



北京2008年奥运会航空客运合作伙伴
AIRLINE PARTNER OF THE BEIJING 2008 OLYMPIC GAMES

Air China

2006 Annual Results Presentation
March, 2007
Hong Kong





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- Highlights
- Business Review
- Financial Results
- Outlook



**Remained Profitable
despite High Jet Fuel
Price**

**Milestones in Capital
Market**

**Improved Service and
Better Brand
Recognition**

**Enhanced Partnership
and Prospective
Alliance Membership**

**Solid Foundation for
Future Development**



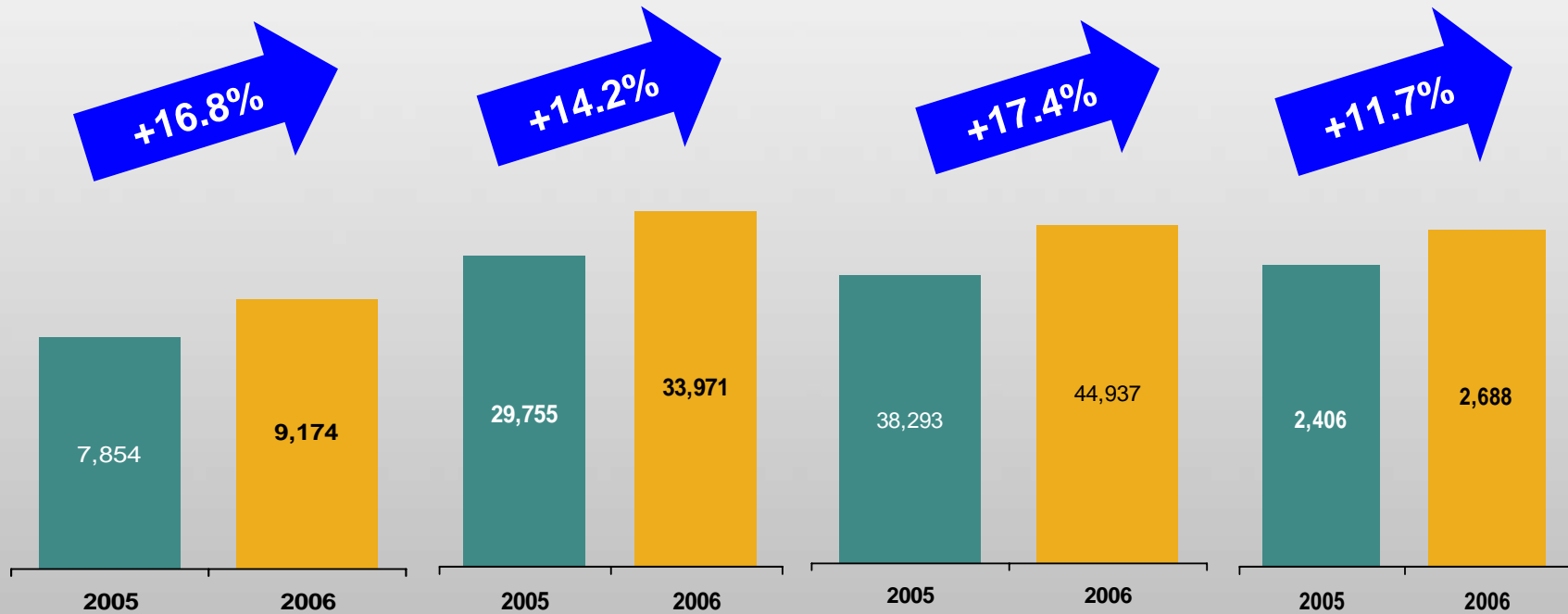
Profitability

RTK (Million)

No. of passengers carried (000')

Operating revenue (RMB million)

Net profit (RMB million)



Project Constellation

1. Sold 43.29% of Dragon Air shares to CX for HK\$430 million in cash and 289 million shares in CX.
2. Issued 1,179 million H shares to CX for HK\$4,068 million.
3. Purchased 399 million shares of CX @HK\$13.5/share for \$5,390 million
4. Privatized CNAC at a cost of HK\$3.045 billion

Air China now owns 17.5% of CX and CX owns 17.32% of Air China

Issued A share in China

Issued 1,639 million A shares and raised RMB4.59 billion.





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Service and Brand

Improved Service

- **Centralization of flight operations control;**
- **Two new departments were established: Cabin Service Development and Ground Handling Management;**
- **Upgraded services for premium classes; improved through-checking and interline service;**
- **Greater focus on details and attention to service.**

Better Brand Recognition

- **17 different honors or prizes awarded in 2006;**
- **Airline of the Year 2006;**
- **“Customer Satisfactory Award” for 3rd consecutive year;**
- **China’s Top 25 Brand Company**



Partnership and Alliance

Star Alliance



- Signed MOU in May 2006 to join Star Alliance,
- Working teams focusing on 57 minimum technical requirements of Star Alliance

Bilateral Cooperation



- Enhanced business cooperation with longtime partners Lufthansa and United Airlines, etc.
- New partnership and code sharing arrangements with Virgin Atlantic, Qantas and Air New Zealand



Solidified Foundation

Network and Hubs

- Expanded network and hubs; improved market penetration
- New operational base, marketing center, and regional headquarters
- Call centers; Japan and North America websites

Infrastructure

- Advanced fleet planning and management
- Consolidated engineering and maintenance resources
- Accelerated upgrade of IT systems
- Build up Beijing T3 facilities

Organizational Structure

- New business management & control model
- Redesign of business procedures
- Remuneration system reform; incentives tied to performance



Results Highlights

	FY 2006	Change vs 2005
Net Profit (RMB Million)	2,688	+11.72%
Operating Revenue (RMB Million)	44,937	+17.36%
Earnings per share (RMB)	0.26	+2.75%
Dividend per share (RMB)	0.0492	+106.7%
ATK (Million)	13,959	+16.1%
RTK (Million)	9,174	+16.8%
Passenger Load Factor (%)	75.9	+1.9pts
ATK Load Factor (%)	65.7	+0.4pts
Aircraft Utilization (hrs/day)	10.1	unchanged





