Shandong Airlines Co., Ltd.
Summary of Annual Report 2016

1. Important Notice

The summary is abstract from full-text of annual report, for more details of operating results, financial condition and future development plan of the Company; investors should found in the full-text of annual report that published on media appointed by CSRC.

Other directors attending the Meeting for annual report deliberation except for the followed:

Name of director absent	Title for absent director	Reasons for absent	Attorney
Wang Mingyuan	Director	Work causes	Xu Chuanyu

The profit distribution plan that deliberated and approved by the Board is: based on total stock issued 400,000,000 shares, distributed 3.0 Yuan (tax included) bonus in cash for every 10-share hold by all shareholders, 0 shares bonus issued (tax included) and no capitalizing of common reserves carried out.

II. Basic information of the company

1. Company profile

Short form of the stock	Shanhang-B	Stock code	200152
Stock exchange for listing	Shenzhen Stock Exchange		
Person/Way to contact	Secretary of the Board	Rep. of security affairs	
Name	Dong Qiantang	Fan Peng	
Office add.	1/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	3/F, Tiangong Office Building, North of Red-crowed cranes Hotel, Yaoqiang International Airlines, Licheng District, Jinan, Shandong	
Fax.	0531-85698767 ext.8679	0531-85698767 ext.8679	
Tel.	0531-82085939	0531-82085586	
E-mail	dongqt@shandongair.com.cn	fanp@shandongair.com.cn	

2. Main business or product introduction in the reporting period

Our Company and its subsidiaries are mainly engaged in provision of airline transportation service.

As of the end of 2016, the Company has 100 airplanes like Boeing B737 series, and enters into the ranks of large airlines. At present, the Company takes Jinan as the headquarters base, and sets up five branches (base) in Qingdao, Yantai, Xiamen, Chongqing, and Beijing, establishes four flight bases in Urumqi, Guiyang, Kunming, and Haikou, builds an airline network which cuts through south and north and connects east to west, and builds the triangle base pattern among Shandong, Xiamen, and Chongqing. The Company elaborately creates the "honest and kind" brand characteristics, which is increasingly blending in the enterprise blood along with the growth of fleet size and airline network. The Company has been awarded the title of the “most valuable top 500 brands of China” for successive nine years. In 2016, the brand value of the Company increased by RMB 5.313 billion as compared to previous year to RMB 28.528 billion, making it rank No.101 among the most valuable top 500 brands of China, with 4 positions improved than last year.

3. Main accounting data and financial indexes

(1) Main accounting data and financial indexes for recently three years

In RMB

	2016	2015	Changes over last year	2014
Operating income	13,742,365,545.56	12,108,963,139.11	13.49%	11,570,296,757.48

Net profit attributable to shareholders of the listed company	532,834,567.17	532,260,993.04	0.11%	287,851,542.09
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	409,577,360.28	387,733,814.57	5.63%	146,403,043.43
Net cash flow arising from operating activities	2,427,055,988.42	2,424,457,843.01	0.11%	1,459,828,215.31
Basic earnings per share (RMB/Share)	1.33	1.33	0.00%	0.72
Diluted earnings per share (RMB/Share)	1.33	1.33	0.00%	0.72
Weighted average ROE	14.88%	17.22%	2.34 percentage points down	10.33%
	End of 2016	End of 2015	Changes over end of last year	End of 2014
Total assets	12,741,974,788.53	12,748,902,597.96	-0.05%	12,118,867,620.51
Net assets attributable to shareholder of listed company	3,836,172,828.06	3,365,013,204.57	14.00%	2,878,120,380.35

(2) Quarterly main financial index

In RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Operating income	3,219,038,263.72	3,090,711,026.50	4,281,345,876.23	3,151,270,379.11
Net profit attributable to shareholders of the listed company	245,104,203.92	38,585,284.73	561,083,160.10	-311,938,081.58
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	211,053,323.68	-8,590,154.76	543,592,573.16	-336,478,381.80
Net cash flow arising from operating activities	269,904,370.90	754,591,361.32	1,307,244,115.90	95,316,140.30

4. Shares and shareholders

(1) Particulars about common stock shareholders, preference shareholders with voting rights recovered and top ten shareholders

In Share

Total common stock shareholders in reporting period-end	15,801	Total common stock shareholders at end of last month before annual report disclosed	15,759	Total preference shareholders with voting rights recovered at end of reporting period	0	Total preference shareholders with voting rights recovered at end of last month before annual report disclosed	0

Top ten shareholders

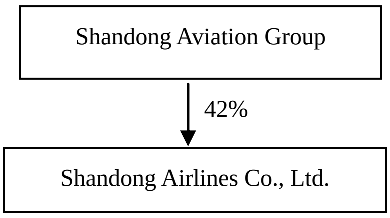
Full name of Shareholders	Nature of shareholder	Proportion of shares held	Amount of shares held	Amount of restricted shares held	Number of shares pledged/frozen	
					State of share	Amount
Shandong Aviation Group	State-owned legal person	42.00%	168,004,000	168,004,000		
Air China Limited	State-owned legal person	22.80%	91,200,000	91,200,000		
BBH A/C VANGUARD	Foreign legal	0.74%	2,960,917	0		

