

UNITED STATES SECURITIES AND EXCHANGE COMMISSION,
WASHINGTON, D.C. 20549

FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2014

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number 1-14660

(Exact name of Registrant as specified in its charter)

CHINA SOUTHERN AIRLINES COMPANY LIMITED

(Translation of Registrant’s name into English)

THE PEOPLE’S REPUBLIC OF CHINA

(Jurisdiction of incorporation or organization)

278 JI CHANG ROAD
GUANGZHOU, 510405

PEOPLE’S REPUBLIC OF CHINA

(Address of principal executive offices)

Mr. Xie Bing
Telephone: +86 20 86124462
E-mail: ir@csair.com
Fax: +86 20 86659040
Address: 278 JI CHANG ROAD
GUANGZHOU, 510405
PEOPLE’S REPUBLIC OF CHINA

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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
Ordinary H Shares of par value RMB1.00 per share represented by American Depositary Receipts	New York Stock Exchange

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

None

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

None

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:
7,022,650,000 A Shares of par value RMB1.00 per share and 2,794,917,000 H Shares of par value RMB1.00 per share.

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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 ☒ Other ☐
as issued by the International Accounting Standards Board

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

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS		1
INTRODUCTORY NOTE		2
GLOSSARY OF AIRLINE INDUSTRY TERMS		3
PART I		4
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.	4
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE.	4
ITEM 3.	KEY INFORMATION.	5
A.	Selected Financial Data.	5
B.	Capitalization and Indebtedness.	7
C.	Reasons for the Offer and Use of Proceeds.	7
D.	Risk Factors.	7
ITEM 4.	INFORMATION ON THE COMPANY.	18
A.	History and Development of the Company	18
B.	Business Overview	21
C.	Organizational Structure	43
D.	Property, Plant and Equipment	45
ITEM 4A.	UNRESOLVED STAFF COMMENTS	46
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS	46
Critical Accounting Policies		46
Recently Pronounced International Financial Reporting Standards		48
Overview		48
Certain Financial Information and Operating Data by Geographic Region		52
A.	Operating Results	54
B.	Liquidity and Capital Resources	61
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	64
A.	Directors, Senior Management and Employees	64
B.	Compensation	71
C.	Board Practices	72
D.	Employees	74
E.	Share Ownership	75
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	76
A.	Major Shareholders	76
B.	Related Party Transactions	77
C.	Interests of Experts and Counsel	85
ITEM 8.	FINANCIAL INFORMATION	85
A.	Consolidated Statements and Other Financial Information	85
B.	Significant Changes	86
ITEM 9.	THE OFFER AND LISTING	86
A.	Offer and Listing Details	86
B.	Plan of Distribution	87
C.	Markets	87
D.	Selling Shareholders	88
E.	Dilution	88
F.	Expenses of the Issue	88
ITEM 10.	ADDITIONAL INFORMATION	88
A.	Share Capital	88
B.	Memorandum and Articles of Association	88
C.	Material Contracts	93
D.	Exchange Controls	93
E.	Taxation	94
F.	Dividends and Paying Agents	99

G.	Statement by Experts	99
H.	Documents on Display	99
I.	Subsidiary Information	99
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	99
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	101
A.	Debt Securities	101
B.	Warrants and Rights	101
C.	Other Securities	101
D.	American Depositary Shares	101
PART II		102
ITEM 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	102
ITEM 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	102
A.	Material Modifications to the Instruments Defining the Rights of Security Holders	102
B.	Material Modifications to the Rights of Registered Securities by Issuing or Modifying any other Class of Securities	102
C.	Withdrawal or Substitution of a Material Amount of the Assets Securing any Registered Securities	102
D.	Change of Trustees or Paying Agents for any Registered Securities	102
E.	Use of Proceeds	102
ITEM 15.	CONTROLS AND PROCEDURES	102
ITEM 16A.	AUDIT COMMITTEE FINANCIAL EXPERT	103
ITEM 16B.	CODE OF ETHICS	103
ITEM 16C.	PRINCIPAL ACCOUNTING FEES AND SERVICES	104
ITEM 16D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE	104
ITEM 16E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	104
ITEM 16F.	CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT	104
ITEM 16G.	CORPORATE GOVERNANCE	104
ITEM 16.	MINE SAFETY DISCLOSURE	108
ITEM 17.	FINANCIAL STATEMENTS	108
ITEM 18.	FINANCIAL STATEMENTS	108
ITEM 19.	EXHIBITS	108
Index to Exhibits		108

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. These statements appear in a number of different places in this Annual Report. A forward-looking statement is usually identified by the use in this Annual Report of certain terminology such as "estimate", "project", "expect", "intend", "believe", "plan", "anticipate", "may", or their negatives or other comparable words. Also look for discussions of strategy that involve risks and uncertainties. Forward-looking statements include statements regarding the outlook for our future operations, forecasts of future costs and expenditures, evaluation of market conditions, the outcome of legal proceedings (if any), the adequacy of reserves, or other business plans. You are cautioned that such forward-looking statements are not guarantees and involve risks, assumptions and uncertainties. Our actual results may differ materially from those in the forward-looking statements due to risks facing the Company or due to actual facts differing from the assumptions underlying those forward-looking statements.

Some of these risks and assumptions, in addition to those identified under Item 3, "Key Information - Risk Factors," include:

- general economic and business conditions in markets where the Company operates, including changes in interest rates;
- the effects of competition on the demand for and price of our services;
- natural phenomena;
- the impact of unusual events on our business and operations;
- actions by government authorities, including changes in government regulations, and changes in the CAAC’s regulatory policies;
- our relationship with China Southern Air Holding Company (the "CSAHC");
- uncertainties associated with legal proceedings;
- technological development;
- our ability to attract key personnel and attract new talent;
- future decisions by management in response to changing conditions;
- the Company’s ability to execute prospective business plans;
- the availability of qualified flight personnel and airport facilities; and
- misjudgments in the course of preparing forward-looking statements.

The Company advises you that these cautionary remarks expressly qualify in their entirety all forward-looking statements attributable to the Company, the Group and persons acting on their behalf.

INTRODUCTORY NOTE

In this Annual Report, unless the context indicates otherwise, the "Company", "we", "us" and "our" means China Southern Airlines Company Limited, a joint stock company incorporated in China on March 25, 1995, the "Group" means the Company and its consolidated subsidiaries, and "CSAHC" means China Southern Air Holding Company, the Company’s parent company which holds a 53.72% interest in the Company as of April 17, 2015.

References to "China" or the "PRC" are to the People’s Republic of China, excluding Hong Kong, Macau and Taiwan. References to "Renminbi" or "RMB" are to the currency of China, references to "U.S. dollars", "\$" or "US\$" are to the currency of the United States of America (the "U.S." or "United States"), and reference to "HK\$" is to the currency of Hong Kong. Reference to the "Chinese government" is to the national government of China. References to "Hong Kong" or "Hong Kong SAR" are to the Hong Kong Special Administrative Region of the PRC. References to "Macau" or "Macau SAR" are to the Macau Special Administrative Region of the PRC.

The Company presents its consolidated financial statements in Renminbi. The consolidated financial statements of the Company for the year ended December 31, 2014 (the "Financial Statements") have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB").

Solely for the convenience of the readers, this Annual Report contains translations of certain Renminbi amounts into U.S. dollars at the rate of US\$1.00 = RMB6.1190, which is the average of the buying and selling rates as quoted by the People’s Bank of China at the close of business on December 31, 2014. No representation is made that the Renminbi amounts or U.S. dollar amounts included in this Annual Report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all. Any discrepancies in the tables included herein between the amounts listed and the totals are due to rounding.

GLOSSARY OF AIRLINE INDUSTRY TERMS

In this Annual Report, unless the context indicates otherwise, the following terms have the respective meanings set forth below.

<i>Capacity</i>	
"available seat kilometers" or "ASK"	the number of seats made available for sale multiplied by the kilometers flown
"available ton kilometers" or "ATK"	the tons of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometers flown
<i>Traffic</i>	
"cargo ton kilometers"	the load in tons multiplied by the kilometers flown
"revenue passenger kilometers" or "RPK"	the number of passengers carried multiplied by the kilometers flown
"revenue ton kilometers" or "RTK"	the load (passenger and cargo) in tons multiplied by the kilometers flown
"revenue ton kilometers-cargo"	revenue freight ton kilometers (RFTK), the load (cargo) in tons multiplied by the kilometers flown
"revenue ton kilometers-passenger"	the load (passenger) in tons multiplied by the kilometers flown
"ton"	a metric ton, equivalent to 2,204.6 pounds
<i>Yield</i>	
"yield per RPK"	revenue from passenger operations divided by RPK
"yield per RFTK"	revenue from cargo operations divided by RFTK
"yield per RTK"	revenue from airline operations (passenger and cargo) divided by RTK
<i>Cost</i>	
"operating cost per ATK"	operating expenses divided by ATK
<i>Load Factors</i>	
"overall load factor"	RTK expressed as a percentage of ATK
"passenger load factor"	RPK expressed as a percentage of ASK
<i>Utilization</i>	
"utilization rates"	the actual number of flight and taxi hours per aircraft per operating day

<i>Equipment</i>	
"expendables"	aircraft parts that are ordinarily used up and replaced with new parts
"rotables"	aircraft parts that are ordinarily repaired and reused
<i>Others</i>	
"ADR"	American Depositary Receipt
"A Shares"	Shares issued by the Company to investors in the PRC for subscription in RMB, with par value of RMB1.00 each
"CAAC"	Civil Aviation Administration of China
"CAOSC"	China Aviation Oil Supplies Company
"CSRC"	China Securities Regulatory Commission
"H Shares"	Shares issued by the Company, listed on The Stock Exchange of Hong Kong Limited and subscribed for and traded in Hong Kong dollars, with par value of RMB1.00 each
"Nan Lung"	Nan Lung Holding Limited (a wholly-owned subsidiary of CSAHC)
"NDRC"	National Development and Reform Commission of China
"SA Finance"	Southern Airlines Group Finance Company Limited
"SAFE"	State Administration of Foreign Exchange of China
"SEC"	United States Securities and Exchange Commission

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.

The following tables present selected financial data for the five-year period ended December 31, 2014. The selected consolidated income statement data for the three-year period ended December 31, 2012, 2013 and 2014 and selected consolidated statement of financial position data as of December 31, 2013 and 2014 excluding basic and diluted earnings per ADR, are derived from the audited consolidated financial statements of the Company, including the related notes, included elsewhere in this Annual Report. The selected consolidated income statement data for the years ended December 31, 2010 and 2011 and selected consolidated statement of financial position data as of December 31, 2010, 2011 and 2012 are derived from the Company’s audited consolidated financial statements that are not included in this Annual Report.

Moreover, the selected financial data should be read in conjunction with our consolidated financial statements together with accompanying notes and "Item 5. Operating and Financial Review and Prospects" which are included elsewhere in this Annual Report. Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRSs.

	Year ended December 31,					2010
	2014	2014	2013	2012	2011	
	US\$	RMB	RMB	RMB	RMB	RMB
(in million, except per share and per ADR data)						
Consolidated Income Statement Data:						
Operating revenue	17,745	108,584	98,547	99,514	90,395	76,495
Operating expenses	(17,327)	(106,026)	(98,280)	(95,877)	(87,063)	(70,689)
Operating profit	776	4,748	1,510	5,099	4,353	6,282
Profit before income tax	501	3,066	3,484	4,738	6,930	8,089
Profit for the year	392	2,398	2,750	3,784	6,090	6,412
Profit attributable to:						
Equity shareholders of the Company	291	1,777	1,986	2,619	5,110	5,792
Non-controlling interests	101	621	764	1,165	980	620
Basic and diluted earnings per share	0.03	0.18	0.20	0.27	0.52	0.70
Basic and diluted earnings per ADR ⁽¹⁾	1.48	9.05	10.11	13.34	26.02	34.83

(1) Basic and diluted earnings per share have been computed by dividing profit attributable to equity shareholders of the Company by the weighted average number of shares in issue. Basic and diluted earnings per ADR have been computed as if all of our issued or potential ordinary shares, including domestic shares and H shares, are represented by ADRs during each of the years presented. Each ADR represents 50 shares.

Year ended December 31,					
2014	2014	2013	2012	2011	2010
US\$	RMB	RMB	RMB	RMB	RMB
(in million)					

Consolidated Statement of Financial Position Data:

Cash and cash equivalents	2,519	15,414	11,748	10,082	9,863	10,404
Other current assets	1,982	12,127	8,825	6,705	9,622	5,455
Property, plant and equipment, net	21,973	134,453	119,777	100,040	87,711	80,214
Total assets	31,000	189,688	165,207	142,454	129,412	111,335
Bank and other loans, including long-term bank and other loans due within one year	3,429	20,979	20,242	21,899	18,789	9,324
Obligations under capital leases due within one year	979	5,992	3,636	2,494	1,784	1,654
Bank and other loans, excluding balance due within one year	6,875	42,066	37,246	30,196	29,037	31,876
Obligations under capital leases, excluding balance due within one year	7,177	43,919	31,373	19,371	14,053	12,776
Total equity	7,271	44,493	42,451	39,734	37,777	30,316
Number of shares (in million)	9,818	9,818	9,818	9,818	9,818	9,818

Selected Operating Data

The operating data and the profit analysis and comparison for other years below is calculated and disclosed in accordance with the statistical standards, which have been implemented by the Group since January 1, 2001. See "Glossary of Airline Industry Terms" at the front of this Annual Report for definitions of certain terms used herein.

	Year ended December, 31				
	2014	2013	2012	2011	2010

Capacity

ASK (million)

209,807

186,800

169,569

151,064

140,498

ATK (million)

28,454

24,952

23,065

20,795

19,140

Kilometers flown (thousand)

1,275,570

1,147,070

1,052,495

939,233

872,899

Hours flown (thousand)

2,026

1,829

1,681

1,507

1,392

Number of landing and take-offs

884,070

809,870

757,022

702,264

686,223

Traffic

RPK (million)

166,629

148,417

135,535

122,344

111,328

RTK (million)

19,780

17,469

16,160

14,461

13,104

Passengers carried (thousand)

100,919

91,791

86,485

80,677

76,456

Cargo and mail carried (tons)

1,433,250

1,276,350

1,232,000

1,135,000

1,117,000

Load Factors

Passenger load factor (RPK/ASK) (%)

79.4

79.4

79.9

81.0

79.2

Overall load factor (RTK/ATK) (%)

69.5

70.0

70.1

69.5

68.5

Yield

Yield per RPK (RMB)

0.58

0.59

0.66

0.67

0.62

Yield per RFTK (RMB)

1.42

1.48

1.59

1.61

1.70

Yield per RTK (RMB)

5.27

5.42

5.95

6.03

5.66

Fleet

- Boeing

311

282

243

223

208

- Airbus

276

253

225

208

191

- McDonnell Douglas

-

-

-

-

12

- Others

25

26

23

13

11

Total aircraft in service at period end

612

561

491

444

422

Overall utilization rate (hours per day)

9.6

9.6

9.8

9.8

9.6

Exchange Rate Information

The following table sets forth certain information concerning exchange rates, based on the noon buying rates in New York City for cable transfers in foreign currencies, as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"), between Renminbi and U.S. dollars for the five most recent financial years.

Period	Period End	Average ⁽¹⁾ (RMB per US\$)	High	Low
Annual Exchange Rate				
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.3088	6.3879	6.2221
2013	6.0537	6.1412	6.2213	6.0537
2014	6.2046	6.1704	6.2591	6.0402

(1) Determined by averaging the rates on the last business day of each month during the relevant period.

The following table sets out the range of high and low exchange rates, based on the Noon Buying Rate, between Renminbi and U.S. dollars, for the following periods.

Period	High	Low
Monthly Exchange Rate		
October 2014	6.1385	6.1107
November 2014	6.1429	6.1117
December 2014	6.2256	6.1490
January 2015	6.2046	6.1870
February 2015	6.2573	6.2399
March 2015	6.2741	6.1955
April 2015 (up to April 17, 2015)	6.2152	6.1930

- 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 are indirectly majority owned by the Chinese government, which may exert influence in a manner that may conflict with the interests of holders of ADRs, H Shares and A Shares.

Major Chinese airlines are wholly- or majority-owned either by the Chinese government or by provincial or municipal governments in China. CSAHC, an entity wholly-owned by the Chinese government, holds and exercises the rights of ownership of 53.72% of the equity of the Company. The interests of the Chinese government in the Company and in other Chinese airlines may conflict with the interests of the holders of the ADRs, H Shares and A Shares. The public policy considerations of the Chinese government in regulating the Chinese commercial aviation industry may also conflict with its indirect ownership interest in the Company. In addition, the Company may accept further capital injection from CSAHC through non-public subscriptions, which may have dilutive impact for other holders of ADRs, H Shares and A Shares.

Due to high degree of operating leverage and high fixed costs, a decrease in revenues of the Group could result in a disproportionately higher decrease in its profit for the year. The results of the Group’s operations are also significantly exposed to fluctuations in foreign exchange rates.

The airline industry is generally characterized by a high degree of operating leverage. In addition, due to high fixed costs, the expenses relating to the operation of any flight do not vary proportionately with the number of passengers carried, while revenues generated from a flight are directly related to the number of passengers carried and the fare structure of such flight. Accordingly, a decrease in revenues could result in a disproportionately higher decrease in its profit for the year. Moreover, as the Group has substantial obligations denominated in foreign currencies, its results of operations are significantly affected by fluctuations in foreign exchange rates, particularly by fluctuations in the Renminbi-U.S. dollar exchange rate. Net exchange gains of RMB2,903 million was recorded in 2013 mainly due to Renminbi appreciated significantly against U.S. dollar in 2013. Our net exchange losses of RMB292 million was recorded in 2014 as Renminbi depreciated slightly against U.S. dollar in 2014.

The Group has significant committed capital expenditures in the next three years, but may face challenges and difficulties as it seeks to maintain liquidity.

We have a substantial amount of debt, lease and other obligations, and will continue to have a substantial amount of debt, lease and other obligations in the future. As of December 31, 2014, the Group’s current liabilities exceeded its current assets by RMB26,545 million. The Group generally maintains sound operating cash flow. However, our substantial indebtedness and other obligations may in the future negatively impact our liquidity. In addition, the Group has significant committed capital expenditures in the next three years, due to aircraft acquisitions. In 2014 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditures. 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. Moreover, the Group may not be able to meet its debt obligations as they fall due and commit future capital expenditures if certain assumptions about the availability of external financing on acceptable terms are inaccurate. If we are unable to obtain adequate financing for our capital requirements, our liquidity and operations would be materially and adversely affected.

As of December 31, 2014, the Group had banking facilities with several PRC commercial banks for providing loan finance up to approximately RMB187,133 million, of which approximately RMB126,703 million was unutilized. Our directors believe that sufficient financing will be available to the Group in 2015. However there can be no assurance that such loan financing will be available on terms acceptable to the Group or at all.

CSAHC will continue to be our controlling shareholder, and its interests may conflict with those of the Group. CSAHC and certain of its affiliates will continue to provide certain important services to the Group. Any disruption of the provision of services by CSAHC or its affiliates could affect the Group’s operations and financial conditions.

CSAHC will continue to be the controlling shareholder of the Company. CSAHC and certain of its affiliates will continue to provide certain important services to the Group, including the import and export of aircraft spare parts and other flight equipment, advertising services, provision of air ticket selling services, property management services, leasing of properties and financial services, and repair, overhaul and maintenance services on jet engines. The interests of CSAHC may conflict with those of the Group. In addition, any disruption of the provision of services by CSAHC’s affiliates or a default by CSAHC of its obligations owed to the Group could affect the Group’s operations and financial conditions. In particular, as part of its cash management system, the Group periodically places certain amount of demand deposits after independent shareholders’ approval with SA Finance, a PRC authorized financial institution controlled by CSAHC and an associate of the Company. The Group has taken certain measures to monitor the fund flows between itself and SA Finance and the placement of funds by SA Finance. Such monitoring measures may help to enhance the safety of the Group’s deposits with SA Finance. In addition, we have received a letter of undertakings from CSAHC dated March 31, 2009, in which, among other things, CSAHC warranted that the Group’s deposits and loans with SA Finance were definitely secure and that SA Finance would continue to operate in strict compliance with the relevant rules and regulations. However, the deposits may be exposed to risks associated with the business of SA Finance over which the Group does not have control. As of December 31, 2013 and 2014, the Group had deposits of RMB2,675 million and RMB4,264 million, respectively, with SA Finance.

We have experienced incidents of employee misconduct in the past, and may be unable to prevent similar incidents in the future, which could adversely impact our reputation, our business and the trading price of our securities.

We were informed by PRC authorities on December 30, 2014 that Mr. Chen Gang, then Executive Vice President of the Company and Mr. Tian Xiao Dong, then COO Flight Operations of the Company were under investigation by such authorities for suspicion of job-related crimes. On January 5, 2015, we were informed that Mr. Xu Jie Bo, then Executive Director, Executive Vice President, Chief Financial Officer and Chief Accountant of the Company and Mr. Zhou Yue Hai, then Executive Vice President of the Company were also under investigation for suspicion of job-related crimes. We had no prior knowledge of the incidents that led to the investigation by the PRC authorities. We responded immediately to this information in accordance with our internal policies, and removed each of the affected employees from office. In March 2015, we were further informed that these former executives have been formally arrested by the PRC authorities for suspicion of receiving bribes. As of the date of this Annual Report, the investigation of these individuals by the government authorities is on-going. Legal proceedings are subject to many uncertainties and we cannot predict the outcome of individual matters with absolute assurance. However, after due inquiry and to the best of our knowledge, neither we nor any of our current directors, senior management, or controlling shareholders is subject to any investigation by PRC authorities involved in these incidents or otherwise, and based on current information, we do not, believe there will be any material impact on our financial condition or results of operations.

We may not be able to detect or prevent employee misconduct, including misconduct by senior management, and such misconduct may damage our reputation and could adversely affect the financial condition of the Company and results of our operations. We have limited knowledge of the status or scope of the on-going investigation against our former executives by PRC authorities and currently are unaware of what determinations and conclusions may be reached by the authorities against these former executives. Based on current information, we do not, however, believe there will be any material impact on the Company’s financial condition or results of operations or internal control over our financial reporting. We will further enhance our training and corporate governance policies and procedures in order to strengthen our ability to detect and prevent similar and other misconduct. Despite our proactive actions, however, we cannot assure you that we will be able to detect or prevent such alleged personal misconduct in a timely fashion, or at all. If we fail to prevent employee personal misconduct, our reputation may be harmed, and financial condition and results of operations could be adversely affected.

Both international and domestic economic fluctuations and Chinese government’s macroeconomic controls affect the demand for air travel, which will in turn cause volatility to the Group’s business and results of our operations.

Both international and domestic economic fluctuations and Chinese macroeconomic controls affect the demand for air travel. For example, the demand for air travel significantly decreased during the past few years as result of the U.S. subprime crisis and European debt crisis. In addition, the continuing global economic slowdown may have a negative effect on the growth rate of the Chinese economy. Chinese macroeconomic controls, taken to counteract such slowdown, such as financing adjustments, credit adjustments, price controls and exchange rate policies, would present unexpected changes to the aviation industry. As a result, the changing economic situation and Chinese macroeconomic controls may cause volatility to the Group’s business and results of our operations.

The financial crisis and other global events may reduce consumer spending or cause shifts in spending. A general reduction or shift in discretionary spending can result in decreased demand for leisure and business travel and can also impact the Group’s ability to raise fares to counteract increased fuel and labor costs. No assurance can be given that capacity reductions or other steps we may take will be adequate to offset the effects of reduced demand.

The Group could be adversely affected by an outbreak of a disease or large scale natural disasters that affect travel behavior.

The outbreak of the H1N1 swine flu in March 2009 has had an adverse impact on the aviation industry globally (including the Group). The spread of the swine flu adversely affected the Group’s international routes operations in 2009. Recently, there have been a number of outbreaks of H7N9 bird flu in several provinces in the PRC. A further spread of H7N9 bird flu may have a negative impact on the economic and business activities in China and thereby adversely affect our results of operation. A future outbreak of an infectious disease or any other serious public health concerns in Asia and elsewhere could have a material adverse effect on our business, financial condition and results of operations.

In 2011, a number of large-scale natural disasters occurred globally, such as the nuclear meltdown in Japan caused by earthquakes and subsequent tsunami, the hurricane on the East Coast of the United States, the flooding in Thailand and the typhoon in the Philippines. Disasters such as these can affect the aviation industry and the Group by reducing revenues and impacting travel behavior.

Lack of adequate documentation for land use rights and ownership of buildings subjects us to challenges and claims by third parties with respect to the Company’s use of such land and buildings.

Although systems for registration and transfer of land use rights and related real property interests in China have been implemented, such systems do not yet comprehensively account for all land and related property interests. The Group leased certain properties and buildings from CSAHC which are located in Guangzhou, Wuhan, Haikou and other PRC cities. However, CSAHC lacks adequate documentation evidencing CSAHC’s rights to such land and buildings, and, as a result, the lease agreements between CSAHC and the Company for such land has not been registered with the relevant authorities. As a result, such lease agreements may not be enforceable. Lack of adequate documentation for land use rights and ownership of buildings subjects the Company to challenges and claims by third parties with respect to the Company’s use of such land and buildings.

As of the date of this Annual Report, we had been occupying all of the land and buildings described above without challenge or claim by third parties. However, if any challenges to the property ownership or other claims are successful, our operation and business may be materially adversely affected. CSAHC has agreed to indemnify us against any loss or damage caused by or arising from any challenge of, or interference with, the Company’s right to use certain land and buildings.

Any discontinuity or disruption in the direct flight arrangement between Taiwan and Mainland China may negatively affect the Group's results.

The policy restraint on direct flights between Taiwan and Mainland China has been further loosened in the past few years. As of April 17, 2015, there were 75 cross-Strait direct passenger flights per week. The Company was the first Chinese carrier to operate non-stop flights from Mainland China to Taiwan and as a result has benefited from the operation of such flights. However, given the cross-Strait flight 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, and therefore may have a material adverse impact on the Group's results.

Terrorist attacks or the fear of such attacks, even if not made directly on the airline industry, could adversely 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 the attack on September 11, 2001 in the United States. Terrorist attacks could also affect the aviation industry in China. Airlines in China have experienced several incidents of terrorist attacks or threats recently. For example, on March 7, 2008, on a China Southern Airlines flight boarding in Urumqi, crew members discovered a terrorist suspect. On July 14, 2010, a passenger jet en route from Urumqi to Guangzhou was forced to make an emergency landing after receiving an anonymous call claiming there was a bomb on the aircraft. On June 29, 2012, there was an attempted hijacking on a passenger flight operated by Tianjin Airlines between Hotan and Urumqi in China's Xinjiang region. CAAC has enhanced security measures, but the effectiveness of such measures cannot be ascertained. Additional terrorist attacks, even if not made directly 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 the Company and the aviation industry. Potential impacts that terrorist attacks could have on the Company include substantial flight disruption costs caused by grounding of fleet, significant increase in security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significant decrease in traffic measured in revenue passenger kilometers. Additionally, increasingly strict security measures make air travel a hassle in the eyes of some consumers. These factors can have an uncertain impact on the development of the aviation industry.

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

An accident involving one of our aircraft could require repair or replacement of a damaged aircraft, and result in its consequential temporary or permanent loss from service and/or significant liability to injured passengers and others. Although we believe that we currently maintain liability insurance in amounts and of the types generally consistent with industry practice, the amounts of such coverage may not be adequate to fully cover the costs related to the accident or incident, which could result in harm to our results of operations and financial condition. In addition, any aircraft accident, even if fully insured, could cause a public perception that we are not as safe or reliable as other airlines, which would harm our competitive position and result in a decrease in our operating revenues. Moreover, a major accident involving the aircraft of any of our competitors may cause demand for air travel to decrease in general, which would adversely affect our results of operations and financial condition.

The Group could be adversely affected by a failure or disruption of our computer, communications or other technology systems.

The Group is increasingly dependent on technology to operate its business. In particular, to enhance its management of flight operations, the Group launched the computerized flight operations control system in May 1999. The system utilizes advanced computer and telecommunications technology to manage the Group's flights on a centralized, real-time basis. The Group believes that the system will enhance the efficiency of flight schedule, increase the utilization of aircraft and improve the coordination of the Group's aircraft maintenance and ground servicing functions. However, the computer and communications systems on which we rely could be disrupted due to various factors, some of which are beyond our control, including natural disasters, power failures, terrorist attacks, equipment failures, software failures and computer viruses and hackers. The Group has taken certain steps to reduce the risk of some of these potential disruptions. There can be no assurance, however, that the measures we have taken are adequate to prevent or remedy disruptions or failures of those systems. Any substantial or repeated failure of those systems could adversely affect our operations and customer services, result in the loss of important data, loss of revenues, and increased costs, and generally harm our business. Moreover, a failure of certain of our vital systems could limit our ability to operate our flights for an extended period of time, which would have a material adverse effect on our operations and our business.

We may lose investor confidence in the reliability of our financial statements if we fail to achieve and maintain effective internal control over financial reporting, which in turn could harm our business and negatively impact the trading prices of our ADRs, H Shares or A Shares.

The United States Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company in the United States to include a management report on such company’s internal control over financial reporting in its annual report, which contains management’s assessment of the effectiveness of the company’s internal control over financial reporting. In addition, the Company’s independent registered public accounting firm is required to report on the effectiveness of the Company’s internal control over financial reporting.

Since 2011, pursuant to the Basic Standard for Enterprise Internal Control jointly issued by the Ministry of Finance, China Securities Regulatory Commission ("CSRC") and other three PRC authorities on May 22, 2008, and its application guidelines and other relevant regulations issued subsequently (collectively, "PRC internal control requirements") , the Company has carried out a self-assessment of the effectiveness of its internal control and issue a self-assessment report annually in accordance with the PRC internal control requirements, and the Company’s auditor for its PRC GAAP financial statements (the "PRC Auditor") is required to report on the effectiveness of the Company’s internal control over financial reporting.

However, our independent registered public accounting firm or PRC Auditor may not be satisfied with our internal controls, the level at which our controls are documented, designed, operated and reviewed. Our independent registered public accounting firm or PRC Auditor may also interpret the requirements, rules and regulations differently, and reach a different conclusion regarding the effectiveness of our internal control over financial reporting. Although our management have concluded that our internal control over financial reporting as of December 31, 2014 was effective, we may discover deficiencies in the course of our future evaluation of our internal control over financial reporting and may be unable to remediate such deficiencies in a timely manner. If we fail to maintain the adequacy of our internal control over financial reporting, we may not be able to conclude that we have effective internal control over financial reporting on an ongoing basis, as required under the above mentioned rules and regulations. Moreover, effective internal control is necessary for us to produce reliable financial reports and is important to prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading prices of our ADRs, H Shares or A Shares.

The Company could be classified as a passive foreign investment company by the United States Internal Revenue Service and may therefore be subject to adverse tax impact.

Depending upon the relative values of our passive assets and income as compared to our total assets and income each taxable year, we could be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service, or IRS, for U.S. federal income tax purposes. The Company believes that it was not a PFIC for the taxable year 2014. However, there can be no assurance that we will not be a PFIC for the taxable year 2015 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year.

The Company will be classified as a PFIC in any taxable year if either: (1) the average value during the taxable year of its assets that produce passive income, or are held for the production of passive income, is at least 50% of the average value of its total assets for such taxable year (the "Asset Test") or (2) 75% or more of its gross income for the taxable year is passive income (such as certain dividends, interest or royalties) (the "Income Test"). For purposes of the Asset Test: (1) any cash, cash equivalents, and cash invested in short-term, interest bearing, debt instruments, or bank deposits that is readily convertible into cash, will generally count as producing passive income or as being held for the production of passive income and (2) the average values of the Company’s passive and total assets is calculated based on its market capitalization.

If we were a PFIC, you would generally be subject to additional taxes and interest charges on certain "excess distributions" the Company makes regardless of whether we continue to be a PFIC in the year in which you receive an "excess distribution". An "excess distribution" would be either (1) the excess amount of a distribution with respect to ADRs during a taxable year in which distributions to you exceed 125% of the average annual distributions to you over the preceding three taxable years or, if shorter, your holding period for the ADRs, or (2) 100% of the gain from the disposition of ADRs. For more information on the United States federal income tax consequences to you that would result from our classification as a PFIC, please see Item 10, "Taxation - United States Federal Income Taxation - U.S. Holders - Passive Foreign Investment Company".

We may be unable to retain key management personnel.

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

Risks Relating to the Chinese Commercial Aviation Industry

The Group’s business is subject to extensive government regulations, and there can be no assurance as to the equal treatment of all airlines under those regulations.

The Group’s ability to implement its business strategy will continue to be affected by regulations and policies issued or implemented by relevant government agencies, particularly CAAC, which encompasses substantially all aspects of the Chinese commercial aviation industry, such as the approval of route allocation, the administration of certain airport operations and air traffic control. Such regulations and policies limit the flexibility of the Group to respond to market conditions, competition or changes in the Group’s cost structure. The implementation of specific government policies could from time to time adversely affect the Group’s operations.

The Group’s results may be negatively impacted by the fluctuation in domestic prices for jet fuel, and we would be adversely affected by disruptions in the supply of fuel.

The availability and cost of jet fuel have a significant impact on the Group’s results of operations. The Group’s jet fuel cost for 2014 accounted for 64.05% of its flight operations expenses. All of the domestic jet fuel requirements of Chinese airlines (other than at the Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports) must be purchased from the exclusive providers, CAOSC and Bluesky Oil Supplies Company, which are supervised by the CAAC. Chinese airlines may also purchase jet fuel at the Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports from joint ventures in which the CAOSC is a partner. Jet fuel obtained from the CAOSC’s regional branches is purchased at uniform prices throughout China that are determined and adjusted by the CAOSC from time to time with the approval of the CAAC and the pricing department of the NDRC based on market conditions and other factors. As a result, the costs of transportation and storage of jet fuel in all regions of China are spread among all domestic airlines.

Domestic price for jet fuel has experienced fluctuations in the past few years. The Group’s profit for the year may suffer from an unexpected change in the fuel surcharge collection policies and other factors beyond our control. For more information on the jet fuel prices, please see "Item 4, Information on the Company - Business Overview - Jet Fuel" section below for further discussion.

In summary, given the constant fluctuation of volatile fuel price, no assurance can be given that the Group’s operation and financial results will not be negatively impacted by the fluctuation in domestic prices for jet fuel.

In addition, China has experienced jet fuel shortages. On some rare occasions prior to 1993, the Group had to delay or even cancel flights. Although such shortages have not materially affected the Group’s operations since 1993, there can be no assurance that such a shortage will not occur in the future. If such a shortage occurs in the future to the extent that the Group has to delay or cancel flights due to fuel shortage, its operational reputation among passengers as well as its operations may suffer.

In 2014, a reasonable possible increase or decrease of 10% in average jet fuel price (VAT inclusive) with volume of fuel consumed and all other variables held constant, would have increased or decreased the Group’s annual fuel costs by approximately RMB3,773 million. Accordingly, even if the jet fuel supply remains stable, increases in jet fuel prices will nevertheless adversely impact our financial results.

The Group’s profit for the year may suffer from an unexpected volatility caused by any fluctuation in the level of fuel surcharges.

The level of fuel surcharges, which is regulated by Chinese government, affects domestic customers’ air travel demand as well as the Group’s ability to generate profits. On January 14, 2009, the NDRC and the CAAC jointly announced the collection of passenger fuel surcharge for domestic routes should be suspended from January 15, 2009 onwards. Subsequently, in response to the increase in international fuel prices, the NDRC and CAAC issued a notice on November 11, 2009 to introduce a new pricing mechanism of fuel surcharge that links it with airlines’ jet fuel costs, which was further adjusted subsequently. We cannot guarantee that fuel surcharges would not be adjusted further in the future or adjusted in our favor. If fuel surcharges are not adjusted in correspondence to the increase in jet fuel, our profit for the year may be materially adversely affected.

The Group’s results of operations are subject to seasonality.

The Group’s 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 the Group’s 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. In particular, the Group’s airline revenue is generally higher in the second and third quarters than in the first and fourth quarters. As a result, the Group’s results may fluctuate from season to season.

The Group’s operations may be adversely affected by insufficient aviation infrastructure in Chinese commercial aviation industry.

The rapid increase in air traffic volume in China in recent years has put pressure on many components of the Chinese commercial aviation industry, including China’s air traffic control system, the availability of qualified flight personnel and airport facilities. Airlines, such as the Group, which have route networks that emphasize short- to medium-haul routes, are generally more affected by insufficient aviation infrastructure in terms of on-time performance and high operating costs due to fuel inefficiencies resulting from the relatively short segments flown, as well as the relatively high proportion of time on the ground during turnaround. All of these factors may adversely affect the perception of the service provided by an airline and, consequently, the airline’s operating results. In recent years, the CAAC has placed increasing emphasis on the safety of Chinese airline operations and has implemented measures aimed at improving the safety record of the industry. The ability of the Group to increase utilization rates and to provide safe and efficient air transportation in the future will depend in part on factors such as the improvement of national air traffic control and navigation systems and ground control operations at Chinese airports, factors which are beyond the control of the Group.

The Group faces increasingly intense competition both in domestic aviation industry and in the international market, as well as from alternative means of transportation.

The CAAC’s extensive regulation of the Chinese commercial aviation industry has had the effect of managing competition among Chinese airlines. Nevertheless, competition has become increasingly intense in recent years due to a number of factors, including relaxation of certain regulations by the CAAC and an increase in the capacity, routes and flights of Chinese airlines. Competition in the Chinese commercial aviation industry has led to widespread price-cutting practices that do not in all respects comply with applicable regulations. Until the interpretation of CAAC regulations limiting such price-cutting has been finalized and strictly enforced, discounted tickets from competitors will continue to have an adverse effect on the Group’s sales.

The Group faces varying degrees of competition on its regional routes from certain Chinese airlines and Cathay Pacific Airways, Dragonair and Air Macau, and on its international routes, primarily from non-Chinese airlines, most of which have significantly longer operating histories, substantially greater financial and technological resources and greater name recognition than the Group. In addition, the public's perception of the safety and service records of Chinese airlines could adversely affect the Group's ability to compete against its regional and international competitors. Many of the Group's international competitors have larger sales networks and participate in reservation systems that are more comprehensive and convenient than those of the Group, or engage in promotional activities, which may enhance their ability to attract international passengers.

Furthermore, for short-distance transportation, airplanes, trains and buses are alternatives to each other. Given the recent development of high-speed trains (as discussed below) , the construction of nationwide high-speed railway network and the improvement of inter-city expressway network, the commercial aviation sector as a whole faces increasing competition from the alternative means of transportation such as railways and highways.

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 provides train services at a speed of up to 300 kilometers per hour connecting major cities such as Beijing, Shanghai, Wuhan, Zhengzhou, Xi'an, Qingdao, Guangzhou, Harbin and Dalian. In December 2012, the Beijing-Guangzhou and Harbin-Dalian High-Speed Railways commenced operation, 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 routes below 800 kilometers. The aggregate high-speed railway mileage in China reached over 16,000 kilometers as of December 31, 2014. The construction of all railways in China's "Four Longitudinal and Four Horizontal" high-speed railway network is expected to complete by the end of 2015. We expect it will bring further negative impact on the domestic aviation industry. Increased competition and pricing pressures from railway service may have a material adverse effect on our financial condition and results of operations.

Due to limitation on foreign ownership imposed by Chinese government policies, the Company may have limited access to the international equity capital markets.

Chinese government policies limit foreign ownership in Chinese airlines. Under these policies, the percentage ownership of our total outstanding ordinary shares held by investors in Hong Kong and any country outside China ("Foreign Investors") may not in the aggregate exceed 49%. Currently, we estimate that 28.47% of the total outstanding ordinary shares of the Company are held by Foreign Investors. For so long as the limitation on foreign ownership is in force, we will have limited access to the international equity capital markets.

The European Emissions Trading Scheme may increase operational cost of the Group.

Starting on January 1, 2012, aviation sector will be included in the European Emissions Trading Scheme (ETS), EU's mandatory cap-and-trade system for reduction of greenhouse gas emissions. Airline operators in the EU will receive tradable emission permits (aviation allowances) covering a certain level of their CO2 emissions per year for their flights operating to and from EU airports. If an airline fails to obtain free-of-charge emission permits from the EU, it will have to buy around EUR10 million (RMB100 million) worth of CO2 emissions allowances from other greener industries. Pursuant to this policy, the domestic airlines having flight points in Europe undertake the same carbon emission reductions obligation as the European local airlines, which will result in a significant increase in the operating cost of domestic airlines in Europe, including our Company, and further have an adverse impact on the results of operations and financial condition. In March 2011, a group representing China's largest airlines sent a formal notice to the EU expressing strong opposition to non-member-state airlines' inclusion in the EU's Emissions Trading Scheme. Also, in early February 2012, CAAC issued instructions to various airlines announcing that without approval from the relevant government authorities, the major airlines are prohibited from joining the ETS and the transport airlines are also prohibited from raising the freight price or increasing fee items by adducing this reason. On November 12, 2012, EU announced to temporarily suspend the implementation of the ETS in the aviation sector in 2013 in order to forge a positive negotiation environment for all parties. In November 2014, CAAC issued a notification on the ETS. The notification provided that CAAC would not prohibit Chinese airlines to take part in the ETS if the relevant flights take off and land between the airports within the EU during 2012 and 2016. We operated few flights between airports within the EU since 2012. We expect we would operate few flights between airports within the EU in the future. Therefore, we will submit emissions report and pay the quota between 2012 and 2016 for our flights between airports within the EU. At the same time, we will be in strict compliance with the requirements of relevant PRC laws and implement the related obligations of EU carbon emissions trading. There can be no assurance that the new implementation proposal will not have negative impact on our financial condition and result of operation.

We may utilize fuel hedging arrangements which may result in losses.

While we have not entered into any fuel hedging transactions since the fourth quarter of 2008, we may in the future consider to hedge a portion of our future fuel requirements through various financial derivative instruments linked to certain fuel commodities to lock in fuel costs within a hedged price range. 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 declines in fuel prices may substantially increase the costs associated with our fuel hedging arrangements. In addition, where we seek to manage the risk of fuel price increases by using derivative contracts, we cannot assure you that, at any given point in time, our fuel hedging transactions will provide any particular level of protection against increased fuel costs.

Risks Relating to the PRC

The Group has significant exposure to foreign currency risk as majority of the Group’s lease obligations and bank and other loans are denominated in foreign currencies. Due to rigid foreign exchange control by Chinese government, the Group may face difficulties in obtaining sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

Under current Chinese foreign exchange regulations, the Renminbi is fully convertible for current account transactions, but is not freely convertible for capital account transactions. All foreign exchange transactions involving Renminbi must take place either through the People’s Bank of China or other institutions authorized to buy and sell foreign exchange or at a swap centre.

The Group has significant exposure to foreign currency risk as substantially all of the Group’s obligations under leases, bank and other loans and operating lease commitment are denominated in foreign currencies, principally U.S. dollars, Singapore dollars and Japanese Yen. Depreciation or appreciation of the Renminbi against foreign currencies affects the Group’s results significantly because the Group’s foreign currency liabilities generally exceed its foreign currency assets. The Group is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by SAFE, or subject to certain restrictive conditions, entering into foreign exchange forward option contracts with authorized banks. However, SAFE may limit or eliminate the Group’s ability to purchase and retain foreign currencies in the future. In addition, foreign currency transactions under the capital account are still subject to limitations and require approvals from SAFE. This may affect our ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions. No assurance can be given that the Group will be able to obtain sufficient foreign exchange to pay dividends or satisfy our foreign exchange liabilities.

The Group also has exposure to foreign currency risk in respect of net cash inflow denominated in Japanese Yen from ticket sales in overseas branch office after payment of expenses. The Group entered into certain foreign exchange forward option contracts, which were fully settled in 2011, to manage this foreign currency risk. However, like other derivative products, there can be no assurance that such option contracts can provide, at any given time, particular level of protection against foreign exchange risks.

The Group’s operations are subject to immature development of legal system in China. Lack of uniform interpretation and effective enforcement of laws and regulations may cause significant uncertainties to the Group’s operations.

The members of the Group are organized under the laws of China. The Chinese legal system is based on written statutes and is a system, unlike common law systems, in which decided legal cases have little precedential value. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade. These laws, regulations and legal requirements are relatively recent, and, like other laws, regulations and legal requirements applicable in China (including with respect to the commercial aviation industry), their interpretation and enforcement involve significant uncertainties.

The PRC new tax law may in the future deprive us of preferential income tax rates, which we currently enjoy.

On March 16, 2007, the Fifth Plenary Session of the Tenth National People’s Congress passed the Corporate Income Tax Law of the PRC which took effect on January 1, 2008. As a result of the new tax law, the statutory income tax rate adopted by the Company and its subsidiaries has been changed to 25% with effect starting from January 1, 2008. Prior to enactment of the new tax law, certain branches and subsidiaries of the Company were taxed at rates ranging from 15% to 33%. Pursuant to the new tax law, the income tax rates of entities that previously enjoyed preferential tax rates of 15% and 18% have been revised to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards respectively. To the extent that there are any withdrawals of, or changes in, the preferential tax treatment that we currently enjoy, our tax liability may increase correspondingly and our financial condition and results of operations may be adversely affected.

On July 31, 2012, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued a pilot program (the "Pilot Program"), pursuant to which, commencing on November 1, 2012, business tax is replaced by a value-added tax ("VAT"). According to the Pilot Program, all traffic revenues and the other revenues that fall within the scope of the Pilot Program, including ground service income and cargo handling income, are subjected to VAT levied at the applicable tax rates of 17%, 11% or 6%. Other revenues that are not within the scope of the Pilot Program continue to be subject to business tax at applicable tax rates. However, as the Pilot Program has only been implemented recently, there is uncertainty as to how its impact on our financial condition and results of operations is not certain, but it may affect the way we record our revenues and taxes in our financial statements. As a result, it may be difficult to compare our financial statements in future periods with these before the Pilot Program was implemented.

The PRC new tax law may have negative tax impact on holders of H Shares or ADRs of the Company, by requiring the imposition of a withholding tax on dividends paid by a Chinese company to a non-resident enterprise.

The new tax law generally provides for a withholding tax on dividends paid by a Chinese company to a non-resident enterprise at a rate of 10%.

For individuals, Chinese tax law generally provides that an individual who receives dividends from the Company is subject to a 20% income tax. A 50% reduction of taxable income is granted by Chinese tax law for an individual receiving dividends from a listed company on Shanghai Stock Exchange or Shenzhen Stock Exchange. As a result, the effective tax rate for dividends received by A Share individual holders is 10% in 2014. Dividend received by any foreign individual that holds overseas shares in Chinese enterprise is generally subject to individual income tax at a flat rate of 20%, subject to exemption or reduction by an applicable double-taxation treaty.

Our investors in the U.S. who rely on our auditor’s audit reports currently do not have the benefit of PCAOB oversight.

Under the Sarbanes-Oxley Act of 2002, the Public Company Accounting Oversight Board, or PCAOB, has the authority and is required to conduct continuing inspections of registered public accounting firms that provide audit services to public companies subject to the reporting requirements of the SEC. Our external auditor is registered with the PCAOB and is subject to inspections by the PCAOB. However, the PCAOB is currently unable to inspect a registered public accounting firm’s audit work relating to a company’s operations in China where the documentation of such audit work is located in China, such as our registered public accounting firm’s audit work relating to our operations in China. As a result, our investors may be deprived of the benefits of PCAOB’s oversight of our independent registered public accounting firm through such inspections.

If additional remedial measures are imposed against four PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC, it could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934.

In December 2012, the SEC instituted administrative proceedings against four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' work papers related to their audits of certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, an initial administrative law decision was issued, which determined that the four PRC-based accounting firms should be censured and barred from practicing before the SEC for a period of six months. The four PRC-based accounting firms appealed the initial administrative law decision to the SEC. The initial law decision is neither final nor legally effective unless and until it is endorsed by the full SEC. In February 2015, each of the four PRC-based accounting firms agreed to a censure and 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 PRC-based firms' audit documents via the CSRC.

We were not and are not the subject of any SEC investigations nor are we involved in the proceedings brought by the SEC against the accounting firms. If the firms do not follow these procedures or if there is a failure in the process between the SEC and the CSRC, the SEC could impose penalties such as suspensions or it could restart the administrative proceedings. If the accounting firms including our independent registered public accounting firm were denied, temporarily or permanently, the ability to practice before the SEC, and we are unable to find timely another registered public accounting firm which can audit and issue a report on our financial statements, our financial statements could be determined to not be in compliance with the requirements for financial statements of public companies registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such a determination could ultimately lead to the delisting of our common stock from the NYSE for CSA's case or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our common stock in the United States.

ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

We were incorporated under PRC laws on March 25, 1995 as a joint stock company with limited liability under the name of China Southern Airlines Company Limited. The address of our principal place of business is 278 Ji Chang Road, Guangzhou, People's Republic of China 510405. Our telephone number is +86 20 8612 4462 and our website is www.csair.com.

In July 1997, we issued 1,174,178,000 H Shares, par value RMB1.00 per share, and completed the listing of the H Shares on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the ADRs representing our H shares on the New York Stock Exchange.

On March 13, 2003, we obtained an approval certificate from the Ministry of Commerce to change to a permanent limited company with foreign investments and on October 17, 2003 obtained a business license for its new status, as a permanent limited company with foreign investments issued by the State Administration of Industry and Commerce of the People's Republic of China.

In July 2003, we issued 1,000,000,000 A Shares, par value RMB1.00 per share, and completed the listing of the A shares on the Shanghai Stock Exchange.

Pursuant to a sale and purchase agreement dated November 12, 2004 between the Company, CSAHC, China Northern Airlines ("CNA") and Xinjiang Airlines ("XJA"), which was approved by our shareholders in an extraordinary general meeting held on December 31, 2004, we acquired the airline operations and certain related assets of CNA and XJA with effect from December 31, 2004 at a total consideration of RMB1,959 million.

