	0,43%	697,17	0,30%	474,34	0,21%	654,95	0,31%	704,86	0,33%
Short-term financial investments			0,00	0,00%	29,94	0,01%	0,22	0,00%	1,00	0,00%	12,53	0,01%
Cash and cash equivalents			6,763,18	2,78%	5,562,91	2,36%	6,848,02	3,06%	7,138,10	3,34%	8,639,69	4,08%
Other current assets			4,446,63	1,82%	4,036,70	1,71%	3,053,37	1,36%	2,806,97	1,31%	4,805,59	2,27%
<b>Total Assets</b>	<b>100%</b>	<b>100%</b>	<b>243,657,11</b>	<b>100,00%</b>	<b>235,644,58</b>	<b>100,00%</b>	<b>224,050,95</b>	<b>100,00%</b>	<b>213,631,15</b>	<b>100,00%</b>	<b>211,669,69</b>	<b>100,00%</b>
<b>Net Equity</b>	17,97%	28,60%	93,157,34	38,23%	86,047,56	36,52%	68,799,26	30,71%	59,748,01	27,97%	54,273,77	25,64%
Shareholders' equity			93,157,34	38,23%	86,047,56	36,52%	68,799,26	30,71%	59,748,01	27,97%	54,273,77	25,64%
<b>Non-current Liabilities</b>	47,54%	39,59%	77,959,89	32,00%	77,465,19	32,87%	91,071,26	40,65%	103,335,79	48,37%	94,970,12	44,87%
Accumulated Minority Interest			7,340,69	3,01%	8,811,04	3,74%	7,597,14	3,39%	6,774,74	3,17%	5,604,33	2,65%
Long term loans (*6)			61,587,75	25,28%	60,100,58	25,50%	74,152,07	33,10%	86,800,98	40,63%	80,309,35	37,94%
Long term provisions (*5)			4,177,50	1,71%	3,591,81	1,52%	3,531,16	1,58%	3,125,67	1,46%	3,382,39	1,60%
Contract liabilities			3,062,74	1,26%	0,00	0,00%	0,00	0,00%	0,00	0,00%	0,00	0,00%
Defined benefit obligations			263,86	0,11%	263,58	0,11%	269,74	0,12%	276,97	0,13%	0,00	0,00%
Deferred income			647,97	0,27%	3,568,13	1,51%	3,092,84	1,38%	3,489,70	1,63%	3,336,11	1,58%
Deferred tax liabilities			879,37	0,36%	1,130,05	0,48%	2,428,31	1,08%	2,867,74	1,34%	2,337,96	1,10%
<b>Current Liabilities</b>	34,49%	31,81%	72,539,88	29,77%	72,131,84	30,61%	64,180,43	28,65%	50,547,35	23,66%	62,425,81	29,49%
Air traffic liabilities			8,886,27	3,65%	7,405,76	3,14%	6,313,94	2,68%	5,759,23	2,44%	4,830,81	2,05%
Accounts payable			14,726,43	6,04%	13,254,19	5,62%	10,832,29	4,83%	9,270,75	4,34%	9,788,92	4,62%
Other payables and accruals			10,833,54	4,45%	12,737,98	5,41%	13,094,92	5,84%	16,141,37	7,56%	13,815,08	6,53%
Short term loans (*4)			34,320,49	14,09%	35,490,80	15,06%	32,075,17	14,32%	17,254,29	8,08%	32,519,14	15,36%
Income tax payable			1,023,94	0,42%	1,825,06	0,77%	920,51	0,41%	819,88	0,38%	607,35	0,29%
Provision for major overhauls			1,447,70	0,59%	1,418,06	0,60%	943,61	0,40%	1,301,82	0,55%	856,79	0,36%
Contract liabilities			1,301,52	0,53%	0,00	0,00%	0,00	0,00%	0,00	0,00%	7,71	0,00%
<b>Total Equity and Liabilities</b>	<b>100%</b>	<b>100%</b>	<b>243,657,11</b>	<b>100,00%</b>	<b>235,644,58</b>	<b>100,00%</b>	<b>224,050,95</b>	<b>100,00%</b>	<b>213,631,15</b>	<b>100,00%</b>	<b>211,669,69</b>	<b>100,00%</b>