EMERGING MARKETS STOCK INDEX FUND	person					
NORGES BANK	Foreign legal person	0.63%	2,520,800	0		
WANXIANG INTERNATIONAL INVESTMENT CORPORATION	Foreign legal person	0.62%	2,490,000	0		
侯春虎	Domestic nature person	0.41%	1,651,345	0		
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Foreign legal person	0.40%	1,582,720	0		
陈经建	Domestic nature person	0.38%	1,519,400	0		
姚明	Domestic nature person	0.33%	1,300,000	0		
叶渠发	Domestic nature person	0.30%	1,180,169	0		
Explanation on related relationship or concerted action among the abovementioned shareholders		1. Shandong Aviation Group(**SDA)** is the first largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares; 2. Air China Limited is the second largest shareholder of the Company, who holds the shares of the Company on behalf of the State with unlisted shares; 3. Among the above top ten shareholders, Air China Limited is the first largest shareholder of the SDA, and there exists no associated relationship between SDA and Air China and the other shareholders, and they don't belong to the consistent actionist regulated by the Management Regulation of Information Disclosure on Change of Shareholding for Listed Companies with the other shareholders.				

(2) Total preferred stock shareholders of the Company and shares held by top ten shareholders with preferred stock held

The Company had no shareholders with preferred stock held in the reporting.

(3) Property right and controlling relationships between the actual controllers of the Company and the Company is as follows:



5. Corporate bonds

Not applicable

III. Discussion and analysis of business

1. Introduction of operation in the reporting period

Investors are advice to reading full text of the Annual Report, and pay attention to the follow risks

The security situation remained stable in year of 2016, operating quality continues to improve, main business maintain profitability and service quality improved steadily, operation business are achieved the targets that predicted as a whole.

(I) continue to deepen security management

In 2016, transportation segment, our principal business, has guaranteed 170,100 safe flights for 353,000 hours, representing increases of 12.5% and 9.5% respectively as compared to previous year. There is no civil aircraft incident or worse occurred due to the reason of the Company or external engagement. *Safety quality evaluation* indicator was 10.29. The Company continues to improve its security management policy, innovate a safety supervision mechanism, strengthen the safety production capacity and pay close attention to safety style rectification.

(II) Optimized and improve the operation control and decision-making mechanism

Our punctuation rate throughout the year was 80.09%, representing an increase of 6.95 percentage points over last year, ranking the 2nd position among the major airline companies. 42 flights for significant missions and special III (inclusive) were ensured, with punctuation rate of 98%. The Company reinforce management of flight normality, the normal rate for first flight in the whole year achieved as 88%; optimized the operation decision-making mechanism, actively implement technological innovation. Implemented 143 times HUD LVTO in the whole year, and realized the effective support of technical factors to operation efficiency.

(III) Drive on structure optimization and cost control

In 2016, we completed a total turnover of 2.667 billion tons per kilometer, total passengers of 19.205 million and freights transportation of 155,600 tons, representing increases of 19.6%, 14.0% and 8.9% respectively. In addition, we realized operating income of RMB 13.742 billion, representing an increase of 13.49% year on year; total profit of RMB 709 million, representing a decrease of 0.23% year on year. The occupation rate of our passenger flights was 77.90%, with an increase of 2.02 percentage points year on year, the loading rate of freight flights was 40.94%, with an increase of 5.36 percentage points year on year. The Company strengthen organization of production resources, positively advancing construction of direct marketing channel, and digging deep into customer value, actively winning synergize, achieved cost advantage strategy, innovation development ability of the investment enterprise is enhanced.

(IV) Promoting service quality and brand building

The overall comment on passenger satisfaction investigation reached at 96.33, increasing 2.17 points year on year. Customer's effective complain rate was 0.165 per ten thousand people. We are ranking fourth in aspect of services in the civil aviation authoritative media, and honor the prize of Best Airline in Civil Aviation Service. The Company honor the China's 500 Most Valuable Brands for nine consecutive years with brand value up to over 28.528 billion Yuan, a 5313 million Yuan grown over last year, ranked 4 to enhance the ranking of the top 101st. Optimized the service management mechanism, continue to building the quality service brand-Lu Yan, and vigorously promote the construction of service team.

2. Whether the main business had major change in the reporting period

□ Yes √ No

3. About the industries, products, or regions accounting for over 10% of the company's operating income or operating profit

√Applicable □Not applicable

In RMB

Name	Operating revenue	Operating cost	Gross profit ratio	Increase/decrease of operating revenue y-o-y	Increase/decrease of operating cost y-o-y	Increase/decrease of gross profit ratio y-o-y
Air transport service	13,301,825,036.11	1,490,630,519.81	11.21%	12.21%	16.60%	3.34 percentage points down

4. Whether the characteristics of management seasonal or cyclical need special attention

□ Yes √ No

5. In the reporting period, note of major changes in operating income, operating cost, total net profit attributable to common stock shareholders of listed company or composing the previous reporting period

□ Applicable √ Not applicable

6. Particular about suspended and delisting

□ Applicable √ Not applicable

7. Relevant items involving financial report

(1) Particulars about the changes in aspect of accounting policy, estimates and calculation method compared with the financial report of last year

No particulars about the changes in aspect of accounting policy, estimates or calculation method in Period.

(2) Major accounting errors within reporting period that needs retrospective restatement

No major accounting errors within reporting period that needs retrospective restatement for the Company in the period.

(3) Compare with last year's financial report; explain changes in consolidation statement's scope

No changes in consolidation statement's scope for the Company in the period.