On May 30, 2007, we, together with an independent third party, established Chongqing Airlines Company Limited ("Chongqing Airlines"). As of December 31, 2012, the Company had transferred four aircraft to Chongqing Airlines as capital contribution. We own a total of 60% equity interest in Chongqing Airlines.

On August 14, 2007, we acquired a 51% equity interest in Nan Lung International Freight Limited beneficially owned by and registered in the name of Nan Lung Travel & Express (Hong Kong) Limited, and a 100% equity interest in China Southern Airlines Group Air Catering Company Limited, both a wholly owned subsidiary of CSAHC, for a total consideration of RMB112 million.

In December 2008, we acquired a 26% equity interest in China Southern West Australian Flying College Pty Ltd. ("Flying College") from CSAHC, and Flying College became a 91% owned subsidiary of the Company.

In June 2009, we acquired a 50% equity interest in Beijing Southern Airlines Ground Services Company Limited ("Beijing Ground Service") from the other shareholder, and Beijing Ground Service became a wholly-owned subsidiary of the Company.

On September 28, 2009, we entered into an agreement with CSAHC to sell our 50% equity interest in MTU Maintenance Zhuhai Co., Ltd ("Zhuhai MTU"), a jointly controlled entity of the Company, to CSAHC at a consideration of RMB 1,607,850,000. The transfer was completed in February 2010.

On June 2, 2010, a third party company injected capital to Flying College, which diluted the Company’s interest in Flying College from 91% to 48.12%. Flying College became a jointly controlled entity of the Company since then. The retained non-controlling equity interest in Flying College is re-measured to its fair value at the date when control was lost and a gain on deemed disposal of a subsidiary of RMB17 million was recorded in 2010.

In December 2010, we entered into an agreement with Xiamen Jianfa Group Co., Ltd. and Hebei Aviation Investment Group Corporation Limited ("Hebei Investment"), pursuant to which Hebei Investment agreed to inject a cash capital of RMB1,460 million into Xiamen Airlines Company Limited ("Xiamen Airlines"). In March 2011, the capital injection was received in full and the Company’s equity interest in Xiamen Airlines was diluted from 60% to 51%. Xiamen Airlines remains a subsidiary of the Company.

On June 29, 2012, Xiamen Airlines, a subsidiary of the Company and Southern Airlines Culture and Media Co., Ltd. ("SACM") entered into an agreement, pursuant to which Xiamen Airlines agreed to sell and SACM agreed to purchase 51% equity interests in Xiamen Airlines Media Co., Ltd. ("XAMC"), at a consideration of approximately RMB43.12 million. Immediate prior to the transaction, XAMC was wholly owned by Xiamen Airlines and primarily engaged in providing advertising, corporate branding, publicity and exhibition services and was responsible for the overall brand building and publicity of Xiamen Airlines.

On September 24, 2012, we entered into a joint venture agreement with Henan Civil Aviation Development and Investment Co., Ltd. ("Henan Aviation Investment") for the establishment of China Southern Airlines Henan Company Limited, a joint venture company with a total registered capital of RMB6 billion, which will be owned as 60% and 40% by the Company and Henan Aviation Investment, respectively. The first installment of paid-in capital of RMB1.2 billion was received in full. On September 28, 2013, Henan Aviation Investment was established.

Aircraft Acquisitions

Pursuant to an aircraft acquisition agreement dated April 18, 2008 between Xiamen Airlines and the Boeing Company ("Boeing"), Xiamen Airlines will acquire 20 Boeing B737 series aircraft from Boeing. According to the information provided by Boeing, the aggregate catalogue price for those aircraft including the airframe and engines is around US\$1.5 billion. The aggregate consideration for the acquisition will be partly payable in cash by Xiamen Airlines, and partly through financing arrangements with banking institutions. The Boeing aircraft will be delivered in stages to Xiamen Airlines during the period commencing from April 2014 to October 2015.

Pursuant to an A320 Series Aircraft Purchase Agreement dated January 20, 2010 between the Company and Airbus SNC, we will acquire 20 Airbus 320 series aircraft from Airbus SNC. According to the information provided by Airbus SNC, the catalogue price of an Airbus 320 aircraft, including airframe and engines, is around US\$76.9 million. The aggregate consideration for the acquisition will be partly payable in cash and partly through financing arrangements with banking institutions. The Airbus aircraft have been delivered in stages to the Company.

On September 30, 2010, Xiamen Airlines entered into a supplemental agreement with Boeing to purchase additional 10 Boeing B737 series aircraft. The aggregate catalogue price for those aircraft, including airframe and engines, is around US\$699 million. According to the information provided by Boeing, the aggregate consideration for the acquisition will be partly payable in cash by Xiamen Airlines, and partly through financing arrangements with banking institutions. The Boeing aircraft will be delivered in stages to Xiamen Airlines during the period commencing from 2015 to October 2016.

On November 4, 2010, we entered into an A320 series aircraft purchase agreement and an A330-300 aircraft purchase agreement with Airbus S.A.S. to purchase 30 Airbus A320 series aircraft and six Airbus A330 series aircraft. According to the information provided by Airbus S.A.S., the catalogue price of six Airbus A330 series aircraft and 30 Airbus A320 series aircraft, including airframe and engines, is US\$1.205 billion and US\$2.575 billion, respectively. The aggregate consideration for the acquisition will be partly payable by cash and partly by financing arrangements with banking institutions. The six Airbus A330 aircraft will be delivered in stages to the Company during the period commencing from 2013 to 2014 and the 30 Airbus A320 series aircraft will be delivered in stages to the Company during the period commencing from 2012 to 2015.

On May 31, 2011, we entered into an aircraft acquisition agreement with Boeing to purchase six Boeing B777F freighters. According to the information provided by Boeing, the catalogue price of six Boeing B777F aircraft, including airframe and engines, is US\$1,584 million. The aggregate consideration for the Acquisition will be partly payable by cash and partly by financing arrangements with banking institutions. The six Boeing B777F freighters will be delivered in stages to us during the period commencing from 2013 to 2015.

On May 9, 2011, Xiamen Airlines entered into an aircraft acquisition agreement to purchase six Boeing B787 series aircraft. According to the information provided by Boeing, the aggregate catalogue price, including airframe and engines, for the six Boeing B787 series aircraft is US\$1,098 million. The aggregate consideration for the acquisition will be partly payable in cash and partly through financing arrangements with banking institutions. The Boeing aircraft will be delivered in stages to Xiamen Airlines during the period commencing from 2014 to 2015.

On February 28, 2012, we entered into an agreement with the Boeing Company to purchase 10 Boeing 777-300ER aircraft. According to the information provided by Boeing, the catalogue price of one Boeing B777-300ER aircraft, including airframe and engines, is around US\$298 million. The aggregate consideration for the acquisition will be partly payable in cash and partly through financing arrangements with banking institutions. The Boeing aircraft will be delivered in stages to the Company during the period from 2014 to 2016.

On August 3, 2012, Xiamen Airlines entered into an agreement with Boeing to purchase 40 Boeing B737 series aircraft from Boeing. The aggregate catalogue price of the 40 Boeing B737 series aircraft is US\$3.36 billion. The aggregate consideration for the acquisition will be partly payable by cash and partly by financing arrangements with banking institutions. The Boeing aircraft will be delivered in stages to Xiamen Airlines during the period commencing from 2016 to 2019.

On December 5, 2012, we entered into the Airbus aircraft acquisition agreement with Airbus S.A.S. to purchase 10 Airbus A330-300 aircraft. The catalogue price of one Airbus A330-300 aircraft is US\$188 million. The aggregate consideration for the acquisition will be partly payable by cash and partly by financing arrangements with banking institutions. The Airbus aircraft will be delivered in stages to the Company during the period commencing from 2014 to 2016.

On May 16, 2014, we entered into the aircraft acquisition agreement with Airbus S.A.S to purchase 30 Airbus A320 series aircraft and 50 A320 NEO series aircraft. The catalogue price of one Airbus A320 series aircraft is priced differently in the range of US\$85.8 million and US\$110.1 million and one A320 NEO series aircraft is priced differently in the range of US\$94.4 million to US\$120.5 million. The aggregate consideration for the acquisition will be funded partly by internal resources of the Company and partly through commercial loans by commercial banks. The Airbus aircraft will be delivered in stages to the Company during the period commencing from 2016 to 2020.

Capital Expenditure

The Group had RMB26,481 million, RMB29,576 million, and RMB23,911 million capital expenditures in 2014, 2013 and 2012 respectively. Of such capital expenditures in 2014, RMB17,832 million was financed by capital leases, RMB8,189 million was financed by bank borrowings while the remaining RMB460 million was financed by internal resources. The capital expenditures were primarily incurred on the additional investments in aircraft and flight equipment under the Group’s fleet expansion plans and, to a small extent, additional investments in other facilities and buildings for operations. As of December 31, 2014, we had total capital commitments for aircraft, engines and related equipment of approximately RMB59,467 million.

B. Business Overview

General

The Group provides commercial airline services throughout Mainland China, Hong Kong, Macau and Taiwan regions, Southeast Asia and other parts of the world. Based on the statistics from the CAAC, the Group is one of the largest Chinese airlines and, as of the year end of 2014, ranked first in terms of number of passengers carried, number of scheduled flights per week, number of hours flown, number of routes and size of aircraft fleet. During the three years ended December 31, 2014, the Group’s RPKs increased at a compound annual growth rate of 12.77% from 135,535 million in 2012 to 148,417 million in 2013 and 166,629 million in 2014 while its capacity, measured in terms of ASKs, increased at a compound annual growth rate of 12.32%, from 169,569 million in 2012 to 186,800 million in 2013 and 209,807 million in 2014. In 2014, the Group carried 10,092 million passengers and had passenger revenue of RMB97,145 million (approximately US\$15,876 million).

The Group conducts a portion of its airline operations through its airline subsidiaries namely Xiamen Airlines, Shantou Airlines Company Limited ("Shantou Airlines"), Zhuhai Airlines Company Limited ("Zhuhai Airlines"), Guizhou Airlines Company Limited ("Guizhou Airlines"), Chongqing Airlines Company Limited ("Chongqing Airlines") and Henan Airlines Company Limited (“Henan Airlines”), (collectively, the "Airline Subsidiaries"). In 2014, the Airline Subsidiaries carried 3,470 million passengers and had passenger revenue of RMB25,100 million (approximately US\$4,102 million) and accounted for 34.5% and 25.8% of the Group’s passengers carried and passenger revenue, respectively.

The Group also provides air cargo and mail services. The cargo and mail revenue of the Group increased by 12.0% to RMB7,183 million (approximately US\$1,174 million) in 2014 as compared with that of 2013. The Group’s airline operations are fully integrated with its airline-related businesses, including aircraft and engine maintenance, flight simulation and air catering operations.

As of December 31, 2014, the Group operated 1,220 routes, of which 978 were domestic, 185 were international and 57 were regional. The Group operates the most extensive domestic route network among all Chinese airlines. Its route network covers commercial centers and rapidly developing economic regions in Mainland China.

The Group’s corporate headquarters and principal base of operations are located in Guangzhou, the capital of Guangdong Province and the largest city in southern China. Located in the rapidly developing Pearl River Delta region, Guangzhou is also the transportation hub of southern China and one of China’s major gateway cities. Guangzhou’s significance has increased as the transportation infrastructure of Guangdong Province has developed through the construction and development of expressways, an extensive rail network and the port cities of Guangzhou, Shenzhen, Zhanjiang, Zhuhai and Shantou.

In December 2005, we established a branch company in Beijing and have added wide-body airplanes to our operation base in Beijing, with the view to expanding our Beijing aviation business and building another main hub there in addition to our Guangzhou base. The establishment of Guangzhou and Beijing hubs will facilitate strategic refinement and enhancement of our route network operations, putting us in a better position to explore and seize the opportunities in the aviation market.

The Group’s operations primarily focus on the domestic market. In addition, the Group also operates regional routes and international flights. As of December 31, 2014, the Group had 57 regional routes and 185 international routes. The Group’s regional operations include flights between destinations in Mainland China, Hong Kong, Macau and Taiwan. The Group’s international operations include scheduled services to cities in Australia, Azerbaijan, Bangladesh, United Kingdom, Burma, Cambodia, Canada, Dutch, France, Georgia, German, India, Indonesia, Japan, Kazakhstan, Kyrgyzstan, Malaysia, Maldives, Nepal, New Zealand, Pakistan, Philippines, Russia, Singapore, South Korea, Tajikistan, Thailand, Turkey, Turkmenistan, United Arab Emirates (UAE), United States of American (USA), Vietnam, Mauritius, Uzbekistan, Iran.

After joining Skyteam Alliance, the Group has established a network reaching over 1,052 destinations globally, connecting 177 countries and regions and covering major cities around the world.

As of December 31, 2014, the Group had a fleet of 612 aircraft, consisting primarily of Boeing 737 series, 747, 757, 777, 787, Airbus 320 series, 330, 380 etc. The average age of the Group’s registered aircraft was 5.9 years as of December 31, 2014.

Restructuring and Initial Public Offering

As part of China’s economic reforms in the 1980’s, the PRC State Council directed the CAAC to separate its governmental, administrative and regulatory role from the commercial airline operations that were being conducted by the CAAC and its regional administrators. As a result, CSAHC was established on January 26, 1991 for the purpose of assuming the airline and airline-related commercial operations of the Guangzhou Civil Aviation Administration, one of the then six regional bureaus of the CAAC. CSAHC was one of the 55 large-scale enterprises designated by the Chinese government to play a leading role in their respective industries.

CSAHC was restructured in 1994 and 1995 in anticipation of our initial public offering. The restructuring was effective through the establishment of the Company and the execution of the De-merger Agreement on March 25, 1995 by and between CSAHC and the Company. Upon the restructuring, the Company assumed substantially the entire airline and airline-related businesses, assets and liabilities of CSAHC, and CSAHC retained its non-airline-related businesses, assets and liabilities. All interests, rights, duties and obligations of CSAHC, whenever created or accrued, were divided between the Company and CSAHC based on the businesses, assets and liabilities assumed by each of them under the De-merger Agreement. Under the De-merger Agreement, CSAHC agreed not to conduct or participate or hold any interest in, either directly or indirectly, any business, activity or entity in or outside China that competes or is likely to compete with the commercial interests of the Group, although CSAHC may continue to hold and control its affiliates existing on the date of the De-merger Agreement and may continue to operate the businesses of such associates. Under the De-merger Agreement, CSAHC and the Company also agreed to indemnify each other against any losses, claims, damage, debts or expenses arising out of or in connection with the restructuring. As of the date of this Annual Report, no indemnity has been provided by either CSAHC or us.

In July 1997, we completed a private placement of 32,200,000 H Shares to certain limited partnership investment funds affiliated with Goldman Sachs & Co. and an initial public offering of 1,141,978,000 H Shares, par value RMB1.00 per share, and the listing of the H Shares on the Hong Kong Stock Exchange and ADRs on the New York Stock Exchange. Prior to the private placement and the initial public offering, all of our issued and outstanding shares of capital stock, consisting of 2,200,000,000 non-tradable domestic shares ("Domestic Shares"), par value RMB1.00 per share, were owned by CSAHC, which owned and exercised, on behalf of the Chinese government and under the supervision of the CAAC, the rights of ownership of such Domestic Shares. After giving effect to the private placement and the initial public offering, CSAHC maintained its ownership of the 2,200,000,000 Domestic Shares (representing approximately 65.2% of the total share capital of the Company), and became entitled to elect all the directors of the Company and to control the management and policies of the Group. The Domestic Shares and H Shares are both ordinary shares of the Company.

In July 2003, we issued 1,000,000,000 A Shares, par value of RMB1.00 per share, and listed these shares on the Shanghai Stock Exchange. Subsequent to the issuance of the A Shares, the shareholding of CSAHC in the Company was reduced from 65.2% to 50.30%.

Share Reform Scheme

Pursuant to relevant PRC laws, we launched the share reform scheme in May 2007, whereby all the 2,200,000,000 non-tradable Domestic Shares held by CSAHC would be converted into tradable A Shares. Upon the completion of such scheme on June 20, 2008, all the non-tradable Domestic Shares have been successfully converted into tradable A Shares, subject to the restriction that CSAHC shall not transfer or trade these shares within 36 months after the commencement date of the share reform scheme (which is June 18, 2007).

Bonus Shares Issue by Conversion of Share Premium

On June 25, 2008, our shareholders approved issuance of bonus shares by way of conversion of share premium, and on August 14, 2008, the Ministry of Commerce approved the bonus share issue. The issue has been effected by conversion of share premium on the basis of 5 new shares, credited as fully paid, for every 10 existing shares. Upon the completion of the bonus share issue, which is based on 4,374,178,000 shares in issue as of December 31, 2007, the number of paid up shares has increased by 2,187,089,000 shares to 6,561,267,000 shares.

Non-Public Subscriptions

On December 10, 2008, we entered into an A Shares subscription agreement with CSAHC, pursuant to which CSAHC conditionally agreed to subscribe and the Company conditionally agreed to allot and issue 721,150,000 new A Shares for a consideration of RMB2,278,834,000, equivalent to the subscription price of RMB3.16 per new A Share. Separately and on the same date, the Company and Nan Lung (a wholly-owned subsidiary of CSAHC) entered into an H Shares subscription agreement, pursuant to which Nan Lung conditionally agreed to subscribe and the Company conditionally agreed to allot and issue 721,150,000 new H Shares for a consideration of RMB721,150,000, equivalent to the subscription price of RMB1.00 (equivalent to approximately HK\$1.13) per new H Share. The subscription agreements were approved in the Extraordinary General Meeting and the respective Class Meetings of shareholders of A and H Shares on February 26, 2009. On June 3, 2009, we received the formal approval from CSRC for the proposed non-public issue of H Shares. On August 14, 2009, we received the formal approval from CSRC for the proposed non-public issue of A Shares. The issuance of 721,150,000 new A Shares to CSAHC and 721,150,000 new H Shares to Nan Lung were completed on August 20, 2009 and August 21, 2009, respectively.

On March 8, 2010, our board approved the placement of up to 1,766,780,000 new A shares to not more than 10 specific investors including CSAHC and the placement of not more than 312,500,000 new H shares to Nan Lung, a wholly-owned subsidiary of CSAHC. On the same date, the Company entered into the A shares subscription agreement with CSAHC, pursuant to which CSAHC conditionally agreed to subscribe and the Company conditionally agreed to allot and issue new A shares of not more than 132,510,000 at the subscription price of not less than RMB5.66 per A share. In addition, the Company and Nan Lung entered into the H shares subscription agreement, pursuant to which Nan Lung conditionally agreed to subscribe and the Company conditionally agreed to allot and issue new H shares of not more than 312,500,000 at the subscription price of not less than HK\$2.73 per H share. The above placement and subscription agreements were approved in the Extraordinary General Meeting and the respective Class Meetings of shareholders of A and H shares on April 30, 2010. On September 8, 2010, we received the formal approval from CSRC for the proposed non-public issuance of H Shares. On September 15, 2010, we received the formal approval from CSRC for the proposed non-public issue of A Shares. In November 2010, we completed the placements of 1,501,500,000 new A shares and 312,500,000 H shares, among which 123,900,000 new A shares were issued to CSAHC at the subscription price of RMB6.66 per share, and 312,500,000 H shares were issued to Nan Lung at the subscription price of HK\$2.73 per share.

On June 11, 2012, we entered into an A Shares subscription agreement with CSAHC, pursuant to which CSAHC conditionally agreed to subscribe and we conditionally agreed to allot and issue up to 487,804,878 A Shares for a consideration of not more than RMB2 billion, equivalent to the subscription price of approximately RMB4.1 per new A Share. The subscription agreement was approved in the Extraordinary General Meeting on August 10, 2012, which remained effective for a period of twelve months from the date of approval of the resolution at the general meeting. As of August 9, 2013, the relevant work regarding the 2012 Non-public A Share Issue of the Company had not been completed. The proposal for the 2012 Non-public A Share Issue of the Company and A Shares subscription agreement therefore were lapsed automatically due to the expiration of the resolution passed at the general meeting.

Issuance of Short-term Financing Bills and Medium Term Notes

On April 18, 2008, our Board approved the proposed issuance of short-term financing bills in the principal amount of up to RMB4 billion in the PRC, and the submission of this proposal to the annual general meeting for the shareholders’ approval. On June 25, 2008, our shareholders approved such proposed bill issuance at the annual general meeting for the year 2007. We believed that the bill issuance would provide a further source of funding at an interest rate which was expected to be lower than that for loans from commercial banks, lower the financing cost of borrowings for us, and was in the interests of us and our shareholders as a whole. The Company received the acceptance from National Association of Financial Market Institutional Investors to register the Company’s short-term financing bills in the amount of RMB3.5 billion for a period up to September 10, 2010. The bills were jointly underwritten by China CITIC Bank Cooperation Limited and Bank of China Limited. In October 2008, we issued short-term financing bills with total face value of RMB2 billion with a bearing coupon interest rate at 4.7% and a maturity period of one year for funding of the business activities of the Company.

On May 28, 2008, the Board approved the proposed issuance of medium term notes by the Company in the principal amount of up to RMB1.5 billion and the submission of such proposal to the shareholders for their consideration and approval. On June 25, 2008, shareholders of the Company approved such notes issuance at the annual general meeting for the year 2007. The Company believed that the notes issue would provide a further source of medium to long term funding at an interest rate lower than the best lending rate for loans from commercial banks, lower the finance costs of borrowings for us and improve our debt structure. As of the date of this Annual Report, we have not issued any medium term notes, even though it has been approved by the Board and shareholders.

In order to capitalize on opportunities in the market and improve the flexibility and efficiency of financing, on June 25, 2012, the Board resolved to obtain a general and unconditional mandate from shareholders to issue potential debt financing instruments, in one or multiple tranches, within the permissible size for debt issuance in accordance with the provisions of the applicable laws and regulations. On the extraordinary general meeting held on August 10, 2012, shareholders approved the authorization given to the Board, generally and unconditionally, to determine the specific debt financing instruments and issuance plan, and to issue, in one or multiple tranches, debt financing instruments within the permissible size for debt issuance in accordance with the provisions of the applicable laws and regulations. According to the resolution, on October 31, 2012, the Board approved to apply to National Association of Financial Market Institutional Investors for registration to issue, in one or multiple tranches, ultra-short-term financing bills with an aggregate principal amount of to RMB10 billion, according to its capital needs and the market conditions. The Company has completed the issuance of the first tranche of ultra-short-term financing bills on February 8, 2013. The total issuance amount of the first tranche financing bills was RMB0.5 billion, with a maturity period of 180 days, a par value per unit of RMB100 and a nominal interest rate of 3.9%.

On March 21, 2014, the Company completed the issuance of the first tranche of ultra-short-term financing bills for the year 2014 of China Southern Airlines Company Limited (the "First Tranche Financing Bills"). The total issuance amount of the First Tranche Financing Bills was RMB3 billion, with a maturity period of 180 days, a par value per unit of RMB100 and a nominal interest rate of 5.1%.

On April 17, 2014, the Company completed the issuance of the second tranche of ultra-short-term financing bills for the year 2014 of China Southern Airlines Company Limited (the "Second Tranche Financing Bills"). The total issuance amount of the Second Tranche Financing Bills was RMB3 billion, with a maturity period of 270 days, a par value per unit of RMB100 and a nominal interest rate of 5.1%.

On August 14, 2014, the Board approved to make an application to National Association of Financial Market Institutional Investors for the registration and issuance of medium-term notes with an aggregate maximum principal amount of RMB10 billion for the purpose of replenishing the working capital and optimizing the debt structure of the Company. The annual general meeting for the year 2013 of the Company held on June 26, 2014 approved the authorization given to the Board, generally and unconditionally, to determine the specific debt financing instruments and issuance plan, and to issue, in one or multiple tranche(s), debt financing instruments within the permissible size for debt issuance in accordance with the provisions of the applicable laws and regulations. As of the date of this Annual Report, we have not issued any medium term notes.

The following table sets forth certain statistical information with respect to the Group’s passenger, cargo and mail traffic for the years indicated.

Year	Passenger carried		Cargo and Mail arrived (tons)		Total traffic (tons kilometers)	
	Total (in millions)	Increase (decrease) over previous year (%)	Total (in thousands)	Increase (decrease) over previous year (%)	Total (in millions)	Increase (decrease) over previous year (%)
2012	86.48	7.2	1,232	8.5	16,160	11.7
2013	91.79	6.1	1,276	3.6	17,469	8.1
2014	100.2	9.9	1,433	12.3	19,780	13.2

Route Network

Overview

The Group operates the most extensive route network among all Chinese airlines. As of December 31, 2014, the Group operated 1,220 routes consisting of 978 domestic routes, 185 regional routes and 57 international routes.

The Group continually evaluates its network of domestic, regional and international routes in light of its operating profitability and efficiency. The Group seeks to coordinate flight schedules with the Airline Subsidiaries on shared routes to maximize load factors and utilization rates. The acquisition of domestic, regional and international routes is subject to approval of the CAAC, and the acquisition of regional and international routes is also subject to the existence and the terms of agreements between the Chinese government and the government of the Hong Kong SAR, the government of the Macau SAR, the government of Taiwan province and the government of the proposed foreign destination.

In order to expand the Group’s international route network, the Group has entered into code-sharing agreements with several international airlines, including Aeroflot-Russian Airlines, Air France, CSA Czech Airlines, Asiana Airlines, China Airlines, China Eastern Airlines, Delta Air Lines, Japan Airlines International, Kenya Airways, KLM Royal Dutch Airline, Korean Air, Mandarin Airlines, Pakistan International Airlines, PT Garuda Indonesia (Persero) Tbk., Qantas Airways Limited, Vietnam Airlines, WestJet, and Xiamen Airlines. Under the code-sharing agreements, the participating airlines are permitted to sell tickets on certain international routes operated by the Group to passengers using the Group’s codes. Similarly, the Group is permitted to sell tickets for the other participating airlines using its "CZ" code. The code-sharing agreements help increase the number of the Group’s international sales outlets. After joining Skyteam Alliance, the Group has further established a network reaching over 1,052 destinations globally, connecting 177 countries and regions and covering major cities around the world.

Route Bases

In addition to its main route bases including Guangzhou as core hub, Beijing as major hub, Urumqi as regional hub and Chongqing as seasonal hub, the Group maintains regional route bases in Zhengzhou, Wuhan, Changsha, Shenzhen, Shenyang, Changchun, Dalian, Harbin, Haikou, Zhuhai, Xiamen, Shanghai, Xi’an, Fuzhou, Nanning, Guilin, Shantou, Guiyang and Sanya. Most of its regional route bases are located in provincial capitals or major commercial centers in the PRC.

The Group believes that its extensive network of route bases enable it to coordinate flights and deploy its aircraft more effectively and to provide more convenient connecting flight schedules and access service and maintenance facilities for its aircraft. The Group believes that the number and location of these route bases may enhance the Group’s ability to obtain the CAAC’s approval of requests by the Group to open new routes and provide additional flights between these bases and other destinations in China. Current regulations of the CAAC generally limit airlines to operations principally conducted from their respective route bases.

Domestic Routes

The Group’s domestic routes network serves substantially all provinces and autonomous regions in China, including Guangdong, Fujian, Hubei, Hunan, Hainan, Guangxi, Guizhou, Henan, Heilongjiang, Jilin, Liaoning and Xinjiang, and serves all four centrally-administered municipalities in China, namely, Beijing, Shanghai, Tianjin, and Chongqing. In 2014, the Group’s most profitable domestic routes were between: Shenyang-Beijing, Beijing-Shenyang, Urumqi-Beijing, Beijing-Urumqi, Guiyang-Beijing, Beijing-Guiyang, Changchun- Beijing and Beijing -Changchun.

Regional Routes

The Group offers scheduled service between Hong Kong and Guangzhou, Shenyang, Wuyishan, Zhangjiajie, Changchun, Yinchuan, Xiamen, Shantou, Beijing, Guilin, Meixian, Haikou, Wuhan, Zhengzhou, Nanning, Changsha, Sanya and Hohhot; between Macau and Hangzhou, Xiamen and Tianjin; and between Taipei and Guangzhou, Shanghai, Fuzhou, Hangzhou, Xiamen, Shenyang, Changsha, Wuhan, Dalian, Guilin, Harbin, Guiyang, Zhengzhou and Shenzhen. In 2014, the most profitable scheduled regional routes were between: Shenzhen-Taipei, Taipei-Shenzhen, Taipei-Guangzhou, Shanghai-Taipei, Taipei-Shanghai, Guangzhou-Taipei, Taipei-Guangzhou, Changchun-Taipei and Taipei- Changchun.

In 2014, the Group conducted a total of 19.86 thousands flights on its regional routes, accounting for approximately 23.7% of all passengers carried by Chinese airlines on routes between Hong Kong, Macau or Taiwan and destinations in Mainland China according to CAAC statistics briefing .

Previously, direct flights between Taiwan and Mainland China were only available during certain festivals. Other than that, travelers between Taiwan and Mainland China had to make use of intermediate stops in Hong Kong or elsewhere. Since July, 2008, however, the ban on direct flights was further liberalized to allow direct charter flights on weekends. We were the first Chinese carrier to fly nonstop to Taiwan. On November 4, 2008, the Mainland China and Taiwan agreed to have regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, the Mainland China and Taiwan increased the number of regular cross-Strait direct passenger flights from 108 to 270 a week. Cross-Strait direct passenger flights were further increased in the following years. As of April 17, 2015, there were 420 cross-Strait direct passenger flights a week.

In order to further strengthen its presence in Taiwan, the Company entered into a memorandum of cooperation with China Airlines on June 23, 2008, which is the largest carrier in Taiwan in terms of route network. Based on the memorandum, the scope of cooperation between the parties will cover passenger and cargo carrying, maintenance, and ground handling services.

International Routes

The Group is the principal Chinese airline serving southeast Asian destinations, including Singapore and major cities in Bangladesh, Indonesia, Thailand, Malaysia, Philippines, Vietnam, Myanmar and Cambodia.

In addition, the Group also provides scheduled services to cities in Australia, Azerbaijan, Bangladesh, United Kingdom, Burma, Cambodia, Canada, Dutch, France, Georgia, German, India, Indonesia, Japan, Kazakhstan, Kyrgyzstan, Malaysia, Maldives, Nepal, New Zealand, Pakistan, Philippines, Russia, Singapore, South Korea, Tajikistan, Thailand, Turkey, Turkmenistan, UAE, United States, Vietnam, Mauritius, Uzbekistan and Iran.

Since joining Skyteam Alliance, the Group has established a network reaching over 1,052 destinations globally, connecting 177 countries and regions and covering major cities around the world.

In 2014, the Group’s most profitable international routes were: Shenyang-Seoul, Seoul-Shenyang, Dalian-Seoul, Seoul-Dalian, Yanji-Seoul, Seoul-Yanji, Changchun-Seoul and Seoul-Changchun.

Aircraft Fleet

The Group’s fleet plan in recent years has emphasized expansion and modernization through the acquisition of new aircraft and the retirement of less efficient and old aircraft. As of December 31, 2014, the Group operated a fleet of 612 aircraft with an average age of 5.92 years. Most aircraft of the Group are Boeing and Airbus aircraft. The Group has the largest fleet among Chinese airline companies. Among all the aircraft, 383 aircraft operated by the Group are leased pursuant to various types of leasing arrangements. Please see the table below for an analysis of our aircraft in terms of average age and respective passenger capacity.

Model	Number of Aircraft	Passenger Capacity
Boeing 787	12	228/237
Boeing 777-300ER	5	309
Boeing 777-200	4	360
Boeing 757-200	19	174/180/192/196/197/204
Boeing 737-800	208	159/160/161/164/170
Boeing 737-700	50	120/128
Boeing 737-300	3	126
Boeing 747-400F	2	N/A
Boeing 777-200F	8	N/A
Airbus 380-800	5	506
Airbus 330-300	15	275/284
Airbus 330-200	16	218/258
Airbus 321	75	179
Airbus 320	122	152
Airbus 319	43	122/138
EMB190	25	98
Total	612	N/A

In 2014, the Group continued to expand and modernize its aircraft fleet. During 2014, the Group (i) took scheduled delivery of 51 aircraft under purchase agreements, including four A3330 aircraft, two B787 aircraft, five B777-300ER aircraft, twelve A320/A321 aircraft and six B738 aircraft; (ii) took scheduled delivery of 22 aircraft under operating leases, including nine A320/A321 aircraft and thirteen B738 aircraft; (iii) returned six aircraft under operating leases upon expiry, including four B737-700 aircraft one A319 and one A320 aircraft; and (iv) disposed seventeen aircraft, including seven B737-300, six EMB145 and four B777-200ERS.

During 2014, Xiamen Airlines took scheduled delivery of 13 aircraft under purchase agreement, including two B787 and eleven B737-800 aircraft and returned one B737-800 aircraft at its lease end.

In May 2014, we entered into an agreement with the Airbus S.A.S for the acquisition of eighty A320 family aircraft to be delivered from 2016 to 2020. In December 2014, we entered into an agreement with AerCap for the operating lease of twenty-four A320 family aircraft to be delivered from 2016 to 2019.

Aircraft Financing Arrangements

Overview

A significant portion of the Group’s aircraft is acquired under long-term capital or operating leases or long-term mortgage loans with remaining terms to maturity ranging from one to eleven years. As of December 31, 2014, 186 of the Group’s 612 aircraft were operated under capital leases, 197 were operated under operating leases, 229 were either owned aircraft financed by long-term mortgage loans, or acquired either with cash proceeds or acquired by exercising the purchase options upon expiry of the respective capital leases. The Group’s planned acquisition of aircraft in the foreseeable future will generally be made through acquisition by bank loans and the Group’s own funds, and pursuant to operating leases or capital leases. The Group’s determination as to its acquisition strategy depends on the Group’s evaluation at the time of its capacity requirements, anticipated deliveries of aircraft, the Group’s capital structure and cash flow, prevailing interest rates and other general market conditions.

The following table sets forth, as of December 31, 2014, the number of aircraft operated by the Group pursuant to capital and operating leases and the average remaining terms, of such leases.

Model	Capital Lease	Operating Lease	Average Remaining Lease Term
	Number of Aircraft	Number of Aircraft	Year
Boeing 787	12	0	9.86
Boeing 737-800	58	67	6.58
Boeing 737-700	14	9	1.44
Boeing 777-200F	4	0	7.81
Boeing 777-300ER	5	0	9.59
Airbus 380-800	2	0	8.67
Airbus 330-300	7	8	7.71
Airbus 330-200	11	2	5.93
Airbus 321-200	23	22	7.24
Airbus 320-200	40	40	7.23
Airbus 319-100	6	29	3.90
EMB190	4	20	5.30
Total	186	197	6.35

Capital leases

The majority of the capital leases in respect to aircraft and related equipment have terms of ten to twelve years expiring during the years 2015 to 2029. As of December 31, 2014, the Group’s aggregate future minimum lease payments (including future finance charges) required under its capital leases were RMB56,577 million. The Group’s capital leases typically cover a significant portion of the relevant aircraft’s useful life and transfer the benefits and risks of ownership to the Group. Under its capital leases, the Group generally has an option to purchase the aircraft at or near the end of the lease term. As is customary in the case of capital leases, the Group’s obligations are secured by the related aircraft, as well as other collateral.

Operating Leases

As of December 31, 2014, the Group’s aggregate future minimum lease payments required under its operating leases were RMB28,798 million. As of the year end of 2014, the Group’s operating leases had original terms generally ranging from five to fifteen years from the date of delivery of the relevant aircraft, and the remaining terms of these leases ranged from one to eleven years. Pursuant to the terms of the operating leases, the Group is obligated to make rental payments based on the lease term, with no termination payment obligations or purchase option, and the lessor bears the economic benefits and risks of ownership. Under its operating leases, the Group has no option to purchase the aircraft and is required to return the aircraft in the agreed condition at the end of the lease term. Although title to the aircraft remains with the lessor, the Group is responsible during the lease term for the maintenance, servicing, insurance, repair and overhaul of the aircraft.

For capital leases or operating leases, the Group is obligated to indemnify the lessors against any withholding or similar taxes that may be imposed on the lessors by taxing authorities in China with regard to payments made pursuant to such leases. In accordance with relevant PRC tax regulations, a PRC lessee is liable to withhold PRC withholding tax in respect of any lease payments regularly made to an overseas lessor. Depending on the circumstances, this tax is generally imposed at a fixed rate ranging from nil to 10.0% of the lease payments, or in certain cases, the interest components of such payments for capital lease. The PRC withholding tax payable in respect of the lease arrangements amounting RMB257 million, RMB198 million and RMB182 million during 2014, 2013 and 2012 respectively, has been included as part of the lease charges.

Aircraft Flight Equipment

The jet engines used in the Group’s aircraft fleet are manufactured by General Electric Corporation, Rolls-Royce plc, United Technologies International, Inc., CFM International, Inc. and International Aviation Engines Corporation. The Group had 90 and 85 spare jet engines for its fleet as of the year end of 2014 and 2013, respectively. The Group determines its requirements for jet engines based on all relevant considerations, including manufacturers’ recommendations, the performance history of the jet engines and the planned utilization of its aircraft. Acquisition of rotables and certain of the expendables for the Group’s aircraft are generally handled by Southern Airlines (Group) Import and Export Trading Company Limited ("SAIETC"), a subsidiary of CSAHC acting as agent for the Group, in consideration of an agency fee. The Group arranges the ordering of aircraft, jet engines and other flight equipment for the Airline Subsidiaries and keeps an inventory of rotables and expendables for the Airline Subsidiaries.

Aircraft Maintenance

A major part of the maintenance for the Group’s fleet other than overhauls of jet engines is performed by Guangzhou Aircraft Maintenance Engineering Company Limited ("GAMECO"), an entity jointly controlled by the Company, Hutchison Whampoa ("Hutchison") and South China International Aircraft Engineering Company Limited, consistent with the Group’s strategy to achieve fully integrated airline operations and to assure continued access to a stable source of high quality maintenance services. The remaining part of the maintenance for the Group’s fleet other than overhauls of jet engines is performed by service providers in China and overseas. GAMECO performs all types of maintenance services, ranging from maintenance inspections performed on aircraft ("line maintenance services") to major overhaul performed at specified intervals. GAMECO was the first of three aircraft maintenance facilities in China having been certified as a repair station by both the CAAC and the Federal Aviation Administration. In March 1998, GAMECO received the Joint Civil Aviation Authorities certificate, which was transferred to European Aviation Safety Agency certification in November 2004, for the repair and maintenance of aircraft and aircraft engines.

The Group believes that GAMECO performs major maintenance checks on the Group’s aircraft within time periods generally consistent with those of large international airline maintenance centers. GAMECO’s repair and maintenance capacity include overhaul of more than 55% of the Group’s aircraft. Although rotables for the Group’s aircraft are generally imported through SAIETC, a portion of expendables and other maintenance materials are directly imported by GAMECO. Our agreement with GAMECO usually has a term of one year.

Overhauls of jet engines are performed by Zhuhai MTU, a former jointly controlled entity of the Company and MTU Aero Engines GmbH, and also by domestic qualified service providers in Beijing (AMECO), Xiamen (TEXL) and Hong Kong (HAESL), and by overseas qualified service providers in England, Korea, Singapore, France, Germany, Canada, Poland, Thailand, Israel. On September 28, 2009, the Company entered into an agreement with CSAHC to sell its 50% equity interest in Zhuhai MTU to CSAHC at a consideration of RMB1,607,850,000. The transfer was completed in February 2010.

The amounts incurred by the Group for comprehensive maintenance services provided by GAMECO and Zhuhai MTU were RMB2,095 million, RMB2,579 million and RMB2,298 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Safety

The Group endeavors to maintain strict compliance with all laws and regulations applicable to flight safety. In addition, the Group has adopted measures to eliminate or minimize factors that may impair flight safety, including specialized training programs and safety manuals. The Air Safety Management Department of the Company implements safety-related training programs on an ongoing basis in all of the Group’s operations to raise the safety awareness of all employees. As a result, overall flight safety has gradually improved. For "incidents" which include various events and conditions prescribed by the CAAC which do not involve serious personal injury or material damage to flight equipment, the Group has kept the number consistently below what is prescribed by the CAAC. For example, the Company’s "Air Transportation Incidents Per Ten Thousands Hours Ratio" was 0.012, 0.02 and 0.036 in 2014, 2013 and 2012, respectively. In comparison, CAAC’s published maximum acceptable Air Transportation Incidents Per Ten Thousands Hours Ratio was 0.5, 0.5 and 0.5 in 2014, 2013 and 2012, respectively. This ratio is defined as the number of occurrences of air transportation incident for every 10,000 hours of flight time. In 2013, the Group strengthened its flight safety management on the internal and external safety requirements. In 2008, the Group received the "Five-Star Flight Safety Award" from CAAC, being the first in domestic aviation industry to receive such a great honor. Subsequently in 2012, we were awarded the "Safe Flight Diamond Award" by CAAC for our 10,000,000 safety flight hours record, also being the first in domestic aviation industry to receive such a great honor. By December 31, 2014, the Company’s continuous safe flight span totaled to 13.5 million hours.

Jet Fuel

Jet fuel costs typically represent a major component of an airline’s operating expenses. The Group’s jet fuel costs accounted for 35.6%, 36.2% and 39.0% of the Group’s operating expenses for the years ended December 31, 2014, 2013 and 2012, respectively. Like all Chinese airlines, the Group is generally required by the Chinese government to purchase its jet fuel requirements from regional branches of CAOSC and Bluesky Oil Supplies Company, except at the Shenzhen, Sanya, Haikou, Shanghai Pudong and other small airports where jet fuel is supplied by Sino-foreign joint venture in which CAOSC is a joint venture partner. CAOSC is a State-owned organization controlled and supervised by the CAAC that controls the importation and distribution of jet fuel throughout China.

Jet fuel obtained from CAOSC’s regional branches is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of the CAAC and the pricing department of the NDRC based on market conditions and other factors. As a result, the costs of transportation and storage of jet fuel in all regions of China are spread among all domestic airlines. Jet fuel costs in China are influenced by costs at state-owned oil refineries and limitations in the transportation infrastructure, as well as by insufficient storage facilities for jet fuel in certain regions of China.

Prior to 1994, domestic jet fuel prices were generally below international jet fuel prices. The Chinese government had gradually increased domestic jet fuel prices in order to reflect more accurately the costs of supplying jet fuel in China. As a result, domestic jet fuel prices have become higher than those in the international market since the beginning of 1994. In 2007 through the first half of 2008, the crude oil prices in the international market reached historic highs. In response to the pressure imposed by such soaring prices, on November 1, 2007 and June 20, 2008, respectively, NDRC increased the domestic price for jet fuel. Thereafter, in order to reduce fuel cost pressure faced by Chinese airlines, NDRC approved reductions in domestic prices for jet fuel in 2008 and 2009. However, starting from February 2009, the crude oil price in the international market continued to increase and maintained at a high level in 2013. As a result, the domestic price for jet fuel has increased significantly from RMB 4,020 per ton in May 2009 to RMB 7292 per ton in January 2014. Our jet fuel costs increased from RMB 35,538 million in 2013 to RMB 37,728 million in 2014 as a result of an increase in average jet fuel prices from 2013 to 2014.

In addition to purchases of jet fuel from CAOSC, the Group is also permitted by the Chinese government to purchase a portion of its jet fuel requirements for its international flights from foreign fuel suppliers located outside China at prevailing international market prices. Jet fuel purchased from such sources outside China accounted for approximately 14.48% and 12.6% of the Group’s total jet fuel consumption in 2014 and 2013, respectively.

Fuel Surcharge

The NDRC has lowered the rate of fuel surcharge from RMB 0.00002541 per kilometer to RMB 0.00002656 per kilometer, starting from April 1, 2013 and ending on March 31, 2014. Based on that rate, for every RMB100 by which the cost of jet fuel exceeds RMB 4,140 per ton, the airlines are allowed to charge RMB0.00002656 per kilometer for the flight distance. From April 1, 2015, The NDRC has adjusted the benchmark oil price to RMB5000 per ton, for every RMB100 by which the cost of jet fuel exceeds that price, the airlines are allowed to charge RMB0.00002543 per kilometer for the flight distance. The Group’s profit for the year may suffer from an unexpected change in the fuel surcharge collection policies and other factors beyond our control.

Flight Operations

Flight operations for the Group’s flights originating in Guangzhou are managed by our flight operations and marketing divisions, which are responsible for formulating flight plans and schedules consistent with route and flight approvals received from the CAAC. The Company’s flight operations center in Guangzhou is responsible for the on-site administration of flights, including the dispatch and coordination of flights, deployment of aircraft, ground services and crew staffing. In addition, each of the Airline Subsidiaries maintains flight operations centers at all servicing airports for on-site administration of their flights. Our general dispatch offices are responsible for monitoring conditions of the Group’s route network, administering the Group’s flight plans, collecting and monitoring navigation data and analyzing and monitoring airport conditions.

To enhance its management of flight operations, the Group’s computerized flight operations control system (SOC) began operation in May 1999. The system utilizes advanced computer and telecommunications technology to manage the Group’s flights on a centralized, real-time basis. The Group believes that the system will assist it to (i) compile flight schedules more efficiently; (ii) increase the utilization of aircraft; (iii) allow real-time tracking of all of the Group’s flights; and (iv) improve coordination of the Group’s aircraft maintenance and ground servicing functions.

Training of Pilots and Flight Attendants

The Group believes that its pilot training program, which was established in cooperation with the CAAC affiliated Beijing University of Aeronautics and Astronautics (the "BUAA"), has significantly improved the quality of the training received by the Group’s pilots and has helped maintain the quality of the Group’s staff of pilots at a level consistent with the expansion of operations called for by the Group’s business strategy.

In the Group’s pilot training program, trainees have two years of theoretical training at the BUAA. After successful completion of academic and physical examinations, the trainees receive flight training for a period of approximately 20 months at the Flying College, a company that is 48.12% owned by the Company, 4.76% owned by CSAHC and 47.12% owned by a third party shareholder. Each trainee at the Flying College is required to fly at least 250 hours before being awarded a flight certificate. Graduates of the BUAA and the Flying College are hired by the Group as trainee pilots after passing a CAAC-administered examination to obtain a pilot license. The total training period for the Group’s trainee pilots is approximately four years. The Group had about 3,100 trainees as of April 17, 2015. Approximately 500 trainees are expected to graduate by the end of 2015.

As part of the pilot training program, trainee pilots receive their initial training in the operation of a specific aircraft with Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi"), a jointly controlled entity between the Company and CAE International Holdings Limited, which also provides training to pilots from other Chinese airlines. Zhuhai Xiang Yi is equipped with simulators for majority models of aircraft currently operated by the Group and provides flight simulation training services to the Group.

The Group’s pilots are required to be licensed by the CAAC, which requires an annual proficiency check. The Group’s pilots attend courses in simulator training twice annually and in emergency survival training once annually. The Group also conducts regular advanced training courses for captains and captain candidates. Pilots advance in rank based on number of hours flown, types of aircraft flown and their performance history.

The Group funded the training of its recruited pilots in previous years and, as a result, incurred significant costs over the years. Recently, there has been a trend in the financing of pilot training worldwide from employer-sponsored to self-sponsored scheme. Such a change will not only cut down the Group’s training expenses significantly, but also ensures the long-term dedicated service of the pilots. Starting from 2007, the Group began to recruit pilots under the self-sponsored training arrangement. On December 5, 2007, August 27, 2008, August 27, 2009, August 26, 2010 and September 9, 2011, the Board approved the Company to provide a guarantee with joint liability for the loans incurred under the self-sponsored pilot training program in an aggregate amount of RMB90,858,000, not more than RMB213,600,000, not more than RMB184,750,000, not more than RMB179,269,600 and not more than RMB83,850,000, respectively. On December 29, 2009, Xiamen Airlines, 51% owned subsidiary of the Company agreed to provide a guarantee with joint liability for the loans incurred under the partial self-sponsored pilot training program in an aggregate amount of not more than RMB100 million up to December 31, 2013. As of December 31, 2014, the Group has provided guarantees with joint liability for the loans of such self-sponsored pilots in an aggregate amount of RMB646 million under which an aggregate of personal bank loans of RMB486 million were drawn down from the banks. For the year ended December 31, 2014, the Group made repayments of RMB2 million due to the default of payments of certain pilot trainees.

Under the program, the self-sponsored pilots are bound to enter into service contracts with the Group when they finish their training courses. They have the choice to repay their loans in advance or in installments.

The Group conducts theoretical and practical training programs for its flight attendants at its Flight Attendants Training Center in Guangzhou (the "Guangzhou Training Center"). The Guangzhou Training Center is equipped with computerized training equipment, as well as simulator cabins for all models of aircraft currently operated by the Group. At the Guangzhou Training Center, flight attendants of the Group receive comprehensive training in areas such as in-flight service, emergency evacuation and water rescue.

Ground Services

The Group makes arrangements with airport authorities, other airlines or ground services companies for substantially all ground facilities, including runway, ramp, terminal and support services buildings, at each airport that it serves. The Group pays landing, parking and other fees to such airports, including Guangzhou Baiyun International Airport (the "Guangzhou Baiyun Airport"). At domestic airports, such fees are generally determined by the CAAC.

At Guangzhou Baiyun Airport, the Group operates its own passenger check-in, cargo, mail and baggage handling, aircraft maintenance and cleaning services. The Group also provides such services to its customer airlines that operate in Guangzhou Baiyun Airport.