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Business Review

Airline operations

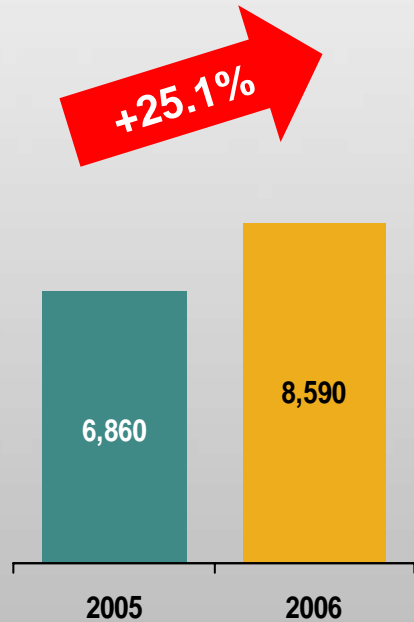
	FY2006	Change vs 2005
Passenger Revenue (RMB Million)	37,565	+18.94%
Cargo Revenue (RMB Million)	4,041	+8.75%
ASK (Million)	83,492	+12.7%
AFTK (Million)	6,404	+20.4%
RPK (Million)	63,362	+15.51%
RFTK (Million)	3,478	+18.7%
Pax carried (000')	33,971	+14.17%
Cargo carried(000'tonne)	1,019	+15.2%
Pax yield (RMB)	0.59	+2.9%
Cargo yield (RMB)	2.06	-6.8%



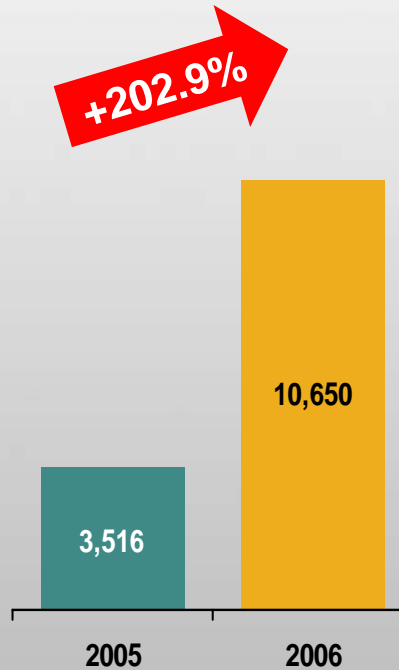
Business Review

Air China

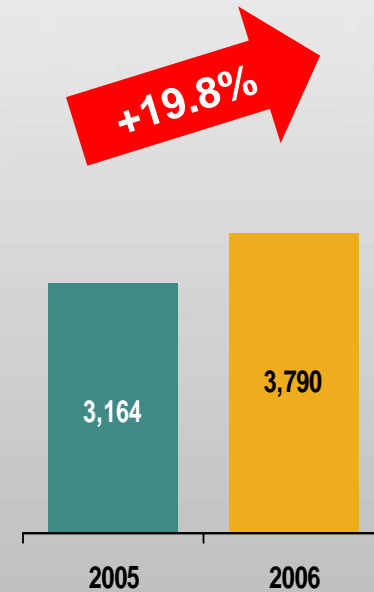
Interline Revenue (RMB Million)



E-ticket Sales Revenue (RMB Million)



First & Business Class Revenue (RMB Million)



Business Review

Air China

Prudent Capacity Expansion vs. Robust Traffic Growth

	FY 2006 ASK (Million)	Change vs 2005	FY2006 RPK (Million)	Change vs 2005
Domestic	42,902	+11.8%	32,970	+14.2%
International	33,722	+14.0%	25,375	+16.5%
Regional	2,816	+4.57%	1,977	+13.2%
System Wide	79,442	+12.4%	60,322	+15.1%



Capacity & Traffic Breakdown of International Operations

	FY 2006 ASK (Million)	Change (%) vs 2005	FY 2006 RPK (Million)	Change (%) vs 2005
Japan, Korea	5,402	+9.70%	3,641	+10.87%
Europe	13,913	+19.94%	10,569	+17.93%
N. America	8,053	+13.24%	6,469	+19.12%
SEA & Others	6,355	+6.87%	4,697	+14.61%



More Passengers Carried with High Load Factors

	FY 2006 Pax. Carried (000')	Change vs 2005 (%)	FY 2006 Load Factor (%)	Change vs 2005 (pts)
Domestic	25,253	+14.0%	76.9%	+1.6pts
International	5,252	+12.9%	75.2%	+1.6pts
Regional	999	+13.3%	70.2%	+5.3pts
System Wide	31,504	+13.8%	75.9%	+1.8pts





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Business Review

Air China Cargo

	FY 2006	Change Vs 2005
AFTK (Million)	6,117	+20.8%
RFTK (Million)	3,285	+19.1%
Tonnages Carried (000')	845	+15.2%
Load Factor (%)	53.7	-0.8pts



Business Review

Air Macau

	FY 2006	Change vs 2005
ASK (Million)	4,050	+18.2%
RPK (Million)	3,040	+24.1%
AFTK (Million)	287	+11.8%
RFTK (Million)	192	+13.1%
Passenger Load Factor (%)	75.0	+4.9pts
ATK Load Factor (%)	71.7	+2.4pts



Financial Highlights

	FY2006	FY2005	Change vs 2005
Turnover (RMB Million)	44,937	38,293	+17.36%
Operating Cost (RMB Million)	42,419	34,617	+22.54%
Operating Expense excl. fuel cost (RMB Million)	26,703	22,840	+16.9%
Operating Profit (RMB Million)	2,518	3,674	-31.47%
Disposal Gain (RMB Million)	1,593		
Net Profit (RMB Million)	2,688	2,406	+11.72%
EPS (RMB)	0.262	0.255	+2.75%