	International	Domestic	2018	%	2017	%	2016	%	2015	%	2014	%
<b>Total operating revenue</b>	100,00%	100,00%	140.883,10	100,00%	124.026,20	100,00%	115.144,69	100,00%	110.057,03	100,00%	105.964,90	100,00%
Sales			136.774,40	97,08%	121.362,90	97,85%	108.584,83	94,30%	104.368,23	94,83%	101.385,20	95,68%
Operational expenses			-71.401,78	-50,68%	-59.258,64	-47,78%	-48.934,63	-42,50%	-47.878,63	-43,50%	-55.988,72	-52,84%
Payroll			-24.450,25	-17,35%	-22.392,36	-18,05%	-20.075,60	-17,44%	-18.230,84	-16,56%	-15.550,85	-14,68%
Other operating expenses			-16.445,46	-11,67%	-16.891,31	-13,62%	-15.128,17	-13,14%	-15.385,18	-13,98%	-15.774,85	-14,89%
Net impairment gains/losses			264,39	0,19%	-131,85	-0,11%	0,00	0,00%	0,00	0,00%	0,00	0,00%
<b>EBITDA</b>	17,01%	26,93%	28.850,01	20,48%	25.352,03	20,44%	31.006,29	26,93%	28.562,38	25,95%	18.650,48	17,60%
Depreciations and amortizations			-14.503,68	-10,29%	-13.596,32	-10,96%	-13.473,72	-11,70%	-13.010,76	-11,82%	-11.393,43	-10,75%
<b>EBIT (operating P/L)</b>	6,97%	7,16%	14.346,33	10,18%	11.755,71	9,48%	17.532,57	15,23%	15.551,62	14,13%	7.257,05	6,85%
Finance income			172,56	0,12%	223,75	0,18%	127,08	0,11%	152,26	0,14%	233,27	0,22%
Finance costs			-2.914,10	-2,07%	-3.055,06	-2,46%	-7.468,99	-6,49%	-7.968,83	-7,24%	-3.214,26	-3,03%
Share of results of associates			526,57	0,37%	-604,67	-0,49%	-211,19	-0,18%	1.319,30	1,20%	738,63	0,70%
Share of results of joint ventures			222,23	0,16%	228,41	0,18%	233,42	0,20%	300,90	0,27%	120,19	0,11%
Exchange (loss)/gain, net			-2.376,58	-1,69%	2.938,10	2,37%	0,00	0,00%	0,00	0,00%	0,00	0,00%
<b>EBT (P/L before tax)</b>	6,31%	6,94%	9.977,02	7,08%	11.486,23	9,26%	10.212,90	8,87%	9.355,25	8,50%	5.134,87	4,85%
Income Tax			-1.762,15	-1,25%	-2.844,78	-2,29%	-2.454,22	-2,13%	-1.845,76	-1,68%	-800,76	-0,76%
<b>NET INCOME (P/L after tax)</b>	4,86%	5,40%	8.214,87	5,83%	8.641,45	6,97%	7.758,68	6,74%	7.509,48	6,82%	4.334,10	4,09%