Ground services at the airports, such as those in Shenzhen, Changsha, Wuhan, Zhengzhou, Haikou, Zhuhai, Xiamen, Guilin, Jieyang, Guiyang, Shenyang, Harbin, Dalian, Changchun, Sanya, Nanning, Chongqing, Shanghai Hongqiao, Shanghai Pudong and Urumqi, are operated directly by the Group. Ground services at the airport in Beijing have been primarily provided by Beijing China Southern Airlines Ground Services Co., Ltd, which became a wholly-owned subsidiary of the Company in June 2009. Ground services at other airports in China are provided to the Group by local airport authorities or local airlines pursuant to various service agreements. Ground services and other services at airports outside China are provided to the Group by foreign services providers pursuant to various service agreements with such parties. All such agreements of the Group are short-term and otherwise on terms that are customary in the industry.

Air Catering

We own a 55% equity interest in Guangzhou Nanland Air Catering Company Limited ("Nanland"). Nanland provides in-flight meals, snacks, drinks and related services for all of the Group’s flights originating in Guangzhou and substantially all other flights departing from Guangzhou Baiyun Airport. The Group contracts with various air catering suppliers with respect to in-flight catering services for flights originating from other airports, generally on an annual basis and otherwise on terms that are customary in the industry.

In order to optimize assets structure, tighten cost control, reduce the number of connected transactions and enhance the independence of operations in the long-run, the Company acquired a 100% equity interest in China Southern Airlines Group Air Catering Company Limited ("SAG Air Catering") on August 31, 2007 from CSAHC. SAG Air Catering provides in-flight meals for flights of the Group originating or stopping at domestic airports, mainly in northern China and Xinjiang regions.

Cargo and Mail

The Group also provides air cargo and mail services. A significant portion of these services are combined with passenger flights services. In 2014, the Group had two Boeing 747 freighters and eight Boeing 777 freighters, mainly servicing 13 international cargo routes, including Guangzhou – Chongqing – Amsterdam – Guangzhou, Guangzhou – Amsterdam – Guangzhou, Guangzhou – Vienna – Frankfurt – Guangzhou, Guangzhou – Frankfurt – Guangzhou, Guangzhou – Qingdao – Los Angeles – Tianjin – Guangzhou, Shanghai Pudong – Amsterdam – Vienna – Shanghai Pudong, Shanghai Pudong – Amsterdam – Chongqing – Shanghai Pudong, Shanghai Pudong – Amsterdam – Shanghai Pudong, Shanghai Pudong – Frankfurt – Shanghai Pudong, Shanghai Pudong – Zhengzhou – Anchorage – Chicago – Shanghai Pudong, Shanghai Pudong – Anchorage – Chicago – Shanghai Pudong, Shanghai Pudong – Los Angeles – Vancouver– Shanghai Pudong and Pudong – LosAngeles – Tianjin – Shanghai Pudong. The Group conducts its cargo business primarily through its cargo hubs in Guangzhou and Shanghai.

Sales, Reservations and Marketing

Passenger Ticket Sales and Reservations

The Group’s ticket sales and reservations are conducted by or through independent sales agents and the Group’s own network of exclusive sales offices as well as the CAAC’s sales offices and CSAHC’s affiliates. The Group has sales offices in Guangzhou and its other route bases. In addition, the Group maintains regional sales offices in other cities in China, including Beijing and Shanghai. The Group maintains international sales offices in Almaty, Amsterdam, Ashkhabad, Auckland, Baku, Bangkok, Bishkek, Brisbane, Busan, Chicago, Daegu, Daejeon, Delhi, Dhaka, Dubai (Sharjah), Dushanbe, Frankfurt, Fukuoka, Hanoi, Hiroshima, Ho Chi Minh City, Irkutsk, Islamabad, Istanbul, Jakarta, Jeddah, Kathmandu, Khabarovsk, Khudzhand, Kitakyushu, Kuala Lumpur, London, Los Angeles, Manila, Melbourne, Moscow, Nagoga, New York, Niigata, Novosibirsk, Oakland, Osaka, Osh, Paris, Penang, Perth, Phnom Penh, Phuket, San Francisco, Sapporo, Sendai, Seoul, Siem Reap, Singapore, Sydney, Tashkent, Tehran, Tokyo, Toyama, Tbilisi, Vancouver, Vladivostok, Vienna and Yangon.

The Group has agency agreements with airlines in the Asia-Pacific region, Europe, the United States and Africa for the processing of ticket sales and reservations on a reciprocal basis. In 2014, approximately 18.9%% of all ticket sales for the Group’s scheduled flights were made by the Group’s network of sales offices and CSAHC’s affiliates. The Group also sells tickets and accepts reservations through an extensive network of non-exclusive independent sales agents. Under the agency agreements with these sales agents, the Group pays commissions based on the value of tickets sold. The Group pays independent sales agents a commission of 3.35% of the ticket price. Sales agents are typically permitted to withhold their commission from the proceeds of ticket sales that are remitted to the Group. In 2014, sales by independent sales agents accounted for approximately 81.1% of the Group’s ticket sales of its scheduled flights.

Substantially all of the Group’s sales offices and agents in China are linked electronically to the TravelSky Technology Limited’s computerized ticketing and reservations system, which is in turn linked to all domestic airlines for flights throughout China. The Group has also entered into membership agreements with several international reservation systems, including ABACUS in Southeast Asia, SABRE and GALILEO in the United States, AMADEUS in Europe and INFINI in Japan. These systems facilitate reservations and sales of tickets for the Group’s international flights. In 2008, the Group further improved and optimized its online sales network, and launched Tencent sales counters in cooperation with Tencent Technology Limited, thus expanded the consumer sales network of the Group. Meanwhile, the Group upgraded and reconstructed the SMS platform, which provided SMS information services on mileage, flight schedule, flight status and air ticket price, and launched the "95539" services hotlines.

Cargo

The Group’s cargo and mail services are promoted through its own cargo divisions and independent cargo agents both within and outside China that track available space among all airlines. In particular, the Group employs a number of cargo agents in the Pearl River Delta region. In 2014, the Group generally pays the cargo agents an average commission of 1.75% of the relevant cargo freight rate for domestic and international services, of which the commission of cargo agents in the Pearl River Delta region is 2.02%.

Promotional and Marketing Activities

The Group engages in regular promotional and marketing activities in an effort to increase its market share. The Group’s promotional and marketing activities for domestic routes emphasize safety, passenger comfort and the frequency of the Group’s flights. The Group’s promotional and marketing activities for international and regional passengers emphasize the Group’s quality of service, extensive route network in China and greater frequency of flights relative to other Chinese airlines. The Group was among the first to launch premium economy class of seating. In addition, the Group also promotes and markets its regional and international routes on the basis of price competitiveness.

The Group seeks to increase its name recognition by offering new services to passengers. For example, the Group was the first Chinese airline to provide off-airport check-in services. The Group also offered transfer and baggage "through-handling" services to passengers connecting to other airlines, including passengers connecting in Hong Kong for flights to Taiwan. The Group widened its use of information technology and introduced new services such as cell phone check-in, SMS platforms and online meal booking. In 2014, the Group strengthened the cooperation with Air France-KLM by co-promotion, agent and corporate joint visits and workshops, further integrating resources to benefit to both parties. Along with new route launches of Guangzhou - Changsha - Frankfurt, Guangzhou - New York and Guangzhou - Wuhan - San Francisco, the Group held workshops in the origin and destination cities, announcing our new flights to local agents and clients. Besides, the Group cooperated with government agencies, Tourism Australasia and Tourism New Zealand, to promote and attract people to Australia and New Zealand. In addition, the Group broadcast the first micro film “Dream from the Heart”, successfully expressed its brand, social responsibility and customer-oriented services.

The Group engages in regular promotional and marketing activities in an effort to increase its market share. The Group’s promotional and marketing activities for domestic routes emphasize safety, passenger comfort and the frequency of the Group’s flights. The Group’s promotional and marketing activities for international and regional passengers emphasize the Group’s quality of service, extensive route network in China and greater frequency of flights relative to other Chinese airlines. The Group was among the first to launch premium economy class of seating. In addition, the Group also promotes and markets its regional and international routes on the basis of price competitiveness.

The Group seeks to increase its name recognition by offering new services to passengers. For example, the Group was the first Chinese airline to provide off-airport check-in services. The Group also offered transfer and baggage "through-handling" services to passengers connecting to other airlines, including passengers connecting in Hong Kong for flights to Taiwan. The Group widened its use of information technology and introduced new services such as cell phone check-in and SMS platforms. During the Beijing Olympic Games, the Group launched a special promotion known as "Welcome the Olympic Games with Gold Medal Services" and successfully fulfilled its duties to deliver quality services for the Beijing Olympic Games and Paralympics Games. In 2010, the Group successfully completed its missions to deliver quality services for the 16th Asian Games held in Guangzhou and the World Exposition Shanghai. In preparation for the hosting of the Asian Games, Guangzhou has made a huge investment in urban renovation and the construction of sports facilities. In addition, there was high consumption before, during and after the Asian Games. Ever since the successful bidding for hosting the Asian Games in 2004, Guangzhou has achieved a faster growth and improvement in its economy. Even though during the Asian Games, the aviation market did not show a marked growth trend due to a stricter security policy and there was few changes in the pattern of the normal cycle of travelers entering and leaving Guangzhou in the long run, the Asian Games will have a positive impact on the tourism and the aviation market in Guangzhou to a certain extent.

On the wake of permitted direct flights on weekends between Taiwan and Mainland China starting from July 4, 2008, the Company became the first Chinese carrier to fly nonstop to Taiwan. By taking advantage of such further liberalized air travel policy between Taiwan and Mainland China, the Company has taken measures to explore opportunities presented by and increase its name recognition in Taiwan market. On June 23, 2008, the Company entered into a memorandum of cooperation with China Airlines, which is the largest carrier in Taiwan by route network. Based on the memorandum, the scope of cooperation between the parties will cover passenger, cargo, maintenance and ground handling services. The Company believes that its strategic collaboration with China Airlines will be beneficial to both parties, expand their route network worldwide, increase their freight load factors, reduce labor and operating costs, and enhance the competitiveness of both airlines in the global air travel market.

To enhance relationships with its passengers, the Group has launched two frequent flyer programs, namely the "China Southern Airlines Sky Pearl Club" and the "Xiamen Airlines’ Egret Card Frequent Flyer Program". By the end of 2014, the Group had approximately 25.8 million members (including those of Xiamen Airlines) under these programs.

Regulation

The Chinese commercial aviation industry is subject to a high degree of regulation and oversight by the CAAC. Regulations and policies issued or implemented by the CAAC encompass substantially all aspects of airline operations, including route allocation, pricing of domestic airfare, the administration of air traffic control systems and certain airports, air carrier certifications and air operator certification and aircraft, registration and aircraft airworthiness certification. The Civil Aviation Law, which became effective in March 1996, provides a framework for regulation of many of these aspects of commercial aviation activities. Although China’s airlines operate under the supervision and regulation of the CAAC, they are accorded an increasingly significant degree of operational autonomy, including with respect to the application for domestic, regional and international routes, the allocation of aircraft among routes, the purchase of flight equipment, the pricing of air fares within a certain range, the training and supervision of personnel and their day-to-day operations.

As an airline providing services on international routes, the Group is also subject to a variety of bilateral civil air transport agreements that provide for the exchange of air traffic rights between China and various other countries. In addition, China is a contracting state, as well as a permanent member, of the International Civil Aviation Organization (the "ICAO"), an agency of the United Nations established in 1947 to assist in the planning and development of international air transport, and is a party to many other international aviation conventions. The ICAO establishes technical standards for the international aviation industry. The Group believes that it, in all material respects, complies with all such technical standards.

Route Rights

Domestic Routes. The right of any Chinese airline to carry passengers or cargo on any domestic route must be obtained from the CAAC. Non-Chinese airlines are not permitted to provide domestic air service between destinations in China. The CAAC’s policy is to assign a domestic route to the Chinese airline that is best suited to serve the route based, in part, on the location of the airline’s main or regional base at the point of origin. Under current regulations, airlines are generally expected to operate mainly from their route bases, and flights within a particular region are expected to be served by airlines based in that region. The Group believes that these regulatory parameters benefit airlines, such as the Group, that have a large number of regional route bases. The CAAC also considers other factors that may make a particular airline suitable to operate a domestic route, including the applicant’s general operating authority, compliance with pricing regulations and regulations applicable to safety and service quality, market demand, the ability of the applicant in terms of its existing routes, airport facilities and related support services.

The CAAC considers market conditions for a domestic route in determining whether the route should be allocated to one or more airlines. Generally, the CAAC requires the passenger load factor on certain route should be above the average rate of the whole market in the last flight season before additional flights and participants may be put on that route.

Regional Routes. Hong Kong and Macau routes and landing rights are derived from agreements between the Chinese government and the government of the Hong Kong SAR, and between the Chinese government and the government of Macau SAR. The rights to fly between Beijing and Hong Kong, Beijing and Macau, Shanghai and Hong Kong and Shanghai and Macau are allocated by the CAAC among the four Chinese airlines. The Group understands that the criteria for determining whether a Hong Kong and Macau route will be allocated to a particular airline include market demand, the ability of the airline to service the route and the appropriateness of the airline’s aircraft for such route.

A number of Hong Kong routes are operated by Chinese airlines on a "charter" flight basis. Permission to operate these flights is in theory subject to monthly review by the CAAC and the Hong Kong Civil Aviation Department. The CAAC has informally indicated that it primarily considers market demand and airline capability in granting permission for such flights.

Previously, direct flights between Taiwan and Mainland China were only available during certain festivals. Since July 4, 2008, however, the ban on direct flights has been further liberalized to allow direct charter flights on weekends. On November 4, 2008, the Mainland China and Taiwan agreed to regular direct passenger charter flights across the Taiwan Strait. On August 31, 2009, the Mainland China and Taiwan extended the number of regular cross-Strait direct passenger flights from 108 to 270 a week. Cross-Strait direct passenger flights were further increased in the following years. As of April 17, 2015, there were 75 cross-Strait direct passenger flights a week.

International Routes. International route rights, as well as the corresponding landing rights, are derived from air services agreements negotiated between the Chinese government, 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 service between certain destinations within each of such countries. Upon entering into an air services agreement, the CAAC determines the airline to be awarded such routes based on various criteria, including the availability of appropriate aircraft, flight and management personnel, safety record, the overall size of the airline, financial condition and sufficiency of assets to bear civil liabilities in international air services. These route rights may be terminated by the CAAC under special circumstances.

The criteria for determining whether an international route will be allocated to a second airline generally include (i) the terms of the relevant bilateral civil aviation agreement; (ii) consistency with overall national plans and the national interest and the enhancement of reasonable competition; and (iii) whether the international airports to be used are sufficient for the aircraft flown and employ security measures consistent with international standards.

In addition, if the relevant bilateral civil aviation agreement permits more than one Chinese airline to operate a particular international route, the CAAC will only permit a second airline to operate on such route if during a specific season, the average load factor is more than 75%, or for a particular international route, if the flight capacity provided by Chinese airlines is 50% less than that provided by foreign airlines.

Air Fare Pricing Policy

Pursuant to "Pricing Reform of Domestic Civil Aviation" as approved by the State Council of the PRC effective on April 20, 2004, prices on domestic routes now fluctuate freely within a predetermined range. Instead of direct supervision by setting prices of air tickets through a local price bureau, the government now provides guidance on domestic flights and domestic civil aviation is controlled by the government indirectly. Market-oriented pricing policy was introduced and pricing system has been adjusted as a result of the above pricing reform. The CAAC and NDRC issued a notice on April 13, 2010, pursuant to which, effective on June 1, 2010, airlines may set first-class and business-class airfares freely in accordance with market prices, subject to relevant PRC laws. The economy-class airfares remain to be subject to the predetermined range. The CAAC and NDRC further issued a notice, pursuant to which, effective on October 20, 2013, airlines are free to set domestic flights airfares not exceeding up to 25% above the bench mark prices where governmental pricing guidance is applicable. In recent years, there were a series of air fare reform to deregulate the control on the air fare pricing policy step by step.

Published air fares of Chinese airlines for the Hong Kong and Taiwan routes are determined by the CAAC and the relevant civil aviation authorities in Hong Kong or Taiwan. Airlines may offer discounts on flights on their Hong Kong and Taiwan regional routes.

Published air fares of Chinese airlines for international routes (except for Japan) are determined by Chinese airlines at their own discretion, taking into account the international air fare standards established through the International Air Transport Association. For Japan routes, air fares must be approved by the relevant civil aviation authorities in Japan, and discounting of published international air fares is permitted.

Acquisition of Aircraft and Flight Equipment

If a Chinese airline plans to acquire an aircraft, the airline must first seek approval from the CAAC and NDRC. The airline must, as a condition of approval, provide specific acquisition plans, which are subject to modification by the CAAC and NDRC. If the CAAC and NDRC approve an aircraft acquisition, the airline negotiates the terms of the acquisition with the manufacturer together with China Aviation Suppliers Import and Export Corporation ("CASC"), an entity controlled by CAAC, because CASC possesses the license required to import or export aircraft, and CASC receives a commission in respect thereof. Most Chinese airlines are also required to acquire their aircraft engines, spare parts and other flight equipment through CASC. The Company and a few other Chinese airlines are permitted to import jet engines and other flight equipment for their own use without the participation of CASC. In the case of the Company, SAIETC acts as its import agent and receives an agency fee for its services.

Jet Fuel Supply and Pricing

CAOSC and Bluesky Oil Supplies Company, companies supervised by the CAAC, are the only jet fuel supply companies in China, with the exception of the joint venture jet fuel supply companies that supply Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports. Airlines are generally not permitted to buy jet fuel from other suppliers in their domestic operations, since the direct import of jet fuel for domestic purposes is prohibited. As a result, all Chinese airlines purchase their domestic jet fuel supply requirements (other than the above mentioned exceptions) from the seven regional branches of CAOSC. Jet fuel obtained from such regional branches is purchased at uniform prices throughout China that are determined and adjusted by CAOSC from time to time with the approval of the CAAC and the pricing department of the NDRC based on market conditions and other factors.

Safety

The CAAC has made the improvement of air traffic safety in China a high priority and is responsible for the establishment of operational safety, maintenance and training standards for all Chinese airlines. The Chinese airlines are required to provide monthly flight safety reports to the CAAC, including reports of flight or other incidents or accidents and other safety related problems involving such airline’s aircraft occurring during the relevant reporting period. The CAAC periodically conducts safety inspections on individual airlines.

Every pilot is required to pass CAAC-administered examinations before obtaining a pilot license and is subject to an annual recertification examination.

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 aircraft operated by Chinese airlines must have a valid certificate of airworthiness, which is issued annually by the CAAC. In addition, maintenance permits are issued to a Chinese airline only after its maintenance capabilities have been examined and assessed by the CAAC. Such 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.

Security

The CAAC establishes and supervises the implementation of security standards and regulations for the Chinese commercial aviation industry. Such standards and regulations are based on Chinese laws, as well as standards developed by international commercial aviation organizations. Each airline and airport in China is required to submit to the CAAC an aviation security handbook describing specific security procedures established by such airline or airport for the day-to-day operations of commercial aviation and procedures for staff training on security. Such security procedures must be based on relevant CAAC regulations and international commercial aviation treaties. Chinese airports and airlines that operate international routes must also adopt security measures in accordance with the requirements of the relevant international agreements.

Noise and Environmental Regulation

All airlines in China must comply with the noise and environmental regulations of the PRC State Environmental Protection Agency. Applicable regulations of the CAAC permit Chinese airports to refuse to grant take-off and landing rights to any aircraft that does not comply with noise regulations.

Chinese Airport Policy

The CAAC supervises and regulates all civilian airports in China. The local government of the PRC manages the administration of most civilian airports in China. Airports in China are also subject to regulation and ongoing review by the CAAC, which determines take-off and landing charges, as well as charges for the use of airports and airport services.

Competition

The CAAC’s extensive regulation of the Chinese commercial aviation industry has had the effect of managing competition among Chinese airlines. Nevertheless, competition has become increasingly intense in recent years due to a number of factors, including relaxation of certain regulations by the CAAC, an increase in the number of Chinese airlines and an increase in the capacity, routes and flights of Chinese airlines.

In the Chinese aviation industry, the three dominant airlines are the Group, Air China Limited (the "Air China") and China Eastern Airlines Corporation Limited (the "China Eastern Airlines"). In 2014, these three airlines together controlled approximately 68% of the commercial aviation market in China as measured by passengers carried.

Most major Chinese airlines have in recent years significantly expanded their fleets, while at the same time passenger traffic may not increase proportionately. In some years, this has resulted in a reduction in our passenger load factors. As a result, we are required to be more competitive with respect to, for example, quality of service, including ticketing and reservations, in-flight services, flight scheduling and timeliness.

The Group expects that competition in China’s commercial aviation industry will continue to be intense. The Group will also face increasing competition from alternative means of transport, such as highway and rail, as China’s transportation infrastructure improves. In particular, the so-called "Four Longitudinal and One Horizontal" high-speed railways have brought negative impact to the domestic commercial aviation sector.

In June 2011, the Beijing-Shanghai High-Speed Railway commenced operation. We currently have only one daily flight on the Beijing-Shanghai aviation route. The opening of the Beijing-Shanghai High-Speed Railway has had a little direct impact on us. The aviation routes along the way, in particular, short-haul routes have experienced a greater loss of customers, but such losses are within our expectations and have had minimal impact on the entire industry. In December 2012, the Beijing-Guangzhou and Harbin-Dalian High-Speed Railways commenced operation. Currently, the Four Longitudinal High-Speed Railways, including Beijing-Shanghai, Beijing-Guangzhou-Shenzhen, Harbin-Dalian, Shanghai-Hangzhou-Shenzhen High-Speed Railways, have commenced operation. the Four Horizontal High-Speed Railways, including Shijiazhuang-Taiyuan, Jinan-Qingdao, Zhenzhou-Xi'an-Baoji, Nanjing-Wuhan-Chongqing, Hangzhou-Nanchang-Changsha High-Speed Railways, have partly commenced operation, and the rest will be finished at the end of 2015. The expansion of the coverage of this network, improvements in the 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 routes below 800 kilometers. The aggregate high-speed railway mileage in China reached over 16,000 kilometers as of December 31, 2014. The construction of all railways in China’s "Four Longitudinal and Four Horizontal" high-speed railway network is expected to complete by the end of 2015. We expect it will bring further negative impact on the domestic aviation industry.

From the perspective of long term development, with the continuous improvement in the high-speed railway lines and services, the domestic flights of the airlines will face competition from all sides, which spurs the airlines to constantly improve its network of aviation routes while stepping up efforts to upgrade service quality and brand influence for the enhancement of its competitiveness as a whole.

The Group believes that it possesses certain competitive advantages as compared to other Chinese airlines. The Group has the most extensive route network and the largest number of regional route bases among Chinese airlines, which the Group believes places it in a favorable position in the route allocation process. The Group also has the largest aircraft fleet among all Chinese airlines, which, together with the Group’s planned aircraft acquisitions, will permit the Group to expand its operations and to improve the deployment of the aircraft in its fleet. The Group also believes that its dominant presence in the populous and economically developed southern and central regions of China provides it with a competitive advantage in attracting new customers and that its fully integrated flight training, aircraft and engine maintenance and air catering operations enable it to achieve and maintain high quality service to its customers. In light of increasing competition from high speed trains, the Group intends to place more flight fleet to the international routes, where the Group will make an effort for a stronger market position. The Group also believes that its optimized route network, increased operational efficiency and improved service quality will attract more customers. The proposed cooperation between the Company and the high speed trains operators will also enable the Group to render a seamless air-ground service to customers which will bring a win-win situation for both the Group and the high speed trains operators.

According to CAAC statistics briefing, the following table sets forth the Group’s market share of passengers carried, cargo and mail carried and total traffic of Chinese airlines for the years indicated.

Year	Passenger Carried		Cargo and Mail Carried (tons)		Total Traffic (tons kilometers)	
	Industry Total (in millions)	Group's Share (% of total)	Industry Total (in thousands)	Group's Share (% of total)	Industry Total (in billions)	Group's Share (% of total)
2010	267.7	28.6	5,630	19.8	53.8	24.3
2011	292.2	27.6	5,528	20.5	57.3	25.2
2012	319.4	27.1	5,450	22.6	61.0	26.6
2013	354.0	25.9	5,613	22.7	67.2	26.0
2014	391.7	25.8	5,933	24.2	74.9	26.4

Domestic Routes

The Group competes against its domestic competitors primarily on the basis of flight schedule, route network, quality of service, safety, type and age of aircraft and, to a lesser extent and until recently, price. The Group competes against other major Chinese airlines in its various domestic route markets. Of these competitors, the largest are two airlines owned or controlled by the Chinese government, and the remaining airlines are operated by or under the control of various Chinese provincial or municipal governments.

The following table sets forth the Group’s market share in terms of passengers carried, cargo and mail carried on departing flights and total departing flights at the ten busiest airports in China in 2014 according to passenger volume data from CAAC statistics briefing.

Airport	Passenger Carried (% of total)	Cargo and Mail Carried (% of total)	Departing Flight (% of total)
Beijing	16.9	11.7	17.0
Guangzhou	49.8	32.2	51.2
Shanghai Pudong	8.7	6.4	9.8
Shanghai Hongqiao	13.2	21.6	13.4
Chengdu	12.9	12.8	12.1
Shenzhen	27.7	15.5	25.6
Kunming	12.8	19.0	12.2
Chongqing	23.2	20.2	25.1
Xi’an	15.3	14.6	15.5
Hangzhou	28.0	19.8	28.6

The following table sets forth the Group’s market share in terms of passengers carried, cargo and mail carried on departing flights and total departing flights at eight busiest airports in southern and central China (excluding Guangzhou and Shenzhen, which are included in the table above) in 2014 according to passenger volume data from CAAC statistics briefing.

Airport	Passenger Carried (% of total)	Cargo and Mail Carried (% of total)	Departing Flight (% of total)
Changsha	34.9%	39.7%	36.6%
Wuhan	38.2%	37.2%	37.5%
Zhengzhou	37.1%	15.7%	36.5%
Sanya	25.6%	33.6%	26.3%
Haikou	26.0%	33.1%	24.8%
Nanning	31.8%	36.5%	31.1%
Guilin	29.4%	34.5%	30.6%
Zhuhai	44.4%	50.7%	30.9%

Regional Routes

In 2014, the Group conducted a total of 19.86 thousands flights on its regional routes, accounting for approximately 23.7% of all passengers carried by Chinese airlines on routes between Hong Kong, Macau or Taiwan and destinations in China. The Group faces less competition on regional routes than that on domestic and international, and earns higher operating margin. Air China, China Eastern Airlines, Air Macau, Dragon Air and Cathay Pacific Airways compete with the Group in the regional traffic markets.

International Routes

The Group competes with Air China, China Eastern Airlines and many well-established foreign airlines on its international routes. Most of these international competitors have significantly longer operating histories, substantially greater financial and technological resources and greater name recognition than the Group. In addition, the public’s perception of the safety and service records of Chinese airlines may adversely affect the Group’s ability to compete against its regional and international competitors. Many of the Group’s international competitors have larger sales networks and participate in reservation systems that are more comprehensive and convenient than those of the Group, or engage in promotional activities that may enhance their ability to attract international passengers.

In Southeast Asian routes, our competitors mainly include Thai Airways International, Singapore Airlines, Malaysian Airlines System, Air China and China Eastern Airlines. In European routes, our competitors mainly include Air China, China Eastern Airlines, Cathay Pacific Airways and Lufthansa German Airlines. In the United States routes, our competitors mainly include Air China, China Eastern Airlines, Cathay Pacific Airways and United Airlines. In Australian routes, our competitors include Air China, China Eastern Airlines, Cathay Pacific Airways and Qantas Airways. The Group competes in the international market primarily on the basis of safety, price, timeliness and convenience of scheduling.

Airline Subsidiaries

The Airline Subsidiaries are joint ventures established by the Company and local companies in the provinces or special economic zones where the Airline Subsidiaries are based and are engaged in providing airline and related services. As of December 31, 2014, the Company owns a 51% or 60% equity interest in each of the Airline Subsidiaries.

As of December 31, 2014, Xiamen Airlines operated under its own "MF" code with a fleet of 113 aircraft on 200 domestic routes, 22 international routes and 16 regional routes. In 2014, Xiamen Airlines carried a total of about 20.5 million passengers, or approximately 20.3% of the passengers carried by the Group in that year, and had RMB16,983 million in traffic revenue.

As of December 31, 2014, Shantou Airlines operated under the Group’s "CZ" code with a fleet of 14 aircraft. In 2014, under the centralized allocation of flight routes of the Group, Shantou Airlines carried a total of about 3.1 million passengers, or 3.1% of the passengers carried by the Group in that year. Total traffic revenue of Shantou Airlines for the year ended December 31, 2014 was RMB2,534 million.

As of December 31, 2014, Chongqing Airlines operated under the "OQ" code with a fleet of 11 aircraft. In 2014, under the centralized allocation of flight routes of the Group, Chongqing Airlines carried a total of about 2.5 million passengers, or 2.5% of the total number of passengers carried by the Group in that year. Total traffic revenue of Chongqing Airlines for the year ended December 31, 2014 was RMB1,862 million.

As of December 31, 2014, Zhuhai Airlines operated under the "CZ" code with a fleet of 9 aircraft. In 2014, under the centralized allocation of flight routes of the Group, Zhuhai Airlines carried a total of about 1.6 million passengers, or approximately 1.6% of the total number of passengers carried by the Group in that year. Total traffic revenue of Zhuhai Airlines for the year ended December 31, 2014 was RMB1,491 million.

As of December 31, 2014, Guizhou Airlines operated under the "CZ" code with a fleet of 16 aircraft. In 2014, under the centralized allocation of flight routes of the Group, Guizhou Airlines carried a total of about 2.6 million passengers, or approximately 2.6% of the total number of passengers carried by the Group in that year. Total traffic revenue of Guizhou Airlines was approximately RMB2,271 million for the year ended December 31, 2014.

Insurance

The CAAC maintains fleet and legal liability insurance on behalf of the Group and all other Chinese airlines with PICC Property and Casualty Company Limited, or PICCP&C, and China Pacific Property Insurance Company Ltd., under the PICCP&C master policy. The Group maintains aviation hull all risks, spares and airline liability insurance, aircraft hull all risks and spare engines deductible insurance, aviation hull war and allied perils policy of the type and in the amount customary in the Chinese aviation industry.

Under the relevant PRC laws, civil liability of Chinese airlines for death or injuries suffered by passengers on domestic flights is limited to RMB400,000 (approximately US\$65,370) per passenger. 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 the damage arose solely from the negligence or other wrongful act of a third party. The Group believes that it maintains adequate insurance coverage for the civil liability that can be imposed in respect of death or injuries to passengers under Chinese law, the Montreal Convention and any agreement which the Group is subject to.

The CAAC allocates insurance premiums payable in respect of the PICCP&C master policy to each participating airline based on the value of the airline’s insured aircraft or, in the case of leased aircraft, based on the amount required by the terms of the lease. Insurance claims made by any participating airline may cause the premiums paid by the Group under the PICCP&C master policy to increase. PICCP&C’s practice has been to reinsure a substantial portion of its aircraft insurance business through reinsurance brokers on the London reinsurance market.

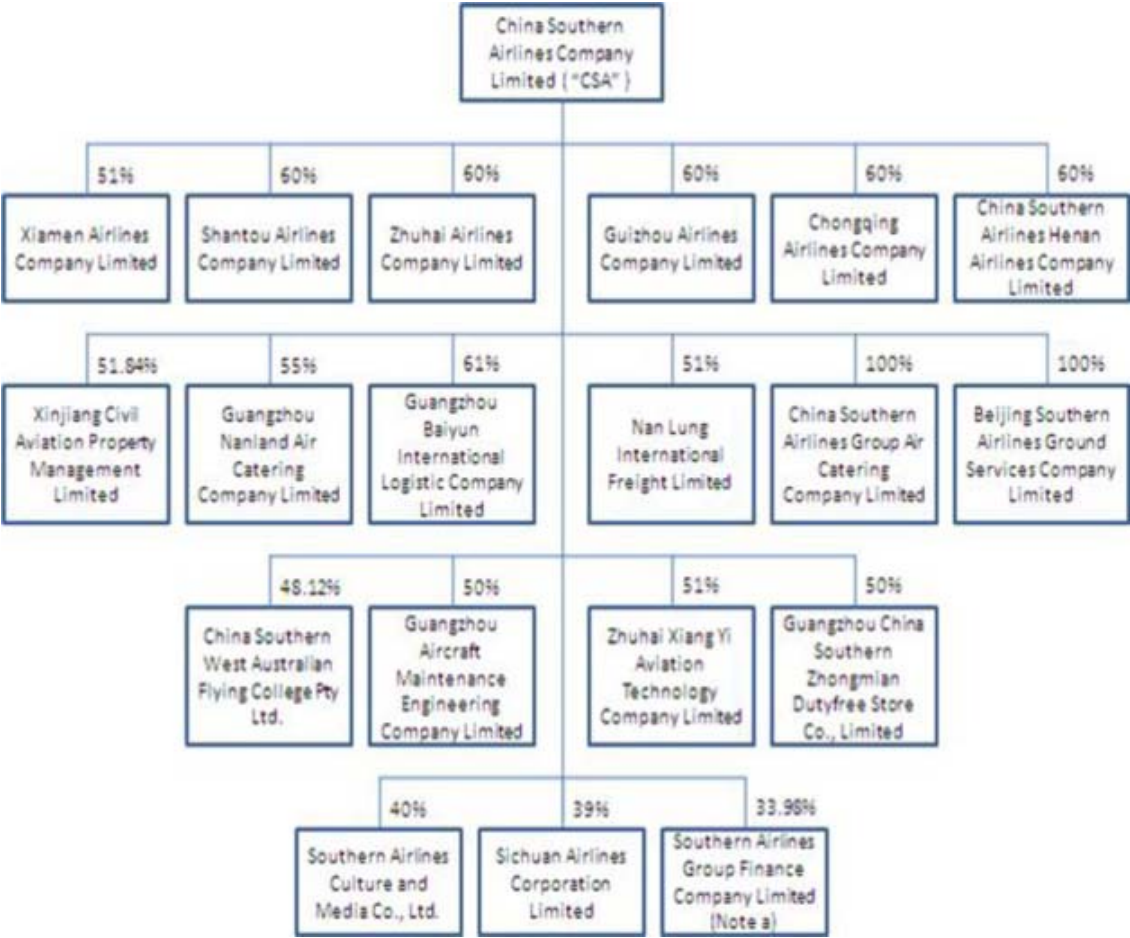
Intellectual Property

The Group’s businesses and operations, other than the businesses and operations of Xiamen Airlines and Chongqing Airlines, are conducted under the names "China Southern" and "China Southern Airlines" in both English and Chinese. The Group uses as its logo a stylized rendition of a kapok plant. Xiamen Airlines conducts its businesses and operations under the name of "Xiamen Airlines" in English and Chinese and uses its own logo depicting a stylized rendition of an egret. Chongqing Airlines conducts its business and operations under the name of "Chongqing Airlines" in English and Chinese and uses its own logo depicting a cross of two rivers.

We own various trademarks and trade names related to our business. The names "China Southern" and "China Southern Airlines" contain Chinese words of common usage and are therefore not eligible for registration as trade names under current Chinese law. The kapok logo is a trademark registered in China and recorded with the International Air Transport Association ("IATA"), the rights to which are owned by CSAHC. The Company and CSAHC have entered into a trademark license agreement (the "Trademark License Agreement"), pursuant to which CSAHC has licensed to the Group the right to use the names "China Southern" and "China Southern Airlines" in both English and Chinese and granted the Company a ten-year renewable license from 1997 to use the kapok logo on a world-wide basis. CSAHC has retained the right to use the kapok logo in connection with its non-airline related businesses conducted as of the date of the Trademark License Agreement and to permit its affiliates that do not compete, directly or indirectly, with the Group to use the kapok logo. Unless CSAHC gives a written notice of termination three months before the expiration of the agreement, the agreement will be automatically renewed for another ten-year term. In May of 2007, the Trademark License Agreement has been automatically renewed by the two parties for another ten-year term ending 2017. Xiamen Airlines owns all rights to its egret logo, which is a trademark registered in China, and recorded with the IATA. Chongqing Airlines also owns all rights to its logo, which is a trademark registered in China, and recorded with the IATA.

C. Organizational Structure

The following chart illustrates the corporate structure of the Group as of December 31, 2014 and the aggregate effective equity interest of the Company in each of its principal subsidiaries, associates and jointly controlled entities.



Note a: Including 12.89% ownership interest held by CSA's subsidiaries.

The particulars of the Group’s principal subsidiaries as of December 31, 2014 are as follows:

Name of Company	Place and Date of Establishment/Operation	Proportion of Ownership Interest Held by the Company
Shantou Airlines Company Limited	PRC July 20, 1993	60%
Zhuhai Airlines Company Limited	PRC May 8, 1995	60%
Xiamen Airlines Company Limited	PRC August 11, 1984	51%
Guizhou Airlines Company Limited	PRC November 12, 1991	60%
Chongqing Airlines Company Limited	PRC May 30, 2007	60%
Guangzhou Nanland Air Catering Company Limited	PRC November 21, 1989	55%
Guangzhou Baiyun International Logistic Company Limited	PRC July 23, 2002	61%
Xinjiang Civil Aviation Property Management Limited	PRC December 12, 2002	51.84%
China Southern Airlines Group Air Catering Company Limited	PRC December 25, 2003	100%
Nan Lung International Freight Limited	Hong Kong October 1, 1996	51%
Beijing Southern Airlines Ground Services Company Limited	PRC April 1, 2004	100%
China Southern Airlines Henan Airlines Company Limited	PRC September 28, 2013	60%

The particulars of the Group’s principal associates and jointly controlled entities as of December 31, 2014 are as follows:

Name of Company	Place and Date of Establishment/Operation	Proportion of Ownership Interest Held by		
		Group Effective Interest	The Company	Subsidiaries
Guangzhou Aircraft Maintenance Engineering Company Limited	PRC October 28, 1989	50%	50%	—
Southern Airlines Group Finance Company Limited	PRC June 28, 1995	33.98%	21.09%	12. 89%
Sichuan Airlines Corporation Limited	PRC August 28, 2002	39%	39%	—
Zhuhai Xiang Yi Aviation Technology Company Limited	PRC July 10, 2002	51%	51%	—
Southern Airlines Culture and Media Co., Ltd.	PRC May 13, 2004	40%	40%	—
China Southern West Australian Flying College Pty Ltd.	Australia October 1,1993	48.12%	48.12%	—
Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited	PRC March 1, 2001	50%	50%	—

D. Property, Plant and Equipment

For a discussion of the Group’s aircraft, see Item 4 "Information on the Company — History and development of the Company — Aircraft Acquisitions."

The Company’s headquarters in Guangzhou occupy an area of approximately 1,172,531 square meters of land and a total gross floor area of approximately 691,355 square meters. The Company leases from CSAHC the land in Guangzhou on which the Company’s headquarters and other facilities are located. The Company also leases from CSAHC certain buildings mainly at the Haikou, Wuhan, Nanyang, Shenyang, Dalian, Jilin, Harbin, Xinjiang and other PRC cities.

The Company’s principal properties are located at its headquarters site and at its route bases. The following table sets forth certain information with respect to the Company’s properties at its headquarters in Guangzhou and certain route bases as of the date hereof.

	Land (in square meters)		Building (in square meters)	
	Owned	Leased	Owned	Leased
Guangzhou	1,172,531	88,929	691,355	47,540
Shenzhen	256,280	—	101,502	—
Zhuhai	179,415	30,000	61,973	3,047
Changsha	302,794	11,386	97,100	8,860
Zhengzhou	449,290	—	73,391	9,270
Haikou	332,961	12,497	65,231	1,288
Wuhan	16,712	47,882	36,429	37,491
Nanyang	—	—	12,156	60,035
Sanya	106,680	—	38,513	5,421
Shenyang	142,199	39,582	130,303	64,804
Dalian	—	158,240	36,188	32,862
Jilin	134,488	65,076	78,536	7,767
Harbin	5,381	267,872	40,599	33,871
Xinjiang	2,143	631,094	137,932	3,396
Guangxi	108,133	—	61,093	2,892
Beijing	85,453	—	49,314	19,790
Shanghai	42,292	—	35,512	7,253
Chengdu	—	—	1,964	209
Sydney	—	—	1,151	2,449

The following table sets forth certain information with respect to the properties of the Airline Subsidiaries as of the date hereof.

	Land (in square meters)		Building (in square meters)	
	Owned	Leased	Owned	Leased
Xiamen Airlines	1,534,087	—	723,851	51,290
Shantou Airlines	260,639	53,000	73,499	2,407
Zhuhai Airlines	99,306	—	52,793	2,954
Guizhou Airlines	259,879	—	20,783	4,884
Chongqing Airlines	82,449	—	8,943	3,660

As systems for registration and transfer of land use rights and related real property interests in China have been implemented relatively recently, such systems do not yet comprehensively account for all land and related property interests. The land in Guangzhou on which the Company’s headquarters and other facilities are located and the buildings that the Company uses at its route bases in Wuhan and Haikou are leased by the Company from CSAHC. However, CSAHC lacks adequate documentation evidencing CSAHC’s rights to such land and buildings, and, as a consequence, the lease agreements between CSAHC and the Company for such land may not be registered with the relevant authorities. Lack of registration may affect the validity of such lease agreements. There are certain other parcels of land and buildings owned or used by the Group that lack adequate documentation. Lack of adequate documentation for land use rights and ownership of buildings may impair the ability of the Group to dispose of or mortgage such land use rights and buildings. As of April 17, 2015, the Group was in the process of applying for the land use right certificates and property title certificates in respect of the properties located in Guangzhou (including Guangzhou Baiyun International Airport), Xiamen, Heilongjiang, Jilin, Dalian, Nanning, Hunan, Beijing, Shanghai, Sanya, Zhuhai, Shenzhen, Shenyang, Xinjiang, Henan, Chengdu and Shantou in which the Group has interests and for which such certificates have not been granted. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant land use right certificates and property title certificates.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the Financial Statements of the Group contained elsewhere in this Annual Report. The Group maintains its books and accounts in accordance with the Accounting Standards for Business Enterprises-Basic Standard and 38 Specific Standards, application guidance, bulletins and other relevant accounting regulations (collectively "PRC GAAP") and prepares its financial statements in accordance with both PRC GAAP and IFRSs. The Financial Statements contained elsewhere in this Annual Report have been prepared in accordance with IFRSs.

The discussion and analysis of the Group’s financial position and results of operations are based on the consolidated financial statements, which have been prepared in accordance with IFRSs.

Critical Accounting Policies

The preparation of the consolidated financial statements requires the Group to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Our principal accounting policies are set forth in Note 2 to the consolidated financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Impairment of account receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Impairment for Long-lived Assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in accordance with IAS36, Impairment of Assets. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of traffic revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of traffic revenue and amount of operating costs.

Depreciation

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 Group reviews the estimated useful lives of assets annually in order to determine the amount of depreciation expense to be recorded during any financial year. The useful lives are based on the Group’s historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Provision for Major Overhauls

Provision for the cost of major overhauls to fulfil certain return condition for airframes and engines under operating leases is accrued and charged to the income statement over the estimated overhaul period. This requires estimation of the expected overhaul cycle and overhaul cost, which are based on the historical experience of actual cost incurred for overhauls of airframes and engines of the same or similar types. Different estimates could significantly affect the estimated provision and the results of operations.

Frequent Flyer Revenue

The amount of revenue attributable to the mileages earned by the members of the Group’s frequent flyer award programmes is estimated based on the fair value of the mileages awarded and the expected redemption rate. The fair value of the mileages awarded is estimated by reference to external sales. The expected redemption rate was estimated based on historical experience, anticipated redemption pattern and the frequent flyer programme design.

Provision for consumable spare parts and maintenance materials

Provision for consumable spare parts and maintenance materials is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and Company’s future operation plan for the consumable spare parts and maintenance materials. The net realisable value may be adjusted significantly due to the change of market condition and the future plan for the consumable spare parts and maintenance materials.

Income tax

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

Retirement benefits

According to IAS 19, an entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices where the entity has no realistic alternative but to pay the employee benefits. The Company believes the payments to those retirees who retired before the establishment of Pension scheme (as defined in Note 49 (a)) are discretionary and have not created a legal or constructive obligation. Such payments are made according to the Group’s business performance, and can be suspended at any time (Note 14).

Recently Pronounced International Financial Reporting Standards

Information relating to the recently pronounced IFRSs is presented in Note 2 to the consolidated financial statements.

Overview

During the reporting period, a series of challenges existed including complex and volatile international economic environment, China’s economic slowdown, the global aviation accidents, more intense competition in domestic civil aviation industry, the impact of high-speed rail, foreign exchange losses. Faced with the difficult operating environment, the Company adhered to its stable development philosophy, strengthened safety management system, enhanced the management level of refined marketing, and steadily promoted strategic transformation and internationalization, actively enhanced brand service impact, which had effectively resolved adverse factors including complex and volatile market, shortage of development resources, competitive pressures. The Company’s overall competitiveness continued to grow.

Operational Safety and Fleet Development

During the reporting period, the Group further refined safety measures against accident prevention, established an air traffic control real-time monitoring and coordination mechanism, and carried out route optimization. Operational control level was significantly improved. The Group continued to maintain the best safety record among Chinese airlines. In 2014, we completed 2.02 million hours of flight transportation, accumulated 13.52 million safe flight hours, 12,486 hours of general aviation service, continuously maintained 182 consecutive months of aviation safety and 246 consecutive months of aviation security.

During the reporting period, the Group continued to optimize the fleet structure. 64 aircraft were introduced, 17 old aircraft were sold and 7 leased aircraft were returned. In August 2014, the Group became the first among Chinese airlines with a fleet of over 600 aircraft, ranked fifth in the world, first in Asia, creating a new historical starting point.

Hub Network and Services

During the reporting period, the Group actively expanded route network to further improve global route layout. We launched intercontinental routes including Guangzhou – New York, Guangzhou – Changsha – Frankfurt, Guangzhou – Wuhan – Moscow, Guangzhou – Wuhan – San Francisco, and increased frequency of flight to Europe, America, Australia and New Zealand, and Southeast Asia. Domestic capacity was also optimized. A pattern with domestic and international mutual complement and mutually supportive hub bases were initially formed.

During the reporting period, the Group continued to improve hub construction and hub operation service, which further highlighted the results of the strategic transformation. By the end of 2014, Hub Control Center (HCC) of Guangzhou and Urumqi commenced operation, respectively. Capacity concentration of the four largest hubs, i.e., Guangzhou, Beijing, Urumqi and Chongqing reached 67.9%. Passengers transit on-time rate increased two percentage points to 97.8%. Transit ratio of passengers of major international routes exceeded 55%. International transit passengers increased by 7.3% as compared with last year.

During the reporting period, the Group increased investment both in hardware and software, continued to create and improve our product and service, so as to constantly improve passenger experience. We launched a series of personalized services and products, such as the launch of “Mu Mian Tong Fei” for unaccompanied children, and “Health and Love” series of health travel products for Los Angeles routes; upgraded pearl economy class service with exclusive Samsung PAD, special tableware and various cuisines; further improved meal service and launched Auckland chef cooperation projects, to enhance the meal quality of international long-haul routes; continuously upgraded in-flight entertainment equipment, and updated 10-12 Hollywood movies each month.

Passenger Business

During the reporting period, the Group actively responded to market changes and focused on matching capacity and revenue, in order to further enhance its level of operations. In 2014, the total number of passengers reached 101 million, representing an increase of 9.9% as compared with last year, which was the first airlines in China.

We further strengthened market forecast, refined procedural management, explored regional management, and implemented differentiated marketing strategy to enhance the matching between capacity and market. During the reporting period, network & revenue department and E-commerce department were established. Channel control model was gradually improved, as new marketing tools were familiarized. The company’s direct sale revenue from website increased 2.2% as compared with last year. The total number in fans of social media has reached 6.28 million, ahead of our domestic competitors.

We continued to improve marketing services and strengthened frequent flyer marketing to enhance quality management of the major account. In 2014, our revenue from frequent flyer was RMB28.54 billion, representing an increase of 5.8% as compared with last year. Call center platform achieved sales revenue of RMB5.83 billion, representing an increase of 4.1% as compared with last year, with the satisfaction rate reached 97.74%. We obtained three significant awards, including “Best Call Center Award 2013-2014”, “China’s Best Call Center Service Marketing Team 2013-2014” and “China’s Call Center Best Solution Award 2013-2014”.

We continued to optimize the structure of international passengers and enhance the international sales ability. In 2014, the load factor of first class and business class of the international routes improved 6.6 percentage points as compared with last year, revenue grew 25.3% as compared with last year, TMC (travel management companies) international sales grew 16.5%, of which high yield revenue grew 12.9%, accounted for 45.5% of the total revenue.

Freight Business

During the reporting period, domestic demand for logistics continued to increase due to rapid development of E-commerce. The international freight market also appeared to pick up. The Group seized the opportunities, improved cost efficiency, strived to improve management level of freight business, and was awarded the “China Logistics Industry Brand Value Top 100 2014” and the “China’s Top Ten Logistics Enterprises 2014.”

We actively promoted the E-freight project, endeavored to promote the “China Southern Express” products, enhanced operational efficiency, and improved management quality. At present, the domestic application of electronic waybill of the Company ranks second in the global aviation industry. Annual sales revenue of “China Southern Express” products was RMB210 million, representing an increase of 65% as compared with last year.

We strengthened cooperation with courier and E-commerce corporate headquarters, caught the cross-border E-commerce opportunities, actively expanded the transport of international mail and parcel. Annual volume of cooperation with SF Express amounted to 81,000 tonnes, representing an increase of 15.5% as compared with last year; international mail traffic revenue grew 99% and 97%, respectively, representing an increase of RMB160 million as compared with last year. We also further promoted cooperation with major account. Number of international headquarter partners reached 11, with the revenue of RMB1.3 billion, representing an increase of 19% as compared with last year.