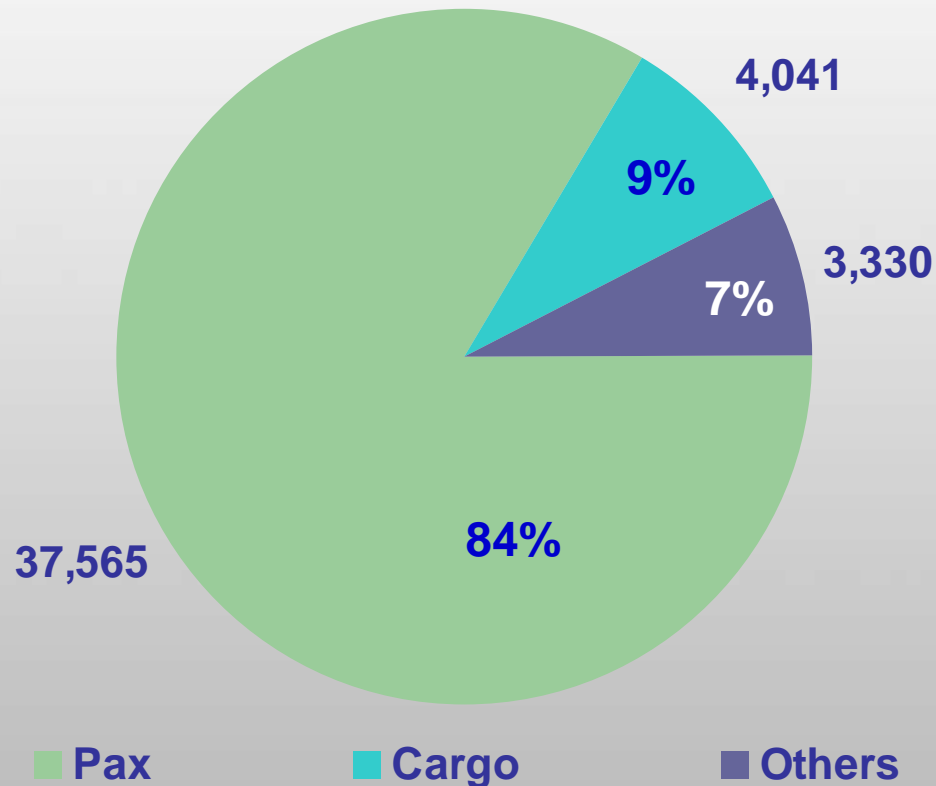
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Financial Highlights

	FY2006	FY2005	Change vs 2005
Profit Margin	5.98%	6.28%	-0.3pts
EBITDA (RMB Million)	9,384	8,186	+14.64%
EBITDA Margin	20.88%	21.38%	-0.5pts
EBITDAR (RMB Million)	11,777	9,928	+18.63%
EBITDAR Margin	26.21%	25.93%	+0.28pts

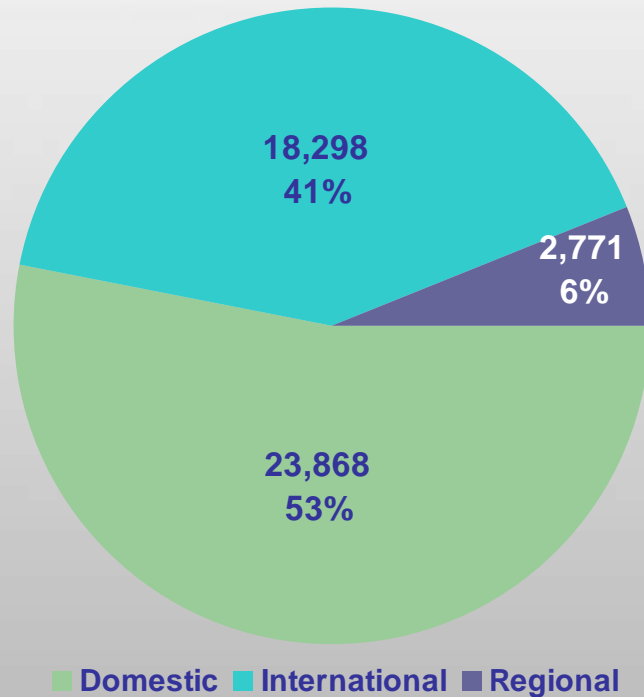


Revenue Contribution by Business (RMB million)

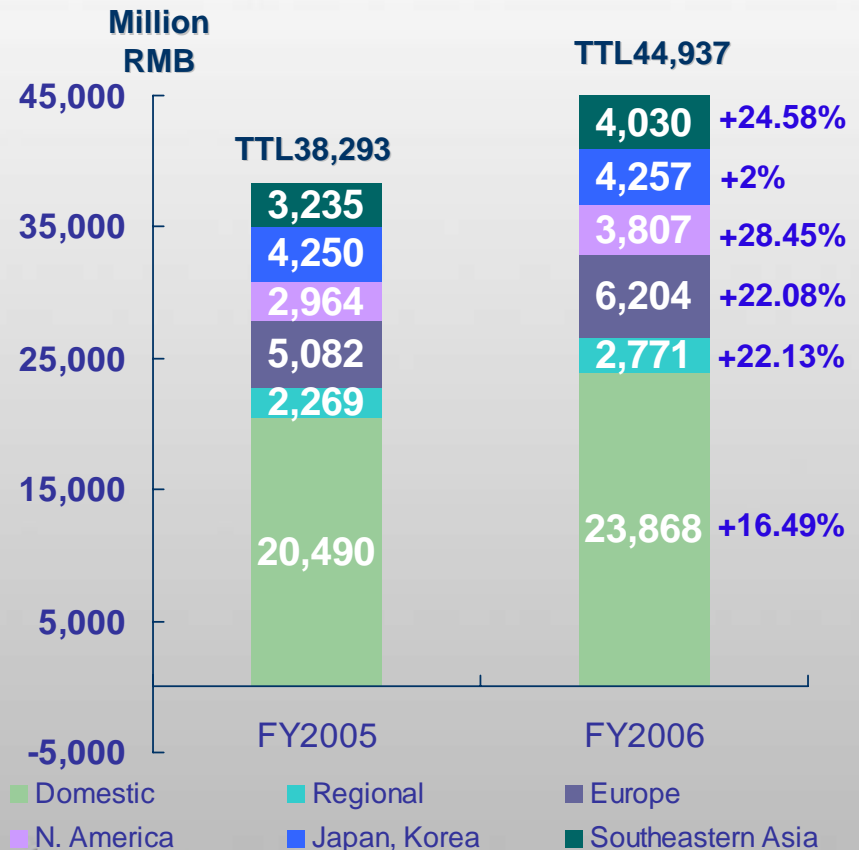


Financial Analysis

Revenue by Region (RMB million)