**Table 2. Consolidated Income Statement in IFRS, in million Chinese Yuan (RMB - ¥)**

	2018	2017	2016	2015
<b>Operating activities</b>				
<b>EBT</b>	9.977,02	11.486,23	10.212,90	9.355,25
Adjustments for:				
Share of results of associates and joint ventures	-748,80	376,26	-22,24	-1.620,20
Exchange losses/gains, net	2.376,58	-2.938,10	4.233,67	5.156,04
Finance items	2.741,53	2.831,32	3.108,24	2.660,53
Amortization of: intangible assets and lease prepayments	113,08	110,65	106,92	71,85
Depreciation of: property, plant and equipment	14.390,60	13.485,67	13.366,80	12.938,91
Fair value changes of financial assets at fair value	-0,06	0,06		
Gain/loss on disposals (*1)	-657,73	-9,23	42,29	91,24
Impairments (*2)	-264,38	281,02	220,87	162,23
Provision of inventories	13,37	341,80	71,57	12,83
Dividend income	-7,42	-14,34		
<b>Cash generated from operations (before changes in WC)</b>	27.933,79	25.951,34	31.341,02	19.473,42
Changes in working capital (WC)	6.747,50	3.155,80	1.486,53	13.674,57
<b>Cash generated from operations</b>	34.681,29	29.107,14	32.827,55	33.147,99
Interest Payment	-2.735,72	-3.552,36	-3.358,13	-3.181,18
Income tax payment	-3.262,40	-2.717,84	-2.103,19	-1.395,29
<b>Net cash flows from operating activities</b>	<b>28.683,17</b>	<b>22.836,95</b>	<b>27.366,23</b>	<b>28.571,53</b>
<b>Investing activities</b>				
Purchase of property, plant, equipment and intangible assets (Capex)	-9.139,09	-10.207,96	-9.744,49	-10.824,75
Other Investing Cash Flow Items, Total	-443,33	-4.927,26	-10.018,37	3.096,14
Interest received	231,42	259,90	122,28	159,45
Dividends received from associates, joint ventures and equity instruments	401,30	222,56	627,54	781,08
<b>Cash flows from investing activities</b>	<b>-8.949,70</b>	<b>-14.652,76</b>	<b>-19.013,04</b>	<b>-6.788,08</b>
<b>Financing activities</b>				
Payment of transaction costs attributable to issuance of shares		-16,73		
Proceeds from issuance of shares		11.218,10		
New bank loans and other loans	36.392,66	27.645,36	15.270,32	15.740,70
Proceeds from issuance of corporate bonds	6.100,00	1.200,00	22.648,24	3.597,00
Repayment of bank loans and other loans	-44.322,12	-29.027,13	-26.543,22	-32.485,79
Repayment of principal under finance lease obligations	-8.494,99	-6.178,03	-6.468,85	-5.797,14
Repayment of corporate bonds	-6.449,85	-12.396,20	-12.100,00	-3.640,00
Total Cash Dividends Paid	-1.872,88	-1.746,93	-1.587,87	-795,44
<b>Cash flows from financing activities</b>	<b>-18.647,18</b>	<b>-9.301,55</b>	<b>-8.781,38</b>	<b>-23.380,67</b>
<b>Net increase/decrease in cash and cash equivalents</b>	<b>1.086,29</b>	<b>-1.117,37</b>	<b>-428,19</b>	<b>-1.597,22</b>
Cash and cash equivalents at the beginning of the year	5.562,91	6.848,02	7.138,10	8.639,69
Foreign Exchange Effects	113,98	-167,74	138,11	95,63
<b>Cash and cash equivalents at the end of the year</b>	<b>6.763,17</b>	<b>5.562,91</b>	<b>6.848,02</b>	<b>7.138,10</b>

Table 3. Consolidated Cash Flow in IFRS, in million Chinese Yuan (RMB - ¥)

		International	Domestic	2018	2017	2016	2015
<b>Debt Ratios</b>							
Indebtedness	Liabilities / Assets	0,65	0,68	0,62	0,63	0,69	0,72
Debt Quality	Current Liabilities / Total Liabilities	0,53	0,49	0,48	0,48	0,41	0,33
Repayment Capacity	Cash flow / Loans	0,18	0,17	0,24	0,23	0,20	0,20
Cost of debt	Financial Expenses / Loans	0,03	0,025	0,03	0,03	0,07	0,08
Financial Expenses	Financial Expenses / Sales	0,02	0,02	0,02	0,03	0,07	0,08
<b>Liquidity</b>							
Current ratio	Current Assets / Current Liabilities	0.50	0,29	0,33	0,29	0,31	0,40
Liquidity ratio	(Current Assets - Inventories) / Current Liabilities	0.44	0,27	0,30	0,27	0,29	0,37
Acid Test	Cash and equivalents / Current Liabilities	0.06	0,08	0,09	0,08	0,11	0,14
Alternate Z model	.268*(WC/Assets) + .838*(Retained earnings/Assets) + .111*(Equity/Liabilities)	-	0,06	0,12	0,10	0,09	0,09
WC (real)	Current assets – Current liabilities	-24.445,817	-56.292,015	-48.813,775	-51.371,893	-44.194,097	-30.336,013
Operating WC	Operating current assets – Operating current liabilities	-	-	-14.089,980	-15.474,316	-12.563,008	-13.017,920
<b>Assets Management</b>							
Turnover	Sales / Assets	0,76	0,58	0,56	0,52	0,48	0,49
NCA turnover	Sales / Non-current assets	1,11	1,69	0,62	0,56	0,53	0,54
CA turnover	Sales / Current assets	4,38	5,97	5,76	5,85	5,43	5,16
<b>Terms</b>							
Days receivables	Clients / Daily Sales	22,93	7,37	25,60	25,90	23,59	25,52
Days payables	Suppliers / Daily cost of sales	50,41	50,10	39,30	39,86	36,41	32,42
<b>Sales</b>							
Sales growth	Sales growth = Last year's sales / Previous year sales	1.013	0,97	1,13	1,12	1,04	1,03
<b>Profitability, self-financing and growth</b>							
Margin	EBIT / Sales	0,07	0,05	0,10	0,10	0,16	0,15
Tax effect	Net Profit / EBT	0,77	0,74	0,82	0,75	0,76	0,80
Cash flow	Net Income + Amortizations + Depreciations (in million Chinese Yuan (RMB - ¥))	22.451,34	20.060,00	22.718,55	22.237,77	21.232,40	20.520,24
CF over sales	Cash flow / Sales	0,1	0,16	0,17	0,18	0,20	0,20
CF over assets	Cash flow / Assets	0,07	0,09	0,09	0,09	0,09	0,10
ROI	EBIT / Assets	0,05	0,04	0,06	0,05	0,08	0,07
ROE	Net Income / Equity	0,19	0,11	0,09	0,10	0,11	0,13
P/E Ratio	Share price / Earnings per share	7,43	-	14,47	23,33	13,14	15,86
Dividend Pay-out Ratio	Dividends / Net Profit	0,16	0,17	0,19	0,21	0,19	0,19