General Aviation

During the reporting period, the Group completed 98,165 general aviation person-time passengers of transportation, representing an increase of 9.7% as compared with last year; achieved general aviation revenue of RMB576 million, representing an increase of 19% as compared with last year; and achieved 10 consecutive years of making profit.

During the reporting period, we actively explored cooperation and research for general aviation projects, including Guangzhou – Macau unscheduled charter flights, ranger service in the northeast, Lijiang helicopter air tour, Heyuan, Huizhou power line patrol, and also launched the research of general aviation training business in Nanyang, Henan, travel medical and rescue services and other feasible cooperative projects.

In November 2014, in order to consolidate our traditional strengths in maritime logistics services, and take advantage of favorable market opportunity to actively develop other navigation services, and cultivate new business growth chances for the company, the Board approved the restructuring of Zhuhai Helicopter Branch and established a wholly-owned subsidiary named Southern Airlines General Aviation Company Limited to promote the development of the Company’s general aviation operations and enhance its competitiveness in general aviation market.

Strategic Cooperation and Staff Development

During the reporting period, the Group further strengthened cooperation with different parties to consolidate development foundation. We entered into strategic cooperation agreements with CITIC Group, the city of Los Angeles and the Oakland Airport, continued to deepen cooperation with airline companies within or outside the Skyteam Alliance, made use of opportunities including domestic and international forums, sports and cultural events, to effectively promote the brand of “China Southern”. By the end of 2014, through code sharing with Qantas and Czech Airlines, we shared codes with 18 domestic and international airlines for 379 routes, increased 109 international destinations. Through the close cooperation with partners such as Sydney Festival, Melbourne Festival and Melbourne Football Club, our influence and reputation in the Australian market was effectively raised. By increasing cooperation with foreign rail transport companies, new products, interline service products were constantly launched.

During the reporting period, the Group focused on staff development and innovated staff training. By optimizing our training system, implementing key projects and strengthening process management, etc., we focused on strengthening the Company’s business personnel, management personnel and international personnel training, to ensure that staff will grow with the Company. In 2014, the Company carried out a variety of 7,529 training programmes, trained 290,000 person-times, including training frontline operational staff of approximately 230,000 person-times, achieving about 86% training coverage. The Company also developed staff online learning platform applications, including 159 online courses and 1,160 micro courses, to facilitate self-enhancement of staff anytime and anywhere.

During the reporting period, the Group further enhanced internationalization brought by staff, promoted exchanges between domestic and foreign employees. The Company currently has 90 pilots from 19 countries and 203 cabin crew from six different nationalities including Japanese, Korean, French, Dutch, Australian and Malay. Hiring foreign crew on one hand gives full play to their home friendly service, on the other hand promotes cultural understanding as well as dining habits and society features through cooperation between domestic and foreign staff, so they can better serve our international customers.

Nevertheless, the development of the airlines industry meets with a number of challenges, such as more factors making the recovery of global economy unstable and uncertain, faster growth in the total traffic capacity of the industry, impact of substitutive services such as high-speed railway, as well as sharp fluctuation in oil price.

Because the Group finances its aircraft acquisitions mainly through capital leases or bank loans in U.S. dollars, and there are a substantial amount of transactions and obligations denominated in U.S. dollars in relation to its global purchases of jet fuel, lease and purchase of aviation equipment as well as major repairs, in addition to the landing fees of its international flights in the airports of other countries, the Group benefited from the Renminbi appreciation. Renminbi appreciation has brought exchange gain to the Group and reduced its operating costs which are denominated in foreign currencies. However, Renminbi appreciation also presents the Group with a challenge in price competition in international route operations.

The Group’s 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 the Group’s 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. In particular, the Group’s airline revenue is generally higher in the second and third quarters than in the first and fourth quarters.

Like most airlines, the Group is subject to a high degree of financial and operating leverage. A significant percentage of the Group’s operating expenses are fixed costs that do not vary proportionally based on the Group’s yields or the load factors. These fixed costs include depreciation expense, jet fuel costs, landing and navigation fees, financing costs, operating lease payments, aircraft maintenance costs and labor for flight crew, cabin crew and ground personnel. Thus, a minor change in the Group’s yields or load factors would have a material effect on the Group’s results of operations. In addition, certain of these expenses, primarily financing costs and operating lease payments, labor costs and depreciation do not vary based on the number of flights flown. Thus, the Group’s operating results can also be substantially affected by minor changes in aircraft utilization rates. The Group is and will continue to be highly leveraged with substantial obligations denominated in foreign currencies and, accordingly, the results of its operations are significantly affected by fluctuations in foreign exchange rates, particularly for the U.S. dollar. Net exchange gains of RMB2,903 million was recorded in 2013 mainly due to Renminbi appreciated significantly against U.S. dollar in 2013. Our net exchange losses of RMB292 million was recorded in 2014 as Reminbi depreciated slightly against U.S. dollar in 2014.

A number of other external variables, including political and economic conditions in China, tend to have a major impact on the Group’s performance. The Group’s financial performance is also significantly affected by factors arising from operating in a regulated industry. As substantially all aspects of the Group’s airline operations are regulated by the PRC government, the Group’s operating revenues and expenses are directly affected by the PRC government’s policies with respect to domestic air fares, jet fuel prices and landing and navigation fees, among others. The nature and extent of airline competition and the ability of Chinese airlines to expand are also affected by CAAC’s control over route allocations. Any changes in the PRC government’s regulatory policies or any implementation of such policies could have a significant impact on the Group’s future operations and its ability to implement its operating strategy.

In late 2014 and early 2015, we learned that certain former executives were and remain the subject of investigation by PRC authorities. See "Risk Factors - We have experienced incidents of employee personal misconduct in the past, and may be unable to prevent similar incidents in the future, which could adversely impact our reputation and our business". Upon learning of this information, we took a number of steps to determine the appropriate response, and learn whether the alleged personal misconduct of these former executives had impacted the Company’s financial condition or results of operations or internal control over financial reporting. These steps included efforts to seek clarification from the investigating authorities regarding the alleged personal misconduct of the former executives and performance of a detailed review of those areas which may be impacted. Additionally, our Audit Committee retained outside counsel, a major international law firm, and independent forensic accountants from an accounting firm unrelated to our external auditors, to gain an understanding of whether the alleged personal misconduct of the former executives had any impact on the Company’s financial condition, results of operations or internal control over financial reporting.

As of the date of this Annual Report, our management has completed its review and the Audit Committee has completed its investigation and analysis of the information provided by the external experts it retained and has reported to the Board of Directors regarding its findings. Based on our careful evaluation of the results of such work performed and the investigative findings, we do not believe that the alleged personal misconduct of the former executives had a material impact on our financial condition, results of operations or our internal control over financial reporting.

In response to learning of the alleged personal misconduct of the former executives, the Group has decided to enhance further its corporate governance and processes control environment in an effort to reduce, to the maximum extent possible, the chance that personal misconduct of this type of event might recur in future periods with other of our employees or management. We are currently working to determine the procedures and policies that we will implement to accomplish this goal. We expect that our enhanced measures to include additional training programs tailored to our employees' area of responsibilities. While we know that we can never completely eliminate the possibility that an employee or manager will engage in inappropriate or illegal personal misconduct, we believe our policies and procedures will minimize the chance of that happening.

Certain Financial Information and Operating Data by Geographic Region

The following table sets forth certain financial information and operating data by geographic region for the years ended December 31, 2014, 2013 and 2012:

Traffic	Year ended December 31,			2014 vs. 2013	2013 vs. 2012
	2014	2013	2012	% increase (decrease)	% increase (decrease)
RPK (million)					
Domestic	127,681.88	116,105.71	107,278.56	9.97	8.2
Regional	3,214.52	2,574.27	2,536.91	24.87	1.5
International	35,732.78	29,736.57	25,719.26	20.16	15.6
Total	166,629.18	148,416.55	135,534.73	12.27	9.5
RTK (million)					
Domestic	12,916.60	11,765.27	10,924.30	9.79	7.7
Regional	300.65	241.05	242.43	24.73	(0.6)
International	6,562.71	5,462.27	4,993.39	20.15	9.4
Total	19,779.96	17,468.59	16,160.12	13.23	8.1
Passengers carried (thousand)					
Domestic	89,363.18	82,172.28	77,634.23	8.75	5.9
Regional	2,385.37	2,019.28	1,928.54	18.13	4.7
International	9,170.47	7,599.41	6,922.22	20.67	9.8
Total	100,919.02	91,790.97	86,484.99	9.94	6.1
Cargo and mail carried (thousand tons)					
Domestic	1,014.90	923.73	890.38	9.87	3.8
Regional	16.40	13.70	15.66	19.71	(12.5)
International	401.95	338.92	325.82	18.60	4.0
Total	1,433.25	1,276.35	1,231.86	12.29	3.6

Capacity	Year ended December 31,			2014 vs. 2013	2013 vs. 2012
	2014	2013	2012	%increase (decrease)	%increase (decrease)
ASK (million)					
Domestic	160,482.40	144,732.62	131,821.86	10.88	9.8
Regional	4,379.07	3,594.29	3,464.29	21.83	3.8
International	44,945.99	38,472.93	34,282.98	16.82	12.2
Total	209,807.46	186,799.84	169,569.13	12.32	10.2
ATK (million)					
Domestic	18,640.00	16,486.17	15,069.70	13.06	9.4
Regional	497.79	407.59	396.74	22.13	2.7
International	9,315.94	8,058.23	7,598.25	15.61	6.1
Total	28,453.73	24,951.99	23,064.69	14.03	8.2
Load Factors					
Passenger load factor (RPK/ASK) (%)					
Domestic	79.6	80.2	81.4	(0.8)	(1.4)
Regional	73.4	71.6	73.2	2.5	(2.2)
International	79.5	77.3	75.0	2.9	3.0
Overall	79.4	79.4	79.9	(0.1)	(0.6)
Overall load factor (RTK/ATK) (%)					
Domestic	69.3	71.4	72.5	(2.9)	(1.6)
Regional	60.4	59.1	61.1	2.1	(3.2)
International	70.4	67.8	65.7	3.9	3.1
Overall	69.5	70.0	70.1	(0.7)	(0.1)
Yield					
Yield per RPK (RMB)					
Domestic	0.60	0.61	0.69	(1.6)	(11.6)
Regional	0.78	0.84	0.84	(7.1)	-
International	0.50	0.50	0.53	-	(5.7)
Overall	0.58	0.59	0.66	(1.7)	(10.6)
Yield per RTK (RMB)					
Domestic	6.10	6.24	6.96	(2.2)	(10.3)
Regional	8.64	9.33	9.20	(7.4)	1.4
International	3.50	3.49	3.57	0.3	(2.2)
Overall	5.27	5.42	5.95	(2.8)	(8.9)
Financial					
Passenger revenue (RMB million)					
Domestic	76,647	71,277	73,845	7.5	(3.5)
Regional	2,497	2,162	2,133	15.5	1.4
International	18,001	14,832	13,566	21.4	9.3
Total	97,145	88,271	89,544	10.1	(1.4)
Cargo and mail revenue (RMB million)	7,183	6,413	6,556	12.0	(2.2)

A. Operating Results

The historical results of operations discussed below may not be indicative of the Group’s future operating performance. In addition to the factors discussed under "Overview" above, the Group’s future operations will be affected by, among other things, changes in the aviation market, the cost of jet fuel, aircraft acquisition and leasing costs, aircraft maintenance expenses, take-off and landing charges, wages, salaries and benefits and other operating expenses, foreign exchange rates and the rates of income taxes paid.

2014 Compared With 2013

The profit attributable to equity shareholders of the Company of RMB1,777 million was recorded in 2014 as compared to the profit attributable to equity shareholders of the Company of RMB1,986 million in 2013. The Group’s operating revenue increased by RMB10,037 million or 10.2% from RMB98,547 million in 2013 to RMB108,584 million in 2014. Passenger load factor was 79.4% in 2014 which was stable compared to 79.4% in 2013. Passenger yield (in passenger revenue per RPK) decreased by 1.7% from RMB0.59 in 2013 to RMB0.58 in 2014. Average yield (in traffic revenue per RTK) decreased by 2.8% from RMB5.42 in 2013 to RMB5.27 in 2014. Operating expenses increased by RMB7,746 million or 7.9% from RMB98,280 million in 2013 to RMB 106,026 million in 2014. Operating profit of RMB4,748 million was recorded in 2014 as compared to operating profit of RMB1,510 million in 2013, increased by RMB3,238 million.

Operating Revenue

	2014		2013		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenues	104,328	96.1	94,684	96.1	10.2
Including: Passenger revenues	97,145		88,271		10.1
– Domestic	76,647		71,277		7.5
– Hong Kong, Macau and Taiwan	2,497		2,162		15.5
– International	18,001		14,832		21.4
Cargo and mail revenues	7,183		6,413		12.0
Other operating revenues	4,256	3.9	3,863	3.9	10.2
Mainly including: Commission income	1,335		1,040		28.4
Ground services income	293		349		(16.1)
Expired sales in advance of carriage	459		684		(32.9)
General aviation income	576		484		19.0
Hotel and tour operation income	508		565		(10.1)
Total operating revenues	108,584	100.0	98,547	100.0	10.2
Less: fuel surcharge income	(13,746)		(13,062)		
Total operating revenue excluding fuel surcharge	94,838		85,485		

Traffic revenue composition

	2014		2013		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger Revenues	97,145	93.1	88,271	93.2	10.1
Cargo and Mail Revenues	7,183	6.9	6,413	6.8	12.0
Traffic revenues	104,328	100.0	94,684	100.0	10.2

Passenger revenue composition

	2014		2013		Change in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	76,647	78.9	71,277	80.8	7.5
Hong Kong, Macao and Taiwan	2,497	2.6	2,162	2.4	15.5
International	18,001	18.5	14,832	16.8	21.4
Passenger revenue	97,145	100.0	88,271	100.0	10.1

Substantially all of the Group’s operating revenue is attributable to airline and airline-related operations. Traffic revenue accounted for 96.1% and 96.1% of total operating revenue in 2014 and 2013 respectively. Passenger revenue and cargo and mail revenue accounted for 93.1% and 6.9% respectively of the total traffic revenue in 2014. During the reporting period, the Group’s total traffic revenues was RMB104.328 million, representing an increase of RMB 9,644 million or 10.2% from prior year, mainly due to the increase of RPK by 12.27% which leads to the increase of passenger revenues. The other operating revenue is mainly derived from commission income, expired sales in advance of carriage hotel and tour operation income, general aviation income and ground services income.

The increase in operating revenue was primarily due to a 10.1% increase in passenger revenue from RMB88,271 million in 2013 to RMB97,145million in 2014. The total number of passengers carried increased by 9.9% to 101 million passengers in 2014. RPKs increased by 12.3% from 148,417 million in 2013 to 166,629 million in 2014, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK decreased from RMB0.59 in 2013 to RMB 0.58 in 2014, which is mainly due to a slightly fell of domestic passenger ticket prices.

Domestic passenger revenue, which accounted for 78.9% of the total passenger revenue in 2014, increased by 7.5% from RMB 71,277 million in 2013 to RMB 76,647 million in 2014. Domestic passenger traffic in RPKs increased by 10.0%, while passenger capacity in ASKs increased by 10.9%, resulting in a decrease in passenger load factor by 0.6 percentage points from 80.2% in 2013 to 79.6% in 2014. Domestic passenger yield per RPK decreased from RMB0.61 in 2013 to RMB0.60 in 2014.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 2.6% of total passenger revenue, increased by 15.5% from RMB2,162 million in 2013 to RMB 2,497 million in 2014. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs increased by 24.9%, while passenger capacity in ASKs increased by 21.8 %, resulting in an increase in passenger load factor by 1.8 percentage points from 71.6% in 2013 to 73.4% in 2014. Passenger yield per RPK decreased from RMB0.84 in 2013 to RMB0.78 in 2014.

International passenger revenue, which accounted for 18.5% of total passenger revenue, increased by 21.4% from RMB14,832 million in 2013 to RMB18,001 million in 2014. For international flights, passenger traffic in RPKs increased by 20.2 %, while passenger capacity in ASKs increased by 16.8%, resulting in a 2.2 percentage points increase in passenger load factor from 77.3% in 2013 to 79.5% in 2014. Passenger yield per RPK remained at RMB0.50 in 2013 and 2014.

Cargo and mail revenue, which accounted for 6.9% of the Group’s total traffic revenue and 6.6% of total operating revenue, increased by 12.0% from RMB6,413 million in 2013 to RMB7,183 million in 2014. The increase was attributable to the increase of cargo and mail in RTKs by 16.8% as the demand in the cargo market was warming up.

Other operating revenue increased by 10.2% from RMB3,863 million in 2013 to RMB4,256 million in 2014. The increase was primarily due to the general growth in income from commission and general aviation.

Operating Expenses

Total operating expenses in 2014 amounted to RMB106,026 million, representing an increase of RMB7,746 million or 7.9% over 2013, primarily due to the total effect of increases in jet fuel cost, payroll, landing and navigation fees, and depreciation and amortisation. Total operating expenses as a percentage of total operating revenue was 97.6 % in 2014 and 99.7% in 2013.

2014			2013		Change in operating expenses %
	Operating expense RMB million	Percentage %	Operating expense RMB million	Percentage %	
Flight operations	58,901	55.6	54,010	55.0	9.1
Mainly including:					
Jet fuel costs	37,728		35,538		6.2
Aircraft operating lease charges	5,383		4,767		12.9
Flight personnel payroll and welfare	6,803		5,799		17.3
Maintenance	8,304	7.8	7,805	7.9	6.4
Aircraft and traffic servicing expenses	16,402	15.5	15,091	15.4	8.7
Promotion and selling expenses	7,841	7.4	7,754	7.9	1.1
General and administrative expenses	2,337	2.2	2,470	2.5	(5.4)
Depreciation and amortization	10,828	10.2	9,347	9.5	15.8
Impairment on property, plant and equipment	215	0.2	536	0.5	(59.9)
Others	1,198	1.1	1,267	1.3	(5.4)
Total operating expenses	106,026	100.0	98,280	100.0	7.9

Flight operations expenses, which accounted for 55.6% of total operating expenses, increased by 9.1% from RMB54,010 million in 2013 to RMB58,901 million in 2014, primarily as a result of increase in RTK due to the increase of capacity. Jet fuel costs, which accounted for 64.1% of flight operations expenses in 2014, increased by 6.2% from to RMB35,538 million in 2013 to RMB37,728 million in 2014.

Maintenance expenses, which accounted for 7.8% of total operating expenses, increased by 6.4% from RMB7,805 million in 2013 to RMB8,304 million in 2014. The increase was mainly due to the expansion of the fleet by increasing 53 aircraft.

Aircraft and traffic servicing expenses, which accounted for 15.5% of total operating expenses, increase by 8.7% from RMB15,091 million in 2013 to RMB16,402 million in 2014. The increase was primarily due to a 10.4% rise in landing and navigation fees from RMB9,510 million in 2013 to RMB10,496 million in 2014, resulted from the increase in number of flights due to the increase of capacity.

Promotion and selling expenses, which accounted for 7.4% of total operating expenses, increased by 1.1% from RMB7,754 million in 2013 to RMB7,841million in 2014.

General and administrative expenses, which accounted for 2.2% of the total operating expenses, decreased by 5.4% from RMB2,470 million in 2013 to RMB2,337million in 2014.

Depreciation and amortization, which accounted for 10.2% of total operating expenses, increased by 15.8% from RMB9,347 million in 2013 to RMB10,828million in 2014, mainly due to the increase of 53 aircraft and flight equipment.

Operating Profit

Operating profit of RMB4,748 million and RMB1,510 was recorded in 2014 and 2013 respectively. The increase in profit was mainly due to the net effect of increase in operating revenue by RMB10,037 million or 10.2% in 2014 and increase in operating expenses by RMB7,746million or 7.9%.

Other Income or Expenses

Other net income increased by RMB947million from RMB1,243 million in 2013 to RMB2,190 million in 2014, mainly due to the increase of government grants and gain on disposal of aircrafts.

Interest expense increased by RMB542 million from RMB1,651 million in 2013 to RMB2,193 million in 2014 was mainly due to the increase in number of aircraft held through a finance lease and the increase of interest payment of borrowings.

Net exchange losses of RMB292 million was recorded in 2014 as RMB depreciated slightly against US dollar in 2014. Net exchange gains of RMB2,903 million was recorded in 2013 mainly due to RMB appreciated significantly against US dollar in 2013.

Income Tax

Income tax expense of RMB668 million was recorded in 2014, decreased by RMB66 million from RMB734 million in 2013, mainly due to the decrease of profit before income tax.

2013 Compared With 2012

The profit attributable to equity shareholders of the Company of RMB1,986 million was recorded in 2013 as compared to the profit attributable to equity shareholders of the Company of RMB2,619 million in 2012. The Group’s operating revenue decreased by RMB967 million or 1.0% from RMB99,514 million in 2012 to RMB98,547 million in 2013. Passenger load factor decreased by 0.5 percentage points from 79.9% in 2012 to 79.4% in 2013. Passenger yield (in passenger revenue per RPK) decreased by 10.6% from RMB0.66 in 2012 to RMB0.59 in 2013. Average yield (in traffic revenue per RTK) decreased by 8.9% from RMB5.95 in 2012 to RMB5.42 in 2013. Operating expenses increased by RMB2,403 million or 2.5% from RMB95,877 million in 2012 to RMB98,280 million in 2013. Operating profit of RMB1,510 million was recorded in 2013 as compared to operating profit of RMB5,099 million in 2012, decreased by RMB3,589 million.

Operating Revenue

	2013		2012		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenues	94,684	96.1	96,100	96.6	(1.5)
Including: Passenger revenues	88,271		89,544		(1.4)
– Domestic	71,277		73,845		(3.5)
– Hong Kong, Macau and Taiwan	2,162		2,133		1.4
– International	14,832		13,566		9.3
Cargo and mail revenues	6,413		6,556		(2.2)
Other operating revenues	3,863	3.9	3,414	3.4	13.2
Mainly including: Commission income	1,040		757		37.4
Ground services income	349		350		(0.3)
Expired sales in advance of carriage	684		495		38.2
General aviation income	484		445		8.8
Hotel and tour operation income	565		647		(12.7)
Total operating revenues	98,547	100.0	99,514	100.0	(1.0)
Less: fuel surcharge income	(13,062)		(13,378)		
Total operating revenue excluding fuel surcharge	85,485		86,136		

Traffic revenue composition

	2013		2012		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger Revenues	88,271	93.2	89,544	93.2	(1.4)
Cargo and Mail Revenues	6,413	6.8	6,556	6.8	(2.2)
Traffic revenues	94,684	100.0	96,100	100.0	(1.5)

Passenger revenue composition

	2013		2012		Change in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	71,277	80.8	73,845	82.5	(3.5)
Hong Kong, Macao and Taiwan	2,162	2.4	2,133	2.4	1.4
International	14,832	16.8	13,566	15.1	9.3
Passenger revenue	88,271	100.0	89,544	100.0	(1.4)

Substantially all of the Group’s operating revenue is attributable to airline and airline-related operations. Traffic revenue accounted for 96.1% and 96.6% of total operating revenue in 2013 and 2012 respectively. Passenger revenue and cargo and mail revenue accounted for 93.2% and 6.8% respectively of the total traffic revenue in 2013. During the reporting period, the Group’s total traffic revenues was RMB94,684 million, representing a decrease of RMB1,416 million or 1.5% from prior year, mainly due to the VAT reform which leads to the decrease of domestic revenues of RMB4,798 million. The other operating revenue is mainly derived from commission income, expired sales in advance of carriage hotel and tour operation income, general aviation income and ground services income.

The decrease in operating revenue was primarily due to a 1.4% decrease in passenger revenue from RMB89,544 million in 2012 to RMB88,271 million in 2013. The total number of passengers carried increased by 6.1% to 91.79 million passengers in 2013. RPKs increased by 9.5% from 135,535 million in 2012 to 148,417 million in 2013, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK decreased from RMB0.66 in 2012 to RMB0.59 in 2013, which is mainly due to the impact from VAT reform.

Domestic passenger revenue, which accounted for 80.8% of the total passenger revenue in 2013, decreased by 3.5% from RMB73,845 million in 2012 to RMB71,277 million in 2013. Domestic passenger traffic in RPKs increased by 8.2%, while passenger capacity in ASKs increased by 9.8%, resulting in a decrease in passenger load factor by 1.2 percentage points from 81.4% in 2012 to 80.2% in 2013. Domestic passenger yield per RPK decreased from RMB0.69 in 2012 to RMB0.61 in 2013.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 2.4% of total passenger revenue, increased by 1.4% from RMB2,133 million in 2012 to RMB2,162 million in 2013. For Hong Kong, Macau and Taiwan flights, passenger traffic in RPKs increased by 1.5%, while passenger capacity in ASKs increased by 3.8%, resulting in a decrease in passenger load factor by 1.6 percentage points from 73.2% in 2012 to 71.6% in 2013. Passenger yield per RPK remained at RMB0.84 in 2012 and 2013.

International passenger revenue, which accounted for 16.8% of total passenger revenue, increased by 9.3% from RMB13,566 million in 2012 to RMB14,832 million in 2013. For international flights, passenger traffic in RPKs increased by 15.6%, while passenger capacity in ASKs increased by 12.2%, resulting in a 2.3 percentage points increase in passenger load factor from 75.0% in 2012 to 77.3% in 2013. Passenger yield per RPK decreased from RMB0.53 in 2012 to RMB0.50 in 2013.

Cargo and mail revenue, which accounted for 6.8% of the Group’s total traffic revenue and 6.5% of total operating revenue, decreased by 2.2% from RMB6,556 million in 2012 to RMB6,413 million in 2013. The decrease was attributable to the continued downturn of the demand in the cargo market and the low level cargo fare.

Other operating revenue increased by 13.2% from RMB3,414 million in 2012 to RMB3,863 million in 2013. The increase was primarily due to the general growth in income from commission and expired sales in advance of carriage.

Operating Expenses

Total operating expenses in 2013 amounted to RMB98,280 million, representing an increase of RMB2,403 million or 2.5% over 2012, primarily due to the total effect of increases in payroll, landing and navigation fees, depreciation and amortization, and other operating costs. Total operating expenses as a percentage of total operating revenue was 99.7% in 2013 and 96.3% in 2012.

		2013		2012		Change in operating expenses %
		Operating expense RMB million	Percentage %	Operating expense RMB million	Percentage %	
Flight operations		54,010	55.0	54,690	57.0	(1.2)
Mainly including:	Jet fuel costs	35,538		37,401		(5.0)
	Aircraft operating lease charges	4,767		4,897		(2.7)
	Flight personnel payroll and welfare	5,799		5,051		14.8
Maintenance		7,805	7.9	7,971	8.3	(2.1)
Aircraft and traffic servicing expenses		15,091	15.4	14,072	14.7	7.2
Promotion and selling expenses		7,754	7.9	7,134	7.5	8.7
General and administrative expenses		2,470	2.5	2,425	2.5	1.9
Depreciation and amortization		9,347	9.5	8,264	8.6	13.1
Impairment on property, plant and equipment		536	0.5	-	-	-
Others		1,267	1.3	1,321	1.4	(4.1)
Total operating expenses		98,280	100.0	95,877	100.0	2.5

Flight operations expenses, which accounted for 55.0% of total operating expenses, decreased by 1.2% from RMB54,690 million in 2012 to RMB54,010 million in 2013, primarily as a result of decrease in jet fuel costs because of decrease in average fuel prices. Jet fuel costs, which accounted for 65.8% of flight operations expenses in 2013, decreased by 5.0% from to RMB37,401 million in 2012 to RMB35,538 million in 2013.

Maintenance expenses, which accounted for 7.9% of total operating expenses, decreased by 2.1% from RMB7,971 million in 2012 to RMB7,805 million in 2013. The decrease was mainly due to the impact of the VAT reform.

Aircraft and traffic servicing expenses, which accounted for 15.4% of total operating expenses, increased by 7.2% from RMB14,072 million in 2012 to RMB15,091 million in 2013. The increase was primarily due to a 5.9% rise in landing and navigation fees from RMB8,984 million in 2012 to RMB9,510 million in 2013, resulted from the increase in number of take-off and landings and the average unit price of take-off and landing charges.

Promotion and selling expenses, which accounted for 7.9% of total operating expenses, increased by 8.7% from RMB7,134 million in 2012 to RMB7,754 million in 2013.

General and administrative expenses, which accounted for 2.5% of the total operating expenses, increased by 1.9% from RMB2,425 million in 2012 to RMB2,470 million in 2013.

Depreciation and amortization, which accounted for 9.5% of total operating expenses, increased by 13.1% from RMB8,264 million in 2012 to RMB9,347 million in 2013, mainly due to the additional depreciation charges on aircraft delivered in 2013.

Operating Profit

Operating profit of RMB1,510 million and RMB5,099 was recorded in 2013 and 2012 respectively. The decrease in profit was mainly due to the net effect of decrease in operating revenue by RMB967 million or 1.0% in 2013 and increase in operating expenses by RMB2,403 million or 2.5%.

Other Income or Expenses

Other net income decreased by RMB219 million from RMB1,462 million in 2012 to RMB1,243 million in 2013, mainly due to the decrease of government grants and loss on disposal of property, plant and equipment.

Interest expense increased by RMB275 million from RMB1,376 million in 2012 to RMB1,651 million in 2013 was mainly due to the increase in number of aircraft held through a finance lease.

Net exchange gain of RMB2,903 million was recorded in 2013, an increase of RMB2,636 million from RMB267 million in 2012, mainly due to the significant appreciation of Renminbi against U.S. dollar in 2013.

Income Tax

Income tax expense of RMB734 million was recorded in 2013, decrease by RMB220 million from RMB954 million in 2012, mainly due to the decrease of profit before income tax.

B. Liquidity and Capital Resources

Generally, the Group meets its working capital and capital expenditure requirements through cash from its operations, the proceeds of certain long-term and short-term bank loans, capital lease financing and rebates available under certain of the Group’s aircraft leases.

As of December 31, 2014, the Group had banking facilities with several PRC commercial banks for providing loan finance up to an approximate amount of RMB187.1 billion to the Group. As of December 31, 2014, an approximate amount of RMB126.7 billion was unutilized. As of December 31, 2014 and 2013, the Group’s cash and cash equivalents totaled RMB15,414 million and RMB11,748 million, respectively.

Net cash inflows from operating activities in 2014, 2013 and 2012 were RMB13,570 million, RMB9,703 million and RMB11,704 million, respectively. Operating cash inflows of the Group are primarily derived from the provision of air transportation and related service for customers. The increase of operating cash inflows of the Group was mainly due to the increase of passenger revenue. The vast majority of tickets are purchased prior to the day on which transportation is provided. Operating cash outflows primarily are related to the recurring operating expenses, including flight operation, maintenance, aircraft and traffic servicing, etc.

Net cash used in investing activities in 2014, 2013 and 2012 was RMB9,760 million, RMB12,205 million and RMB12,153 million, respectively. Cash capital expenditures in 2014, 2013 and 2012 were RMB8,649 million, RMB12,308 million and RMB15,733 million, respectively, reflecting predominantly additional investments in aircraft and flight equipment under the Group’s fleet expansion plans and Guangzhou new airport, and, to a small extent, additional investments in other facilities and buildings used in operations.

Financing activities resulted in net cash (outflows)/inflows of RMB(131)million, RMB4,168 million and RMB668 million in 2014, 2013 and 2012, respectively. Net cash inflow from new bank and other loans and repayments of bank and other loans amounted to RMB1,362 million, RMB7,081 million and RMB4,407 million in 2014, 2013 and 2012, respectively. The additions of bank loan were used for capital expenditures and general working capital. Repayment of capital leases in 2014, 2013 and 2012 was RMB4,072 million, RMB2,895 million and RMB1,978 million, respectively, resulting from the increase of aircraft acquisitions under capital leases.

As of December 31, 2014, the Group’s aggregate long-term bank and other loans and obligations under capital leases (including loans and capital leases obligations due within one year) totaled RMB102,713 million. In 2015, 2016, 2017, 2018 and thereafter, amounts payable under such loans and obligations will be RMB16,728 million, RMB22,713 million, RMB19,638 million, RMB8,422 million and RMB35,212 million respectively. Such borrowings were denominated in U.S. dollars, Singapore dollars and Japanese Yen with a significant portion being floating interest rate borrowings. In the normal course of business, the Group is exposed to fluctuations in foreign currencies. The Group’s exposure to foreign currencies primarily results from its foreign currency liabilities. Depreciation or appreciation of the Renminbi against foreign currencies affects the Group’s results significantly because the Group’s foreign currency liabilities generally exceed its foreign currency assets. The Group is not able to hedge its foreign currency exposure effectively other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the SAFE, or subject to certain restrictive conditions, entering into forward foreign exchange contracts with authorized banks.

As of December 31, 2014, the Group’s short-term bank loans were RMB10,243 million. The Group’s weighted average interest rate on short-term bank loans was 3.3% per annum as of December 31, 2014. The primary use of the proceeds of the Group’s short-term bank loans is to finance working capital and capital expenditure needs. The Group has generally been able to arrange short-term bank loans with domestic banks in China as necessary and believes it can continue to obtain them based on its well-established relationships with various lenders.

As of December 31, 2014, the Group had obligations under operating leases totaling RMB28,798 million, predominately for aircraft. Of such amount, RMB5,072 million, RMB4,732 million, RMB4,098 million, RMB3,641 million, RMB3,025 million and RMB8,230 million, respectively, is due in 2015, 2016, 2017, 2018, 2019 and thereafter.

As of December 31, 2014, the Group had a working capital deficit of RMB26,545 million, as compared to a working capital deficit of RMB28,640 million as of December 31, 2013. Historically, the Group operated in a negative working capital position, relying on cash inflow from operating activities and renewal of short-term bank loans to meet its short-term liquidity and working capital needs. In 2015 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain adequate external financing to meet its committed future capital expenditure. As of December 31, 2014, the Group had banking facilities with several PRC commercial banks for providing loan finance up to approximately RMB187,133 million (2013: RMB166,270 million), of which approximately RMB126,703 million (2013: RMB120,904 million) was unutilized.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending December 31, 2015. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital, capital expenditure requirements and dividend payments of the Group during that period. In preparing the cash flow forecast, the directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned bank financing which may impact the operations of the Group during the next twelve-month period. The directors of the Company are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

As the Group is subject to a high degree of operating leverage, a minor decrease in the Group’s yield and/or load factor could result in a significant decrease in its operating revenue and hence its operating cash flows. This could arise in such circumstances as where competition between Chinese airlines increases or where PRC aviation demand decreases. Similarly, a minor increase in the jet fuel prices, particularly in the domestic market, could result in a significant increase in the Group’s operating expenses and hence a significant decrease in its operating cash flows. This could be caused by fluctuations in supply and demand in international oil market. Currently, the Group’s existing loans and lease facilities do not contain any financial covenants. Nevertheless, as the Group is subject to a high degree of financial leverage, an adverse change in the Group’s operating cash flows could adversely affect its financial health and hence weaken its ability to obtain additional loans and lease facilities and to renew its short-term bank loans facilities as they fall due.

As of December 31, 2014, the Group had capital commitments as follows:

	2015	2016	2017	2018	2019 and afterwards	Total
	(RMB million)					
Acquisition of aircraft and related equipment	18,146	11,628	10,081	7,552	12,060	59,467
Others	2,839	947	1,170	103	63	5,122
Total capital commitments	20,985	12,575	11,251	7,655	12,123	64,589

Others mainly represent airport and office facilities and equipment, overhaul and maintenance bases and training facilities.

As of December 31, 2014, the cash and cash equivalents of the Group totaled RMB15,414 million. Of such balance, 11.5% was denominated in U.S. Dollars, Hong Kong Dollars, Australian Dollars, Japanese Yen and other foreign currencies.

In view of the unutilized bank facilities of RMB126,703million, the Group expects that it will have sufficient funding sources to meet its cash requirements in the foreseeable future.

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

None.

D. Trend Information

Other than as disclosed in the foregoing disclosures and elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2015 to December 31, 2015 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause our 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 that have or are reasonably likely to have a current or future effect on our financial condition that is material to investors. In particular, we (i) have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated entity; (ii) have not entered into any derivative contracts that are both indexed to our own stock and classified in stockholders’ equity, or not reflected in our statement of financial position; and (iii) 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.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth the Group’s obligations and commitments to make future payments under contracts and under commitments as of December 31, 2014.

	As of December 31, 2014 Payment due by period					As of December 31, 2013
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years	Total
Short-term bank loans and ultra-short-term bills(note 1)	10,343	10,343	-	-	-	14,552
Long-term bank and other loans (note 1)	55,846	11,950	31,770	7,086	5,040	46,744
Obligations under capital leases	56,577	7,312	13,971	10,949	24,345	39,431
Operating lease commitments	28,798	5,072	8,830	6,666	8,230	26,222
Aircraft purchase commitments (Note 2)	59,467	18,146	21,709	7,552	12,060	47,651
Other capital commitments	5,122	2,839	2,117	103	63	3,702
Investment commitments	70	70	-	-	-	70
Total	216,223	55,732	78,397	32,356	49,738	178,601

Note 1 Interest on variable rate loans was estimated based on the current rate in effect at December 31, 2014.

Note 2 Amounts shown are net of previously paid purchase deposits.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors, Senior Management and Employees

The following table sets forth certain information concerning directors, senior management and supervisors of the Company. There were certain changes in the Company’s directors, senior management and supervisors as of April 17, details of which are set forth below.

Name	Position	Gender	Age
Si Xian Min	Chairman of the Board, Non-executive Director	Male	57
Tan Wan Geng	Executive Director, Vice Chairman of the Board and President	Male	50
Wang Quan Hua	Non-executive Director	Male	60
Yuan Xin An	Non-executive Director	Male	58
Yang Li Hua	Non-executive Director	Female	59
Zhang Zi Fang	Executive Director and Executive Vice President	Male	56
Li Shao Bin	Executive Director	Male	49
Wei Jin Cai	Independent Non-executive Director	Male	65
Ning Xiang Dong	Independent Non-executive Director	Male	49
Liu Chang Le	Independent Non-executive Director	Male	63
Tan Jin Song	Independent Non-executive Director	Male	50
Pan Fu	Chairman of the Supervisory Committee	Male	52
Li Jia Shi	Supervisor	Male	53
Zhang Wei	Supervisor	Female	48
Yang Yi Hua	Supervisor	Female	54
Wu De Ming	Supervisor	Male	57
Ren Ji Dong	Executive Vice President	Male	50
Liu Qian	Executive Vice President	Male	50
Dong Su Guang	Executive Vice President	Male	61
Wang Zhi Xue	Executive Vice President and Chief Pilot	Male	53
Hu Chen Jie	Chief Information Officer	Male	46
Su Liang	Chief Economist	Male	52
Chen Wei Hua	Chief Legal Adviser	Male	48
Guo Zhi Qiang	COO Marketing & Sales	Male	51
Yuan Xi Fan	Chief Engineer	Male	52
Li Tong Bin	Chief Engineer	Male	52
Xie Bing	Company Secretary	Male	43
Feng Hua Nan	COO Flight Safety	Male	51
Xiao Li Xin	Chief Accountant and Chief Financial Officer	Male	48

Note 1. On April 30, 2014, the Board approved that Mr. Dong Su Guang ceased to be the Executive Vice President of the Company due to retirement. On April 30, 2014, the Board approved that Mr. Yuan Xi Fan ceased to be the Chief Engineer of the Company due to work arrangement and the Board also approved to appoint Mr. Li Tong Bin as the Chief Engineer of the Company. On August 15, 2014, the Board approved to appoint Mr. Feng Hua Nan as the COO Flight Safety of the Company. On February 27, 2015, the Board approved to remove the office of Mr. Hu Chen Jie as the Chief Information Officer of the Company. On March 25, 2015, Mr. Wang Quan Hua tendered his resignation as the Non-executive Director due to retirement; on March 27, 2015, the Board appointed Mr. Xiao Li Xin as the Chief Accountant and Chief Financial Officer of the Company. On April 9, 2015, Mr. Wei Jin Cai has tendered his resignation as an Independent Non-executive Director to the Board which shall take effect upon the date of the effective appointment of the new independent non-executive Director.

Note 2. On December 30, 2014, the Board approved to remove the offices of Mr. Chen Gang as the Executive Vice President of the Company and Mr. Tian Xiao Dong as the COO Flight Operations of the Company as they were under investigation on suspicion of job-related crimes. On January 5, 2015, Mr. Xu Jie Bo tendered his resignation as the Director, and the Board approved to remove the office of Mr. Xu Jie Bo as the Executive Vice President, Chief Financial Officer and Chief Accountant of the Company as he was under investigation on suspicion of job-related crimes. On January 5, 2015, the Board approved to remove the office of Mr. Zhou Yue Hai as the Executive Vice President of the Company as he was under investigation on suspicion of job-related crimes.

Board of Directors

Mr. Si Xian Min, aged 57, graduated with an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He began his career in 1975. Mr. Si served as the Director of the Political Division of China Southern Airlines Henan Branch; as the Party Secretary and Vice President of Guizhou Airlines Company Limited; as the Deputy Party Secretary and Secretary of the Disciplinary Committee of the Company; and as the Party Secretary of CSAHC Northern Division. He has been the President of the Company from October 2004 to January 2009. Since December 31, 2004, Mr. Si has been the Director of the Company. Since January 2009, Mr. Si has been the President and Deputy Party Secretary of CSAHC and the Chairman of the Board.

Mr. Tan Wan Geng, aged 50, graduated from Zhongshan University, majoring in economic geography, with qualification of postgraduate degree. Mr. Tan began his career in civil aviation in 1990 and served as the head of the Infrastructure Department and Director of Human Resources and Administration Department of the Beijing Aircraft Maintenance and Engineering Corporation, the Deputy Director General of Human Resources Division (Personnel and Education Division) of the Civil Aviation Administration of China (CAAC), and has been the Director General and Party Secretary of Civil Aviation Administration of China Northeastern Region. He has been the Party Secretary and Executive Vice President of the Company from January 2006 to February 2007; the Party Member of CSAHC and the Party Secretary and Executive Vice President of the Company from February 2007 to January 2009; the Party Member of CSAHC and the President and Party Secretary of the Company from January 2009 to February 2009; the Party Member of CSAHC and the President and Deputy Party Secretary of the Company from February 2009 to May 2011. Since May 2011, Mr. Tan has been the Party Secretary of CSAHC and the President of the Company. Mr. Tan has been the Director of the Company since June 15, 2006 and has been the Vice Chairman of the Board since January 24, 2013.

Mr. Yuan Xin An, aged 58, received university education in Aeronautical Machinery from Air Force Engineer University and is a senior engineer. Mr. Yuan began his career in December 1976 and served as the Vice President of Engineering Department of China Southern Airlines Company, the Vice President of Guangzhou Aircraft Maintenance Engineering Co., Ltd., the Chief Engineer and the General Manager of Engineering Department of the Company. Mr. Yuan served as the Executive Vice President of the Company from April 2002 to September 2007. Mr. Yuan has served as the Executive Vice President of CSAHC since September 2007 and the Chief Legal Adviser of CSAHC since July 2008. Since November 30, 2011, Mr. Yuan has been the Director of the Company. Currently, Mr. Yuan is also the Chairman of Southern Airlines (Group) Import and Export Trading Company Limited, China Southern Airlines Group Construction and Development Company Limited, MTU Maintenance Zhuhai Co., Ltd., Dalian Acacia Town Villa Co., Ltd. and Shenzhen Air Catering Co., Ltd, and a director of China Aircraft Services Limited.

Ms. Yang Li Hua, aged 59, graduated with a master degree from the Party School of the Central Committee of CPC majoring in economics and management and is a senior expert of political science. Ms. Yang began her career in 1973, and served as the head of the in-flight service team, manager of in-flight service division and deputy head of the Chief Flight Team of Air China International Corporation. Subsequently, she was appointed as the General Manager of the Passenger Cabin Service Division of Air China International Corporation in September 2000, the Vice President of Air China International Corporation in October 2002, the Vice President of Air China Limited in September 2004, and Executive Vice President of CSAHC in May 2009. From July 2010 to August 2012, Ms. Yang also acted as the Chairman of the Labour Union of CSAHC. Since January 24, 2013, Ms. Yang has been the Director of the Company. Currently, Ms. Yang is also the Chairman of Southern Airlines Culture and Media Co., Ltd., China Southern Airlines Group Property Management Company Limited and China Southern Airlines Group Ground Services Co., Ltd.

Mr. Zhang Zi Fang, aged 56, graduated with an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a senior expert of political science. Mr. Zhang began his career in 1976. He served as the Deputy Commissar and subsequently the Commissar of the pilot corps of China Northern Airlines Company; as the Party Secretary of the Jilin Branch of China Northern Airlines Company; as the General Manager of Dalian Branch of CSAHC Northern Airlines; as the Director of Political Works Department of CSAHC. Mr. Zhang has been the Deputy Party Secretary and Secretary of the Disciplinary Committee of the Company from February 2005 to December 2007. He has been the Executive Vice President and the Deputy Party Secretary of the Company from December 2007 to February 2009. Since February 2009, he has been the Party Secretary and Executive Vice President of the Company. Mr. Zhang has been the Director of the Company since 30 June 2009.

Mr. Li Shao Bin, aged 49, graduated with a university degree from the Party School of the Central Committee of CPC majoring in economics and management and is an expert of political science. Mr. Li began his career in 1984, and served as the Deputy Head of Promotion Department of the Company, the Director of Political Department of Guangzhou Flight Operations Division of the Company, and the Director of Political Department and Deputy Party Secretary of Guangzhou Flight Operations Division of the Company. Subsequently, he was appointed as Party Secretary of Guangzhou Flight Operations Division of the Company in May 2004. Mr. Li served as the Party Secretary and Deputy General Manager of Guangzhou Flight Operations Division of the Company from March 2006 to August 2012. Mr. Li has been the Chairman of the Labour Union of the Company since August 2012 and the Director of the Company since January 24, 2013.

Mr. Wei Jin Cai, aged 65, graduated from the Party School of the Central Committee of CPC majoring in economics and management. Mr. Wei has many years of experiences in civil aviation. He conducted an in-depth study on the operation and management of civil aviation and is influential in the civil aviation industry. Mr. Wei served as the Deputy Party Secretary of the Party Committee of the headquarter of CAAC, the Party Secretary of Civil Aviation Management Institute of China from March 1993 to November 2008, and the President of Civil Aviation Management Institute of China from November 2008 to August 2010. Mr. Wei has been the Independent Non-executive Director of the Company since December 29, 2010.

Mr. Ning Xiang Dong, aged 49, graduated from the Quantitative Economics Faculty of the School of Economics and Management of Tsinghua University with a doctor degree. Mr. Ning began his career in 1990 and served as the assistant, lecturer and associate professor at Tsinghua University and the Executive Deputy Director of the National Center for Economic Research (NCER) at Tsinghua University. He was also a visiting scholar at Harvard Business School, University of Illinois, University of New South Wales, University of Sydney and Chinese University of Hong Kong, and the independent director of a number of listed companies including Datang Telecom Technology Co., Ltd., Shantui Construction Machine Co Ltd, Hong Yuan Securities Co., Ltd and Goer TekInc.. Currently, he serves as the professor and the doctorate-tutor of the School of Economics and Management of Tsinghua University and the executive director of Centre for Corporate Governance of Tsinghua University. Mr. Ning has been the Independent Non-executive Director of the Company since December 29, 2010. He is also the independent director of a number of listed companies including Aerospace Hi-Tech Holding Group Co., Ltd., Sichuan Changhong Electric Company Limited, Yango Group Co., Ltd. and Weichai Power Co., Ltd.

Mr. Liu Chang Le, aged 63, was conferred an honorary doctoral degree in literature by the City University of Hong Kong and is a founder of Phoenix Satellite Television. Mr. Liu has been the Chairman and Chief Executive Officer of Phoenix Satellite Television Company Limited since 1996 and the Chairman and Chief Executive Officer of Phoenix Satellite Television Holdings Limited, a company listed on the Stock Exchange since 2000. Mr. Liu gained widespread recognition both locally and overseas for his enthusiasm for and achievements in the media industry. Mr. Liu is the recipient of numerous titles and awards, among which include “Wiseman of the Media Industry”, “the Most Innovative Chinese Business Leaders in the Asia Pacific Region”, “the Most Entrepreneurial Chinese Business Leaders”, and has been awarded the “Robert Mundell Successful World CEO Award”, the “Man of Year for Asia Brand Innovation Award” and the “Person of the Year” award of the Chinese Business Leaders Annual Meeting. Since 2005, Mr. Liu has been the Chairman of the iEMMYs Festival. In 2008, Mr. Liu received the International Emmy® Directorate Award granted by International Academy of Television Arts & Sciences. Mr. Liu was appointed as honorary chairman of “World Chinese-language Media Cooperation Alliance” in 2009 and appointed as special consultant to the 8th Council of the Buddhist Association of China in 2010. He served as the Vice Chairman of the 6th Council of The Buddha’s Light International Association, Board of Directors of Headquarters in 2014. Mr. Liu was a member of the Tenth, the Eleventh and the Twelfth National Committee of the Chinese People’s Political Consultative Conference, served as the Vice Chairman of the sub-committee on Education, Science, Culture, Health and Sport of the Eleventh National Committee of the Chinese People’s Political Consultative Conference, and is serving as a member of standing committee of the Twelfth National Committee of the Chinese People’s Political Consultative Conference. Mr. Liu has been appointed a Justice of the Peace by the government of the Hong Kong Special Administrative Region. In 2010, Mr. Liu was awarded the Silver Bauhinia Star by the Hong Kong Special Administrative Region. Mr. Liu has been the Independent Non-executive Director of the Company since November 30, 2011.