Revenue Breakdown



Financial Analysis

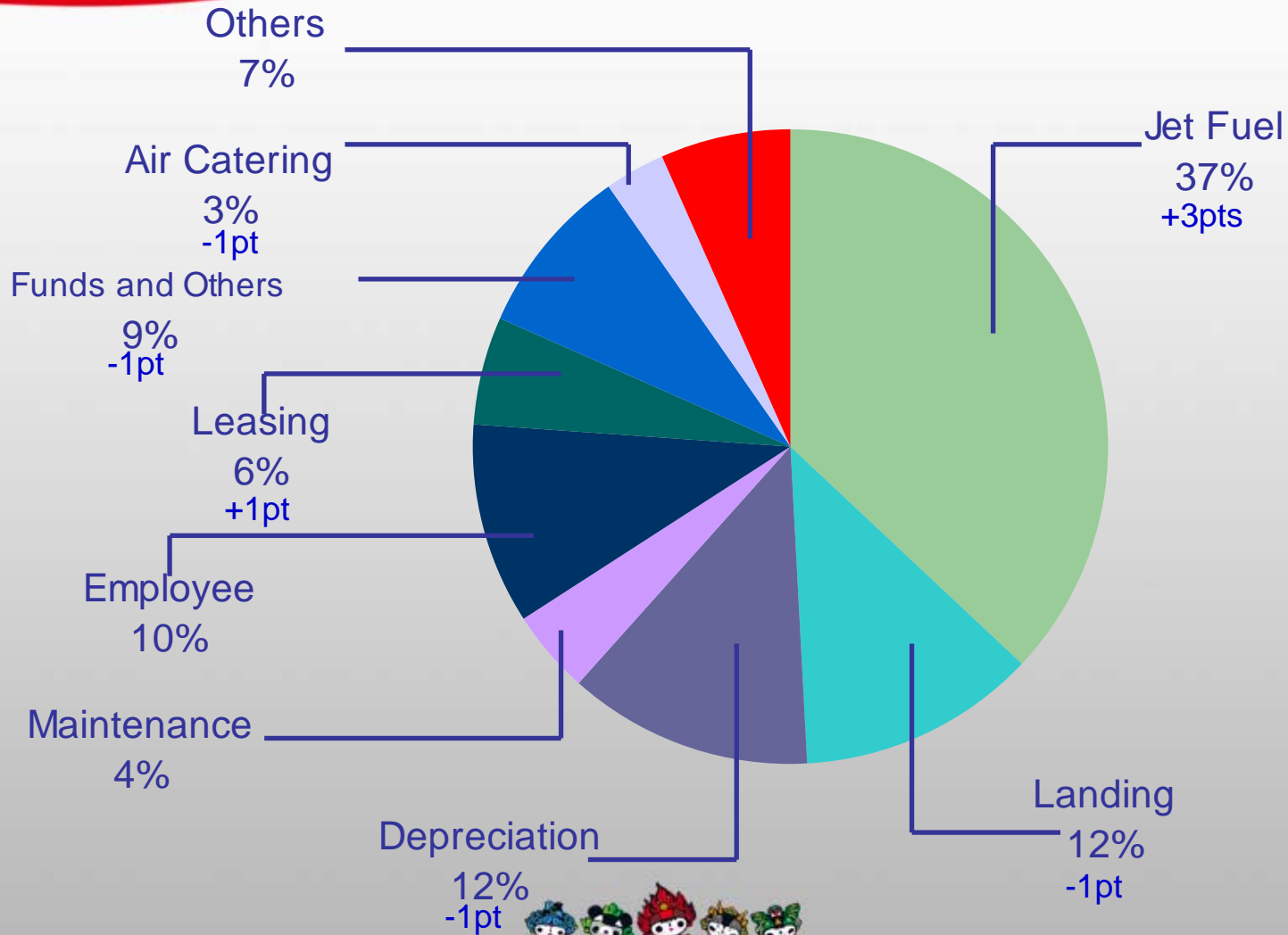
Yields

	2006 Yield (RMB)	Change vs 2005
Passenger		
Domestic Route	0.61	+3.4%
International Route	0.56	+3.7%
Regional Route	0.69	+7.8%
Average Pax Yield	0.59	+1.8%
Cargo	2.06	-6.8%