Table 4. Main Ratios and indicators in IFRS

## International and Domestic Sources used in the Financial Statements

<b>International</b>	<p>All “International” data has been obtained from <a href="http://www.gurufocus.com">www.gurufocus.com</a> and calculated making an average of Lufthansa Group, American Airlines and China Southern data.</p> <p>Specific Sources:</p> <ul style="list-style-type: none"> <li>▪ Lufthansa Group Annual Report 2018</li> <li>▪ Lufthansa Group Annual Report 2016</li> <li>▪ American Airlines Group Annual Report 2018</li> <li>▪ American Airlines Group Annual Report 2016</li> <li>▪ China Southern Annual Report 2018</li> <li>▪ China Southern Annual Report 2016</li> </ul>
<b>Domestic</b>	<p>We used China Southern as a main competitor from the domestic market.</p> <p>Specific Sources:</p> <ul style="list-style-type: none"> <li>▪ China Southern Annual Report 2018</li> <li>▪ China Southern Annual Report 2016</li> </ul>

## Additional information about Specific Items from the Financial Statements

(*1) Fixed assets*	Property, plant and equipment + Advance payments for aircraft and flight equipment + Deposits for aircraft under operating leases
(*2) Long-term financial investments	Interests in associates + Interests in joint ventures + Investment properties + Held to maturity securities + Equity instruments at fair value through other comprehensive income + Debt instruments at fair value through other comprehensive income
(*3) Accrued assets	Accounts receivable + Bills receivable + Prepayments, deposits and other receivables
(*4) Short term loans	Obligations under finance leases + Interest-bearing bank loans and other borrowings
(*5) Long term provisions	Provision for major overhauls + Provision for early retirement benefit obligations
(*6) Long term loans	Obligations under finance leases + Interest-bearing bank loans and other borrowings + long-term payables

**Table 1.1. Notes about specific items from the Balance Sheet**

Operational expenses	Jet fuel costs & take-off, landing and depot charges & aircrafts and engines operating lease & aircraft maintenance, repair and overhaul costs & air catering charges
Other operating expenses	Selling, marketing, general and administrative expenses & other operating lease expenses & flight operation expenses

**Table 2.1. Notes about specific items from the Income Statement**

(*1) Disposals on non-current assets & financial assets & subsidiaries & interests in associates
(*2) Impairments of property, land and equipment & debt instruments at fair value & accounts receivable & other non-current or current assets

**Table 3.1. Notes about specific items from the Cash Flow Statement**

## 8. Sources

### Air China Official Reports:

- [Annual Report 2018](#)
- [Corporate Social Responsibility Report 2018](#)
- [Annual Report 2017](#)
- [Annual Report 2016](#)

(For Air China financial statements, notes and official documents)

### Competitors Data:

- [China Southern Annual Report 2018](#)
- [China Southern Annual Report 2016](#)
- [Lufthansa Group Annual Report 2018](#)
- [Lufthansa Group Annual Report 2016](#)
- [American Airlines Group Annual Report 2018](#)
- [American Airlines Group Annual Report 2016](#)
- [www.gurufocus.com](http://www.gurufocus.com)

(For International and Domestic financial statements, notes and official documents)

### Articles on Air China and Airline Industry:

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