Mr. Tan Jin Song, aged 50, graduated from Renmin University of China with an on-job doctor degree in Accounting. Mr. Tan is a Chinese Certified Public Accountant. Mr. Tan began his career in 1985 and was a teacher in Shaoyang School of Finance and Accounting of Hunan Province and the Deputy Dean of the School of Management of Zhongshan University; Mr. Tan is currently the Party Secretary, a professor and a doctorate-tutor of the School of Management of Zhongshan University. He is also a member of the MPAcc Education Instruction Committee, a member of China Institute of Internal Audit, an executive member of Guangdong Institute of Certified Public Accountants and a member of China Audit Society. Currently, Mr. Tan also serves as the Chairman of Guangzhou Zhongda Holding Co., Ltd., the independent director of Grandhope Biotech Co., Ltd., Poly Real Estate Company Limited and Guangzhou Hengyun Enterprises Holdings Limited. In addition, Mr. Tan also acts as the independent non-executive director of Welling Holding Limited. Mr. Tan has been the Independent Non-executive Director of the Company since December 26, 2013.

Supervisory Committee

As required by the Company Law of the PRC and the Articles of Association of the Company, we have a supervisory committee (the "Supervisory Committee") which is primarily responsible for the supervision of senior management of the Company, including the Board, executive officers and other senior management personnel, to ensure that they act in the interests of the Company, its shareholders and employees, as well as in compliance with applicable law. The Supervisory Committee consists of five Supervisors. Three of the Supervisors are appointed by shareholders, and the other two Supervisors are representatives of our employees. The Supervisors serve terms of three years and may serve consecutive terms.

Mr. Pan Fu, aged 52, graduated with a master degree from Chongqing University majoring in power systems and automation, and is a senior engineer. Mr. Pan began his career in 1986, and served successively as the Deputy Chief Engineer of Test Research Institute of Electric Power Bureau of Yunnan Province and the Deputy Head of the Planning Department of Electric Power Industry Bureau of Yunnan Province, the Deputy Director of the Planning & Development Department of Yunnan Electric Power Group Co., Ltd., the Deputy Director and Director of Kunming Power Plant, the Deputy Chief Engineer and Chief Engineer of Yunnan Electric Power Corporation, the Deputy Director and Director of the Department of Security Supervision of China Southern Power Grid Company Ltd., the Director of the China Southern Power Grid Technology and Research Center. He served as the General Manager and Deputy Party Secretary of the Guizhou Power Grid Corporation from January 2005 to November 2007, and served as the Director of the Planning Development Department of China Southern Power Grid Company Ltd. from November 2007 to November 2010. Mr. Pan has been the Team Leader of the Discipline Inspection Commission of CSAHC since November 2010 and the Chairman of the Supervisory Committee of the Company since December 29, 2010.

Mr. Li Jia Shi, aged 53, graduated from Guangdong Polytechnic Normal University majoring in economics and mathematics and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is an expert of political science. Mr. Li began his career in 1976. He served as the Deputy Head of the Organization Division of the Party Committee of the Company, the Party Secretary and Deputy General Manager of Guangzhou Nanland Air Catering Company Limited, the Head of the Organization Division of the Party Committee of the Company, the Chairman of Southern Airlines Ka Yuen (Guangzhou) Aviation Supply Company Limited and Guangzhou Nanland Air Catering Company Limited. He served as the Deputy Secretary of the Disciplinary Committee and the Director of the Disciplinary Committee Office of the Company from December 2003 to December 2007. Mr. Li has been the Secretary of the Disciplinary Committee of the Company since December 2007 and has been the Team Deputy Leader of the Discipline Inspection Commission of CSAHC and the Secretary of Disciplinary Committee of the Company since February 2012. Mr. Li has been the Supervisor of the Company since June 30, 2009. Mr. Li is the Vice Chairman of Southern Airlines Culture and Media Co., Ltd.

Ms. Zhang Wei, aged 48, has a master degree. She graduated from Tianjin University majoring in investment skills and economics and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University and is a senior accountant. Ms. Zhang began her career in 1988 and served as the General Manager Assistant and Deputy General Manager of the Finance Department of the Company, the Deputy Director of the Supervisory Bureau and the Director of the Audit Division of CSAHC and the General Manager of Southern Airlines Group Finance Company Limited. Ms. Zhang served as the Deputy Director of the Supervisory Bureau and the Director of the Audit Division of CSAHC from October 2007 to October 2008. Since October 2008, she has been the Director of the Audit Division of CSAHC. Ms. Zhang has been the Supervisor of the Company since June 2008. Currently, Ms. Zhang is also the Chairman of Supervisory Committee of a number of companies including Southern Airlines Culture and Media Co., Ltd., Southern Airlines Group Finance Company Limited and Southern Airlines (Group) Import and Export Trading Company Limited, and the Director of Guangzhou Southern Airline Construction Company Limited.

Ms. Yang Yi Hua, aged 54, has a university degree, and is an accountant and an International Certified Internal Auditor. Ms. Yang served as the Manager of the Financial Office of the Company’s Financial Division, and Deputy General Manager of the Company’s Audit Department. Ms. Yang has been the General Manager of the Company’s Audit Department since May 2002 and the Supervisor of the Company since June 2004. Currently, Ms. Yang is also the Chairman of the Supervisory Committee of Guizhou Airlines Company Limited, Nan Lung International Freight Limited, the supervisor convener of Beijing China Southern Airlines Ground Service Company Limited and Zhuhai Airlines Company Limited, and the supervisor of Xiamen Airlines Company Limited, Guangzhou Baiyun International Logistic Company Limited, Southern Airlines Group Finance Company Limited and Chongqing Airlines Company Limited.

Mr. Wu De Ming, aged 56, graduated from South China Normal University majoring in political management. He obtained a degree after beginning his career from 1976. Mr. Wu served as the Director of the political division of Operation Department of Company, the Deputy Party Secretary and Secretary of Disciplinary Committee of Guangzhou ticket office of Company, the Deputy Secretary and Secretary of the party general branch of ticket office of Transportation Department of Company, the Director of the Disciplinary Supervision Department of CSAHC; and the General Director of the Supervision Bureau and Chief Officer of Disciplinary Committee Office of CSAHC. He has been a member of Party Committee of Commercial Steering Committee of the Company, Secretary to the Disciplinary Committee and President of the Labour Union since April 2009, and the Supervisor of the Company since December 2013.

Senior Management

Mr. Ren Ji Dong, aged 50, graduated from Nanjing University of Aeronautics and Astronautics, majoring in aircraft engine design and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University, and he is a senior engineer. Mr. Ren began his career in 1986 and served as the Deputy Director of Urumqi Civil Aviation Administration, the Vice President of Xinjiang Airlines, the Party Secretary and the Vice President of the Xinjiang branch of the Company, the Executive Vice President of the Company from March 2005 to January 2007, and the President of the Xinjiang branch of the Company from January 2007 to April 2009. He has been the Executive Vice President of the Company since May 2009.

Mr. Liu Qian, aged 50, graduated from China Civil Aviation Flying College majoring in aircraft piloting and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. Mr. Liu served the CAAC as an assistant researcher of the Piloting Skills Supervision Division of the Piloting Standards Department, an assistant researcher of the Operation Supervision Division, an assistant researcher and the Deputy Head of the Piloting Standards Division, and the Deputy Chief Pilot and Chief Pilot of the Company. He has been the Executive Vice President of the Company since August 2007.

Mr. Wang Zhi Xue, aged 53, has a university degree. Mr. Wang began his career in 1981. He served as the Manager of the Flight Safety Technology Inspection Division of Zhuhai Airlines Company Limited, Deputy Chief Pilot and Director of the Flight Safety Technology Division as well as the Vice President of Shantou Airlines Company Limited. He served as the General Manager of the Flight Management Division of the Company from October 2004 to February 2009 and the General Manager of the Flight Operation Division of the Company in Guangzhou from February 2009 to July 2012. Mr. Wang has been the Executive Vice President and Chief Pilot of the Company since August 2012. Mr. Wang is also the chairman of Zhuhai Airlines Company Limited.

Mr. Su Liang, aged 52, graduated from the University of Cranfield, United Kingdom with a master degree majoring in Air Transport Management and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. Mr. Su was in charge of the flight operations, planning and international cargo project of the Company. From July 2000 to November 2007, Mr. Su was the Company Secretary of the Company. He has been the Chief Economist of the Company since December 2007. Currently, Mr. Su is also the director of Xiamen Airlines Company Limited and Sichuan Airlines Co., Ltd..

Mr. Chen Wei Hua, aged 48, graduated from the School of Law of Peking University and obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is a qualified lawyer in the PRC and a qualified corporate legal counselor. Mr. Chen joined the aviation industry in 1988. He served as Deputy Director, Director of the Legal Affairs Office of the Company. Mr. Chen has been the Chief Legal Adviser of the Company and Director of the Legal Department of the Company since January 2004. Currently, Mr. Chen is also the director of Xiamen Airlines Company Limited.

Mr. Guo Zhi Qiang, aged 51, economist, graduated with a master degree from Party School of Xinjiang Uyghur Autonomous Region majoring in Business Administration. Mr. Guo began his career in 1980 and served as the General Manager of Transportation Department of Xinjiang Airlines; the Deputy General Manager of Xinjiang Airlines; the General Manager of China Southern Airlines Beijing Office; the Deputy General Manager of China Southern Airlines Xinjiang Branch. Mr. Guo served as the Deputy General Manager of the Shenzhen Branch of the Company from December 2005 to February 2008 and the President and Chief Executive Officer of Chongqing Airlines Company Limited from February 2008 to May 2009, and served as the Deputy Director General of the Commercial Steering Committee of the Company since May 2009 and the Director General of the Commercial Steering Committee of the Company from September 2009 to September 2012. Mr. Guo acted as the COO Marketing & Sales of the Company and the Director General of the Commercial Steering Committee of the Company from September 2012 to July 2014. He served as the COO Marketing & Sales of the Company since July 2014. Currently, Mr. Guo is also the Chairman of Guangzhou Nanland Air Catering Company Limited and Guangzhou Baiyun International Logistic Company Limited, and the director of Xiamen Airlines Company Limited.

Mr. Li Tong Bin, aged 53, has college qualification and graduated from Civil Aviation Institute of China majoring in maintenance of aircraft electrical equipment. He obtained on-job Master of Business Administration (MBA) from Hainan University and Executive Master of Business Administration (EMBA) from Tsinghua University, and is a senior engineer. Mr. Li began his career in July 1983, and was the Deputy Head of Technical Division of Aircraft Maintenance Plant, the Head of Maintenance Plant of aircraft maintenance base and the Deputy Director of aircraft maintenance base, the Director of Aircraft Engineering Department of China Northern Airlines Company, the General Manager of Jilin branch of China Northern Airlines Company, and the Deputy General Manager of Zhuhai Airlines Company Limited. He served as the General Manager of Zhuhai Airlines Company Limited from January 2005 to April 2012, and the Party Secretary and Deputy General Manager of Northern Branch of the Company from April 2012 to April 2014. Mr. Li has been the Chief Engineer of the Company since April 2014. Currently, Mr. Li is also the Chairman of Guangzhou Aircraft Maintenance Engineering Company Limited and Shenyang Northern Aircraft Maintenance Engineering Co., Ltd.

Mr. Xie Bing, aged 43, graduated from Nanjing University of Aeronautics and Astronautics, majoring in civil aviation management. He subsequently received a master degree of business administration, a master degree of business administration (international banking and finance) and an Executive Master of Business Administration (EMBA) degree from Jinan University, the University of Birmingham, Britain and Tsinghua University, respectively. Mr. Xie is a senior economist. Mr. Xie worked in the Planning and Development Department, Company Secretary Office of the Company and General Office of CSAHC. He has been the Company Secretary of the Company since November 2007.

Mr. Feng Hua Nan, aged 52, graduated with a university degree from China Civil Aviation Flying College, majoring in aircraft piloting, and obtained an on-job master degree in Aeronautical Engineering from Beijing University of Aeronautics and Astronautics and an Executive Master of Business Administration (EMBA) from the School of Economics and Management of Tsinghua University. He is a commanding pilot. Mr. Feng began his career in 1983. He served as the Director of Zhuhai Flight Training Centre of the Company, the Deputy General Manager of Flight Operation Division, the General Manager of Flight Safety Technology Department and the General Manager of Flight Technology Management Department of the Company. Mr. Feng served as the Party Secretary and Deputy General Manager of Guizhou Airlines Company Limited from September 2004 to February 2006, and then served as the Director and General Manager of Guizhou Airlines Company Limited from February 2006 to July 2014. He has been the COO Flight Safety of the Company since August 2014. Currently, Mr. Feng is also the Chairman of Zhuhai Xiang Yi Aviation Technology Company Limited, Southern Airlines General Aviation Company Limited and China Southern West Australian Flying College Pty Ltd.

Mr. Xiao Li Xin, aged 48. Mr. Xiao graduated from GuangDong Academy of Social Sciences with a master degree in economics and then obtained an Executive Master of Business Administration (EMBA) degree from Tsinghua University. He is a qualified senior accountant and a certified public accountant. Mr. Xiao began his career in July 1991 and served as the General Manager Assistant, Deputy General Manager, General Manager and Deputy Secretary of the General Party Branch of the Finance Department of the Company. He served as the Deputy Chief Accountant and General Manager of the Finance Department of the Company from March 2007 to October 2007. He served as the Director, General Manager and Secretary of the General Party Branch of Southern Airlines Group Finance Company Limited from October 2007 to February 2008. He served as the Director, General Manager and Party Secretary of Southern Airlines Group Finance Company Limited from February 2008 to March 2015. He concurrently held the positions of the Director and Vice Chairman of Air Union Insurance Brokers Co., Ltd. from March 2012 to March 2015. Mr. Xiao has been the Chief Accountant and Chief Financial Officer of the Company since March 27, 2015.

Save as disclosed above, none of the above Directors or Supervisors, senior management of the Company has any relationship with any Directors, Supervisors, senior management, substantial shareholders of the Company.

B. Compensation

The aggregate compensation paid to all Directors, Supervisors and Senior Management for 2014 was RMB13.56 million. For the year ended December 31, 2014, the Company paid an aggregate of approximately RMB2.36 million on behalf of its executive Directors, Supervisors and Senior Management pursuant to the pension scheme and the retirement plans operated by various municipal and provincial governments in which the Company participates.

Details of the remuneration of directors’ and supervisors’ remuneration for the year ended December 31, 2014 are set out below:

	Directors’ fees RMB’000	Salaries, allowances and benefits in kind RMB’000	Retirement scheme contributions RMB’000	Total RMB’000
<i>Non-executive Directors</i>				
Si Xian Min	-	-	-	-
Wang Quan Hua	-	-	-	-
Yuan Xin An	-	-	-	-
Yang Li Hua	-	-	-	-
<i>Independent Non-executive Directors</i>				
Wei Jin Cai	150	-	-	150
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150
Tan Jin Song	150	-	-	150
<i>Executive Directors</i>				
Tan Wan Geng	-	-	-	-
Zhang Zi Fang	-	-	-	-
Li Shao Bin	-	636	130	766
<i>Supervisors</i>				
Pan Fu	-	-	-	-
Li Jia Shi	-	636	132	768
Zhang Wei	-	-	-	-
Yang Yi Hua	-	294	140	434
Wu De Ming	-	367	140	507
Total	600	1,933	542	3,075

Note: The total remuneration received from the Company are RMB766,000 by Mr. Xu Jie Bo for the reporting period.

On November 30, 2011, the Company’s General Meeting, approved the "H Share Appreciation Rights Scheme of China Southern Airlines Company Limited" and "Initial Grant under the H Share Appreciation Rights Scheme of China Southern Airlines Company Limited" ("the Scheme").

Under the Scheme, 24,660,000 units of Share Appreciation Rights were granted to 118 employees of the Group at the exercise price of HK\$3.92 per unit prior to or on at December 31, 2011. No shares will be issued under the Scheme and each of the Share Appreciation Rights is notionally linked to one existing H Share of the Company. Upon exercise of the Share Appreciation Rights, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H Share and the exercise price.

The Share Appreciation Rights will have an exercise period of six years from the date of grant. Upon the satisfaction of certain performance conditions after the second, third and fourth anniversary of the date of grant, each one third of the Share Appreciation Rights will become exercisable.

A dividend of RMB0.2 (equivalent to HK\$0.25) (inclusive of applicable tax) and a dividend of RMB0.05 (equivalent to HK\$0.06) per share was approved by the Company’s General Meeting on May 31, 2012 and June 18, 2013, respectively. A dividend of RMB0.04 (equivalent to HK\$0.05) (inclusive of applicable tax) was approved by the Company’s General Meeting on June 26, 2014. Therefore, the exercise price for the Share Appreciation Rights was adjusted to HK\$3.56 per share in accordance with the predetermined formula stipulated in the Scheme. During the year, 8,326,667 units of Share Appreciation Rights were forfeited.

The fair value of the liability for Share Appreciation Rights is measured using the Black-Scholes option pricing model. The risk free rate, expected dividend yield and expected volatility of the share price are used as the inputs into the model. The fair value of the liability for Share Appreciation Rights as of December 31, 2014 was RMB0 (2013: RMB1,893,000) and a corresponding staff costs of RMB1,893,000 was reversed for the year ended December 31, 2014 (2013: RMB410,000).

C. Board Practices

Each Director’s service contract with the Company or any of its subsidiaries provides prorated monthly salary upon termination of employment in accordance with his contract. The Director is entitled to paid leave under his contract. The term of office of a director is three years. The term of office of the current directors will end in 2016. A Director may serve consecutive terms upon re-election.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of three independent Non-executive Directors. The current members of the Audit Committee are Tan Jing Song, Wei Jin Cai and Ning Xiang Dong. Tan Jing Song is the Chairman of the Audit Committee. The term of office of each member will end in 2016. A member may serve consecutive terms upon re-election. At least once a year, the committee is required to meet with the Company’s external auditors without any executive members of the Board in attendance. The quorum necessary for the transaction of any business is two committee members. The Audit Committee held 9 meetings in 2014, which were attended by all members.

The Audit Committee is required, amongst other things, to oversee the relationship with the external auditors, to review the Group’s interim results and annual financial statements, to monitor compliance with statutory and listing requirements, to review the scope, if necessary, to engage independent legal or other advisers as it determines is necessary and to perform investigations. In addition, the Audit Committee also examines the effectiveness of the Company’s internal controls, which involves regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risks and severity, in order to ensure the effectiveness of the Company’s business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews includes finance, operations, regulatory compliance and risk management. The Audit Committee also reviews the Company’s internal audit plan, and submits relevant reports and concrete recommendations to the Board on a regular basis.

The Company has an internal audit department which reviews procedures in all major financial and operational activities. This department is led by the head of internal audit.

Remuneration and Assessment Committee

The Remuneration and Assessment Committee is comprised of three members. Currently, the Remuneration and Assessment Committee is chaired by Independent Non-executive Director Ning Xiang Dong with Independent Non-executive Director Tan Jing Song and Non-executive Director Wang Quan Hua as members. The term of office of each member is three years. Wang Quan Hua resigned from office because of retirement in March 25, 2015. The term of office of the current members will end in 2016. A member may serve consecutive terms upon re-election. The Remuneration and Assessment Committee held one meeting in 2014, which were attended by all members.

The responsibilities of the Remuneration and Assessment Committee are to make recommendations on the remuneration policy and structure for Directors and senior management of the Company, to establish regular and transparent procedures on remuneration policy development and improvement and submit the Company’s "Administrative Measures on Remuneration of Directors" and "Administrative Measures on Remuneration of Senior Management". In particular, the Remuneration and Assessment Committee has the duty to ensure that the Directors or any of their associates shall not be involved in the determination of their own remuneration packages.

The Remuneration and Assessment Committee consulted, when appropriate, the Chairman and/or the President about its proposals relating to the remuneration of other executive Directors. The Remuneration and Assessment Committee is provided with sufficient resources to discharge its duties and professional advice is available if necessary. The Remuneration and Assessment Committee is also responsible for assessing performance of executive Directors and approving the terms of executive Directors’ service contracts. The Remuneration and Assessment Committee has performed all its responsibilities under its terms of reference in 2014.

Nomination Committee

The Nomination Committee was established on June 28, 2007. Before that, nomination of Directors and other senior management was mainly undertaken by the Board. According to the Articles of Association, the Board has the authority to appoint from time to time any person as Director to fill a vacancy or as additional Director. In selecting candidate Directors, the Board focuses on their qualifications, technical skills, experiences (in particular, the experience in the industry in which the Group operates in case of candidates of executive directors) and expected contributions to the Group.

As of December 31, 2014, the Nomination Committee consists of three members, including Si Xian Min as Chairman and Wei Jin Cai (Independent Non-executive Director) and Tan Jing Song (Independent Non-executive Director) as members. The responsibilities of the Nomination Committee are to make recommendations to the Board in respect of the size and composition of the Board based on the operational activities, assets and shareholding structure of the Company; study the selection criteria and procedures of Directors and executives and give advice to the Board; identify qualified candidates for Directors and executives; investigate and propose candidates for Directors and managers and other senior management members to the Board.

In accordance with relevant laws and regulations as well as the provisions of the Articles of Association of the Company, the Nomination Committee shall study and resolve on the selection criteria, procedures and terms of office for directors and managers with reference to the Company’s actual situation. Any resolution made in this regard shall be filed and proposed to the Board for approval and shall be implemented accordingly. The Nomination Committee is provided with sufficient resources to discharge its duties and independently engages intermediate agencies to provide professional advice on its proposals if necessary.

The Nomination Committee held two meeting in 2014, which was attended by all members.

D. Employees

As of December 31, 2014, the Group had 83,132 employees, including 6,908 pilots, 13,797 flight attendants, 11,981 maintenance personnel, 8,820 passenger transportation personnel, 5,564 cargo transportation personnel, 9,053 ground service personnel, 2,302 flight operation officers, 1,004 flight security guards, 914 information system personnel, 2,326 financial personnel, and 19,463 other personnel. All of our pilots, flight attendants, maintenance personnel, administrative personnel and sales and marketing personnel are contract employees.

The Company’s employees are members of a trade union organized under the auspices of the All-China Federation of Trade Unions, which is established in accordance with the Trade Union Law of China. Two representatives of the Company labor union currently serve on the Supervisory Committee of the Company. Each of the Company’s subsidiaries has its own trade union. The Group has not experienced any strikes, slowdowns or labor disputes that have interfered with its operations, and the Group believes that its relations with its employees are good.

All employees of the Group receive cash remuneration and certain non-cash benefits. Cash remuneration consists of salaries, bonuses and cash subsidies provided by the Group. Salaries are determined in accordance with the national basic wage standards. The total amount of wages payable by the Group to its employees is subject to a maximum limit based on the profitability of the Group and other factors. Bonuses are based on the profitability of the Group. Cash subsidies are intended as a form of cost-of-living adjustment. In addition to cash compensation, the Group’s contract employees receive certain non-cash benefits, including housing, education and health services, and the Group’s temporary employees also receive certain health services, housing fund and education.

Employee benefits

Employee benefits are all forms of considerations given and other related expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognized as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

Retirement benefits

Employees of the Group participate in several defined contribution retirement schemes organised separately by the PRC municipal and provincial governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at rates ranging from 11% to 21% (2013: 10% to 22%) of salary costs including certain allowances. A member of the retirement schemes is entitled to pension benefits from the Local Labour and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of the Group are assumed by these schemes. The Group, at its sole discretion, had made certain welfare subsidy payments to these retirees.

In 2014, the Company and its major subsidiaries joined a new defined contribution retirement scheme (“Pension Scheme”) that was implemented by CSAHC. The annual contribution to the Pension Scheme is based on a fixed specified percentage of prior year’s annual wage. There will be no further obligation beyond the annual contribution according to the Pension Scheme. The total contribution into the Pension Scheme in 2014 was approximately RMB407,000,000.

Housing fund and other social insurances

The Group contributes on a monthly basis to housing funds organized by municipal and provincial governments based on certain percentages of the salaries of employees. The Group’s liability in respect of these funds is limited to the contributions payable in each year. In addition to the housing funds, certain employees of the Group are eligible to one of the following housing benefit schemes:

- (1) Pursuant to a staff housing benefit scheme effective in September 2002, the Group agreed to pay lump sum housing allowances to certain employees who have not received living quarters from CSAHC or the Group according to the relevant PRC housing reform policy. An employee who leaves the Company prior to the end of the vesting benefit period is required to pay back a portion of the lump sum housing benefits determined on a pro rata basis of the vesting benefit period. The Group has the right to affect a charge on the employee's house and to enforce repayment through the sale of the house in the event of default in repayment. Any remaining shortfall is reflected in the consolidated income statement. The amount was fully amortized in 2012.
- (2) The Group also pays cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are reflected in the consolidated income statement.

Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided is recognized in the consolidated income statement when both of the following conditions are satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly; and
- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

Workers' Compensation

There is no workers' compensation or other similar compensation scheme under the Chinese labor and employment system. As required by Chinese law, however, the Group, subject to certain conditions and limitations, pays for the medical expenses of any contract employee who suffer a work-related illness, injury or disability, and continues to pay the full salary of, and provides all standard cash subsidies to, such employee during the term of such illness, injury or disability. The Group also pays for certain medical expenses of its temporary employees.

E. Share Ownership

On November 30, 2011, the Company's General Meeting approved the "H Share Appreciation Rights Scheme of China Southern Airlines Company Limited" and "Initial Grant under the H Share Appreciation Rights Scheme of China Southern Airlines Company Limited" ("the Scheme").

Under the Scheme, 24,660,000 units of Share Appreciation Rights were granted to 118 employees of the Group at the exercise price of HK\$3.92 per unit prior to or on at December 31, 2011. No shares will be issued under the Scheme and each of the SAR is notionally linked to one existing H Share of the Company. Upon exercise of the Share Appreciation Rights, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H Share and the exercise price.

The Share Appreciation Rights will have an exercise period of six years from the date of grant. Upon the satisfaction of certain performance conditions after the second, third and fourth anniversary of the date of grant, each one third of the Share Appreciation Rights will become exercisable.

A dividend of RMB0.2 (equivalent to HK\$0.25) (inclusive of applicable tax) and a dividend of RMB0.05 (equivalent to HK\$0.06) per share was approved by the Company's General Meeting on May 31, 2012 and June 18, 2013, respectively. A dividend of RMB0.04 (equivalent to HK\$0.05) per share (inclusive of applicable tax) was approved by the Company's General Meeting on June 26, 2014. Therefore, the exercise price for the Share Appreciation Rights was adjusted to HK\$3.56 per share in accordance with the predetermined formula stipulated in the Scheme. During the year, 8,326,667 units of Share Appreciation Rights were forfeited.

The fair value of the liability for Share Appreciation Rights is measured using the Black-Scholes option pricing model. The risk free rate, expected dividend yield and expected volatility of the share price are used as the inputs into the model. The fair value of the liability for Share Appreciation Rights as of December 31, 2014 was RMB0(2013: RMB1,893,000) and a corresponding staff costs of RMB1,893,000 was reversed for the year ended December 31, 2014 (2013: RMB410,000).

None of our directors and senior management owns any shares or options in the Group as of April 17, 2015.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The table below sets forth information regarding the ownership of our share capital as of April 17, 2015 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

Title of Shares	Identity of Person or Group	Beneficially Owned ⁽¹⁾	Percentage of the Respective Class of Shares ⁽²⁾	Percentage of Total Shares ⁽²⁾
A shares	CSAHC	4,208,586,278	59.93%	42.87%
H shares	HKSCC Nominees Limited	1,745,649,197	62.62%	17.83%
H shares	CSAHC ⁽³⁾	1,064,770,000	38.10%	10.85%
H shares	Nan Lung Holding Limited	1,033,650,000	36.98%	10.53%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC.
- (2) Percentage of A shares and percentage of H shares is based on 7,022,650,000 A shares and 2,794,917,000 H shares, respectively, issued as of April 17, 2015. Percentage of total shares is based on 9,817,567,000 shares issued as of April 17, 2015.
- (3) Includes 31,120,000 H Shares held by Yazhou Travel Investment Company Limited, representing 1.11% of the total number of H shares and 0.32% of the total number of all outstanding shares, and 1,033,650,000 H Shares held by Nan Lung, representing 36.98% of the total number of H shares and 10.53% of the total number of all outstanding shares.

Shareholders of H Shares and A shares enjoy the same voting rights with respect to each share. None of our major shareholders has voting rights that differ from the voting rights 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 April 17, 2015, there were 48 registered holders of 2,557,552 American Depositary Shares in the United States, consisting of 4.58% of our outstanding shares. 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 CSAHC, which is an entity wholly-owned by the Chinese government.

B. Related Party Transactions

For a detailed description of our related party transactions, please see Note 48 to the Financial Statements. In particular, the following arrangements, which the Company believes are material to its operations, have been made between the Company and CSAHC and its affiliates during the year ended December 31, 2014 and up to the latest practicable date. The Company believes that these arrangements have been entered into by the Company in the ordinary course of business and in accordance with the agreements governing such transactions.

Arrangements with CSAHC

De-merger Agreement

The De-merger Agreement dated March 25, 1995 (such agreement was amended by the Amendment Agreement No.1 dated May 22, 1997) was entered into between CSAHC and the Company for the purpose of defining and allocating the assets and liabilities between CSAHC and the Company. Under the De-merger Agreement, CSAHC and the Company have agreed to indemnify the other party against claims, liabilities and expenses incurred by such other party relating to the businesses, assets and liabilities held or assumed by CSAHC or the Company pursuant to the De-merger Agreement.

Neither the Company nor CSAHC has made any payments in respect of such indemnification obligations from the date of the De-merger Agreement up to the date of this Annual Report.

Trademark License Agreement

The Company and CSAHC entered into a ten-year trademark license agreement dated May 22, 1997. Pursuant to which CSAHC acknowledges that the Company has the right to use the name "China Southern" and "China Southern Airlines" in both Chinese and English, and grants the Company a renewable and royalty free license to use the kapok logo on a worldwide basis in connection with the Company’s airline and airline-related businesses. Unless CSAHC gives a written notice of termination three months before the expiration of the agreement, the agreement will be automatically renewed for another ten-year term. In May 2007, the trademark license agreement entered into by the Company and CSAHC was automatically renewed for ten years.

Leases

The Group (as lessee) and CSAHC (as lessor) entered into lease agreements as follows:

- (1) On December 29, 2008, the Company renewed a master asset lease agreement with CSAHC with a term valid from January 1, 2009 to December 31, 2011 (the "Existing Asset Lease Agreement").

The Company and CSAHC entered into the new Asset Lease Agreement (the "New Asset Lease Agreement") on September 25, 2012 to renew the leases transactions for a term of three years from January 1, 2012 to December 31, 2014. Pursuant to the New Asset Lease Agreement, CSAHC agrees to continue to lease to the Company certain parcels of land, properties, and civil aviation structures and facilities at existing locations in Guangzhou, Haikou, Wuhan, Hengyang, Jingzhou (previously known as "Shashi"), Zhanjiang and Changsha.

The Company also entered into the individual lease agreement (the "2012 Property Lease Agreement") with CSAHC on September 25, 2012 in relation to certain fragmented leases for properties located in Harbin, Changchun, Dalian, Beijing and Shanghai as originally covered in the Existing Asset Lease Agreement for an aggregate annual rental of RMB4,437,000 for a term of two years from January 1, 2012 to December 31, 2013.

The Company further entered into the Lease Agreement of Nanyang Base Assets (the "Nanyang Asset Lease Agreement") with CSAHC on January 24, 2013 for the leases transaction relating to certain lands and properties at Nanyang Jiangying Airport as originally covered in the existing Asset Lease Agreement for the period from January 1, 2012 to December 31, 2012. The rent payable under the Nanyang Asset Lease Agreement was RMB12,441,000. As the Nanyang Asset Lease Agreement had expired and the lease transaction contemplated under the Nanyang Asset Lease Agreement would continue to be entered into on a recurring basis, the Company further entered into the 2013 Nanyang Asset Lease Agreement (the "2013 Nanyang Asset Lease Agreement") with CSAHC on April 19, 2013, pursuant to which CSAHC agreed to lease to the Company certain lands, properties, facilities and structures at Nanyang Jiangying Airport for a term of two years, commencing from January 1, 2013 to December 31, 2014.

As the lease transactions contemplated under the New Asset Lease Agreement and the 2013 Nanyang Asset Lease Agreement would continue to be entered into on a recurring basis, the Company and CSAHC entered into the new Asset Lease Agreement (the "Asset Lease Agreement") on December 29, 2014 for a term of three years from January 1, 2015 to December 31, 2017 to renew lease transactions originally covered under the New Asset Lease Agreement and the 2013 Nanyang Asset Lease Agreement. The annual rents payable to CSAHC under the Asset Lease Agreement is RMB86,268,700 for the three years ending December 31, 2017.

For the year ended December 31, 2014, the rent incurred by the Group amounted to RMB66 million pursuant to the New Asset Lease Agreement, 2013 Nanyang Asset Lease Agreement and Asset Lease Agreement.

- (2) The Company and CSAHC entered into an indemnification agreement dated May 22, 1997 in which CSAHC has agreed to indemnify the Company against any loss or damage caused by or arising from any challenge of, or interference with, the Company's right to use certain lands and buildings.
- (3) On February 14, 2011, in order to ensure normal operation of the Company, the Company, based on the actual leasing requirement, once again reviewed the land and properties contemplated under the lease, adjusted part of these projects, and engaged a real estate appraisal company to assess the rent of land, properties, structures and pipes under the lease. It then determined the rent according to the assessment and re-entered into the Land Lease Contract and the Tenancy Contract. Pursuant to the Land Lease Contract, the parties agreed that the annual rent for land from 2011 to 2013 would be RMB56,329,131. Pursuant to the Tenancy Contract, the annual rent for properties, structures and pipes leased by the Company from CSAHC from 2011 to 2013 would be RMB42,975,542.

For the year ended December 31, 2014, the rents for land lease and property lease incurred by the Group amounted to RMB40 million and RMB64 million respectively pursuant to the lease agreements.

- (4) On January 9, 2014, the Company and CSAHC have entered into two new lease agreements (the "Lease Agreements"), namely, the property lease agreement (the "Property Lease Agreement") and the land lease agreement (the "Land Lease Agreement") to renew the land and property leases transactions contemplated thereunder for the period from January 1, 2014 to December 31, 2016. Pursuant to the Property Lease Agreement, CSAHC agreed to lease certain properties, facilities and other infrastructure located in various cities such as Guangzhou, Shenyang, Dalian, Harbin, Xinjiang, Changchun, Beijing and Shanghai held by CSAHC or its subsidiaries to the Company for office use related to the civil aviation business development. The property lease transactions contemplated under the existing 2012 Property Lease Agreements have now been covered under the Property Lease Agreement so as to save resources as well as time of management of various property leases with CSAHC. Pursuant to the Land Lease Agreement, CSAHC agreed to lease certain lands located in Xinjiang, Harbin, Changchun, Dalian and Shenyang by leasing the land use rights of such lands to the Company for the purposes of civil aviation and related businesses of the Company. The maximum annual aggregate amount of rent payable by the Company to CSAHC under the Property Lease Agreement and the Land Lease Agreement for each of the three years ending December 31, 2016 shall not exceed RMB40,114,700 and RMB63,582,200, respectively, and such payment shall be made quarterly.

For the year ended December 31, 2014, the rents incurred by the Group amounted to RMB40 million and RMB64 million pursuant to the Lease Agreement and the Land Lease Agreement.

SAIETC, a wholly-owned subsidiary of CSAHC

On January 28, 2011, the Company renewed the Import and Export Agency Framework Agreement with SAIETC. The scope of cooperation under the agreement covers import and export services, custom clearing services, customs declaration and inspection services, and tendering and agency services etc. The agreement is effective for a period from January 1, 2011 to December 31, 2013, with the annual cap for the commission not exceeding RMB97,200,000.

On April 19, 2013, the Company entered into the Supplemental Agreement to the Import and Export Agency Framework Agreement dated January 28, 2011 with SAIETC to revise the maximum annual service fee payable by the Company to SAIETC for the period from January 1, 2013 to December 31, 2013 from RMB97.2 million to RMB160 million.

For the year ended December 31, 2014, the agency fee incurred by the Group in respect of the above import and export services was RMB119 million.

On January 9, 2014, the Company and SAIETC have entered into a new import and export agency framework agreement (the "New Import and Export Agency Framework Agreement") to renew the continuing connected transactions contemplated therein for a fixed term of three years commencing from January 1, 2014 to December 31, 2016. During the period of the New Import and Export Agency Framework Agreement, the annual cap shall remain at RMB160 million per annum.

Southern Airlines Culture and Media Co., Ltd. ("SACM"), which is 40% owned by the Company and 60% owned by CSAHC

On May 11, 2010, the Company renewed the Media Services Framework Agreement with SACM, for a term of three years commencing from January 1, 2010. Pursuant to the agreement, the Company has appointed SACM to provide advertising agency services, production of in-flight TV and movie program agency services, public relations services relating to recruitments of airhostess, and services relating to the distribution of newspapers and magazines. The parties have determined the various rates for providing advertising services after negotiations on an arm’s length basis, and SACM has promised that the advertising fees for which they charged the Company were all based on the prevailing market prices for similar businesses which were accepted by the Company. The annual cap under the agreement for each year is RMB40,000,000, RMB48,000,000 and RMB58,000,000, respectively.

On April 19, 2013, the Company entered into a new Media Services Framework Agreement with SACM to renew the annual cap, expand the services scope and extend the term for an additional term of three years, commencing from January 1, 2013 to December 31, 2015. Pursuant to the agreement, the Company has appointed SACM to provide advertising agency services, plotting, purchase and production of in-flight TV and movie program agency services, channel publicity and production services, public relations services relating to recruitments of airhostess, and services relating to the distribution of newspapers and magazines. The annual cap under the agreement for each year is RMB98 million, RMB105 million and RMB113 million for each of years ended December 31, 2013, 2014 and 2015, respectively.

Due to the increase in demand for the advertising services provided by XAMC, the original annual cap will no longer be sufficient to cover the transaction amount to be incurred by the Group during the remaining term of the Media Services Framework Agreement. Accordingly, the Company and SACM entered into a supplemental agreement to the Media Services Framework Agreement (the "Supplemental Agreement to the Media Services Framework Agreement") on 29 December 2014 to revise, among others, the annual cap. Pursuant to the Supplemental Agreement to the Media Services Framework Agreement, the Company and SACM have agreed to revise the annual cap for services provided by the SACM Group for the period from January 1, 2015 to December 31, 2015 from RMB113 million to RMB118.5 million.

For the year ended December 31, 2014, the media fees incurred by the Group for the media services amounted to RMB75 million.

Southern Airlines Group Finance Company Limited ("SA Finance"), which is 66% owned by CSAHC, 21% owned by the Company and 13% owned in aggregate by four subsidiaries of the Company

On November 8, 2010, the Company renewed the Financial Services Framework Agreement with SA Finance for a term of three years starting from January 1, 2011 to December 31, 2013.

Under such agreement, SA Finance agrees to provide to the Company deposit and loan services. SA Finance shall pay interests to the Company regularly at a rate not lower than the current deposit rates set by the People's Bank of China. The Group's deposits placed with SA Finance were re-deposited in a number of banks. SA Finance has agreed that the loans provided to CSAHC and its subsidiaries other than the Group should not exceed the sum of SA Finance's shareholders' equity, capital reserves and total deposits received from other companies (excluding the Group). The rates should be determined on an arm's length basis and based on fair market rate, and should not be higher than those available from independent third parties. The parties agreed that the balance of the Group's deposits placed with SA Finance (including accrued interests) should not at any time exceed RMB4,000,000,000, nor should the balance of loans borrowed from SA Finance at any time exceed the above-mentioned level. The annual cap of fees payable to SA Finance for the other financial services should not exceed RMB5,000,000.

On March 16, 2012, the Company entered into a supplemental agreement to the Financial Services Framework Agreement with SA Finance, for a term effective from May 31, 2012, the date of passing of the resolution at the General Meeting, to December 31, 2013. In line with the Company's business requirement, the parties agreed that deposit balance placed with SA Finance (including interest payable accrued thereon) in any day may not exceed RMB6,000,000,000, and the balance for provision of loan service to the Company by SA Finance (including total interests paid) in any day may not exceed the above level.

On November 8, 2013, the Company and SA Finance entered into the new Financial Services Framework Agreement for a term of three years starting from January 1, 2014 to December 31, 2016 to renew the provision of the financial services contemplated under the Financial Services Framework Agreement.

Under the new Financial Services Framework Agreement, SA Finance agrees to provide to the Company deposit services, loan services and other financial services. SA Finance shall accept deposit of money from the Group at interest rates not lower than those set by the People's Bank of China, or PBOC for the same term of deposit. SA Finance will in turn deposit the whole of such sums of money with certain stated-owned commercial banks and listed commercial banks to control the risk. SA Finance shall make loans or provide credit line services to the Group and the entering into of separate loan agreements, which will set out the terms and conditions of the loans, upon application by the Company during the term of the new Financial Services Framework Agreement. SA Finance shall not charge interest rates higher than those set by the PBOC for similar loans. The total amount of outstanding loans extended by SA Finance to CSAHC (excluding the Group) must not exceed the sum of SA Finance's shareholders' equity, capital reserves and money deposit received from other parties (except the Group). The interest rate for loans provided to the Group by SA Finance shall not be higher than the basis rate allowed by the PBOC for the same type of loan and, subject to the above, the interest rate charged on the loans to the Group shall be equal to or lower than the rate charged by normal commercial banks in the PRC for comparable loans (whichever is lower). Upon request by the Company, SA Finance shall also provide other financial services to the Group, including financial and financing consultation, credit certification and other relevant advice and agency services, insurance agency services, and other businesses which SA Finance are approved by China Banking Regulatory Commission, or CBRC to operate by entering into of separate agreements, which will set out the terms and conditions of such services. The parties agreed that the balance of the Company's deposits placed with SA Finance (including accrued interests) should not at any time exceed RMB6,000,000,000, nor should the balance of loans borrowed from SA Finance at any time exceed the above-mentioned level. The annual cap of fees payable to SA Finance for the other financial services should not exceed RMB5,000,000.

As of December 31, 2014, the Group’s deposits placed with SA Finance amounted to RMB4,264 million, the outstanding loans provided by SA Finance amounted to RMB105 million.

On November 21, 2014, Guangdong CSA E-commerce Co., Ltd. (the "E-commerce Company") entered into four electronic aviation passenger comprehensive insurance four-parties cooperation agreements (the "Cooperation Agreements") with SA Finance, Air Union Insurance Brokers (Beijing) Co., Ltd. (the "Air Union") and Ping An Property & Casualty Insurance Company of China, Ltd. Guangdong Branch, Sunshine Property and Casualty Insurance Company Limited, Taiping Pension Co., Ltd. and PICC Property and Casualty Company Limited Guangzhou Branch the Insurance Companies, respectively (the "Insurance Companies"), for a term of three years commencing from June 12, 2014 to May 31, 2017. Pursuant to the Cooperation Agreements, the E-commerce Company agreed to authorize other parties to use the B2C website, the mobile terminal air tickets sale platform and VOS sale system of the Company for sales of online insurances in consideration for a fixed service fees for each policy sold through its electronic platform. SA Finance (the only entity within the CSAHC Group holding the comprehensive insurance agent qualification which was approved by both China Banking Regulatory Commission and CIRC) shall be responsible for the general coordination and support, financial settlement and assisting the settlement for insurance claims in relation to the sales of online insurance procured by Air Union through the electronic platforms of the Company. Air Union shall act as the agent of the Insurance Companies to sell the electronic aviation passenger comprehensive insurance through the electronic platforms of the Company and the Insurance Companies shall provide the standard insurance products and corresponding consulting services, and will be responsible for the insured risks under the electronic aviation passenger comprehensive insurance. The Group will charge a fixed service fee of RMB5 for each insurance policy sold through its electronic platforms. For the year ended December 31, 2014, the service fee charged by the Group amounted to RMB20.87 million.

China Southern Air Holding Ground Services Company Limited ("GSC"), a wholly-owned subsidiary of CSAHC

The Company and GSC entered into a Sales Agency Services Framework Agreement dated January 28, 2011, which is valid from January 1, 2011 to December 31, 2013. The Company and GSC entered into a new Passenger and Cargo Sales Agency Services Framework Agreement dated November 8, 2013, which is valid from January 1, 2014 to December 31, 2016 to renew the continued cooperation with GSC. Pursuant to the new Passenger and Cargo Sales Agency Services Framework Agreement, the cooperative scope of both parties thereto mainly comprises extended businesses including air ticket sales agency services, airfreight forwarding sales agency services, chartered flight and pallets sales agency services, internal operation services for the inside storage area, and delivery services for the outside storage area. GSC charges commission with reference to the prevailing market rate. Besides, the Company has other air ticket sales agents in China who also charge commission at the same rates. GSC also acts as the ticket sales agents of other airline companies in China, and charge commission at the same rates offered to the Group. The annual transaction cap of the sales value shall not exceed RMB250,000,000.

For the year ended December 31, 2014, the commission expense and goods handling fee paid to GSC were RMB8 million and RMB46 million respectively, and the income relating to other services was RMB32 million.

Guangzhou China Southern Airlines Property Management Company Limited (the "GCSAPMC"), a wholly-owned subsidiary of CSAHC

The Company and GCSAPMC renewed the Framework Agreement for the Engagement of Property Management (the "existing Property Management Framework Agreement") on December 29, 2008 for a term of three years.

The Company has entered into a New Framework Agreement for Engagement of Property Management (the "New Property Management Framework Agreement") on December 28, 2012 to renew the property management transactions for a term of three years from January 1, 2012 to December 31, 2014. Pursuant to the New Property Management Framework Agreement, the Company has renewed the appointment of GCSAPMC for provision of property management and maintenance services for the Company’s leased properties in the airport terminal, the base and the 110KV transformer substation at the new Baiyun International Airport (other than certain properties in the Company’s headquarter located in the old Baiyun Airport which were covered in the existing Property Management Framework Agreement) to ensure the ideal working conditions of the Company’s production and office facilities and physical environment, and the normal operation of equipment.

The Company has further entered into the airport property management framework agreement (the "Airport Property Management Framework Agreement") on January 11, 2013 to renew the property management at the old Baiyun Airport for a term of three years from January 1, 2012 to December 31, 2014. Pursuant to the Airport Property Management Framework Agreement, the Company has renewed the appointment of GCSAPMC for the provision of property management and maintenance services for the Company’s properties at the old Baiyun Airport and surrounding in Guangzhou.

The fee charging schedule (or charge standard) under the New Property Management Framework Agreement and the Airport Property Management Framework Agreement shall be determined on an arm’s length basis between both parties, and shall not be higher than the one charged by any independent third parties in the similar industry. The annual cap for the New Property Management Framework Agreement and the Airport Property Management Framework Agreement are set at RMB32,750,000 and RMB22,250,000, respectively.

On December 31, 2013, the Company further entered into an agreement supplemental to the New Property Management Framework Agreement (the "New Property Management Supplemental Agreement") and an agreement supplemental to the Airport Property Management Framework Agreement (the "Airport Property Management Supplemental Agreement"). Pursuant to the New Property Management Supplemental Agreement, the parties have agreed to revise the services fee in relation to the provision of property management and maintenance services by GCSAPMC for the Company’s leased properties at the airport terminal, the base and the 110KV transformer substation at the new Baiyun International Airport from RMB32,750,000 per annum to RMB42,700,000 per annum for the year ended December 31, 2014. Pursuant to the Airport Property Management Supplemental Agreement, the parties have agreed to revise the services fee in relation to provision of property management and maintenance services by GCSAPMC for the Company’s several properties at the old Baiyun Airport and surrounding in Guangzhou from RMB22,250,000 per annum to RMB27,300,000 per annum for the year ended December 31, 2014.

As the transactions contemplated under the New Property Management Framework Agreement and the Airport Property Management Framework Agreement will continue to be entered into on a recurring basis, the Company entered into the new Property Management Framework Agreement (the "Property Management Framework Agreement") with ise the services fee in relation to the provision of property management and maintenance services by GCSAPMC on December 29, 2014 to renew the property management transactions originally covered under the New Property Management Framework Agreement and the Airport Property Management Framework Agreement for a term of three years from January 1, 2015 to December 31, 2017. The annual cap for the Property Management Framework Agreement is set at RMB90 million, RMB92 million and RMB96 million for the three years ending December 31, 2015, 2016 and 2017, respectively.

For the year ended December 31, 2014, the property management and maintenance fee incurred by the Group amounted to RMB61 million pursuant to the New Property Management Framework Agreement, the Airport Property Management Framework Agreement and the Property Management Framework Agreement.

Shenzhen Air Catering Co., Ltd. (the "SACC"), which is 50.1% owned by CSAHC

The Company entered into a Catering Services Framework Agreement with Shenzhen Air Catering Co., Ltd., a non-wholly-owned subsidiary of CSAHC on April 19, 2013 for a term of three years, commencing from January 1, 2013 to December 31, 2015, pursuant to which SACC agrees to provide the in-flight lunch box, and order, supply, allot, recycle, store and install the in-flight supply with their respective services for the arrival and departure flights designated by the Group at the airport where SACC located at. The maximum annual aggregate amount of the services fee payable by the Company to SACC shall not exceed RMB100 million, RMB115 million and RMB132.5 million for each of the years ended December 31, 2013, 2014 and 2015, respectively.

For the year ended December 31, 2014, the services fee incurred by the Group for the catering services amounted to RMB89 million.

Zhuhai MTU, which is 50% owned by CSAHC

The Company entered into an agreement relating to continuing connected transactions with CSAHC, MTU Aero Engines GmbH ("MTU GmbH") and Zhuhai MTU on September 28, 2009, by which Zhuhai MTU shall continue to provide the Company with engine repair and maintenance services subject to the international competitiveness and at the net most favorable terms, while the Company shall make relevant payment to Zhuhai MTU according to related charging standard. The agreement is effective from its date to April 5, 2031. The maximum aggregate annual consideration for the continuing connected transactions under the above agreement were disclosed in the announcement of the Company dated September 28, 2009 and such maximum aggregate annual consideration for the year ended December 31, 2012 is RMB1.2 billion.