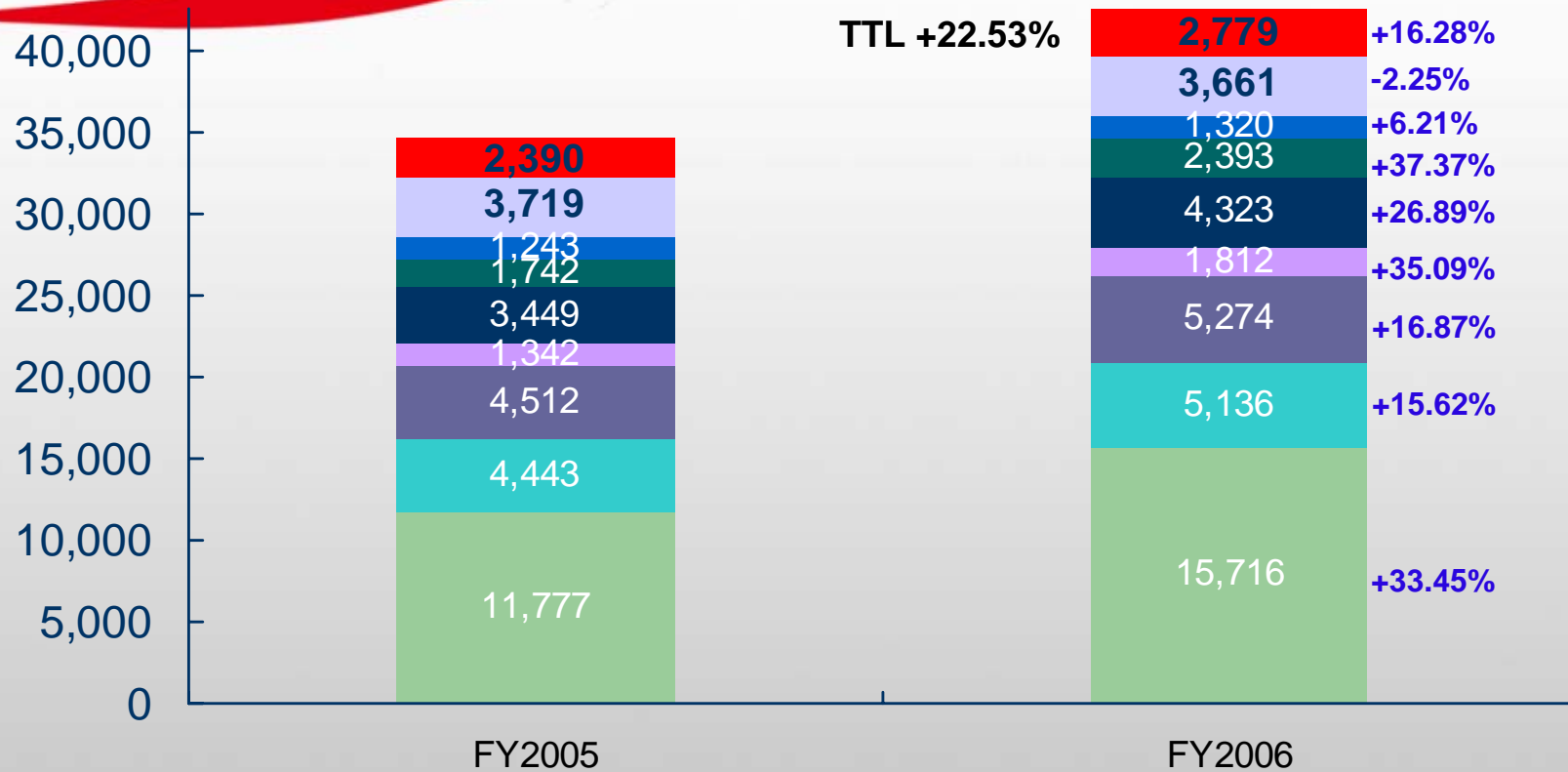
Financial Analysis

Cost Composition



Financial Analysis

Operating Cost



- Jet Fuel
- Landing
- Depreciation
- Maintenance
- Employee
- Leasing
- Air Catering
- Funds and Others
- Others



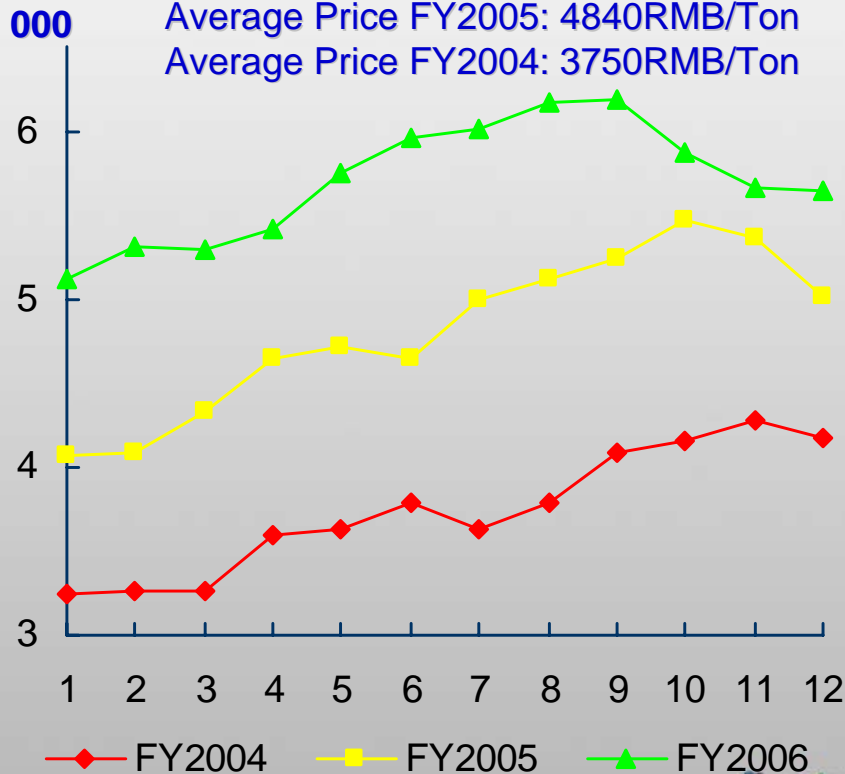
Financial Analysis

Jet Fuel

Change in Jet Fuel Price

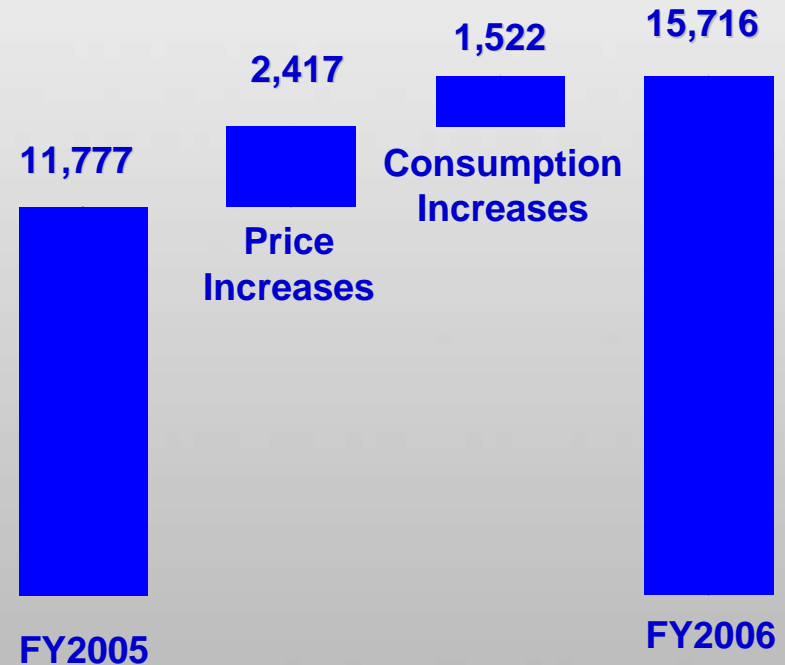
RMB/Ton

Average Price FY2006: 5720RMB/Ton
Average Price FY2005: 4840RMB/Ton
Average Price FY2004: 3750RMB/Ton



Change in Jet Fuel Cost

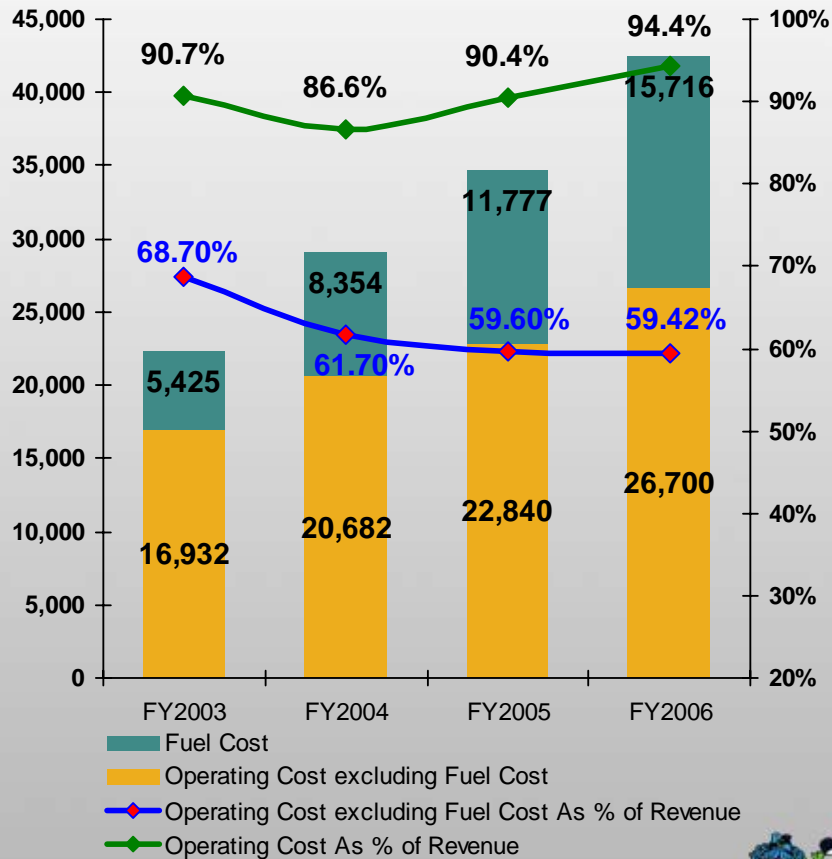
(RMB Million)



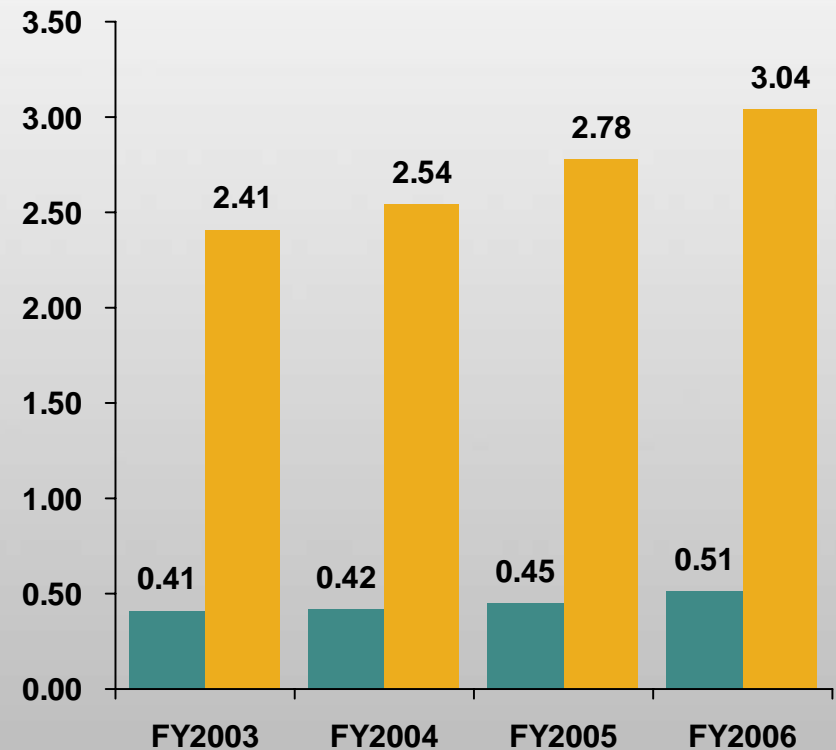
Financial Analysis

Operating Cost

Operating Cost and Operating Cost as a % of Total Revenue



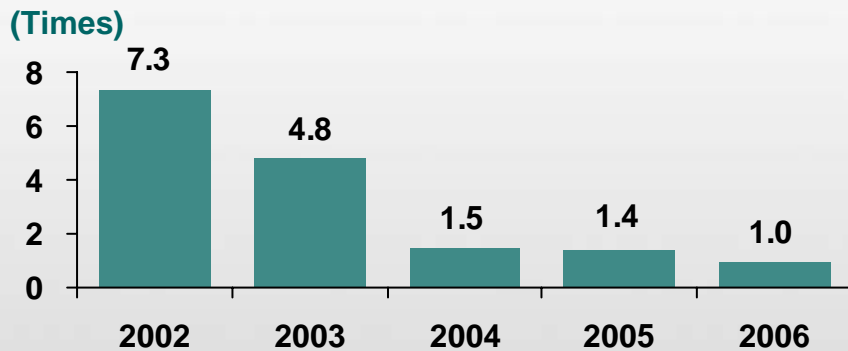
Unit Cost (Cost per ASK & ATK)