For the year ended December 31, 2014, the Group’s engine repair and maintenance service fees incurred under the agreement amounted to RMB780 million.

Sale of Aircraft to Hebei Airlines Company Limited ("Hebei Airlines") by Xiamen Airlines

On September 26, 2012, the Board announced that Xiamen Airlines and Hebei Airlines entered into the Aircraft Sale Agreement, pursuant to which Xiamen Airlines agreed to sell and Hebei Airlines agreed to purchase one B737-800 aircraft at the consideration of approximately RMB257 million.

Acquisition of 95.4% Equity Interests in Hebei Airlines by Xiamen Airlines

On October 13, 2014, the Board announced that Xiamen Airlines and Hebei Airlines Investment Group Company Limited (the "Hebei Airlines Investment") entered into an agreement, pursuant to which Hebei Airlines Investment agreed to sell and Xiamen Airlines agreed to purchase 95.4%% equity interests (the "Targeted Equity Interests") in Hebei Airlines at the consideration of RMB680 million (the "Acquisition"). Hebei Airlines is a company incorporated in the PRC and its principal business activity is that of operation of international and domestic air routes, and cargo, mail and luggage transportation business; agency business between airlines; service business related to air transportation; provision of general aviation services; aircraft management business; aircraft maintenance; agency business between airlines, and ground service and air express (except mails and items with mail nature) related to the principal business; in-flight duty free goods; aircraft leasing and sales agent for aviation accident insurance; aviation food producing and sale, insurance industry and agency services; other aviation business and related business, including advertising for such businesses; logistics, trading and storage.

The audited and unaudited net asset value of Hebei Airlines as of December 31, 2013 and August 31, 2014 was approximately RMB 1,305.84 million and RMB 1,181.36 million, respectively. According to the valuation report dated June 30, 2014 prepared by Beijing Zhong Qi Hua Assets Valuation Co., Ltd. (an independent qualified valuer in the PRC), the appraisal value of the total equity interests of Hebei Airlines amounted to RMB831,293,200 as of April 30, 2014. As such, the appraisal value of the Targeted Equity Interests amounted to RMB793,053,700 as of April 30, 2014. The consideration of RMB 680 million is determined after an arm’s length negotiation between the parties in accordance with prevailing market conditions and after taking into account, inter alia, the net asset value of Hebei Airlines and the abovementioned appraisal value of the Targeted Equity Interests as of April 30, 2014.

The Company believes that the Acquisition can help the Group to further develop the aviation market in Hebei, facilitate the integration of the North China market by Xiamen Airlines and improve its domestic route network; the Acquisition will also achieve the synergies of Xiamen Airlines and Hebei Airlines to strengthen their market positions, so as to further enhance the competitiveness of the Company, Xiamen Airlines and Hebei Airlines as a whole.

Sale of 51% Equity Interests in XAMC

On June 29, 2012, the Board announced that Xiamen Airlines and SACM entered into an agreement, pursuant to which Xiamen Airlines agreed to sell and SACM agreed to purchase 51% equity interests in XAMC at the consideration of RMB43.12 million. The Company believes that the disposal of the 51% equity interests in XAMC can promote the integration of media resources owned by SACM and XAMC, and they can achieve a better development by mutual use of the platforms and resources owned by each other. As XAMC shall be owned as to 49% by Xiamen Airlines, Xiamen Airlines shall continue to benefit from long-term development of XAMC.

Subscription of New A Shares by CSAHC

On June 11, 2012, the Board approved the proposed issuance of not more than 487,804,878 new A Shares (after the adjustment with reference to the profit distribution proposal for 2011) to CSAHC at the subscription price of RMB4.10 (after the adjustment with reference to the profit distribution proposal for 2011) per A Share (the "Non-public A Share Issue"). The proceeds to be raised from the proposed Non-public A Share Issue will be not more than RMB2 billion. CSAHC entered into the Subscription Agreement with the Company, pursuant to which CSAHC has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue not more than 487,804,878 new A Shares for an aggregate consideration of not more than RMB2 billion, equivalent to the subscription price of RMB4.10 per new A Share (the "Subscription"). As of August 9, 2013, the relevant work regarding the 2012 Non-public A Share Issue of the Company has not been completed. The proposal for the 2012 Non-public A Share Issue of the Company and A Shares subscription agreement therefore were lapsed automatically due to the expiration of the resolution passed at the general meeting.

All related party transactions have been approved by Independent Non-executive Directors.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Our audited consolidated financial statements are set forth beginning on page F-1, which can be found after Item 19.

Legal Proceedings

The Company received a claim on July 11, 2011 from an overseas entity (the “claimant”) against the Company for the alleged breach of certain terms and conditions of an aircraft sale agreement for aircraft sold by the Company to the claimant. The claimant claimed against the Company for damages in the sum of approximately USD46 million or for the refund of its down payments of approximately USD12 million paid to the Company, and also interest thereon which is to be calculated in accordance with Section 35A, Supreme Court Act 1981 of the United Kingdom. In 2012, the claimant subsequently changed its claim for the refund of the down payment to approximately USD14 million. On July 25, 2013, the High Court of England and Wales dismissed the claimant’s claim in its entirety but awarded damages in the sum of approximately USD28 million, interest thereon and also legal costs to the Company in respect of its counterclaim made against the claimant. The claimant appealed to the Court of Appeal and on December 17, 2014, the Court of Appeal dismissed the claimant’s appeal but varied the award of damages to the Company from USD28 million to USD18 million. The Court of Appeal also ordered the claimant to pay the Company’s costs of the appeal. The claimant has applied for permission to further appeal the case to the Supreme Court but the application has been rejected by both the Court of Appeal and the Supreme Court. Based on existing information available, the Directors are of the opinion that an outflow of resource embodying economic benefits is not probable to occur.

On 31 May 2014, the Company received a notice from the International Court of Arbitration of International Chamber of Commerce (“ICC”). The notice states that SASOF TR-81 AVIATION IRELAND LIMITED (the “lessor”) has applied for arbitration for the alleged breach of certain terms and conditions of an aircraft leasing agreement. The lessor has made a claim against the Company for an indemnity of approximately USD13 million, including the compensation for engine thrust upgrade damages, life components of engine, reserves of engines, cost of termination of the lease, external legal counsel’s remuneration and the interest thereon. On July 31, 2014, the Company has established a team to handle this arbitration and applied to ICC for a counter claim to request the lessor to compensate the Company for insurance fees amounting to USD8.2 million, deposits, default penalty, extra technical support fees and legal expenses and the interest thereon. As of the date of this report, the arbitration is still in preliminary preparation phase and the arbitration session is expected to be held in early 2016. The Company cannot reasonably predict the result and potential impact of this pending arbitration. Therefore, no additional provision has been made against this pending arbitration.

Dividend Information

A dividend in respect of the year ended December 31, 2014 of RMB0.4 (inclusive of applicable tax) per ten shares, amounting to a total dividend of RMB393 million was proposed by the Directors on March 30, 2015. The final dividend proposed after the end of the financial year has not been recognized as a liability at the end of the financial year.

Our Board declares dividends, if any, in Renminbi with respect to H Shares on a per share basis and pays such dividends in Hong Kong dollars. Any final dividend for a fiscal year is subject to shareholders’ approval. Bank of New York Mellon, as depositary, converts the HK dollar dividend payments and distributes them to holders of ADSs in U.S. dollars, less expenses of conversion. Under the Company Law of the PRC 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, if any, based on the foreign exchange conversion rate published by the People’s Bank of China, or 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, 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 may deem relevant.

Pursuant to PRC laws and regulations and the Articles of Association of the Company, 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 GAAP. 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

No significant changes have occurred since the date of the consolidated financial statements.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

The principal trading market for the Company’s H Shares is the Hong Kong Stock Exchange, and the Company’s trading code is "1055". The Company completed its initial public offering of H Shares on July 30, 1997. The ADRs, each representing 50 H Shares, have been listed for trading on the New York Stock Exchange since July 31, 1997, under the symbol "ZNH".

The principal trading market for the Company’s A Shares is the Shanghai Stock Exchange with trading code of "600029". On July 25, 2003, the Company completed its initial public offering of A Shares.

Set forth below for the periods indicated are the high and low sales prices of H Shares on the Hong Kong Stock Exchange, ADRs on the New York Stock Exchange and A Shares on the Shanghai Stock Exchange.

	The Hong Kong Stock Exchange Price per H Share (HK\$)		The New York Stock Exchange Price per ADR (US\$)		The Shanghai Stock Exchange Price per A Share (RMB)	
	High	Low	High	Low	High	Low
<i>Annual Market Prices</i>						
Fiscal Year ended December 31, 2010	5.91	2.47	38.65	15.98	12.58	5.84
Fiscal Year ended December 31, 2011	5.37	3.08	35.40	20.02	10.13	4.57
Fiscal Year ended December 31, 2012	4.54	3.22	29.72	20.20	5.48	3.28
Fiscal Year ended December 31, 2013	4.43	2.61	30.04	17.09	4.3	2.54
Fiscal Year ended December 31, 2014	3.90	2.23	25.17	14.53	5.93	2.26
<i>Quarterly Market Prices</i>						
Fiscal Year ended December 31, 2013						
First Quarter	4.68	3.89	30.04	25.15	4.21	3.64
Second Quarter	4.43	2.94	28.89	19.67	3.70	2.68
Third Quarter	3.14	2.61	20.63	17.09	3.23	2.54
Fourth Quarter	3.48	2.69	22.19	17.95	3.01	2.66
Fiscal Year ended December 31, 2014						
First Quarter	3.08	2.47	19.58	15.91	2.72	2.48
Second Quarter	2.64	2.23	16.68	14.53	2.60	2.26
Third Quarter	2.88	2.39	18.29	15.00	2.99	2.31
Fourth Quarter	3.90	2.49	25.17	15.97	5.93	2.81
<i>Monthly Market Prices</i>						
October 2014	2.81	2.49	18.13	15.97	3.19	2.81
November 2014	3.52	2.84	22.53	18.28	4.14	3.38
December 2014	3.90	3.47	25.17	22.48	5.93	4.55
January 2015	4.25	3.64	23.34	27.76	5.75	4.88
February 2015	4.05	3.60	23.42	25.80	5.18	4.49
March 2015	5.45	3.54	36.04	22.52	8.52	4.84
April 2015 (up to April 17, 2015)	7.89	6.00	52.58	38.37	9.94	8.14

- B. Plan of Distribution
- Not applicable.
- C. Markets
- See "Offer and Listing Details" above.

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 summary of certain provisions of our Articles of Association. As this is a summary, it does not contain all the information that may be important to you. You and your advisors should read the text of our most updated Articles of Association for further information, which is filed as an exhibit to this Annual Report.

General

The Company is registered with and has obtained a business license from the State Administration Bureau of Industry and Commerce of the People’s Republic of China on March 25, 1995. On March 13, 2003, the Company obtained an approval certificate from the Ministry of Commerce to change to a permanent limited company with foreign investments.

Other Senior Administrative Officers

Pursuant to the Article 16 of the Articles of Association, other senior administrative officers of the Company refer to executive vice president, chief financial officer, the board secretary, chief economist, chief engineer, chief pilot, and chief legal adviser and chief information officer.

Objects and Purposes

Pursuant to the Article 18 of the Articles of Association, the scope of business of the Company includes: (I) provision of scheduled and non-scheduled domestic, regional and international air transportation services for passengers, cargo, mail and luggage; (II) undertaking general aviation services; (III) provision of aircraft repair and maintenance services; (IV) acting as agent for other domestic and international airlines; (V) provision of air catering services; (VI) provision of hotel business; (VII) acting as sale agent for aircraft leasing and aviation accident insurance; (VIII) engaging in other airline or airline-related business, including advertising for such services; and (IX) insurance agency business. (subject to approved of State Administration of Industry and Commerce).

Directors

Pursuant to Article 243 of the Articles of Association, where a Director of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company, other than his contract of service with the Company, he 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. For the purposes of this Article, a director is deemed to be interested in a contract, transaction or agreement in which an associate of him is interested.

Pursuant to Article 173 of the Articles of Association, where a Director is interested in any resolution proposed at a board meeting, such Director shall not be present and shall not have a right to vote. Such Director shall not be counted in the quorum of the relevant meeting. Such directors also shall not vote on behalf of other directors. Board meetings may be convened by more than half of the directors who are not interested in the proposal. Resolutions of board meetings shall be passed by more than half of directors who are not interested in the proposal.

Pursuant to Article 251 of the Articles of Association, the Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with a Director wherein his emoluments are stipulated. The aforesaid emoluments include, emoluments in respect of his service as Director, Supervisor or senior administrative officer of the Company or any subsidiary of the Company, emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries, and payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office. There is no specific provisions concerning a director’s power, in the absence of an independent quorum, to vote compensation to themselves or any members of their body, other than the above Article 173 with respect to a director’s voting power in matters he is materially interested.

Ordinary Shares

Pursuant to Article 26 of the Articles of Association, subject to the approval of the securities authority of the State Council, the Company may issue and offer shares to domestic investors or foreign investors for subscription. Foreign investors are those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for shares issued by the Company. Domestic investors are those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for shares issued by the Company.

Pursuant to Article 27 of the Articles of Association, shares issued by the Company to domestic investors for subscription in Renminbi shall be referred to as "Domestic-Invested Shares". Shares issued by the Company to foreign investors for subscription in foreign currencies shall be referred to as "Foreign-Invested Shares". Foreign-Invested Shares which are listed overseas are called "Overseas-Listed Foreign-Invested Shares". The foreign currencies mean the legal currencies (apart from Renminbi) of other countries or districts which are recognized by the foreign exchange control authority of the state and can be used to pay the Company for the share price.

Pursuant to Article 28 of the Articles of Association, Domestic-Invested Shares issued by the Company are called "A Shares". Overseas-Listed Foreign-Invested Shares issued by the Company and listed in Hong Kong are called "H Shares". H Shares are shares which have been admitted for listing on the Stock Exchange of Hong Kong Limited, the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars. H Shares can also be listed on a stock exchange in the United States of America in the form of ADR. Shares issued by the Company, including A Shares and H Shares, are all ordinary shares.

Pursuant to Article 62 of the Articles of Association, the ordinary shareholders of the Company shall enjoy the following rights:

- (1) the right to attend or appoint a proxy to attend shareholders’ general meetings and to vote thereat;
- (2) the right to dividends and other distributions in proportion to the number of shares held;
- (3) the right of supervisory management over the Company’s business operations, and the right to present proposals or enquiries;

- (4) the right to transfer, donate or pledge his shares in accordance with laws, administrative regulations and provisions of these Articles of Association;
- (5) the right of knowledge and decision making power with respect to important matters of the Company in accordance with laws, administrative regulations and these Articles of Association;
- (6) the right to obtain relevant information in accordance with the provisions of these Articles of Association, including:
 - (i) the right to obtain a copy of these Articles of Association, subject to payment of the cost of such copy;
 - (ii) the right to inspect and copy, subject to payment of a reasonable charge;
 - (iii) all parts of the register of shareholders;
 - (a) personal particulars of each of the Company’s directors, supervisors, president and other senior administrative officers, including:
 - (aa) present name and alias and any former name or alias;
 - (bb) principal address (residence);
 - (cc) nationality;
 - (dd) primary and all other part-time occupations and duties;
 - (ee) identification documents and their relevant numbers;
 - (b) state of the Company’s share capital;
 - (c) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of last accounting year and the aggregate amount paid by the Company for this purpose;
 - (d) minutes of shareholders’ general meetings; and
 - (e) interim and annual reports of the Company.
- (7) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company in accordance with the number of shares held; and
- (8) other rights conferred by laws, administrative regulations and these Articles of Association.

According to Article 266, dividends shall be distributed in accordance with the proportion of shares held by shareholders.

According to Article 67 of the Articles of Association, shareholders of the company have the obligation not to withdraw their shares unless required by laws and regulations.

According to Article 37 of the Articles of Association, the Company may repurchase its issued shares under the following circumstances: (1) cancellation of shares for the reduction of its capital; (2) merging with another company that holds shares in the Company; (3) awarding its employees with shares; (4) at the request of the dissenting shareholders; and (5) other circumstances permitted by laws and administrative regulations.

According to Article 41 of the Articles of Association, unless the Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued shares: (1) where the Company repurchases shares of the Company at par value, payment shall be made out of book surplus distributable profits of the Company or out of proceeds of a fresh issue of shares made for that purpose; (2) where the Company repurchases shares of the Company at a premium to its par value, payment up to the par value may be made out of the book surplus distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose; and (3) payment by the Company in consideration of the following shall be made out of the Company’s distributable profits: (i) acquisition of rights to repurchase shares of the Company; (ii) Variation of any contract to repurchase shares of the Company; and (iii) release of any of the Company’s obligation under any contract to repurchase shares of the Company.

According to Article 263 of the Articles of Association, when distributing each year’s after-tax profits, the Company shall set aside 10% of such profits for the Company’s statutory common reserve fund, except where the accumulated balance of the said fund has reached 50% of the Company’s registered capital. After the Company has allocated its after-tax profits to the statutory common reserve fund, it may, with the approval of the shareholders by way of resolution in a shareholders’ general meeting, further allocate its after-tax profits to the discretionary common reserve fund.

According to Article 67 of the Articles of Association, shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

The Articles of Association does not have specific provisions discriminating against any existing or prospective holder of such securities as a result of other shareholders owning a substantial number of shares.

Action Necessary to Change Rights of Shareholders

Pursuant to Article 151 of the Articles of Association, shareholders who hold different classes of shares are shareholders of different classes. The holders of the Domestic Shares and holders of Overseas Listed Foreign Shares are deemed to be shareholders of different classes.

Pursuant to Article 152 of the Articles of Association, rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting.

Pursuant to Article 154 of the Articles of Association, shareholders of the affected class, whether or not otherwise having the right to vote at shareholders’ general meetings, shall nevertheless have the right to vote at class meetings in respect of the following matters: (i) to effect an exchange of all or part of the shares of such class into shares of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class; (ii) to restrict the transfer or ownership of the shares of such class or add to such restriction; (iii) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and (iv) to vary or abrogate the provisions of these Articles of Association. However, interested shareholder(s) shall not be entitled to vote at class meetings.

Pursuant to Article 155 of the Articles of Association, resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote at class meetings.

Pursuant to Article 156 of the Articles of Association, written notice of a class meeting shall be given forty-five days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to the Company twenty days before the date of the class meeting. If the number of shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches more than one half of the voting shares at the class meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the date and the place for the class meeting. The Company may then hold the class meeting after such publication of notice.

Pursuant to Article 157 of the Articles of Association, notice of class meetings need only be served on shareholders entitled to vote thereat. Meeting of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of these Articles of Association relating to the manner to conduct any shareholders’ general meeting shall apply to any meeting of a class of shareholders.

Meetings of Shareholders

According to Article 78, shareholders’ general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders’ general meetings shall be convened by the Board of Directors. Annual general meetings are held once every year and within six months from the end of the preceding financial year.

According to Article 79, under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months: (1) the number of directors is less than that is required by the Company Law or two thirds of the number of directors specified in these Articles of Association; (2) the accrued losses of the Company amount to one third of the total amount of its share capital; (3) shareholder(s) individually or jointly holding 10% or more of the Company’s issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting; (4) it is deemed necessary by the Board of Directors or requested by the supervisory committee to convene an extraordinary general meeting; (5) more than one half of the independent directors propose to convene the meeting.

According to Article 91 of the Articles of Association, notice of a shareholders’ general meeting shall be given by way of announcement or by any other manner as provided in these Articles of Association (if necessary), not less than forty-five days (including forty-five days) before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered, the date and the place of the meeting.

According to Article 92 of the Articles of Association, the Company shall, based on the written replies received twenty days before the date of the shareholders’ general meeting from the shareholders, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches one half or more of the Company’s total voting shares, the Company may hold the meeting; if not, then the Company shall within five days notify the shareholders again by public notice of the matters to be considered, the place and date for, the meeting. The Company may then hold the meeting after such publication of notice.

Limitation on Right to Own Securities

The Articles of Association does not specifically provide for the limitations on the rights to own securities by certain shareholders, however, the PRC Special Regulations on Overseas Offering and the Listing of Shares by Companies Limited by Share (the "Special Regulations") and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") provide for different classes of shares to be subscribed for and traded by local and overseas investors respectively. Shares which can be traded by overseas investors must be in registered form and while denominated in Renminbi, they are traded in foreign currency with dividends payable in foreign currency. Local investors are prohibited from dealing in such shares.

Merger, Acquisition or Corporate Restructuring

Pursuant to Article 291 of the Articles of Association, in the event of the merger or division of the Company, a plan shall be presented by the Company’s Board of Directors and shall be approved in shareholders’ general meeting and the relevant examining and approving formalities shall be processed as required by law. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire that dissenting shareholder’s shareholding at a fair price. The contents of the resolution of merger or division of the Company shall be made into special documents for shareholders’ inspection. Such special documents shall be sent by mail to holders of Overseas-Listed Foreign-Invested Shares.

Ownership to Be Disclosed

The Articles of Association do not contain any provisions governing the ownership threshold above which shareholder ownership must be disclosed.

C. Material Contracts

Other than such contracts as are described in our disclosure in Item 4 "Information on the Company" and Item 7 "Related Party Transactions", we have not entered into any material contracts outside the ordinary course of our business within the two years preceding the date of this annual report.

D. Exchange Controls

Under current Chinese foreign exchange regulations, Renminbi is fully convertible for current account transactions, but is not freely convertible for capital account transactions. Current account foreign currency transactions can be undertaken without prior approval from the relevant Chinese government agencies by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign currency transactions. Conversion from Renminbi into a foreign currency or vice versa for purposes of capital account transactions requires prior approvals of relevant Chinese government agencies. This restriction on capital account transactions could affect the ability of the Company to acquire foreign currency for capital expenditures.

The Company is generally required by law to sell all its foreign currency revenues to Chinese banks. The Company may purchase foreign currency directly from Chinese banks for any current account transactions, such as trade transactions in its usual and normal course of business, including acquisition of aircraft, jet fuel and flight equipment (such acquisition requires approvals from the relevant Chinese government agencies). Payment of dividends by the Company to holders of the Company’s H Shares and ADRs is also considered a current account transaction under Chinese law. Therefore, there is no legal restriction on the conversion of Renminbi into foreign currency for the purpose of paying dividends to such holders of H Shares and ADRs. In addition, the Company’s Articles of Association require the Company to pay dividends to holders of the Company’s H Shares and ADRs in foreign currency.

On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar so that the Renminbi is now permitted to fluctuate within a band against a basket of certain foreign currencies. On May 18, 2007, the People’s Bank of China announced that the floating band of Renminbi trading prices against U.S. dollar in the inter-bank spot foreign exchange market would be permitted to rise or fall by as much as 0.5%. The floating band was subsequently expanded to 1% by the People’s Bank of China, effective from April 16, 2012.

The PRC government has stated publicly that it intends to further liberalize its currency policy, which could result in a further and more significant change in the value of the Renminbi against the U.S. dollar. Any significant revaluation of the Renminbi may have a material adverse effect on the Company’s financial performance, and the value of, and any dividends payable on, the Company’s H Shares and ADRs in foreign currency terms.

Other Limitations

There are no limitations on the right of non-resident or foreign owners to hold or vote H Shares or ADRs imposed by Chinese law or by the Articles of Association or other constituent documents of the Company. However, under current Chinese law, foreign ownership of the Company may not exceed 49%.

Chinese Taxation

The following is a general summary of certain Chinese tax consequences of the acquisition, ownership and disposition of A Shares, H Shares and ADRs. This summary is based upon tax laws of China as in effect on the date of this Annual Report, including the income tax treaty between the United States and China (the "U.S.-PRC Tax Treaty"), all of which are subject to change or different interpretation.

In general, for Chinese tax purposes, holders of ADRs will be treated as the owners of the H Shares represented by those ADRs, and exchanges of H Shares for ADRs, and ADRs for H Shares, will not be subject to taxation under the laws of China.

This summary does not purport to address all material tax consequences for holders or prospective purchasers of A Shares, H Shares or ADRs, and does not take into account the specific circumstances of such investors. Investors should consult their own tax advisors as to Chinese or other tax consequences of the acquisition, ownership and disposition of A shares, H Shares or ADRs.

As a result of the new corporate income tax law, the statutory corporate income tax rate adopted by the Company and its subsidiaries has been changed from 33% to 25% with effect from January 1, 2008. Pursuant to new corporate income tax law, the corporate income tax rates of entities that previously enjoyed preferential tax rates of 15% have been revised to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

Dividends

The new corporate income tax law and its relevant regulations generally provide for the imposition of a withholding tax on dividends paid by a Chinese company to a non-resident enterprise at a rate of 10%.

China currently has double-taxation treaties with a number of countries, such as Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Under the U.S.-PRC Tax Treaty, China may tax a dividend paid by the Company to a U.S. holder up to a maximum of 10% of the gross amount of such dividend.

For individuals, Chinese tax law generally provides that an individual who receives dividends from Chinese companies is subject to a 20% individual income tax. A 50% reduction of taxable income is granted by Chinese tax law for an individual receiving dividends from a listed company on Shanghai Stock Exchange or Shenzhen Stock Exchange. As a result, the effective tax rate for dividends received by A share individual holder is 10% in 2012. Dividend income received by any foreign individual that holds overseas shares in Chinese enterprise is generally subject to individual income tax at a flat rate of 20%, subject to exemption or reduction by an applicable double-taxation treaty.

Capital Gains from Transfer or Disposition of Shares

The new corporate income tax law and its relevant regulations generally provides that a non-resident enterprise is subject to a 10% capital gains tax for the transfer or disposition of shares of a Chinese company.

For individual shareholders, Chinese tax law generally provide that an individual who transfers or otherwise disposes of a company’s shares of capital stock is subject to a 20% individual income tax on the capital gain, if any. Currently, all individuals are temporarily exempt from individual income tax on transfers of shares of joint stock companies listed on Shanghai Stock Exchange or Shenzhen Stock Exchange, such as the Company. Should such temporary exemption be discontinued, such holders may be subject to a 20% individual income tax on the capital gain, if any, unless reduced by an applicable double-taxation treaty.

United States Federal Income Taxation

This discussion describes general U.S. federal income tax consequences of the purchase, ownership and disposition of the Company’s ADRs. This discussion does not address any aspect of U.S. federal gift or estate tax, or the state, local or foreign tax consequences of an investment in the Company’s ADRs. This discussion applies to you only if you hold and beneficially own the Company’s ADRs as capital assets for tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or other financial institutions;
- insurance companies;
- tax-exempt organizations, retirement plans, individual retirement accounts or tax deferred accounts;
- partnerships or other pass-through entities (including entities treated as partnerships for U.S. federal income tax purposes) or persons holding ADRs through any such entities;
- persons that hold ADRs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons who are U.S. expatriates;
- persons liable for alternative minimum tax; or
- persons who directly, indirectly or constructively own 10% or more of the total combined voting power of all classes of the Company’s shares (including ADRs) entitled to vote.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, which is referred to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on the assumptions regarding the value of the Company’s shares and the nature of its business over time. Finally, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. For U.S. federal income tax purposes, as a holder of ADRs, you are treated as the owner of the underlying ordinary shares represented by such ADRs.

The discussions and comments included herein are only a general description of the tax aspects and they do not constitute a tax advice or opinion. Therefore, you should consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of the Company’s ADRs, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

For purposes of the U.S. federal income tax discussion below, you are a "U.S. Holder" if you beneficially own ADRs and are:

- a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any political subdivision thereof;

- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

If you are not a U.S. person, please refer to the discussion below under "Non-U.S. Holders."

U.S. Holders

Dividends on ADRs

Subject to the Passive Foreign Investment Company ("PFIC") discussion below, if the Company makes distributions and you are a U.S. Holder, the gross amount of any distributions you receive on your ADRs will generally be treated as dividend income if the distributions are made from the Company's current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. Dividends will generally be subject to U.S. federal income tax as ordinary income on the day you actually or constructively receive such income. However, if you are an individual and have held your ADRs for a sufficient period of time, dividend distributions on the Company's ADRs will generally constitute qualified dividend income taxed at a preferential rate as long as the Company is not treated as a PFIC, the Company's ADRs continue to be readily tradable on the New York Stock Exchange and certain other conditions apply. You should consult your own tax adviser as to the rate of tax that will apply to you with respect to dividend distributions, if any, you receive from us.

Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in the ADRs and thereafter as capital gain. However, the Company does not intend to maintain calculations of its earnings and profits in accordance with U.S. federal income tax principles, so each U.S. Holder should therefore assume that any distribution by the Company with respect to the ADRs will constitute ordinary dividend income. Even if you are a corporation, you will not be entitled to claim a dividends-received deduction with respect to distributions you receive from the Company. Dividends generally will constitute foreign source passive income for U.S. foreign tax credit limitation purposes. You should consult your own tax advisor to determine the foreign tax credit implications of owning ADRs.

Sales and other dispositions of ADRs

Subject to the PFIC discussion below, when you sell or otherwise dispose of the Company's ADRs, you will generally recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ADRs, both as determined in U.S. dollars. Your adjusted tax basis will generally equal the amount you paid for the ADRs. Any gain or loss you recognize is long-term capital gain or loss if your holding period in the Company's ADRs is more than one year at the time of disposition. If you are an individual, any such long-term capital gain is eligible for preferential rates. Your ability to deduct capital losses is subject to various limitations.

Passive Foreign Investment Company

If the Company is currently or were to become a PFIC, as a U.S. Holder, you would generally be subject to adverse U.S. tax consequences, in the form of increased tax liabilities and special U.S. tax reporting requirements.

The Company will be classified as a PFIC in any taxable year if either: (1) the average value during the taxable year of its assets that produce passive income, or are held for the production of passive income, is at least 50% of the average value of its total assets for such taxable year (the "Asset Test"); or (2) 75% or more of its gross income for the taxable year is passive income (such as certain dividends, interest or royalties)(the "Income Test"). For purposes of the Asset Test: (1) any cash, cash equivalents, and cash invested in short-term, interest bearing, debt instruments, or bank deposits that is readily convertible into cash, will generally count as producing passive income or as being held for the production of passive income; and (2) the average values of the Company's passive and total assets is calculated based on its market capitalization. In the case of publicly traded corporations, fair market value must be used for purposes of applying the Asset Test. In addition, regarding the above two tests, there are complex look-through rules to consider with respect to the assets and activities of related corporations from which the Company either receives income or in which it holds an interest. More specifically, certain adjustments are made to exclude certain income received from a related party or to include income earned and assets held by a 25% or more owned subsidiary in determining whether the Company qualifies as a PFIC under the two tests. In particular: 1) passive income received from a related party is excluded if it is properly allocable to the non-passive income of the related party, and 2) if the Company owns directly or indirectly 25% or more of the stock of another corporation, the Company is treated as if it owned directly a proportionate share of that corporation's assets and income.

The Company believes that it was not a PFIC for the taxable year 2014. However, there can be no assurance that the Company will not be a PFIC for the taxable year 2015 and/or later taxable years, as PFIC status is re-tested each year and depends on the facts in such year. For example, the Company would be a PFIC for the taxable year 2014 if the sum of its average market capitalization, which is its share price multiplied by the total amount of its outstanding shares, and its liabilities over that taxable year is not more than twice the value of its cash, cash equivalents, and other assets that are readily converted into cash.

If the Company were a PFIC, you would generally be subject to additional taxes and interest charges on certain "excess distributions" the Company makes regardless of whether the Company continues to be a PFIC in the year in which you receive an "excess distribution". An "excess distribution" would be either (1) the excess amount of a distribution with respect to ADRs during a taxable year in which distributions to you exceed 125% of the average annual distributions to you over the preceding three taxable years or, if shorter, your holding period for the ADRs, or (2) 100% of the gain from the disposition of ADRs.

To compute the tax on "excess" distributions or any gain, (1) the "excess distribution" would be allocated ratably to each day in your holding period, (2) the amounts allocated to the current year and to any tax year before the first day on which the Company became a PFIC would be taxed as ordinary income in the current year, (3) the amount allocated to other taxable years would be taxable at the highest applicable marginal rate in effect for that year, and (4) an interest charge at the rate for underpayment of U.S. federal income tax for any period described under (3) above would be imposed with respect to any portion of the "excess" distribution that is allocated to such period. In addition, if the Company were a PFIC, no distribution that you receive from the Company would qualify for taxation at the preferential rate discussed in the "Dividends on ADRs" section above.

If the Company were a PFIC in any year, as a U.S. Holder, you would be required to make an annual return on IRS Form 8621 "Information Return by a Shareholder of a Passive Foreign Investment Company or a Qualified Electing Fund." However, the Company does not intend to generate, or share with you, information that you might need to properly complete IRS Form 8621. You should consult with your own tax adviser regarding reporting requirements with regard to your ADRs.

If the Company were a PFIC in any year, you would generally be able to avoid the "excess" distribution rules described above by making a timely so-called "mark-to-market" election with respect to your ADRs provided the Company's ADRs are "marketable". The Company's ADRs will be "marketable" as long as they remain regularly traded on a national securities exchange, such as the New York Stock Exchange. If you made this election in a timely fashion, you would generally recognize as ordinary income or ordinary loss the difference between the fair market value of your ADRs on the first day of any taxable year and their value on the last day of that taxable year. Any ordinary income resulting from this election would generally be taxed at ordinary income rates and would not be eligible for the reduced rate of tax applicable to qualified dividend income. Any ordinary losses would be limited to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. Your basis in the ADRs would be adjusted to reflect any such income or loss. Any gains recognized on the sale or other disposition of the ADRs would be treated as ordinary income and any losses would be treated as ordinary losses (but only to the extent of the net amount of previously included income as a result of the mark-to-market election, if any). You should consult with your own tax adviser regarding potential advantages and disadvantages to you of making a "mark-to-market" election with respect to your ADRs.

Separately, if the Company were a PFIC in any year, you would be able to avoid the "excess" distribution rules by making a timely election to treat us as a so-called "Qualified Electing Fund" or "QEF". You would then generally be required to include in gross income for any taxable year (1) as ordinary income, your pro rata share of the Company's ordinary earnings for the taxable year, and (2) as long-term capital gain, your pro rata share of the Company's net capital gain for the taxable year. However, the Company does not intend to provide you with the information you would need to make or maintain a "QEF" election and you will, therefore, not be able to make or maintain such an election with respect to your ADRs.

Medicare Tax

Recently enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay up to an additional 3.8% tax on, among other things, dividends and capital gains for tax years beginning after December 12, 2012.

Non-U.S. Holders

If you beneficially own ADRs and are not a U.S. Holder for U.S. federal income tax purposes (a "Non-U.S. Holder"), you generally will not be subject to U.S. federal income tax or U.S. withholding tax on dividends received from the Company with respect to ADRs unless that income is considered effectively connected with your conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADRs, such dividends are attributable to a permanent establishment that you maintain in the United States.

You generally will not be subject to U.S. federal income tax, including withholding tax, on any gain realized upon the sale or exchange of ADRs, unless:

- that gain is effectively connected with the conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADRs, such gain is attributable to a permanent establishment that you maintain in the United States; or
- you are a non-resident alien individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition and certain other conditions are met.

If you are engaged in a U.S. trade or business, unless an applicable tax treaty provides otherwise, the income from your ADRs, including dividends and the gain from the disposition of the Company's ADRs, that is effectively connected with the conduct of that trade or business will generally be subject to the rules applicable to U.S. Holders discussed above. In addition, if you are a corporation, you may be subject to an additional branch profits tax at a rate of 30% or any lower rate under an applicable tax treaty.

U.S. information reporting and backup withholding rules

In general, dividend payments with respect to the ADRs and the proceeds received on the sale or other disposition of those ADRs may be subject to information reporting to the IRS and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you (1) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (2) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will generally be required to provide certification on IRS Form W-9, W-8BEN or W-8ECI, or an appropriate substitute, as applicable. Any amounts withheld from payments to you under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the IRS.

HOLDERS OF THE COMPANY’S ADRS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF THE ADRS, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION AND INCLUDING ESTATE, GIFT, AND INHERITANCE LAWS.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

The Company has filed this Annual Report on Form 20-F with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Statements made in this Annual Report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this Annual Report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

The Company is subject to the informational requirements of the Exchange Act and file reports and other information with the Securities and Exchange Commission. Reports and other information which the Company filed with the Securities and Exchange Commission, including this Annual Report on Form 20-F, may be inspected and copied at the public reference room of the Securities and Exchange Commission at 450 Fifth Street N.W. Washington D.C. 20549.

You can also obtain copies of this Annual Report on Form 20-F by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the Securities and Exchange Commission’s Internet site at <http://www.sec.gov>. The Commission’s telephone number is 1-800-SEC-0330. Copies of this material may also be obtained for the Company’s website at [http:// www.csair.com](http://www.csair.com).

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Fuel Price Fluctuation Risk

The Group’s earnings are affected by changes in the price and availability of jet fuel. There are currently no effective means available to manage the Group’s exposure to the fluctuations in jet fuel prices. The Group’s results of operations may be significantly affected by fluctuations in fuel prices which is a significant expense for the Group. A reasonable possible increase or decrease of 10% in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB3,773 million. The sensitivity analysis of jet fuel price risk is disclosed in Note 4 (e) to the consolidated Financial Statements.

Interest Rate Risk

The Group is subject to market risks due to fluctuations in interest rates. The majority of the Group’s borrowing is in the form of long-term fixed-rate and variable-rate debts with original maturities ranging from three to twelve years . Fluctuations in interest rates can lead to significant fluctuations in the fair value of such debt instruments. From time to time, the Group may enter into interest rate swaps designed to mitigate exposure relating to interest rate risks. The sensitivity analysis of interest rate risk is disclosed in Note 4(b) to the consolidated Financial Statements.

The following table provides information regarding the Group’s financial instruments that are sensitive to changes in interest rate as of December 31, 2014 and 2013:

	As of December 31, 2014 Expected Maturity Date							As of December 31, 2013		
	2015	2016	2017	2018	2019	Thereafter	Total Recorded Amount	Fair Value ⁽²⁾	Total Recorded Amount	Fair Value ⁽²⁾
Fixed-rate bank and other loans in US\$	31	330	475	12	12	75	935	1,009	544	555
Average interest rate	3.98%	2.07%	3.31%	5.63%	5.63%	5.63%				
Variable-rate bank and other loans in US\$	17,157	16,790	12,553	3,532	3,049	4,585	57,666	57,666	56,274	56,274
Average interest rate	2.27%	2.45%	2.65%	1.82%	1.93%	2.34%				
Fixed-rate bank and other loans in RMB	257	6	206	1	1	5	476	461	-	-
Average interest rate	5.11%	6.40%	5.56%	6.40%	6.40%	6.40%				
Variable-rate bank and other loans in RMB	534	100	50	50	50	184	968	968	670	670
Average interest rate	5.61%	6.08%	6.15%	6.15%	6.15%	6.15%				

- (1) These interest rates are calculated based on the year end indices.
- (2) Fair value of debt instruments was estimated based on the interest rates applicable to similar debt instruments as of December 31, 2014 and 2013.

Foreign Currency Exchange Risk

The Group is also exposed to foreign currency risk as a result of its aircraft and flight equipment being sourced from overseas suppliers. Specifically, the Group’s foreign currency exposure relates primarily to its foreign currency long-term bank and other loans used to finance such capital expenditures and its capital commitments. Subject to certain restrictive conditions imposed by the SAFE, the Group may, from time to time, enter into foreign exchange forward option contracts to mitigate its foreign currency exposures. The sensitivity analysis of foreign currency risk is disclosed in Note 4(c) to the consolidated Financial Statements.

As of December 31, 2014, the Group operated a total of 383 aircraft under operating leases and capital leases at rates that are substantially fixed. Such leases expose the Group to market risks. However, in accordance with Item 305 of Regulation S-K, such leases have been excluded from the following market risk tables. Commitments under capital leases and operating leases are disclosed in Note 35 and Note 46(b) to the consolidated Financial Statements, respectively.

The following table provides information regarding the Group’s material foreign currency sensitive financial instruments and capital commitments as of December 31, 2014 and 2013:

	As of December 31, 2014 Expected Maturity Date							As of December 31, 2013		
	2015	2016	2017	2018	2019	Thereafter	Total Recorded Amount	Fair Value ⁽¹⁾	Total Recorded Amount	Fair Value ⁽¹⁾
Fixed-rate bank and other loans in US\$	31	330	475	12	12	75	935	1,009	544	555
Variable-rate bank and other loans in US\$	17,157	16,790	12,553	3,532	3,049	4,585	57,666	57,666	56,274	56,274
Capital commitment in US\$	18,146	11,628	10,081	7,552	2,108	9,952	59,467	59,467	47,651	47,651

- (1) Fair value of debt instruments was estimated based on the floating interest rates applicable to similar debt instruments as of December 31, 2014 and 2013.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

- A.

Debt Securities
- Not applicable.
- B.

Warrants and Rights
- Not applicable.
- C.

Other Securities
- Not applicable.
- D.

American Depositary Shares

The Bank of New York Mellon collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Bank of New York Mellon collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Bank of New York Mellon may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The Bank of New York Mellon may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For:
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none">• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property• Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates• Any cash distribution to ADS registered holders
\$0.02 (or less) per ADS	<ul style="list-style-type: none">• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none">• Depositary services
\$0.02 (or less) per ADSs per calendar year	<ul style="list-style-type: none">• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Registration or transfer fees	<ul style="list-style-type: none">• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)• Converting foreign currency to U.S. dollars• As necessary
Expenses of the depositary	<ul style="list-style-type: none">• As necessary
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	
Any charges incurred by the depositary or its agents for servicing the deposited securities	

Fees and Payments from the Depositary to Us

In 2014, the Company received from the depositary a reimbursement of US\$46,176.11, net of withholding tax, for continuing annual stock exchange listing fees and expenses incurred by the Company in connection with the administration and maintenance of the depositary receipt facility.

Indirect payments

As part of its service to the Company, the Bank of New York Mellon waived a total amount of US\$130,384.94 for the standard costs associated with the administration of the ADS program in 2014.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material Modifications to the Instruments Defining the Rights of Security Holders

None.

B. Material Modifications to the Rights of Registered Securities by Issuing or Modifying any other Class of Securities

None.

C. Withdrawal or Substitution of a Material Amount of the Assets Securing any Registered Securities

Not applicable.

D. Change of Trustees or Paying Agents for any Registered Securities

Not applicable.

E. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure controls and procedures

Our President and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) or 15d-15(e)), and concluded that, based on their evaluation, our disclosure controls and procedures are effective as of the end of the period covered by this Annual Report to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management’s annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company’s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company’s receipts and expenditures are being made only in accordance with authorizations of a company’s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company’s assets that could have a material effect on the consolidated financial statements. Our management has assessed the effectiveness of internal control over financial reporting based on the Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2014.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report, and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

PricewaterhouseCoopers Zhong Tian LLP, our independent registered public accounting firm, audited the effectiveness of our company's internal control over financial reporting as of December 31, 2014, the audit report of which appears on page F-1 of this Form 20-F.

Changes in internal control over financial reporting

During the year ended December 31, 2014, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Mr. Tan Jing Song qualifies as an audit committee financial expert in accordance with the terms of Item 16A of Form 20-F. Mr. Tan Jing Song satisfies as an "independent director" within the meaning of NYSE Manual Section 303A and meets the criteria for independence set forth in Section 10A(m)(3) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, and Rule 10A-3 under the Exchange Act. See "Item 6 Directors, Senior Management and Employees — Directors and Senior Management".

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. Such code is included in the director service agreements, a form of which is incorporated by reference in this Annual Report in Exhibit 4.1. Each of the aforementioned senior corporate officers currently serves as a Director and all of our Directors are subject to the director service contracts with the Company. Pursuant to the director service agreements, among other things, Directors (i) owe fiduciary duties to the Company and shall perform their duties in compliance with applicable governmental laws, rules and regulations; (ii) shall not engage in any activities in competition with the Company’s business or carry out any activities detrimental to the interests of the Company; and (iii) shall be held liable for any loss or injury incurred to the Company as a result of such Director’s violation of applicable laws and regulations.

ITEM 16C. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate audit fees, audit-related fees and tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2013 and 2014:

	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>Other Fees</u>
		<u>RMB (in million)</u>		
2013	12.0	-	0.8	3.7
2014	17.7	-	1.1	-

Tax Fees

Services provided primarily consist of tax compliance services.

Other Fees

Provision of other assurance and advisory services.

Before our principal accountants were engaged by the Company or our subsidiaries to render the audit or non-audit services, the engagements were approved by our Audit Committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGES IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

Set out below is a summary of any significant ways in which the Company’s corporate governance practices differ from those followed by domestic companies under the listing standards of the New York Stock Exchange ("NYSE"):

NYSE corporate governance rules

Director Independence

A listed company must have a majority of independent directors on its board of directors. No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent. For example, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or if the director has received, during any twelve-month period within the last three years, more than US\$120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

Executive Sessions

The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.

Nominating/Corporate Governance Committee

Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.

The nominating/corporate governance committee must have a written charter that addresses the committee’s purposes and responsibilities which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management, and evaluate the performance of the committee every year.

The Company’s governance practices

The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.

No similar requirements.

The Company has established a nominating committee. As of December 31, 2014, the Nomination Committee consists of three members, Si Xian Min, Wei Jin Cai (Independent non-executive Director) and Tan Jing Song (Independent non-executive Director). Mr. Si Xian Min was appointed as the chairman of the Nomination Committee on December 26, 2013. The responsibilities of the Nomination Committee are to make recommendations to the Board in respect of the size and composition of the Board based on the operational activities, assets and shareholding structure of the Company; study the selection criteria and procedures of directors and executives and give advice to the Board; identify qualified candidates for directors and executives; investigate and propose candidates for directors and managers and other senior management members to the Board.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

The written charter of the compensation committee must state, at least, the following purposes and responsibilities:

- (1) review and approve the corporate goals associated with CEO’s compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO’s compensation level;
- (2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;
- (3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.

NYSE corporate governance rules

The charter must also include the requirement for an annual performance evaluation of the compensation committee.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Exchange Act. It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

The Company has established a remuneration and assessment committee consisting of three members. As of December 31, 2014, the remuneration and assessment committee is chaired by independent non-executive Director Ning Xiang Dong with independent non-executive Director Tan Jing Song and non-executive Director Wang Quan Hua as members.

The responsibilities are similar to those stipulated by the NYSE rules, but the committee is not required to produce a report on the executive compensation or make an annual performance evaluation of the committee. The responsibilities of the remuneration and assessment committee are to approve the remuneration packages of Directors and senior management of the Group, and the Company’s "preliminary proposals on annual emoluments of the directors and senior management of the Group". The remuneration and assessment committee is also responsible for assessing performance of executive director and approving the terms of executive directors’ service contracts.

The Company’s governance practices

The Board of Directors of the Company has established an audit committee that satisfies relevant domestic requirements and the audit committee has a written charter. As of December 31, 2014, the Audit Committee consists of three members, Mr. Ning Xiang Dong, Wei Jin Cai and Tan Jing Song, with Tan Jing Song being the Chairman of the Audit Committee.

The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company’s compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company’s internal audit function and independent auditors.

The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company’s annual proxy statement as well as an annual performance evaluation of the audit committee.

Shareholder Approval of Equity Compensation Plans

Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director responsibilities, director access to management and , as necessary and appropriate, independent advisors, director compensation, director orientation continuing education, management succession and annual performance evaluation of the board of directors, etc.

Certification Requirements

Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE in writing of any material non-compliance with any applicable provisions of Section 303A.

Each listed company must submit an executed Written Affirmation annually to the NYSE. In addition, each listed company must submit an interim Written Affirmation as and when required by the interim Written Affirmation form specified by the NYSE.

The responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to the domestic practices, the Company is not required to make an annual performance evaluation of the audit committee and the audit committee is not required to prepare an audit report to be included in the Company’s annual proxy statement.

The relevant regulations of China require the board of directors to propose plans and types of director compensation for the shareholders’ meeting to approve. The compensation plan of executive officers is subject to approval by the board and disclosed to the public upon the approval of the board of directors. The approval of director compensation and compensation plan of executive officers of the Company satisfies relevant domestic requirements.

CSRC has issued the Corporate Governance Rules, with which the Company has complied.

There are no similar requirements under the domestic corporate governance rules in China.

ITEM 16. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

ITEM 18. FINANCIAL STATEMENTS

See F-pages following Item 19.