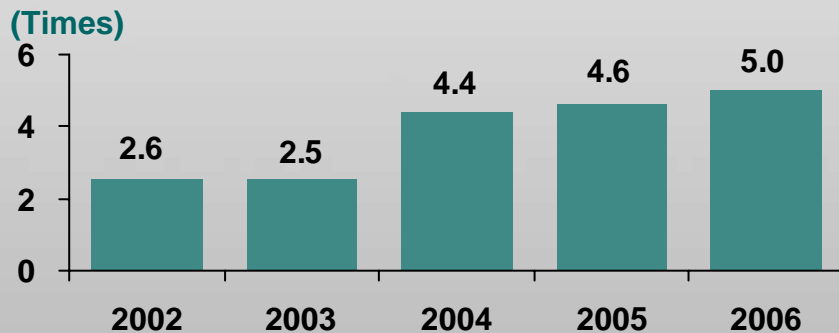
Financial Analysis

Capital Structure

Net Debt/Total Equity



EBITDA Interest Coverage Ratio



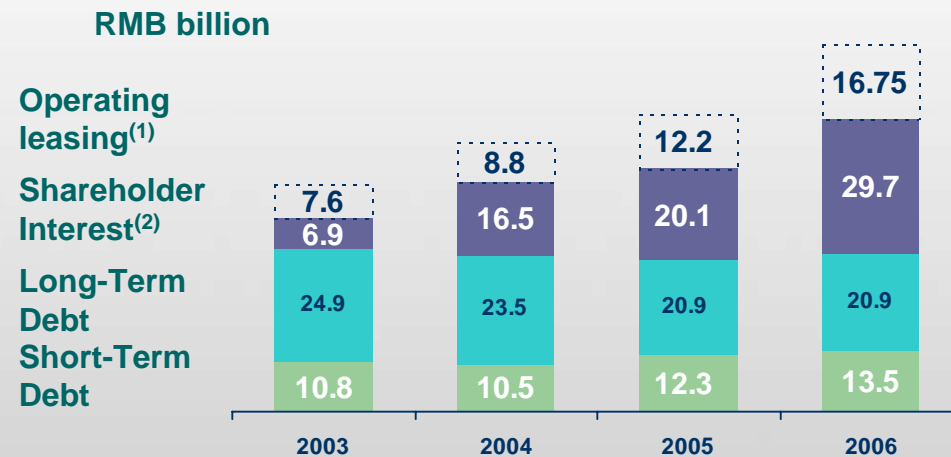
Source : Company's Financial Report

(1) Operating Leasing usually equals 7 times of capitalized operating lease including fleets and leasing costs/flight

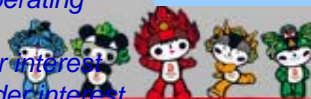
(2) Shareholder interest does not include minority shareholder interest

(3) Total Capital is equivalent to total debt plus total shareholder interest

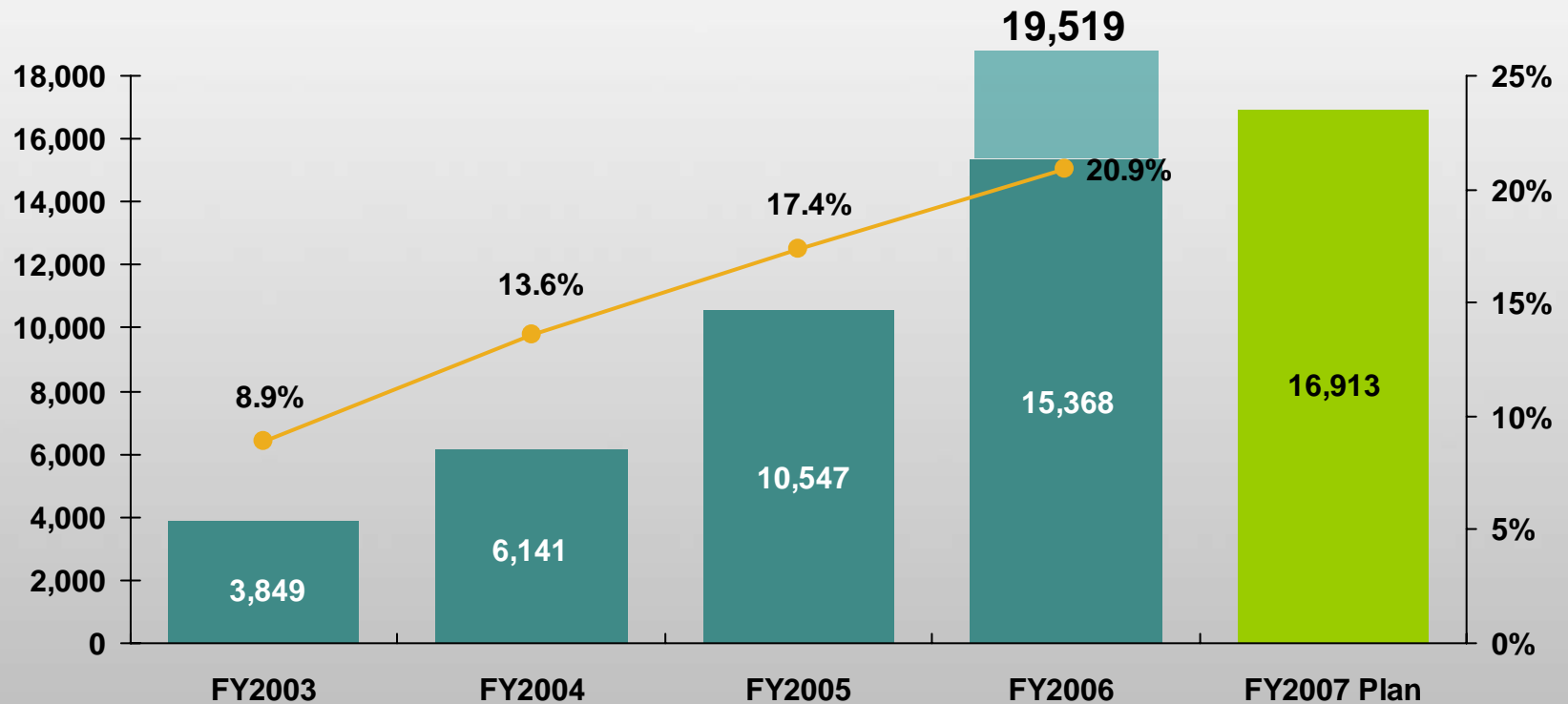
Financial Leverage



Total Shareholder Interest	8.32	18.03	21.55	31.69
ROE	2.32%	14.42%	11.98%	9.04%
Gearing Ratio	85.3%	73.0%	68.4%	62.2%



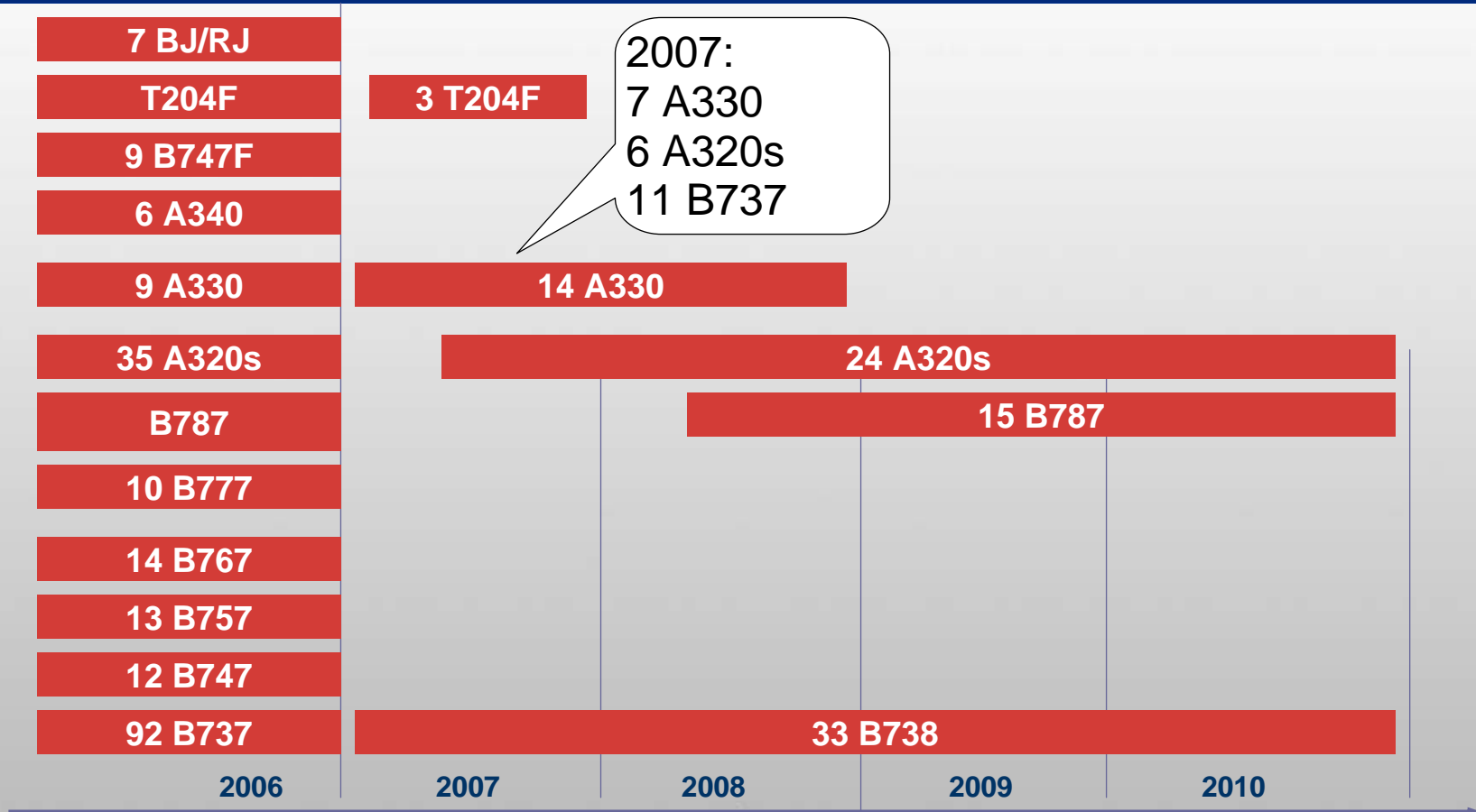
Historical Capex and 2007 Capex Plan



Capex As % of Fixed Assets



Fleet and Delivery Schedule





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Outlook Major Tasks

Smoothly complete Group restructuring

Improve operating efficiency aggressively

Improve operational fundamentals of Europe & US Routes

Realize benefits of Star Alliance and strategic partnership with Cathay Pacific

Improve IT platforms to increase operating efficiency

Speed up regional consolidation & construction of regional hub

Enhance cargo handling capacity further

Serve the Olympics and improve brand awareness



Conclusion

To be the most recognized
mainstream airline

To be the most valuable
airline in China

To be the most profitable
airline in China

To be one of the most competitive
airlines in the world