ITEM 19. EXHIBITS

Index to Exhibits

Exhibit No.	Description of Exhibit
1.1	Restated and Amended Articles of Association of China Southern Airlines Company Limited (as amended) (English translation) ⁽¹⁾
2.1	Specimen Certificate for the H Shares ⁽²⁾
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and Owners and Beneficial Owners from time to time of American Depositary Shares evidenced by American Depositary Receipt issued thereunder, including the form of American Depositary Receipt ⁽³⁾
4.1	Form of Director’s Service Agreement ⁽⁴⁾
4.2	Form of Non-executive Director’s Service Agreement ⁽⁵⁾
4.3	Aircraft Acquisition Agreement entered into by and between the Company and Boeing on February 28, 2012* ⁽⁶⁾
4.4	Aircraft Acquisition Agreement entered into by and between Xiamen Airlines and Boeing on August 8, 2012* ⁽⁷⁾
4.5	Aircraft Acquisition Agreement entered into by and between the Company and Airbus S.A.S. on December 5, 2012 ^{*(8)}
4.6	Asset Lease Agreement entered into by and between the Company and CSAHC on September 25, 2012 ⁽⁹⁾
4.7	Tenancy Contract entered into by and between the Company and CSAHC in relation to certain fragmented leases located in various locations on September 25, 2012 ⁽¹⁰⁾
4.8	Lease Agreement of Nanyang Base Assets entered into by and between the Company and CSAHC on January 24, 2013 ⁽¹¹⁾

- 4.9 2013 Nanyang Asset Lease Agreement entered into by and between the Company and CSAHC on April 19, 2013⁽¹²⁾
- 4.10 Supplemental Agreement to the Import and Export Agency Framework Agreement entered into by and between the Company and Southern Airlines (Group) Import and Export Trading Company Limited on April 19, 2013⁽¹³⁾
- 4.11 Import and Export Agency Framework Agreement entered into by and between the Company and Southern Airlines (Group) Import and Export Trading Company Limited on January 9, 2014⁽¹⁴⁾
- 4.12 Media Services Framework Agreement entered into by and between the Company and Southern Airlines Culture and Media Co., Ltd. on April 19, 2013⁽¹⁵⁾
- 4.13 Financial Services Framework Agreement entered into by and between the Company and Southern Airlines Group Finance Company Limited on November 8, 2013⁽¹⁶⁾
- 4.14 Passenger and Cargo Sales Agency Services Framework Agreement entered into by and between the Company and China Southern Airlines Group Passenger and Cargo Agent Company Limited on November 8, 2013⁽¹⁷⁾
- 4.15 Airport Property Management Supplemental Agreement entered into by and between the Company and Guangzhou China Southern Airlines Property Management Company Limited on December 31, 2013⁽¹⁸⁾
- 4.16 Property Management Framework Agreement entered into by and between the Company and Guangzhou China Southern Airlines Property Management Company Limited on December 31, 2013⁽¹⁹⁾
- 4.17 Catering Service Framework Agreement entered into by and between the Company and Shenzhen Air Catering Co., Ltd. on April 19, 2013⁽²⁰⁾
- 4.18 Property Lease Agreement entered into by and between the Company and CSAHC on January 9, 2014⁽²¹⁾
- 4.19 Land Lease Agreement entered into by and between the Company and CSAHC on January 9, 2014⁽²²⁾
- 4.20 Trademark License Agreement entered into by and between the Company and CSAHC on May 22, 1997⁽²³⁾
- 4.21 A Share subscription agreement entered into by and between the Company and CSAHC on June 11, 2012⁽²⁴⁾
- 4.22 Supplemental Agreement to the financial service framework agreement entered into by and between the Company and CSAHC regarding revising each of the Cap in relation to the Provision of Deposit Services and the annual cap for the Provision of the Loan Services on March 16, 2012⁽²⁵⁾
- 4.23 Aircraft Acquisition Agreement entered into by and between the Company and Airbus S.A.S. on May 16, 2014*
- 4.24 English translation of Asset Lease Agreement entered into by and between the Company and CSAHC on December 29, 2014
- 4.25 English translation of Supplemental Agreement to the Media Services Framework Agreement entered into by and between the Company and Southern Airlines Culture and Media Co., Ltd. on December 29, 2014

- 4.26

English translation of Property Management Framework Agreement entered into by and between the Company and Guangzhou China Southern Airlines Property Management Company Limited on December 29, 2014
- 4.27

English translation of Electronic aviation passenger comprehensive insurance four-parties cooperation agreement entered into by and among Guangdong CSA E-commerce Co., Ltd. SA Finance, Air Union Insurance Brokers (Beijing) Co., Ltd. and Ping An Property & Casualty Insurance Company of China, Ltd. Guangdong Branch on November 21, 2014.
- 4.28

English translation of Electronic aviation passenger comprehensive insurance four-parties cooperation agreement entered into by and among Guangdong CSA E-commerce Co., Ltd. SA Finance, Air Union Insurance Brokers (Beijing) Co., Ltd. and Sunshine Property and Casualty Insurance Company Limited on November 21, 2014.
- 4.29

English translation of Electronic aviation passenger comprehensive insurance four-parties cooperation agreement entered into by and among Guangdong CSA E-commerce Co., Ltd. SA Finance, Air Union Insurance Brokers (Beijing) Co., Ltd. and PICC Property and Casualty Company Limited Guangzhou Branch on November 21, 2014.
- 4.30

English translation of Electronic aviation passenger comprehensive insurance four-parties cooperation agreement entered into by and among Guangdong CSA E-commerce Co., Ltd. SA Finance, Air Union Insurance Brokers (Beijing) Co., Ltd. and Taiping Pension Co., Ltd. on November 21, 2014.
- 4.31

English translation of Equity Transfer Agreement entered into by and between Xiamen Airlines Company Limited and Hebei Airlines Investment Group Company Limited on October 13, 2014.
- 8.1

Subsidiaries of China Southern Airlines Company Limited
- 11.1

Code of Ethics (included in Exhibit 4.1)
- 12.1

Section 302 Certification of President
- 12.2

Section 302 Certification of Chief Financial Officer
- 13.1

Section 906 Certification of President
- 13.2

Section 906 Certification of Chief Financial Officer
- *

Portions of this document have been omitted pursuant to a confidential treatment request, and the full, unredacted document has been separately submitted to the Securities and Exchange Commission with a confidential treatment request.
- (1)

Incorporated by reference to the Exhibit 99.5 to our Form 6-K (File No. 001-14600) filed with the Securities and Exchange Commission on December 27, 2013.
- (2)

Incorporated by reference to the Exhibit 2.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 26, 2013.
- (3)

Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-07116), filed with the Securities and Exchange Commission on August 7, 2012.
- (4)

Incorporated by reference to the Exhibit 4.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2005 filed with the Securities and Exchange Commission on June 30, 2006
- (5)

Incorporated by reference to the Exhibit 4.2 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2005 filed with the Securities and Exchange Commission on June 30, 2006

- [illegible]

- (24) Incorporated by reference to the Exhibit 4.11 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 26, 2013.
- (25) Incorporated by reference to the Exhibit 4.12 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2012 filed with the Securities and Exchange Commission on April 26, 2013.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA SOUTHERN AIRLINES COMPANY LIMITED

/s/ Si Xian Min
Name: Si Xian Min

Title: Chairman of the Board of Directors

Date: April 30, 2015

CHINA SOUTHERN AIRLINES COMPANY LIMITED

AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Income Statements for the years ended December 31, 2014, 2013 and 2012	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	F-4
Consolidated Balance Sheet at December 31, 2014 and 2013	F-5
Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012	F-7
Consolidated Cash Flow Statements for the years ended December 31, 2014, 2013 and 2012	F-9
Notes to the Consolidated Financial Statements	F-10

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of China Southern Airlines Company Limited

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement present fairly, in all material respects, the financial position of China Southern Airlines Company Limited and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Shanghai, China
April 30, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
China Southern Airlines Company Limited

We have audited the accompanying consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated cash flow statement of China Southern Airlines Company Limited (the “Company”) and its subsidiaries for the year ended December 31, 2012. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of China Southern Airlines Company Limited and its subsidiaries for the year ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG
Hong Kong, China
March 26, 2013

Consolidated income statements for the years ended December 31, 2014, 2013 and 2012
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB million	2013 RMB million	2012 RMB million
Operating revenue				
Traffic revenue	5	104,328	94,684	96,100
Other operating revenue	7	4,256	3,863	3,414
Total operating revenue		108,584	98,547	99,514
Operating expenses				
Flight operation expenses	8	58,901	54,010	54,690
Maintenance expenses	9	8,304	7,805	7,971
Aircraft and transportation service expenses	10	16,402	15,091	14,072
Promotion and selling expenses	11	7,841	7,754	7,134
General and administrative expenses	12	2,337	2,470	2,425
Depreciation and amortisation	13	10,828	9,347	8,264
Impairment on property, plant and equipment	21	215	536	-
Others		1,198	1,267	1,321
Total operating expenses		106,026	98,280	95,877
Other net income	15	2,190	1,243	1,462
Operating profit		4,748	1,510	5,099
Interest income		376	307	235
Interest expense	16	(2,193)	(1,651)	(1,376)
Share of associates’ results	24	261	294	317
Share of joint ventures’ results	25	140	96	121
Exchange (loss)/gain, net	34(e)	(292)	2,903	267
Other non-operating income	17	26	25	75
Profit before income tax		3,066	3,484	4,738
Income tax	19	(668)	(734)	(954)
Profit for the year		2,398	2,750	3,784
Profit attributable to:				
Equity shareholders of the Company	20	1,777	1,986	2,619
Non-controlling interests		621	764	1,165
Profit for the year		2,398	2,750	3,784
Earnings per share attributable to equity shareholders of the Company				
Basic and diluted	20	RMB0.18	RMB0.20	RMB0.27

The accompanying notes form part of these consolidated financial statements.

Consolidated statements of comprehensive income
for the years ended December 31, 2014, 2013 and 2012
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB million	2013 RMB million	2012 RMB million
Profit for the year		<u>2,398</u>	<u>2,750</u>	<u>3,784</u>
Other comprehensive income for the year:				
Items that may be reclassified subsequently to profit or loss				
- Fair value movement of available-for-sale financial assets	27	43	(8)	5
- Share of other comprehensive income/(loss) of an associate		21	(3)	-
- Deferred tax relating to above items	28	<u>(11)</u>	<u>2</u>	<u>(1)</u>
Total comprehensive income for the year		<u><u>2,451</u></u>	<u><u>2,741</u></u>	<u><u>3,788</u></u>
Total comprehensive income attributable to:				
Equity shareholders of the Company		1,813	1,981	2,622
Non-controlling interests		<u>638</u>	<u>760</u>	<u>1,166</u>
Total comprehensive income for the year		<u><u>2,451</u></u>	<u><u>2,741</u></u>	<u><u>3,788</u></u>

The accompanying notes form part of these consolidated financial statements.

Consolidated balance sheet at December 31, 2014 and 2013
 (Prepared in accordance with International Financial Reporting Standards)
 (Expressed in Renminbi)

	Note	2014 RMB million	2013 RMB million
Non-current assets			
Property, plant and equipment, net	21	134,453	119,777
Construction in progress	22	19,347	17,459
Lease prepayments	23	2,349	2,267
Interest in associates	24	1,583	1,305
Interest in joint ventures	25	1,338	1,197
Other investments in equity securities	26	136	162
Aircraft operating lease deposits		651	566
Available-for-sale financial assets	27	104	61
Deferred tax assets	28	966	1,251
Other receivables	32	300	-
Other assets	29	920	589
		<u>162,147</u>	<u>144,634</u>
Current assets			
Inventories	30	1,661	1,647
Trade receivables	31	2,683	2,173
Other receivables	32	5,864	3,431
Cash and cash equivalents	33	15,414	11,748
Restricted bank deposits		438	440
Prepaid expenses and other current assets		995	803
Amounts due from related companies	38	486	331
		<u>27,541</u>	<u>20,573</u>
Current liabilities			
Borrowings	34	20,979	20,242
Current portion of obligations under finance leases	35	5,992	3,636
Trade payables	36	1,657	1,407
Sales in advance of carriage		6,101	5,815
Deferred revenue	37	1,160	1,244
Current income tax		296	495
Amounts due to related companies	38	458	457
Accrued expenses	39	12,122	11,898
Other liabilities	40	5,321	4,019
		<u>54,086</u>	<u>49,213</u>
Net current liabilities	2(a(i))	<u>(26,545)</u>	<u>(28,640)</u>
Total assets less current liabilities		<u>135,602</u>	<u>115,994</u>

Consolidated balance sheet at December 31, 2014 and 2013 (continued)
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2014 RMB million	2013 RMB million
Non-current liabilities			
Borrowings	34	42,066	37,246
Obligations under finance leases	35	43,919	31,373
Deferred revenue	37	1,750	2,069
Provision for major overhauls	41	1,623	1,076
Provision for early retirement benefits	42	25	41
Deferred benefits and gains	43	853	858
Deferred tax liabilities	28	873	880
		<u>91,109</u>	<u>73,543</u>
Net assets			
		<u>44,493</u>	<u>42,451</u>
Capital and reserves			
Share capital	44	9,818	9,818
Reserves	45	<u>25,930</u>	<u>24,511</u>
Total equity attributable to equity shareholders of the Company		<u>35,748</u>	<u>34,329</u>
Non-controlling interests		<u>8,745</u>	<u>8,122</u>
Total equity		<u>44,493</u>	<u>42,451</u>

The accompanying notes form part of these consolidated financial statements.

Consolidated statements of changes in equity
for the years ended December 31, 2014, 2013 and 2012
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million	Retained earnings RMB million	Total RMB million		
Balance at January 1, 2012	9,818	14,131	21	1,082	7,123	32,175	5,602	37,777
Changes in equity for 2012:								
Profit for the year	-	-	-	-	2,619	2,619	1,165	3,784
Other comprehensive income	-	-	3	-	-	3	1	4
Total comprehensive income	-	-	3	-	2,619	2,622	1,166	3,788
Appropriations to reserves	-	-	-	132	(132)	-	-	-
Dividends relating to 2011	-	-	-	-	(1,964)	(1,964)	-	(1,964)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	(6)	(6)	(11)	(17)
Capital injection from the non-controlling shareholder of a subsidiary	-	-	-	-	-	-	140	140
Government contributions	-	-	-	10	-	10	10	20
Distributions to non-controlling interests	-	-	-	-	-	-	(12)	(12)
Share of an associate's reserves movement	-	-	-	2	-	2	-	2
Balance at December 31, 2012	9,818	14,131	24	1,226	7,640	32,839	6,895	39,734

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million	Retained earnings RMB million	Total RMB million		
Balance at January 1, 2013	9,818	14,131	24	1,226	7,640	32,839	6,895	39,734
Changes in equity for 2013:								
Profit for the year	-	-	-	-	1,986	1,986	764	2,750
Other comprehensive income	-	-	(2)	(3)	-	(5)	(4)	(9)
Total comprehensive income	-	-	(2)	(3)	1,986	1,981	760	2,741
Appropriations to reserves	-	-	-	113	(113)	-	-	-
Dividends relating to 2012 (Note 45)	-	-	-	-	(491)	(491)	-	(491)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	-	(6)	(6)
Capital injection from the non-controlling shareholder of a Subsidiary	-	-	-	-	-	-	560	560
Distributions to non-controlling interests	-	-	-	-	-	-	(87)	(87)
Balance at December 31, 2013	9,818	14,131	22	1,336	9,022	34,329	8,122	42,451

Consolidated statements of changes in equity
for the years ended December 31, 2014, 2013 and 2012 (continued)
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Fair value reserves	Other reserves	Retained earnings	Total		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at January 1, 2014	9,818	14,131	22	1,336	9,022	34,329	8,122	42,451
Changes in equity for 2014:								
Profit for the year	-	-	-	-	1,777	1,777	621	2,398
Other comprehensive income	-	-	22	14	-	36	17	53
Total comprehensive income	-	-	22	14	1,777	1,813	638	2,451
Appropriations to reserves	-	-	-	137	(137)	-	-	-
Dividends relating to 2013(note 45)	-	-	-	-	(393)	(393)	-	(393)
Capital injection of non-controlling interests in a subsidiary	-	-	-	-	-	-	108	108
Acquisition of non-controlling interests in a subsidiary	-	-	-	(1)	-	(1)	(1)	(2)
Non-controlling interest arising on business combination	-	-	-	-	-	-	6	6
Distributions to non-controlling interests	-	-	-	-	-	-	(128)	(128)
Balance at December 31, 2014	9,818	14,131	44	1,486	10,269	35,748	8,745	44,493

The accompanying notes form part of these consolidated financial statements.

Consolidated cash flow statements for the years ended December 31, 2014, 2013 and 2012
 (Prepared in accordance with International Financial Reporting Standards)
 (Expressed in Renminbi)

	Note	2014 RMB million	2013 RMB million	2012 RMB million
Operating activities				
Cash generated from operating activities	33(b)	15,826	11,546	14,475
Interest received		360	220	224
Interest paid		(1,991)	(1,538)	(1,758)
Income tax paid		(625)	(525)	(1,237)
Net cash generated from operating activities		<u>13,570</u>	<u>9,703</u>	<u>11,704</u>
Investing activities				
Acquisition of subsidiaries, net of cash acquired		(657)	-	-
Proceeds from disposal of property, plant and equipment and lease prepayments		1,611	205	522
Dividends received from associates		86	33	77
Dividends received from a joint venture		-	5	-
Dividends received from other investments in equity securities and available-for-sale financial assets		13	14	12
Loans repaid by an associate		-	-	2
Acquisition of term deposits and wealth management products		(3,286)	(8,402)	(1,100)
Proceeds from maturity of term deposits and wealth management products		1,254	8,481	4,100
Interest received on wealth management products		-	25	53
Additions of property, plant and equipment, lease prepayments and other assets		(8,649)	(12,308)	(15,733)
Capital injection into associates and other investment		-	(72)	-
Payment for aircraft lease deposits		(172)	(51)	(101)
Refund of aircraft lease deposits		87	142	10
Placement of pledged bank deposits		(1,656)	(277)	-
Withdrawal of pledged bank deposits		1,609	-	-
Proceeds from disposal of a subsidiary		-	-	5
Net cash used in investing activities		<u>(9,760)</u>	<u>(12,205)</u>	<u>(12,153)</u>
Financing activities				
Dividends paid to equity shareholders of the Company	45(b)	(393)	(491)	(1,964)
Proceeds from borrowings		32,488	38,324	31,940
Proceeds from ultra-short-term financing bills		6,000	500	-
Repayment of borrowings		(31,126)	(31,243)	(27,533)
Repayment of principal under finance lease obligations		(4,072)	(2,895)	(1,978)
Repayment of ultra-short-term financing bills		(3,000)	(500)	-
Capital injection from the non-controlling interests of subsidiaries		108	560	140
Dividends paid to non-controlling interests		(128)	(87)	(12)
Payment for purchase of non-controlling interest		(8)	-	(17)
Government contribution		-	-	20
Withdrawal of pledged bank deposits		-	-	72
Net cash (used in)/generated from financing activities		<u>(131)</u>	<u>4,168</u>	<u>668</u>
Net increase in cash and cash equivalents		3,679	1,666	219
Cash and cash equivalents at January 1		11,748	10,082	9,863
Exchange losses on cash and cash equivalents		(13)	-	-
Cash and cash equivalents at December 31		<u>15,414</u>	<u>11,748</u>	<u>10,082</u>

The accompanying notes form part of these consolidated financial statements.

1 Corporate information

China Southern Airlines Company Limited (the “Company”), a joint stock company limited by shares, was incorporated in the People’s Republic of China (the “PRC”) on March 25, 1995. The address of the Company’s registered office is House 203, No. 233 Kaifa Avenue, Guangzhou Economic & Technology Development Zone, Luogang District, Guangzhou, Guangdong Province, the PRC. The Company and its subsidiaries (the “Group”) are principally engaged in the operation of civil aviation, including the provision of passenger, cargo, mail delivery and other extended transportation services.

The Company’s majority interest is owned by China Southern Air Holding Company (“CSAHC”), a state-owned enterprise incorporated in the PRC.

The Company’s shares are traded on the Shanghai Stock Exchange, the Stock Exchange of Hong Kong Limited and the New York Stock Exchange.

These financial statements are presented in RMB, unless otherwise stated.

These consolidated financial statements were approved for issue by the Company’s Board on March 30, 2015.

2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual IFRSs, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). The measurement basis used in the preparation of the financial statements is the historical cost basis, except that available-for-sale equity securities are stated at their fair value as explained in the accounting policies set out in Note 2(e).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and relevant assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and relevant assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The consolidated financial statements comprise the Company and its subsidiaries and the Group’s interest in associates and joint ventures.

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) Going concern

As at December 31, 2014, the Group’s current liabilities exceeded its current assets by RMB26,545 million. In preparing the consolidated financial statements, the Board has given careful consideration to the going concern status of the Group in the context of the Group’s current working capital deficit and believe that adequate funding is available to fulfil the Group’s short-term obligations and capital expenditure requirements.

As at December 31, 2014, the Group had banking facilities with several PRC banks and financial institutions for providing bank financing up to approximately RMB187.1 billion (2013: RMB166.3 billion), of which approximately RMB126.7 billion (2013: RMB120.9 billion) was unutilized. The Board believes that, based on experience to date, it is likely that these facilities will be rolled over in future years if required. Accordingly, the Board believes that it is appropriate to prepare the consolidated financial statements on a going concern basis without including any adjustments that would be required should the Company and the Group fail to continue as a going concern.

(ii) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014:

- Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Group’s financial statements.
- Amendments to IFRS 10, 12 and IAS 27, 'Consolidation for investment entities'. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an ‘investment entity’ definition and which display particular characteristics. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make. The amendments did not have an impact on the Group’s financial statements.
- Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash-generating units which had been included in IAS 36 by the issue of IFRS 13. It also enhanced the disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39, novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the Group financial statements as a result.

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Group (continued)

- IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognized. The Group is not currently subjected to significant levies so the impact on the Group is not material.
- Annual improvements 2012. These amendments include changes from the 2010-2012 cycle of the annual improvements project, that affect 7 standards, only the below are effective for relevant transactions on or after July 1, 2014. IFRS 2, 'Share-based payment', the amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. IFRS 3, 'Business combinations' and consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets', and IAS39, 'Financial instruments – Recognition and measurement'. The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32,'Financial instruments: Presentation'. All non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognized in profit and loss. These annual improvements did not have an impact on the Group's financial statements.

(iii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards and interpretations not yet adopted (continued)

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other IFRSs or IFRIC/HK interpretations that are not yet effective that would be expected to have a material impact on the Group.

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. With regards to each business combination, the Group recognized non-controlling interests based on the proportion of the net identifiable assets of the subsidiary owned by the non-controlling interests.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in accordance with (Notes 2(n)) or (Note 2(o)) depending on the nature of the liability.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in income statement. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 2(c)).

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognized amounts of acquiree’s identifiable net assets.

Acquisition-related costs are expensed as incurred.

2 Significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests (continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer’s previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(c) Associates and joint arrangements

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group’s share of the acquisition-date fair values of the investee’s identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group’s share of the investee’s net assets and any impairment loss relating to the investment (Notes 2(e) and 2(k)). The Group’s share of the post-acquisition, post-tax results of the investees, adjusted for any acquisition-date excess over cost and any impairment losses for the year are recognized in the consolidated income statement, whereas the Group’s share of the post-acquisition post-tax items of the investees’ other comprehensive income is recognized in the consolidated statement of comprehensive income.

When the Group’s share of losses exceeds its interest in the associate or the joint venture, the Group’s interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group’s interest is the carrying amount of the investment under the equity method together with the Group’s long-term interests that in substance form part of the Group’s net investment in the associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the consolidated income statement.

2 Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group’s previously held equity interest in the acquiree; over
- (ii) the Group’s interest in the net fair value of the acquiree’s identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in the consolidated income statement as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(k)).

(e) Other investments in equity securities

The Group’s policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Available-for-sale equity securities are those non-derivative financial assets that are designated as available for sale. At the end of each financial year the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. Dividend income from these investments is recognized in the consolidated income statement in accordance with the policy set out in Note 2(w)(iv)). When these investments are derecognized or impaired (Note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss.

The Group’s other investments in equity securities represent unlisted equity securities of companies established in the PRC. These securities do not have a quoted market price in an active market and their fair values cannot be reliably measured. Accordingly, they are recognized in the consolidated balance sheet at cost less impairment losses (Note 2(k)).

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

(f) Investment properties

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated at cost, less accumulated depreciation and impairment losses (Note 2(k)). Depreciation is calculated to write off the cost of items of investment properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Rental income from investment properties is accounted for as described in Note 2(w)(iii).

2 Significant accounting policies (continued)

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (Note 2(z)).

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in income statement on the date of retirement or disposal.

When each major aircraft overhaul is performed, its cost is recognized in the carrying amount of the component of aircraft and is depreciated over the appropriate maintenance cycles. Components related to overhaul cost, are depreciated on a straight-line basis over 3 to 12 years. Upon completion of an overhaul, any remaining carrying amount of the cost of the previous overhaul is derecognized and charged to the income statement.

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

Buildings	5 to 35 years
Owned and finance leased aircraft	15 to 20 years
Other flight equipment	
–Jet engines	15 to 20 years
–Others, including rotatable spares	3 to 15 years
Machinery and equipment	4 to 10 years
Vehicles	6 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Construction in progress

Construction in progress represents aircraft prepayment, office buildings, various infrastructure projects under construction and equipment pending for installation, and is stated at cost less impairment losses(Note 2(k)). Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delay in the issue of the relevant commissioning certificates by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress.

2 Significant accounting policies (continued)

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in (Note2 (g)). Impairment losses are accounted for in accordance with the accounting policy as set out in (Note 2(k)). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the respective periods of lease terms which range from 30 to 70 years.

2 Significant accounting policies (continued)

(i) Leased assets (continued)

(iv) Sale and leaseback transactions

Gains or losses on aircraft sale and leaseback transactions which result in finance leases are deferred and amortised over the terms of the related leases.

Gains or losses on aircraft sale and leaseback transactions which result in operating leases are recognized immediately if the transactions are established at fair value. If the sale price is below fair value then the gain or loss is recognized immediately. However, if a loss is compensated for by future rentals at a below-market price, then the loss is deferred and amortised over the period that the aircraft is expected to be used. If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the assets.

(j) Deferred expenditure

Lump sum housing benefits payable to employees of the Group are deferred and amortised on a straight- line basis over beneficial period.

Deferred expenditure is stated at cost less impairment losses (Note 2(k)).

(k) Impairment of assets

(i) Impairment of investments in equity securities and receivables

Investments in equity securities and current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at the end of each financial year to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For investments in subsidiaries, associates and joint ventures (including those recognized using the equity method (Note 2(c)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with (Note 2(k(ii))). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with (Note 2(k(ii))).

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

- (i) Impairment of investments in equity securities and receivables (continued)
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
 - For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

- For available-for-sale securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognized in income statement.

Impairment losses recognized in income statement in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized directly in other comprehensive income.

Impairment losses are written off against the corresponding asset directly, except for impairment losses recognized in respect of trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in income statement.

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each financial year to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- Property, plant and equipment;
- Investment properties;
- Construction in progress;
- Lease deposits;
- Lease prepayments;
- Other assets; and
- Goodwill

If any such indication exists, the asset’s recoverable amount is estimated. The recoverable amount of goodwill is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognized in income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognized.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (Notes 2(k)(i) and (ii)).

2 Significant accounting policies (continued)

(k) Impairment of assets (continued)

(iii) Interim financial reporting and impairment (continued)

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognized in other comprehensive income and not profit or loss.

(l) Inventories

Inventories, which consist primarily of consumable spare parts and supplies, are stated at cost less any applicable provision for obsolescence, and are charged to income statement when used in operations. Cost represents the average unit cost.

Inventories held for sale or disposal are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (Note 2(k)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognized and redemption value being recognized in income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with (Note 2(q)(i)), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 Significant accounting policies (continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been generally within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables.

The amount of the guarantee initially recognized as deferred income is amortised in income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with (Note 2(q)(ii)) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortisation.

(ii) Provision and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Dividend distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s consolidated financial statements in the period in which the dividends are approved by the Company’s shareholders.

(s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Significant accounting policies (continued)

(t) Defeasance of long-term liabilities

Where long-term liabilities have been defeased by the placement of security deposits, those liabilities and deposits (and income and charge arising therefrom) are netted off in order to reflect the overall commercial effect of the arrangements. Such netting off has been effected where a right is held by the Group to insist on net settlement of the liability and deposit including in all situations of default and where that right is assured beyond doubt.

(u) Deferred benefits and gains

In connection with the acquisitions or leases of certain aircraft and engines, the Group receives various credits. Such credits are deferred until the aircraft and engines are delivered, at which time they are either applied as a reduction of the cost of acquiring the aircraft and engines, resulting in a reduction of future depreciation, or amortised as a reduction of rental expense for aircraft and engines under leases.

(v) Income tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the financial year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exception to the recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future and it is probable that future taxable profit will be available against which the temporary difference can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the financial year and are expected to apply when related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

2 Significant accounting policies (continued)

(v) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in income statement as follows:

(i) Passenger, cargo and mail revenues

Passenger revenue is recognized at the fair value of the consideration received when the transportation is provided or when an unused ticket expires rather than a ticket is sold. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage.

Cargo and mail revenues are recognized when the transportation is provided.

Revenues from airline-related business are recognized when services are rendered.

Revenue is stated net of sales tax.

(ii) Frequent flyer revenue

The Group maintains two frequent flyer award programmes, namely, the China Southern Airlines Sky Pearl Club and the Xiamen Airlines’ Egret Card Frequent Flyer Programme, which provide travel and other awards to members based on accumulated mileages.

Amount received in relation to mileage earning flights is allocated, based on fair value, between the flight and mileages earned by members of the Group’s frequent flyer award programmes. The value attributed to the awarded mileages is deferred as a liability, within deferred revenue, until the mileages are redeemed or expired.

Amount received from third parties for the issue of mileages under the frequent flyer award programmes is also deferred as a liability, within deferred revenue.

As members of the frequent flyer award programmes redeem mileages for an award, revenue is recorded in income statement. Revenue in relation to flight awards is recognized when the transportation is provided. Revenue in relation to non-flight rewards is recognized at the point of redemption where non-flight rewards are selected.

2 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(iii) Operating rental income

Receivable under operating leases is recognized in income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in income statement as an integral part of the aggregate net lease payments receivables. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iv) Dividends

- Dividend income from unlisted investments is recognized when the shareholder’s right to receive payment is established.
- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(v) Government grants are recognized in consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in income statement over the useful life of the asset by way of reduced depreciation expense.

(vi) Interest income is recognized as it accrues using the effective interest method.

(x) Traffic commissions

Traffic commissions are expensed in income statement when the transportation is provided and the related revenue is recognized. Traffic commissions for transportation not yet provided are recorded on the consolidated balance sheet as prepaid expense.

(y) Maintenance and overhaul costs

Routine maintenance, repairs and overhauls are charged to income statement as and when incurred.

In respect of owned and finance leased aircraft, components within the aircraft subject to replacement during major overhauls are depreciated over the average expected life between major overhauls. When each major overhaul is performed, its cost is recognized in the carrying amount of property, plant and equipment and is depreciated over the estimated period between major overhauls. Any remaining carrying amount of cost of previous major overhaul is derecognized and charged to income statement.

In respect of aircraft held under operating leases, the Group has responsibility to fulfil certain return conditions under relevant lease agreements. In order to fulfil these return conditions, major overhauls are required to be conducted on a regular basis. Accordingly, estimated costs of major overhauls are accrued and charged to income statement over the estimated period between overhauls. After the aircraft has completed its last overhaul cycle prior to being returned, expected cost of overhaul to be incurred at the end of the lease is estimated and accrued over the remaining period of the lease. Differences between the estimated costs and the actual costs of overhauls are charged to income statement in the period when the overhaul is performed.

2 Significant accounting policies (continued)

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(aa) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement schemes

Salaries, annual bonuses and contributions to defined contribution retirement schemes are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognized when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iii) Share-based payment

The fair value of the amount payable to employee in respect of share appreciation rights (“SARs”), which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as staff cost in the consolidated income statement.

(ab) Translation of foreign currencies

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Renminbi, which is the Company’s functional and the Group’s presentation currency.

Foreign currencies transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People’s Bank of China (“PBOC”) prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the PBOC exchange rates prevailing at the end of the financial year. Exchange gains and losses are recognized in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Renminbi at the PBOC exchange rates prevailing at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Renminbi at the PBOC exchange rates prevailing at the dates the fair value was determined.

2 Significant accounting policies (continued)

(ac) Related parties

- (a) A person, or a close member of that person’s family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group’s parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ad) Segmental information

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group’s most senior executive management, who is the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Accounting judgements and estimates

The Groups’ financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an ongoing basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the financial statements. In addition to the assumptions and estimates regarding provision for early retirement benefits and fair value measurements of financial instruments disclosed in Note42 and Note 4(g) respectively, the Group believes the following critical accounting policies also involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) Impairment of trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in accordance with IAS36, Impairment of Assets. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of traffic revenue and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of traffic revenue and amount of operating costs.

(c) Depreciation

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 Group reviews the estimated useful lives of assets annually in order to determine the amount of depreciation expense to be recorded during any financial year. The useful lives are based on the Group’s historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

3 Accounting judgements and estimates (continued)

(d) Provision for major overhauls

Provision for the cost of major overhauls to fulfil certain return condition for airframes and engines under operating leases is accrued and charged to the income statement over the estimated overhaul period. This requires estimation of the expected overhaul cycle and overhaul cost, which are based on the historical experience of actual cost incurred for overhauls of airframes and engines of the same or similar types. Different estimates could significantly affect the estimated provision and the results of operations.

(e) Frequent flyer revenue

The amount of revenue attributable to the mileages earned by the members of the Group’s frequent flyer award programmes is estimated based on the fair value of the mileages awarded and the expected redemption rate. The fair value of the mileages awarded is estimated by reference to external sales. The expected redemption rate was estimated based on historical experience, anticipated redemption pattern and the frequent flyer programme design.

(f) Provision for consumable spare parts and maintenance materials

Provision for consumable spare parts and maintenance materials is made based on the difference between the carrying amount and the net realisable value. The net realisable value is estimated based on current market condition, historical experience and Company’s future operation plan for the consumable spare parts and maintenance materials. The net realisable value may be adjusted significantly due to the change of market condition and the future plan for the consumable spare parts and maintenance materials.

(g) Income tax

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

(h) Retirement benefits

According to IAS 19, an entity shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity’s informal practices where the entity has no realistic alternative but to pay the employee benefits. The Company believes the payments of welfare subsidy to those retirees who retired before the establishment of Pension Scheme (as defined in Note 49 (a)) are discretionary and have not created a legal or constructive obligation. Such payments are made according to the Group’s business performance, and can be suspended at any time (Note 14).

4 Financial risk management and fair values

The Group is exposed to liquidity, interest rate, currency, credit risks and commodity jet fuel price risk in the normal course of business. The Group’s overall risk management programme focuses on the unpredictability of financial market seeks to minimize the adverse effects on the Group’s financial performance. The Group’s exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Liquidity risk

As at December 31, 2014, the Group’s current liabilities exceeded its current assets by RMB26,545 million. For the year ended December 31, 2014, the Group recorded a net cash inflow from operating activities of RMB13,570 million, a net cash outflow from investing activities of RMB9,760 million and a net cash outflow from financing activities of RMB131 million, which in total resulted in a net increase in cash and cash equivalents of RMB3,679 million.

The Group is dependent on its ability to maintain adequate cash inflow from operations, its ability to maintain existing external financing, and its ability to obtain new external financing to meet its debt obligations as they fall due and to meet its committed future capital expenditures. As at December 31, 2014, the Group had banking facilities with several PRC banks and financial institutions for providing bank financing up to approximately RMB187,133 million (2013: RMB166,270 million), of which approximately RMB126,703 million (2013: RMB120,904 million) was unutilized. The Directors of the Company believe that sufficient financing will be available to the Group when and where needed.

The Directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the twelve months ending December 31, 2015. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital, capital expenditure requirements and dividend payments of the Group during that period. In preparing the cash flow forecast, the Directors have considered historical cash requirements of the Group as well as other key factors, including the availability of the above-mentioned bank facilities, which may impact the operations of the Group during the next twelve-month period. The Directors of the Company are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realized.

As at December 31, 2014, the contractual maturities at the end of financial years of the Group’s borrowings and obligations under finance leases are disclosed in Notes 34, 35 respectively.

(b) Interest rate risk

The interest rates and maturity information of the Group’s borrowings and obligations under finance leases are disclosed in Note 34 and Note 35, respectively. Majority of the Group’s borrowing are at floating interest rates which expose the Group to cash flow interest rate risk. Borrowings at fixed interest rates expose the Group to fair value interest risk.

At December 31, 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group’s profit after tax and retained profits by approximately RMB569 million (2013: RMB443 million; 2012: RMB307 million). Other components of consolidated equity would not be affected (2013 and 2012: Nil) by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group’s profit after tax and retained profits and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group’s profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. This analysis is performed on the same basis as that for 2013 and 2012.

4 Financial risk management and fair values (continued)

(c) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place either through the PBOC or other institutions authorised to buy and sell foreign exchange or at a swap centre.

The Group has significant exposure to foreign currency risk as substantially all of the Group’s obligations under finance leases (Note 35), borrowings (Note 34) and operating lease commitments (Note 46(b)) are denominated in foreign currencies, principally US dollars, Singapore dollars and Japanese Yen. Depreciation or appreciation of Renminbi against foreign currencies affects the Group’s results significantly because the Group’s foreign currency liabilities generally exceed its foreign currency assets.

The following table indicates the instantaneous change in Group’s profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the beginning of the financial year had changed at that date, assuming all other risk variables remained constant.

	2014		2013		2012	
	Appreciation /(depreciation) of Renminbi against foreign currency	Increase /(decrease) on profit after tax and retained profits RMB million	Appreciation/ (depreciation) of Renminbi against foreign currency	Increase /(decrease) on profit after tax and retained profits RMB million	Appreciation/ (depreciation) of Renminbi against foreign currency	Increase/ (decrease) on profit after tax and retained profits RMB million
United States Dollars	1% (1)%	767 (767)	1% (1)%	654 (654)	2% (2)%	1,033 (1,033)
Singapore Dollars	2% (2)%	6 (6)	2% (2)%	7 (7)	2% (2)%	8 (8)
Japanese Yen	10% (10)%	145 (145)	10% (10)%	177 (177)	10% (10)%	125 (125)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities’ profit after tax and retained profits measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the end of the financial year for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments, borrowings, and lease obligations held by the Group which expose the Group to foreign currency risk at the end of the financial year, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group’s presentation currency. The analysis is performed on the same basis for 2013 and 2012.

4 Financial risk management and fair values (continued)

(d) Credit risk

The Group’s credit risk is primarily attributable to cash and cash equivalents, trade receivables and the guarantees on personal bank loans provided to the Group’s pilot trainees.

Substantially all of the Group’s cash and cash equivalents are deposited with major reputable PRC financial institutions, which management believes are of high credit quality.

A significant portion of the Group’s air tickets are sold by agents participating in the Billing and Settlement Plan (“BSP”), a clearing scheme between airlines and sales agents organised by International Air Transportation Association. The use of the BSP reduces credit risk to the Group. As at December 31, 2014, the balance due from BSP agents amounted to RMB990 million (2013: RMB1,046 million). The credit risk exposure to BSP and the remaining trade receivables balance are monitored by the Group on an ongoing basis and the allowance for impairment of doubtful debts is within management’s expectations. Further quantitative disclosures in respect of the Group’s exposure to credit risk arising from trade receivables is set out in (Note 31).

The Company and its subsidiary, Xiamen Airlines, entered into agreements with their pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB646 million (December 31, 2013: RMB656 million) that can be drawn by the pilot trainees to finance their respective flight training expenses. As at December 31, 2014, total personal bank loans of RMB486 million (December 31, 2013: RMB464million), under these guarantees, were drawn down from the banks. During the year, the Group has paid RMB2 million (2013: RMB6 million) to the banks due to the default of payments of certain pilot trainees.

(e) Jet fuel price risk

The Group’s results of operations may be significantly affected by fluctuations in fuel prices since the jet fuel expenses are a significant cost for the Group. A reasonable possible increase/decrease of 10% (2013 and 2012:10%) in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB3,773 million (2013: RMB3,554 million; 2012: RMB3,740 million). The sensitivity analysis indicates the instantaneous change in the Group’s fuel cost that would arise assuming that the change in fuel price had occurred at the beginning of the financial year.

(f) Capital management

The Group’s primary objectives in managing capital are to safeguard the Group’s ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide returns to its shareholders, by securing access to finance at a reasonable cost.

The Group manages the amount of capital in proportion to risk and manages its debt portfolio in conjunction with projected financing requirements. The Group monitors capital on the basis of the debt ratio, which is calculated as total liabilities divided by total assets.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Group’s debt ratio was 77% at December 31, 2014 (2013: 74%).

4 Financial risk management and fair values (continued)

(g) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of financial period across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

The following table presents the Group’s financial assets that are measured at fair value at December 31, 2014.

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
2014				
Assets				
Available-for-sale equity securities:				
-Listed	104	-	-	104
2013				
Assets				
Available-for-sale equity securities:				
-Listed	61	-	-	61

4 Financial risk management and fair values (continued)

(g) Fair value (continued)

(i) Financial instruments carried at fair value (continued)

During the years ended December 31, 2014 and 2013, there were no significant transfers between instruments in Level 1 and Level 2.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily A share equity investments classified as trading securities or available-for-sale.

(ii) Financial instruments not carried at fair value

- (a) Other investments in equity securities represent unlisted equity securities of companies established in the PRC. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be measured reliably. Accordingly, they are recognized in the consolidated balance sheet at cost less impairment losses.
- (b) Amounts due from/to related companies are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose fair values of these balances.
- (c) All other financial instruments, including trade and other receivables, trade and other payables, borrowings and obligation under finance leases are carried at amounts not materially different from their fair values as at December 31, 2014 and December 31, 2013.

5 Traffic revenue

	2014 RMB million	2013 RMB million	2012 RMB million
Passenger	84,740	76,687	77,937
Cargo and mail	5,842	4,935	4,785
Fuel Surcharge Income	13,746	13,062	13,378
	<u>104,328</u>	<u>94,684</u>	<u>96,100</u>

6 Segmental information

(a) Business segments

The Group’s network passenger, cargo and mail transportation are managed as a single business unit. The Group’s chief operating decision maker (“CODM”), which is the senior executive management, makes resource allocation decisions based on route profitability, which considers aircraft type and route economics. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group manages the network passenger and cargo operations, and the manner in which resource allocation decisions are made, the Group has only one reportable operating segment for financial reporting purposes, reported as the “airline transportation operations”.

Other operating segments consist primarily of business segments of hotel and tour operation, ground services, cargo handling and other miscellaneous services. These other operating segments are combined and reported as “other segments”.

Inter-segment sales are based on prices set on an arm’s length basis.

For the purposes of assessing segment performance and allocating resources between segments, the Group’s CODM monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under the People’s Republic of China Accounting Standards for Business Enterprises (“PRC GAAP”). As such, the amount of each material reconciling item from the Group’s reportable segment revenue, profit before tax, assets and liabilities arising from different accounting policies are set out in Note 6(c).

Information regarding the Group’s reportable segments as provided to the Group’s CODM for the purposes of resource allocation and assessment of segment performance is set out below.

The segment results of the Group for the year ended December 31, 2014 are as follows:

	Airline transportation operations RMB million	Other segments RMB million	Elimination RMB million	Unallocated* RMB million	Total RMB million
Revenue from external customers	107,790	523	-	-	108,313
Inter-segment sales	-	1,364	(1,364)	-	-
Reportable segment revenue	107,790	1,887	(1,364)	-	108,313
Reportable segment profit before taxation	2,422	257	-	416	3,095
Reportable segment profit after taxation	1,800	202	-	416	2,418
Other segment information					
Income tax	622	55	-	-	677
Interest income	369	7	-	-	376
Interest expense	2,155	38	-	-	2,193
Depreciation and amortisation	10,915	88	-	-	11,003
Impairment loss	205	-	-	-	205
Share of associates’ results	-	-	-	263	263
Share of joint ventures’ results	-	-	-	140	140
Non-current assets additions during the year	29,523	98	-	-	29,621

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(a) Business segments (continued)

The segment results of the Group for the year ended December 31, 2013 are as follows:

	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue from external customers	97,659	471	-	-	98,130
Inter-segment sales	-	1,147	(1,147)	-	-
Reportable segment revenue	97,659	1,618	(1,147)	-	98,130
Reportable segment profit before taxation	2,796	123	-	431	3,350
Reportable segment profit after taxation	2,118	100	-	431	2,649
Other segment information					
Income tax	678	23	-	-	701
Interest income	300	7	-	-	307
Interest expense	1,611	40	-	-	1,651
Depreciation and amortisation	9,425	80	-	-	9,505
Impairment loss	567	1	-	-	568
Share of associates' results	-	-	-	296	296
Share of joint ventures' results	-	-	-	96	96
Non-current assets additions during the year	28,780	82	-	-	28,862

The segment results of the Group for the year ended December 31, 2012 are as follows:

	Airline transportation operations	Other segments	Elimination	Unallocated*	Total
	RMB million	RMB million	RMB million	RMB million	RMB million
Revenue from external customers	101,007	476	-	-	101,483
Inter-segment sales	-	1,159	(1,159)	-	-
Reportable segment revenue	101,007	1,635	(1,159)	-	101,483
Reportable segment profit before taxation	4,120	102	-	526	4,748
Reportable segment profit after taxation	3,179	90	-	526	3,795
Other segment information					
Income tax	941	12	-	-	953
Interest income	230	5	-	-	235
Interest expense	1,329	47	-	-	1,376
Depreciation and amortisation	8,204	80	-	-	8,284
Impairment loss	(7)	1	-	-	(6)
Share of associates' results	-	-	-	318	318
Share of joint ventures' results	-	-	-	121	121
Non-current assets additions during the year	24,316	57	-	-	24,373

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(a) Business segments (continued)

The segment assets and liabilities of the Group as at December 31, 2014 and December 31, 2013 are as follows:

	Airline transportation operations RMB million	Other segments RMB million	Elimination RMB million	Unallocated* RMB million	Total RMB million
As at December 31, 2014					
Reportable segment assets	184,661	2,427	(568)	3,177	189,697
Reportable segment liabilities	<u>144,782</u>	<u>1,209</u>	<u>(568)</u>	<u>-</u>	<u>145,423</u>
As at December 31, 2013					
Reportable segment assets	160,759	2,304	(658)	2,740	165,145
Reportable segment liabilities	<u>122,320</u>	<u>1,271</u>	<u>(658)</u>	<u>-</u>	<u>122,933</u>

* Unallocated assets primarily include investments in associates and joint ventures, available-for-sale financial assets and other investments in equity securities. Unallocated results primarily include the share of results of associates and joint ventures, gain on disposal of a subsidiary, dividend income from available-for-sales financial assets and other investments in equity securities and interest income from wealth management products.

6 Segment reporting (continued)

(b) The Group’s business segments operate in three main geographical areas, even though they are managed on a worldwide basis.

The Group’s revenues by geographical segment are analyzed based on the following criteria:

- (1) Traffic revenues from services within the PRC (excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan (“Hong Kong, Macau and Taiwan”)), is classified as domestic operations. Traffic revenue from inbound and outbound services between overseas markets, excluding Hong Kong, Macau and Taiwan, is classified as international operations.
- (2) Revenues from commission income, hotel and tour operation, ground services, cargo handling and other miscellaneous services are classified on the basis of where the services are performed.

	2014 RMB Million	2013 RMB Million	2012 RMB Million
Domestic	82,764	76,828	81,322
International	22,952	19,053	17,821
Hong Kong, Macau and Taiwan	2,597	2,249	2,340
	<u>108,313</u>	<u>98,130</u>	<u>101,483</u>

The major revenue earning assets of the Group are its aircraft fleet which is registered in the PRC and is deployed across its worldwide route network. Majority of the Group’s other assets are located in the PRC. CODM considers that there is no suitable basis for allocating such assets and related liabilities to geographical locations. Accordingly, geographical segment assets and liabilities are not disclosed.

(c) Reconciliation of reportable segment revenues, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statement.

	Note	2014 RMB million	2013 RMB million	2012 RMB million
Revenue				
Reportable segment revenues		108,313	98,130	101,483
Reclassification of expired sales in advance of carriage	(i)	459	684	495
Reclassification of sales tax	(ii)	(188)	(267)	(2,464)
Consolidated revenues		<u>108,584</u>	<u>98,547</u>	<u>99,514</u>
Profit before income tax				
Reportable segment profit before taxation		3,095	3,350	4,748
Losses on housing benefits		-	-	(14)
Capitalization of exchange difference of specific loans	(iii)	(28)	133	3
Government grants	(iv)	1	3	2
Others		(2)	(2)	(1)
Consolidated profit before income tax		<u>3,066</u>	<u>3,484</u>	<u>4,738</u>

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

6 Segment reporting (continued)

(c) Reconciliation of reportable segment revenue, profit before income tax, assets and liabilities to the consolidated figures as reported in the consolidated financial statement. (continued)

	Note	2014 RMB million	2013 RMB million
Assets			
Reportable segment assets		189,697	165,145
Capitalization of exchange difference of specific loans	(iii)	323	351
Government grants	(iv)	(259)	(210)
Others		(73)	(79)
Consolidated total assets		189,688	165,207
	Note	2014 RMB million	2013 RMB million
Liabilities			
Reportable segment liabilities		145,423	122,933
Government grants	(iv)	(228)	(178)
Others		-	1
Consolidated total liabilities		145,195	122,756

Notes:

- (i) In accordance with the PRC GAAP, expired sales in advance of carriage are recorded under non-operating income. Under IFRSs, such income is recognized as other operating income.
- (ii) In accordance with the PRC GAAP, sales tax is separately disclosed rather than deducted from revenue under IFRSs.
- (iii) In accordance with the PRC GAAP, exchange difference arising on translation of specific loans and related interest denominated in a foreign currency is capitalized as part of the cost of qualifying assets. Under IFRSs, such exchange difference is recognized in income statement unless the exchange difference represents an adjustment to interest.
- (iv) In accordance with the PRC GAAP, special funds such as investment grants allocated by the government, if clearly defined on official documents as part of “capital reserve”, are credited to capital reserve. Otherwise, government grants related to assets are recognized as deferred income and amortised to profit or loss on a straight line basis over the useful life of the related assets. Under IFRSs, government grants relating to purchase of fixed assets are deducted from the cost of the related fixed assets.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

7 Other operating revenue

	2014 RMB million	2013 RMB million	2012 RMB million
Commission income	1,335	1,040	757
Expired sales in advance of carriage	459	684	495
Hotel and tour operation income	508	565	647
General aviation income	576	484	445
Ground services income	293	349	350
Air catering income	272	226	176
Cargo handling income	236	176	109
Rental income	156	137	125
Others	421	202	310
	4,256	3,863	3,414

8 Flight operation expenses

	2014 RMB million	2013 RMB million	2012 RMB million
Jet fuel costs	37,728	35,538	37,401
Flight personnel payroll and welfare	6,803	5,799	5,051
Aircraft operating lease charges	5,383	4,767	4,897
Air catering expenses	2,497	2,295	2,352
Civil Aviation Development Fund	2,279	2,036	1,868
Training expenses	1,003	784	660
Aircraft insurance	202	194	203
Others	3,006	2,597	2,258
	58,901	54,010	54,690

9 Maintenance expenses

	2014 RMB million	2013 RMB million	2012 RMB million
Aviation repair and maintenance charges	5,525	5,334	5,633
Staff payroll and welfare	1,966	1,712	1,584
Maintenance materials	813	759	754
	8,304	7,805	7,971

10 Aircraft and transportation service expenses

	2014 RMB million	2013 RMB million	2012 RMB million
Landing and navigation fees	10,496	9,510	8,984
Ground service and other charges	5,906	5,581	5,088
	16,402	15,091	14,072

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

11 Promotion and selling expenses

	2014 RMB million	2013 RMB million	2012 RMB million
Sales commissions	4,263	4,356	3,865
Ticket office expenses	2,465	2,303	2,183
Computer reservation services	542	526	458
Advertising and promotion	116	118	260
Others	455	451	368
	<u>7,841</u>	<u>7,754</u>	<u>7,134</u>

12 General and administrative expenses

	2014 RMB million	2013 RMB million	2012 RMB million
General corporate expenses	2,195	2,334	2,327
Auditors' remuneration	18	16	14
Other taxes and levies	124	120	84
	<u>2,337</u>	<u>2,470</u>	<u>2,425</u>

13 Depreciation and amortisation

	2014 RMB million	2013 RMB million	2012 RMB million
Depreciation			
– Owned assets	8,021	6,861	6,328
– Assets acquired under finance leases	2,768	2,477	1,874
Amortisation of deferred benefits and gains	(156)	(146)	(74)
Other amortisation	195	155	136
	<u>10,828</u>	<u>9,347</u>	<u>8,264</u>

14 Staff costs

	2014 RMB million	2013 RMB million	2012 RMB million
Salaries, wages and welfare	14,667	12,938	11,953
Contribution to retirement schemes	1,554	1,324	814
Other retirement welfare payments	167	175	125
Early retirement benefits (Note 42)	7	12	20
	<u>16,395</u>	<u>14,449</u>	<u>12,912</u>

Staff costs relating to flight operations and maintenance are also included in the respective total amounts disclosed separately in Note 8 to Note 9 above.

Details of staff costs arising from cash-settled share appreciation rights are disclosed in Note 49(c). Such costs have been included in “salaries, wages and welfare” above.

Notes to the consolidated financial statements
 (Prepared in accordance with International Financial Reporting Standards)
 (Expressed in Renminbi unless otherwise indicated)

15 Other net income

	2014 RMB million	2013 RMB million	2012 RMB million
Government grants (Note)	1,700	1,155	1,243
Gain/ (losses) on disposal of property, plant and equipment, net			
– Aircraft and spare engines	344	(8)	9
– Other property, plant and equipment	(77)	(70)	7
Others	223	166	203
	<u>2,190</u>	<u>1,243</u>	<u>1,462</u>

Note:

Government grants mainly represent (i) subsidies based on certain amount of tax paid granted by governments to the Group; (ii) subsidies granted by various local governments to encourage the Group to operate certain routes to cities where these governments are located. The government grants are recognized when fulfilling the requirements and when cash is received.

There are no unfulfilled conditions and other contingencies related to subsidies that have been recognized during the year ended December 31, 2014.

16 Interest expense

	2014 RMB million	2013 RMB million	2012 RMB million
Interest on borrowings	1,628	1,275	1,289
Interest relating to obligations under finance leases	978	692	468
Interest relating to provision for early retirement benefits(Note 42)	4	5	8
Less: interest expense capitalized (Note)	(417)	(321)	(389)
	<u>2,193</u>	<u>1,651</u>	<u>1,376</u>

Note:

The interest rates used for interest capitalization ranged from 2.12% to 2.73% per annum in 2014 (2013: 2.06% to 2.81% per annum; 2012: 2.25% to 3.23% per annum).

17 Other non-operating income

	2014 RMB million	2013 RMB million	2012 RMB million
Interest income on wealth management products	-	25	21
Gain on disposal of a subsidiary	-	-	54
Gain recognized on acquisition of a subsidiary (Note 47)	26	-	-
	<u>26</u>	<u>25</u>	<u>75</u>

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

18 Remuneration of directors, supervisors and senior management

(a) Directors’ and supervisors’ remuneration

Details of directors’ and supervisors’ remuneration for the year ended December 31, 2014 are set out below:

Name	Directors’ fees RMB thousand	Salaries, wages and welfare RMB thousand	Retirement scheme contributions RMB thousand	Total RMB thousand
Non-executive directors				
Si Xian Min (Note (i))	-	-	-	-
Wang Quan Hua (Note (i))	-	-	-	-
Yuan Xin An (Note (i))	-	-	-	-
Yang Li Hua (Note (i) & (ii))	-	-	-	-
Executive directors				
Tan Wan Geng (Note (i))	-	-	-	-
Zhang Zi Fang (Note (i))	-	-	-	-
Li Shao Bin (Note (ii))	-	636	130	766
Supervisors				
Li Jia Shi	-	636	132	768
Zhang Wei (Note (i))	-	-	-	-
Yang Yi Hua	-	294	140	434
Wu De Ming (Note (iv))	-	367	140	507
Independent non-executive directors				
Wei Jin Cai	150	-	-	150
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150
Tan Jin Song(Note(iv))	150	-	-	150
	600	1,933	542	3,075

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

18 Remuneration of directors, supervisors and senior management (continued)

(a) Directors’ and supervisors’ remuneration (continued)

Details of directors’ and supervisors’ remuneration for the year ended December 31, 2013 are set out below:

Name	Directors’ fees RMB thousand	Salaries, wages and welfare RMB thousand	Retirement scheme contributions RMB thousand	Total RMB thousand
Non-executive directors				
Si Xian Min (Note (i))	-	-	-	-
Wang Quan Hua (Note (i))	-	-	-	-
Yuan Xin An (Note (i))	-	-	-	-
Yang Li Hua (Note (i) & (ii))	-	-	-	-
Executive directors				
Tan Wan Geng (Note (i))	-	-	-	-
Zhang Zi Fang (Note (i))	-	-	-	-
Li Shao Bin (Note (ii))	-	639	120	759
Supervisors				
Pan Fu (Note (i))	-	-	-	-
Li Jia Shi	-	636	120	756
Zhang Wei (Note (i))	-	-	-	-
Yang Yi Hua	-	291	122	413
Liang Zhong Gao (Note (iii))	-	300	122	422
Wu De Ming (Note (iv))	-	-	-	-
Independent non-executive directors				
Gong Hua Zhang(Note (iii))	150	-	-	150
Wei Jin Cai	150	-	-	150
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150
Tan Jin Song(Note(iv))	-	-	-	-
	600	1,866	484	2,950

18 Remuneration of directors, supervisors and senior management (continued)

(a) Directors’ and supervisors’ remuneration (continued)

Details of directors’ and supervisors’ remuneration for the year ended December 31, 2012 are set out below:

Name	Directors’ fees RMB thousand	Salaries, wages and welfare RMB thousand	Retirement scheme contributions RMB thousand	Total RMB thousand
Non-executive directors				
Si Xian Min (Note (i))	-	-	-	-
Wang Quan Hua (Note (i))	-	-	-	-
Yuan Xin An (Note (i))	-	-	-	-
Executive directors				
Tan Wan Geng (Note (i))	-	-	-	-
Zhang Zi Fang	-	743	70	813
Chen Zhen You (Note (v))	-	576	44	620
Supervisors				
Pan Fu (Note (i))	-	-	-	-
Li Jia Shi	-	710	69	779
Zhang Wei (Note (i))	-	-	-	-
Yang Yi Hua	-	346	68	414
Liang Zhong Gao (Note (iii))	-	352	69	421
Independent non-executive directors				
Gong Hua Zhang(Note (iii))	150	-	-	150
Wei Jin Cai	150	-	-	150
Ning Xiang Dong	150	-	-	150
Liu Chang Le	150	-	-	150
	600	2,727	320	3,647

Save as disclosed above, the Company’s executive director, Mr. Xu Jie Bo resigned on January 5, 2015. For the year ended December 31, 2014, Mr. Xu Jie Bo’s total remuneration was RMB766 thousand, including salaries, wages and welfare of RMB636 thousand and retirement scheme of RMB130 thousand. For the year ended December 31, 2013, Mr. Xu Jie Bo’s total remuneration was RMB757 thousand, including salaries, wages and welfare of RMB636 thousand and retirement scheme of RMB121 thousand. For the year ended December 31, 2012, Mr. Xu Jie Bo’s total remuneration was RMB780 thousand, including salaries, wages and welfare of RMB710 thousand and retirement scheme of RMB70 thousand.

In addition to the above, certain directors have been granted SARs in respect of their services to the Group, further details of which are set out in Note 49(c).

Notes:

- (i) These directors or supervisors did not receive any remuneration for their services in the capacity of the directors or supervisors of the Company. They also held management positions in CSAHC and their salaries were borne by CSAHC.
- (ii) Appointed on January 24, 2013.
- (iii) Resigned on December 26, 2013.
- (iv) Appointed on December 26, 2013.
- (v) Resigned on December 6, 2012.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

19 Income tax

(a) Income tax expense in the consolidated income statement

	2014 RMB million	2013 RMB million	2012 RMB million
PRC income tax			
– Provision for the year	430	705	774
– Over-provision in prior year	(29)	(31)	(61)
	401	674	713
Deferred tax (Note 28)			
Origination and reversal of temporary differences	267	60	241
Tax expense	668	734	954

In respect of majority of the Group’s airline operation outside mainland China, the Group has either obtained exemptions from overseas taxation pursuant to the bilateral aviation agreements between the overseas governments and the PRC government, or has sustained tax losses in those overseas jurisdictions. Accordingly, no provision for overseas tax has been made for overseas airlines operation in the current and prior years.

Under the Corporate Income Tax Law of the PRC, the Company and majority of its subsidiaries are subject to PRC income tax at 25% (2013: 25%). Certain subsidiaries of the Company are subject to preferential income tax rate at 15% according to the preferential tax policy in locations, where those subsidiaries are located.

(b) Reconciliation between actual tax expense and calculated tax based on accounting profit at applicable tax rates

	2014 RMB million	2013 RMB million	2012 RMB million
Profit before taxation	3,066	3,484	4,738
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned (Note)	738	863	1,157
Adjustments for tax effect of:			
Non-deductible expenses	11	19	26
Non-taxable income	-	-	(9)
Share of results of associates and joint ventures	(104)	(108)	(110)
Unused tax losses and deductible temporary differences for which no deferred tax assets were recognized	63	32	3
Utilisation of unused tax losses and deductible temporary differences for which no deferred tax assets were recognized in prior years	(11)	(41)	(29)
Over-provision in prior year	(29)	(31)	(61)
Tax rates differential	-	-	(23)
Tax expense	668	734	954

19 Income tax (continued)

(b) Reconciliation between actual tax expense and calculated tax based on accounting profit at applicable tax rates (continued)

Note:

The headquarters of the Company and its branches are taxed at rate at 25% (2013 and 2012: 25%). The subsidiaries of the Group are taxed at rates ranging from 15% to 25% (2013 and 2012: 15% to 25%).

20 Earnings per share

The calculation of basic earnings per share for the year ended December 31, 2014 is based on the profit attributable to equity shareholders of the Company of RMB1,777 million (2013: RMB1,986 million; 2012: RMB2,619 million) and the weighted average of 9,817,567,000 shares in issue during the year (2013 and 2012: 9,817,567,000 shares).

The amounts of diluted earnings per share are the same as basic earnings per share as there were no dilutive potential ordinary shares in existence for the year ended December 31, 2014 and 2013.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

21 Property, plant and equipment, net

	Investment properties RMB million	Buildings RMB million	Aircraft		Other flight equipment including rotables RMB million	Machinery, equipment and vehicles RMB million	Total RMB million
			Owned RMB million	Acquired under finance leases RMB million			
Cost:							
At January 1, 2013	667	8,599	83,011	38,667	16,570	5,076	152,590
Additions	17	41	2,772	10,935	1,120	507	15,392
Transfer from construction in progress (Note 22)	-	68	4,707	9,363	353	11	14,502
Transfer to buildings upon cease of lease intention	(72)	72	-	-	-	-	-
Transfer to investment properties upon lease out	69	(69)	-	-	-	-	-
Reclassification on exercise of purchase options	-	-	327	(327)	-	-	-
Disposals	-	(39)	(1,953)	(320)	(566)	(248)	(3,126)
At December 31, 2013	681	8,672	88,864	58,318	17,477	5,346	179,358
At January 1, 2014	681	8,672	88,864	58,318	17,477	5,346	179,358
Additions	-	151	726	8,521	821	608	10,827
Transfer from construction in progress (Note 22)	1	444	382	11,546	957	133	13,463
Transfer to buildings upon cease of lease intention	(99)	99	-	-	-	-	-
Transfer to lease prepayments upon cease of lease intention	(21)	-	-	-	-	-	(21)
Transfer to investment properties upon lease out	84	(84)	-	-	-	-	-
Acquisition of a subsidiary (Note 47)	-	-	539	1,931	261	23	2,754
Disposals	-	(77)	(5,390)	(443)	(946)	(227)	(7,083)
At December 31, 2014	646	9,205	85,121	79,873	18,570	5,883	199,298

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

21 Property, plant and equipment, net (continued)

			Aircraft				
	Investment properties RMB million	Buildings RMB million	Owned RMB million	Acquired under finance leases RMB million	Other flight equipment including rotables RMB million	Machinery, equipment and vehicles RMB million	Total RMB million
Accumulated depreciation and impairment losses:							
At January 1, 2013	186	2,440	29,109	8,098	9,515	3,202	52,550
Depreciation charge for the year	22	339	5,023	2,477	1,106	371	9,338
Transfer to buildings upon cease of lease intention	(39)	39	-	-	-	-	-
Transfer to investment properties upon lease out	4	(4)	-	-	-	-	-
Reclassification on exercise of purchase options	-	-	15	(15)	-	-	-
Disposals	-	(20)	(1,665)	(320)	(346)	(227)	(2,578)
Provision for impairment loss	-	-	500	-	36	-	536
Impairment losses written off on disposal	-	-	(170)	-	(95)	-	(265)
At December 31, 2013	173	2,794	32,812	10,240	10,216	3,346	59,581
At January 1, 2014	173	2,794	32,812	10,240	10,216	3,346	59,581
Depreciation charge for the year	21	292	6,095	2,768	1,063	550	10,789
Transfer to buildings upon cease of lease intention	(22)	22	-	-	-	-	-
Transfer to lease prepayments upon cease of lease intention	(4)	-	-	-	-	-	(4)
Transfer to investment properties upon lease out	19	(19)	-	-	-	-	-
Disposals	-	(61)	(3,966)	(429)	(701)	(211)	(5,368)
Provision for impairment loss (Note 21(d))	-	-	176	-	39	-	215
Impairment losses written off on disposal (Note 21(c))	-	-	(317)	-	(51)	-	(368)
At December 31, 2014	187	3,028	34,800	12,579	10,566	3,685	64,845
Net book value							
At December 31, 2014	459	6,177	50,321	67,294	8,004	2,198	134,453
At December 31, 2013	508	5,878	56,052	48,078	7,261	2,000	119,777

21 **Property, plant and equipment, net (continued)**

- (a) As at December 31, 2014, the accumulated impairment provision of aircraft and flight equipment of the Group is RMB1,623 million and RMB108 million respectively (2013: RMB1,764 million and RMB120 million respectively).
- (b) As at December 31, 2014, certain aircraft and other flight equipment of the Group with an aggregate carrying value of approximately RMB99,119 million (2013: RMB80,233 million) were mortgaged under certain loans or certain lease agreements (Notes 34 and 35).
- (c) During the year ended December 31, 2014, 7 Boeing 737-300 aircraft and 6 EMB145 aircraft against which impairment provision had been provided in previous years were disposed of and the impairment provision of RMB317 million for these aircraft was written of on disposal.
- (d) As at December 31, 2014, the Group reviewed the recoverable amounts of the aircrafts and related assets and made additional RMB176 million impairment provision for two Boeing B747-400F aircraft against which impairment provision had been provided in previous years. The Group also made impairment provision of RMB39 million on certain flight equipment considering that these equipment’s corresponding aircraft has ceased operation. The estimates of recoverable amounts were based on the greater of the assets’ fair value less costs to sell and the value in use. The fair value was determined by reference to the recent observable market prices for the aircraft fleet and flight equipment.
- (e) As at December 31, 2014 and up to the date of approval of these financial statements, the Group is in the process of applying for the property title certificates in respect of the properties located in Guangzhou (including Guangzhou Baiyun International Airport), Xiamen, Heilongjiang, Jilin, Dalian, Guangxi, Hunan, Beijing, Shanghai, Zhuhai, Shenzhen, Shenyang, Xinjiang, Henan, Chengdu, Guizhou, Hainan, Hubei and Shantou, in which the Group has interests and for which such certificates have not been granted. As at December 31, 2014, carrying value of such properties of the Group amounted to RMB3,572 million (2013: RMB3,557 million). The Directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

21 Property, plant and equipment, net (continued)

(f) The Group leased out investment properties and certain flight training facilities under operating leases. The leases typically run for an initial period of one to fourteen years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In this connection, rental income totalling RMB94 million (2013: RMB85 million) was received by the Group during the year in respect of the leases. Directors estimated the fair value of these investment properties approximate the carrying amount.

The properties are reclassified between investment properties and property, plant and equipment, upon the intention of commencement or cease of lease.

The Group’s total future minimum lease income under non-cancellable operating leases are as follows:

	2014 RMB million	2013 RMB million
Within 1 year	54	45
After 1 year but within 5 years	72	54
After 5 years	11	2
	<u>137</u>	<u>101</u>

22 Construction in progress

	Advance payment for aircraft and flight equipment RMB million	Others RMB million	Total RMB million
At January 1, 2013	18,115	574	18,689
Additions	12,721	795	13,516
Transferred to property, plant and equipment (Note 21)	(14,423)	(79)	(14,502)
Transfer to lease prepayments and other assets upon completion of development	-	(244)	(244)
At December 31, 2013	<u>16,413</u>	<u>1,046</u>	<u>17,459</u>
At January 1, 2014	16,413	1,046	17,459
Additions	13,742	1,342	15,084
Acquisition of a subsidiary (Note 47)	484	2	486
Transferred to property, plant and equipment (Note 21)	(12,885)	(578)	(13,463)
Transfer to lease prepayments and other assets upon completion of development	-	(219)	(219)
At December 31, 2014	<u>17,754</u>	<u>1,593</u>	<u>19,347</u>

23 Lease prepayments

In 2014, the amount of amortisation charged to consolidated income statement was RMB61 million (2013: RMB58 million; 2012: RMB47 million).

A majority of the Group’s properties are located in the PRC. The Group was formally granted the rights to use certain parcels of land in Guangzhou, Shenzhen, Zhuhai, Beihai, Changsha, Shantou, Haikou, Zhengzhou, Jilin, Guiyang and other PRC cities by the relevant PRC authorities for periods of 30 to 70 years, which expire between 2020 and 2073.

As at December 31, 2014 and up to the date of approval of these financial statements, the Group is in the process of applying for certain land use right certificates. As at December 31, 2014, carrying value of such land use rights of the Group amounted to RMB1,038 million (2013: RMB1,056 million). The Directors of the Company are of the opinion that the use of and the conduct of operating activities at the land use rights referred to above are not affected by the fact that the Group has not yet obtained the relevant land use right certificates.

24 Interest in associates

	2014 RMB million	2013 RMB million
Share of net assets	1,583	1,305

All the Group’s associates are unlisted without quoted market price. The particulars of the Group’s principal associates as of December 31, 2014 are as follows:

	Place of establishment / operation	Group’s effective interest	Proportion of ownership interest held by		Proportion of voting rights held by the Group	Principal activity
			The Company	Subsidiaries		
China Southern Group Finance Co.,Ltd (“SA Finance”)	PRC	33.98%	21.09%	12.89%	33.98%	Provision of Airlines financial services
Sichuan Airlines Co.,Ltd (“Sichu Airlines”)	PRC	39%	39%	-	39%	Airline transportation
Southern Airlines Culture and Meida Co., Ltd (“SACM”)	PRC	40%	40%	-	40%	Advertising services

There is no associate that is individually material to the Group.

The Group has interests in a number of individually immaterial associates that are accounted for using the equity method. The aggregate financial information of these associates is summarized as following:

	2014 RMB million	2013 RMB million	2012 RMB million
Aggregate carrying amount of individually immaterial associates	1,583	1,305	1,033
Aggregate amounts of the Group’s share of:			
Profit from continuing activities	261	294	317
Other comprehensive income/(loss)	21	(3)	-
Total comprehensive income	282	291	317

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

25 Interest in joint ventures

	2014 RMB million	2013 RMB million
Share of net assets	1,338	1,197

All the Group’s joint ventures are unlisted without quoted market price. The particulars of the Group’s principal joint ventures as of December 31, 2014 are as follows:

	Place of establishment/ operation	Group’s effective interest	Proportion of ownership interest held by		Proportion of voting rights held by the Group	Principal activity
			The Company	Subsidiaries		
Guangzhou Aircraft Maintenance Engineering Co.,Ltd (“GAMECO”)	PRC	50%	50%	-	50%	Aircraft repair and maintenance services
Zhuhai Xiang Yi Aviation Technology Company Limited (“Zhuhai Xiang Yi”)	PRC	51%	51%	-	50%	Flight simulation services
Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited	PRC	50%	50%	-	50%	Sales of duty free goods in flight
China Southern West Australian Flying College Pty Ltd (“Flying College”)	Australia	48.12%	48.12%	-	50%	Pilot training services

There is no joint venture that is individually material to the Group.

The Group has interest in a number of individually immaterial joint ventures that are accounted for using the equity method. The aggregate financial information of these joint ventures is summarized as following:

	2014 RMB million	2013 RMB million	2012 RMB million
Aggregate carrying amount of individually immaterial joint venture	1,338	1,197	1,103
Aggregate amounts of the Group’s share of:			
Profit from continuing activities	140	96	121
Total comprehensive income	140	96	121

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

26 Other investments in equity securities

	2014 RMB million	2013 RMB million
Unlisted equity securities, at cost	136	162
Dividend income from unlisted equity securities of the Group amounted to RMB10 million during the year ended December 31, 2014 (2013: RMB11 million; 2012: RMB11 million).		

27 Available-for-sale financial assets

	2014 RMB million	2013 RMB million
Available-for-sale financial assets		
- Listed in the PRC	104	61
Quoted market value of listed securities	104	61
Dividend income from listed securities of the Group amounted to RMB3 million during the year ended December 31, 2014 (2013: RMB3 million, 2012: RMB1 million).		

28 Deferred tax assets/(liabilities)

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2014 RMB million	2013 RMB million
Deferred tax assets		
– Deferred tax asset to be utilized after 12 months	390	443
– Deferred tax asset to be utilized within 12 months	576	808
	966	1,251
Deferred tax liabilities		
– Deferred tax liability to be realized after 12 months	(873)	(880)
Net deferred tax assets	93	371

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

28 Deferred tax assets/(liabilities) (continued)

(b) Movements of net deferred tax assets are as follows:

	At the beginning of the year RMB million	(Charged)/ credited to income statement RMB million	Charged to other comprehensive income RMB million	At the end of the year RMB million
For the year ended December 31, 2014				
Deferred tax assets:				
Accrued expenses	847	(286)	-	561
Provision for major overhauls	173	123	-	296
Deferred revenue	75	1	-	76
Provision for impairment losses	393	(158)	-	235
Others	69	13	-	82
	<u>1,557</u>	<u>(307)</u>	<u>-</u>	<u>1,250</u>
Deferred tax liabilities:				
Provision for major overhauls	(363)	-	-	(363)
Depreciation allowances under tax in excess of the related depreciation under accounting	(707)	18	-	(689)
Change in fair value of available-for-sale equity securities	(9)	-	(11)	(20)
Others	(107)	22	-	(85)
	<u>(1,186)</u>	<u>40</u>	<u>(11)</u>	<u>(1,157)</u>
Net deferred tax assets	<u>371</u>	<u>(267)</u>	<u>(11)</u>	<u>93</u>
	At the beginning of the year RMB million	(Charged)/ credited to income statement RMB million	Credited to other comprehensive income RMB million	At the end of the year RMB million
For the year ended December 31, 2013				
Deferred tax assets:				
Accrued expenses	870	(23)	-	847
Provision for major overhauls	145	28	-	173
Deferred revenue	106	(31)	-	75
Provision for impairment losses	345	48	-	393
Others	47	22	-	69
	<u>1,513</u>	<u>44</u>	<u>-</u>	<u>1,557</u>
Deferred tax liabilities:				
Provision for major overhauls	(319)	(44)	-	(363)
Depreciation allowances under tax in excess of the related depreciation under accounting	(643)	(64)	-	(707)
Change in fair value of available-for-sale equity securities	(11)	-	2	(9)
Others	(111)	4	-	(107)
	<u>(1,084)</u>	<u>(104)</u>	<u>2</u>	<u>(1,186)</u>
Net deferred tax assets	<u>429</u>	<u>(60)</u>	<u>2</u>	<u>371</u>

28 Deferred tax assets/(liabilities) (continued)

(c) Deferred tax assets not recognized

At December 31, 2014, the Group’s deductible temporary differences amounting to RMB23 million (2013: RMB29 million) have not been recognized as deferred tax assets as it was determined by management that it is not probable that future taxable profits will be available for these deductible temporary differences to reverse in the foreseeable future.

Tax losses in the PRC are available for carrying forward to set off future assessable income for a maximum period of five years. The Group’s unused tax losses of RMB932 million (2013: RMB236 million) have not been recognized as deferred tax assets, as it was determined by management that it is not probable that future taxable profits against which the losses can be utilized will be available before they expire. The expiry dates of unrecognized unused tax losses are analyzed as follows:

	2014 RMB million	2013 RMB million
Expiring in:		
2014	-	32
2015	95	-
2016	98	4
2017	201	-
2018	250	200
2019	288	-
	<u>932</u>	<u>236</u>

The significant increase in unrecognized unused tax losses as of December 31, 2014 is attributable to the acquisition of a subsidiary (Note 47) with significant unused tax losses brought forward from previous years.

29 Other assets

	Prepayment for exclusive use right of an airport terminal RMB million	Software RMB million	Leasehold improvement RMB million	Others RMB million	Total RMB million
At January 1, 2013	270	75	68	67	480
Additions	-	15	-	9	24
Transferred from construction in progress	-	136	46	-	182
Amortization for the year	(10)	(52)	(23)	(12)	(97)
At December 31, 2013	<u>260</u>	<u>174</u>	<u>91</u>	<u>64</u>	<u>589</u>
At January 1, 2014	260	174	91	64	589
Additions	-	18	37	8	63
Acquisition of a subsidiary (Note 47)	-	5	-	290	295
Transferred from construction in progress	-	63	45	-	108
Disposal	-	(1)	-	-	(1)
Amortization for the year	(10)	(72)	(36)	(16)	(134)
At December 31, 2014	<u>250</u>	<u>187</u>	<u>137</u>	<u>346</u>	<u>920</u>

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

30 Inventories

	2014 RMB million	2013 RMB million
Consumable spare parts and maintenance materials	1,587	1,799
Other supplies	178	153
	1,765	1,952
Less: impairment	(104)	(305)
	1,661	1,647

Impairment of inventory is shown as below:

	2014 RMB million	2013 RMB million
At January 1	305	372
Provision for impairment of inventories	-	21
Provision written off in relation to disposal of inventories	(201)	(88)
At December 31	104	305

31 Trade receivables

	2014 RMB million	2013 RMB million
Trade receivables	2,716	2,200
Less: impairment	(33)	(27)
	2,683	2,173

(a) Ageing analysis

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. Ageing analysis of trade receivables is set out below:

	2014 RMB million	2013 RMB million
Within 1 month	2,133	1,810
More than 1 month but less than 3 months	535	345
More than 3 months but less than 12 months	25	25
More than 1 year	23	20
	2,716	2,200
Less: impairment	(33)	(27)
	2,683	2,173

All of the trade receivables are expected to be recovered within one year.

31 Trade receivables (continued)

(b) Impairment of trade receivables

- (i) Impairment loss in respect of trade receivables is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly (Note 2(k)).

The movements in the allowance for doubtful debts during the year are as follows:

	2014 RMB million	2013 RMB million
At January 1	27	26
Impairment loss recognized	12	13
Impairment loss written back	(2)	-
Uncollectible amounts written off	(4)	(12)
At December 31	33	27

- (ii) As of December 31, 2014, trade receivables of RMB5 million (2013: RMB11 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

The ageing analysis of these trade receivables is as follows:

	2014 RMB million	2013 RMB million
3 to 12 months	5	11

- (iii) As of December 31, 2014, trade receivables of RMB43 million (2013: RMB34 million) were impaired. The amount of the provision was RMB33 million as of December 31, 2014 (2013: RMB27 million). The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2014 RMB million	2013 RMB million
3 to 12 months	20	14
Over 12 months	23	20
	43	34

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2014 RMB million	2013 RMB million
Neither past due nor impaired	2,668	2,155

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

31 Trade receivables (continued)

(d) Trade receivables by currencies

The carrying amounts of the Group’s trade receivables are denominated in the following currencies:

	2014 RMB million	2013 RMB million
Renminbi	2,231	1,795
Euro	134	135
US dollar	118	73
Australian dollar	36	38
Taiwan dollar	30	18
UK pound	38	30
Other currencies	129	111
	<u>2,716</u>	<u>2,200</u>

As at December 31, 2014, the fair value of trade receivables approximate its carrying amount.

32 Other receivables

	2014 RMB million	2013 RMB million
VAT recoverable	1,562	1,114
Rebate receivables on aircraft acquisitions	1,018	919
Term deposit (Note)	2,454	422
Deposits for aircraft purchase	239	215
Interest receivables	126	110
Other rental deposits	73	79
Others	<u>695</u>	<u>574</u>
Subtotal	6,167	3,433
Less: impairment	<u>(3)</u>	<u>(2)</u>
	<u>6,164</u>	<u>3,431</u>
Less: non-current portion of term deposit recognized as non-current assets (Note)	<u>(300)</u>	<u>-</u>
Current portion of other receivables	<u>5,864</u>	<u>3,431</u>

Note:

As at December 31, 2014, the balance represents the term deposit amounting to RMB2,454 million at bank with maturity over 3 months (2013: RMB422 million). Term deposit with maturity over 1 years amounting to RMB300 million is classified as non-current asset. The weighted average annualized interest rate of term deposits as of December 31, 2014 is 3.06%.

As at December 31, 2014, the fair value of other receivables approximates its carrying amount.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

33 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	2014 RMB million	2013 RMB million
Deposits in banks and other financial institution	4,445	4,844
Cash at bank and in hand	10,969	6,904
Cash and cash equivalents in the statement of balance sheet	15,414	11,748

As at December 31, 2014, the Group’s deposits with SA Finance, this is a qualified financial institution amounted to RMB4,264 million (2013: RMB2,675 million) (Note 48(d)(ii)).

As at December 31, 2014, the fair value of cash and cash equivalents approximate its carrying amount.

The carrying amounts of the Group’s cash and cash equivalents are denominated in the following currencies:

	2014 RMB million	2013 RMB million
Renminbi	13,649	10,976
US dollar	1,296	401
Euro	136	80
Japanese Yen	5	17
Hong Kong Dollars	60	26
Others	268	248
	15,414	11,748

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

33 Cash and cash equivalents (continued)

(b) Reconciliation of profit before income tax to cash generated from operating activities:

	Note	2014 RMB million	2013 RMB million	2012 RMB million
Profit before income tax		3,066	3,484	4,738
Depreciation charges	13	10,789	9,338	8,202
Other amortisation	13	195	155	136
Amortisation of deferred benefits and gains	13	(156)	(146)	(74)
Impairment losses on property, plant, equipment	21	215	536	-
Share of profits of associates	24	(261)	(294)	(317)
Share of profits of joint ventures	25	(140)	(96)	(121)
(Gain)/losses on sale of property, plant and equipment, net and lease prepayments	15	(267)	78	(16)
Other non-operating income	17	(26)	(25)	(75)
Interest income		(376)	(307)	(235)
Interest expense	16	2,193	1,651	1,376
Dividend income from other investments in equity securities and available-for-sale financial assets	26 & 27	(13)	(14)	(12)
Exchange losses/(gain), net		292	(2,903)	(308)
Decrease/(increase) in inventories		15	61	(90)
(Increase)/decrease in trade receivables		(391)	(321)	292
Decrease/(increase) in other receivables		108	(959)	(206)
Increase in prepaid expenses and other current assets		(203)	(205)	(42)
(Decrease)/increase in net amounts due to related companies		(154)	118	114
Increase/(decrease) in trade payables		45	(418)	(1,022)
Increase/(decrease) in sales in advance of carriage		261	961	(445)
Increase in accrued expenses		308	648	2,325
Increase/(decrease) in other liabilities		369	200	(314)
(Decrease)/increase in deferred revenue		(410)	463	765
Increase/(decrease) in provision for major overhauls		244	(421)	(276)
Decrease in provision for early retirement benefits		(28)	(31)	(31)
Increase/(decrease) in deferred benefits and gains		151	(7)	111
Cash generated from operating activities		15,826	11,546	14,475

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

34 Borrowings

(a) As at December 31, 2014, borrowings are analyzed as follows:

	2014 RMB million	2013 RMB million
Non-current		
Long-term bank borrowings		
– secured(Note (i)(iii))	19,846	21,888
– unsecured	22,220	15,358
	42,066	37,246
Current		
Current portion of long-term bank borrowings		
– secured(Note (i)(ii))	3,834	2,867
– unsecured	6,902	2,963
Short-term bank borrowings		
– secured(Note (ii))	232	265
– unsecured	10,011	14,147
	20,979	20,242
Total borrowings	63,045	57,488
The borrowings are repayable:		
Within one year	20,979	20,242
In the second year	17,226	10,666
In the third to fifth year inclusive	19,991	19,479
After the fifth year	4,849	7,101
Total borrowings	63,045	57,488

Notes:

- (i) As at December 31, 2014, borrowings of the Group totalling RMB22,946 million (2013: RMB24,755 million) were secured by mortgages over certain of the Group’s aircraft and other flight equipment with aggregate carrying amounts of RMB31,825 million (2013: RMB32,155 million).
- (ii) As at December 31, 2014, borrowings of the Group amounting to RMB532 million (2013: RMB265 million) were secured by pledged bank deposits of RMB324 million (2013:RMB277 million).
- (iii) As at December 31, 2014, borrowings of the Group amounting to RMB434 million (2013: nil) was secured by land use rights of RMB119 million (2013: nil).

34 Borrowings (continued)

- (b) As at December 31, 2014, the Group’s weighted average interest rates on short-term borrowings were 3.30% per annum (2013: 2.10% per annum).
- (c) Details of borrowings with original maturity over one year are as follows:

	2014 RMB million	2013 RMB million
Renminbi denominated loans		
Fixed interest rates ranging from 5.54% to 6.40% per annum as at December 31, 2014, with maturities through 2022	226	-
Floating interest rates 90%, 95%,100% of benchmark interest rate (stipulated by PBOC) as at December 31, 2014, with maturities through 2016	570	640
United States Dollars denominated loans		
Fixed interest rates ranging from 1.89% to 3.30% per annum as at December 31, 2014, with maturities through 2017	927	311
Floating interest rates ranging from one-month LIBOR + 0.80% to one-month LIBOR + 2.20% per annum as at December 31, 2014, with maturities through 2021	1,832	2,149
Floating interest rates ranging from three-month LIBOR + 0.35% to three-month LIBOR + 3.25% per annum as at December 31, 2014, with maturities through 2024	38,546	33,758
Floating interest rates ranging from six-month LIBOR + 0.4% to six-month LIBOR + 5.5% per annum as at December 31, 2014, with maturities through 2023	10,701	6,218
	52,802	43,076
Less: loans due within one year classified as current liabilities	(10,736)	(5,830)
	42,066	37,246

- (d) The remaining contractual maturities at the end of the financial year of the Group’s borrowings, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the end of the financial year) and the earliest date the Group can be required to pay, are as follows:

	2014 RMB million	2013 RMB million
Contractual undiscounted cash flows		
Within 1 year	22,293	21,528
After 1 year but within 2 years	18,098	11,603
After 2 years but within 5 years	20,758	20,711
After 5 years	5,040	7,454
	66,189	61,296

34 Borrowings (continued)

(e) The carrying amounts of the borrowings are denominated in the following currencies:

	2014 RMB million	2013 RMB million
Renminbi	4,444	670
US Dollars	58,601	56,818
	<u>63,045</u>	<u>57,488</u>

The Group has significant borrowings balances as well as obligations under finance leases (Note 35) which are denominated in US dollars as at December 31, 2014. The net exchange loss of RMB292 million (2013: net exchange gain of RMB2,903 million; 2012: net exchange gain RMB267 million) recorded by the Group was mainly attributable to the exchange loss/gain arising from translation of borrowings balances and finance lease obligations denominated in US dollars.

- (f) As at December 31, 2014, loans to the Group from SA finance amounted to RMB105 million (2013: RMB520 million) (Note 48(d)(i)).
- (g) As at December 31, 2014, the fair value of borrowings approximate their carrying amount. The fair value is within level 2 of the fair value hierarchy.

35 Obligations under finance leases

The Group have commitments under finance lease agreements in respect of aircraft and related equipment. The majority of these leases have terms of 10 to 12 years expiring during the years 2015 to 2025. The Group has made careful assessment on the classification of leased aircraft pursuant to IAS 17 and believes all leased aircraft classified as finance lease meet one or more of the criteria as set out in IAS 17 that would lead to a lease being classified as a finance lease (i.e. the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset).

As at December 31, 2014, future payments under these finance leases are as follows:

	2014			2013		
	Present value of the minimum lease payments RMB million	Total minimum lease payments RMB million	Future interest RMB million	Present value of the minimum lease payments RMB million	Total minimum lease payments RMB million	Interest RMB million
Within 1 year	5,992	7,312	1,320	3,636	4,498	862
After 1 year but within 2 years	5,487	6,643	1,156	4,139	4,887	748
After 2 years but within 5 years	15,781	18,277	2,496	11,074	12,690	1,616
After 5 years	22,651	24,345	1,694	16,160	17,356	1,196
	49,911	56,577	6,666	35,009	39,431	4,422
Less: balance due within one year classified as current liabilities	<u>(5,992)</u>			<u>(3,636)</u>		
	<u>43,919</u>			<u>31,373</u>		

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

35 Obligations under finance leases (continued)

Details of obligations under finance leases are as follows:

	2014 RMB million	2013 RMB million
United States Dollars denominated obligations		
Fixed interest rates ranging from 3.20% to 6.01% per annum as at December 31, 2014	4,176	4,431
Floating interest rates ranging from three-month LIBOR + 0.18% to three-month LIBOR + 3.30% per annum as at December 31, 2014	25,819	15,946
Floating interest rates ranging from six-month LIBOR + 0.03% to six-month LIBOR + 3.30% per annum as at December 31, 2014	16,797	11,775
Singapore Dollars denominated obligations		
Floating interest rate at six-month SIBOR + 1.44% per annum as at December 31, 2014	418	476
Japanese Yen denominated obligations		
Floating interest rate at three-month TIBOR + 0.75% to three-month TIBOR + 1.90% per annum as at December 31, 2014	1,610	1,985
Floating interest rate at six-month TIBOR + 3.00% per annum as at December 31, 2014	331	396
Renminbi denominated obligations		
Floating interest rate at 130% of five-year RMB loan bench mark interest rate announced by the PBOC per annum as at December 31, 2014	438	-
Floating interest rate at 100% of five-year RMB loan benchmark interest rate announced by the PBOC per annum as at December 31, 2014	322	-
	49,911	35,009

Charges over the assets concerned and relevant insurance policies are provided to the lessors as collateral and security. As at December 31, 2014, certain of the Group’s aircraft with carrying amounts of RMB67,294 million (2013: RMB48,078 million) secured finance lease obligations totaling RMB49,911 million (2013: RMB35,009 million).

As at December 31, 2014, the fair value of obligation under finance leases approximate their carrying amount. The fair value is within level 2 of the fair value hierarchy.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

36 Trade payables

	2014 RMB million	2013 RMB million
Within 1 month	755	987
More than 1 month but less than 3 months	633	252
More than 3 months but less than 6 months	107	79
More than 6 months but less than 1 year	76	73
More than 1 year	86	16
	<u>1,657</u>	<u>1,407</u>

As at December 31, 2014, the fair value of trade payable approximate their carrying amounts.

The carrying amounts of the Group’s trade payable are denominated in the following currencies:

	2014 RMB million	2013 RMB million
Renminbi	1,558	1,066
US Dollars	86	329
Others	13	12
	<u>1,657</u>	<u>1,407</u>

37 Deferred revenue

Deferred revenue represents the unredeemed credits under the frequent flyer award programme.

38 Amounts due from/to related companies

(a) Amounts due from related companies

	Note	2014 RMB million	2013 RMB million
CSAHC and its affiliates		78	74
Associates		284	95
Joint ventures		124	162
	48(c)	<u>486</u>	<u>331</u>

The amounts due from related companies are unsecured, interest free and have no fixed terms of repayment. They are expected to be recovered within one year.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

38 Amounts due from/to related companies (continued)

(b) Amounts due to related companies

	Note	2014 RMB million	2013 RMB million
CSAHC and its affiliates		144	168
A joint venture of CSAHC		112	78
An associate		13	15
Joint ventures		119	96
Other related company		70	100
	48(c)	458	457

The amounts due to related companies are unsecured, interest free and have no fixed terms of repayment. They are expected to be settled within one year.

39 Accrued expenses

	2014 RMB million	2013 RMB million
Repairs and maintenance	3,518	3,286
Jet fuel costs	1,814	2,337
Salaries and welfare	2,385	2,259
Landing and navigation fees	2,240	2,128
Computer reservation services	338	462
Provision for major overhauls (Note 41)	112	415
Interest expense	471	269
Air catering expenses	311	215
Provision for early retirement benefits (Note 42)	20	32
Others	913	495
	12,122	11,898

40 Other liabilities

	2014 RMB million	2013 RMB million
Civil Aviation Development Fund and airport tax payable	1,379	1,213
Payable for purchase of property, plant and equipment	703	573
Sales agent deposits	418	390
Other taxes payable	397	377
Deposit received for chartered flights	188	103
Payable due to the former shareholder of a subsidiary (Note (a))	758	-
Others	1,478	1,363
	5,321	4,019

(a) Balance represented an interest-free loan of a subsidiary acquired by the Group in 2014 (Note 47) due to its former shareholder, which has no fixed repayment terms and is repayable on demand.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

41 Provision for major overhauls

Details of provision for major overhauls in respect of aircraft held under operating leases are as follows:

	2014 RMB million	2013 RMB million
At January 1	1,491	1,912
Additional provision	682	300
Utilisation	(438)	(721)
At December 31	1,735	1,491
Less: current portion (Note 39)	(112)	(415)
	1,623	1,076

42 Provision for early retirement benefits

Details of provision for early retirement benefits in respect of obligations to early retired employees are as follows:

	2014 RMB million	2013 RMB million
At January 1	73	104
Provision for the year (Note 14)	7	12
Financial cost (Note 16)	4	5
Payments made during the year	(39)	(48)
At December 31	45	73
Less: current portion (Note 39)	(20)	(32)
	25	41

The Group has implemented an early retirement plan for certain employees. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employees. The present value of the future cash flows expected to be required to settle the obligations is recognized as provision for early retirement benefits.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

43 Deferred benefits and gains

	2014 RMB million	2013 RMB million
Leases rebates (Note (i))	184	249
Maintenance rebates (Note (ii))	367	319
Gains relating to sale and leaseback (Note (iii))	103	121
Government grants	177	144
Others	22	25
	<u>853</u>	<u>858</u>

Notes:

- (i) The Company was granted rebates by the lessors under certain lease arrangements when it fulfilled certain requirements. The rebates are deferred and amortised using the straight line method over the remaining lease terms.
- (ii) The Company was granted rebates by the engine suppliers under certain arrangements when it fulfilled certain requirements. The rebates are deferred and amortised using the straight line method over the beneficial period.
- (iii) The Company entered into sale and leaseback transactions with certain third parties under operating leases. The gains are deferred and amortised over the lease terms of the aircraft.

44 Share capital

	2014 RMB million	2013 RMB million
Registered, issued and paid up capital:		
4,208,586,278 domestic state-owned shares of RMB1.00 each (2013: 4,150,050,000 shares of RMB1.00 each)	4,209	4,150
2,814,063,722 A shares of RMB1.00 each (2013: 2,877,000,000 shares of RMB1.00 each)	2,814	2,873
2,794,917,000 H shares of RMB1.00 each (2013: 2,794,917,000 shares of RMB1.00 each)	2,795	2,795
	<u>9,818</u>	<u>9,818</u>

All the domestic state-owned, H and A shares rank pari passu in all material respects.

45 Reserves

	2014 RMB million	2013 RMB million
Share premium		
At January 1 and December 31	14,131	14,131
Fair value reserve		
At January 1	22	24
Change in fair value of available-for-sale equity securities	22	(2)
At December 31	44	22
Statutory and discretionary surplus reserve		
At January 1	1,169	1,056
Appropriations to reserves (Note (a))	137	113
At December 31	1,306	1,169
Other reserve		
At January 1	167	170
Share of an associate’s reserves movement	14	(3)
Acquisition of non-controlling interests in a subsidiary	(1)	-
At December 31	180	167
Retained profits		
At January 1	9,022	7,640
Profit for the year	1,777	1,986
Appropriations to reserves	(137)	(113)
Dividends approved in respect of the previous year	(393)	(491)
At December 31	10,269	9,022
Total	25,930	24,511

(a) Appropriations to reserves

According to the PRC Company Law and the Articles of Association of the Company and certain of its subsidiaries, the Company and the relevant subsidiaries are required to transfer 10% of their annual net profits after taxation, as determined under the PRC accounting rules and regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividend to shareholders and when there are retained profits at the end of the financial year.

Statutory surplus reserve can be used to offset prior years’ losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

45 Reserves (continued)

(b) Dividends

Dividends payable to equity shareholders of the Company attributable to the year

	2014 RMB million	2013 RMB million
Final dividend proposed after the end of the reporting year of RMB0.4 per 10 ordinary shares (2013: RMB0.4 per 10 ordinary shares) (inclusive of applicable tax)	<u>393</u>	<u>393</u>

A dividend in respect of the year ended December 31, 2014 of RMB0.4 per 10 shares (inclusive of applicable tax) (2013: RMB0.4 per 10 shares (inclusive of applicable tax)), amounting to a total dividend of RMB393 million (2013: RMB393 million), was proposed by the directors on March 30, 2015. The final dividend proposed after the end of the financial year has not been recognized as a liability at the end of the financial year.

46 Commitments

(a) Capital commitments

Capital commitments outstanding at December 31, 2014 not provided for in the financial statements were as follows:

	2014 RMB million	2013 RMB million
Commitments in respect of aircraft and flight equipment		
– authorised and contracted for	<u>59,467</u>	<u>47,651</u>
	<u>59,467</u>	<u>47,651</u>
Investment commitments		
– authorised and contracted for		
– capital contributions for acquisition of interests in associates	70	70
– share of capital commitments of a joint venture	<u>52</u>	<u>58</u>
	<u>122</u>	<u>128</u>
– authorised but not contracted for		
– share of capital commitments of a joint venture	-	171
	<u>122</u>	<u>299</u>
Commitments for other property, plant and equipment		
– authorised and contracted for	1,512	1,411
– authorised but not contracted for	<u>3,610</u>	<u>2,291</u>
	<u>5,122</u>	<u>3,702</u>
	<u>64,711</u>	<u>51,652</u>

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

46 Commitments (continued)

(a) Capital commitments (continued)

As at December 31, 2014, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for aircraft and flight equipment are as follows:

	2014 RMB million	2013 RMB million
2014	-	20,945
2015	18,146	14,417
2016	11,628	6,365
2017	10,081	5,924
2018 and afterwards	19,612	-
	<u>59,467</u>	<u>47,651</u>

(b) Operating lease commitments

As at December 31, 2014, the total future minimum lease payments under non-cancellable operating leases in respect of properties, aircraft and flight equipment are as follows:

	2014 RMB million	2013 RMB million
Payments due		
Within 1 year	5,072	4,608
After 1 year but within 5 years	15,496	14,740
After 5 years	8,230	6,874
	<u>28,798</u>	<u>26,222</u>

47 Business Combination

On December 15, 2014, the Group acquired 99.23% of the share capital of Hebei Airlines Company Limited (“Hebei Airline”) from Hebei Airlines Investment Group Co., Ltd and Sichuan Airlines Group Co., Ltd, third parties of the Group, for RMB749 million and obtained the control of Hebei Airline.

The following table summarises the consideration paid for Hebei Airline, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date. The Group has recognized a gain amounting to RMB26 million related to this business combination. The Group believes that the major reason for this bargain purchase is that Hebei Airline had incurred loss for several years and the former shareholders were eager to sell their equity interests in Hebei Airline. As a result, the Group was able to negotiate a relatively lower consideration and a gain was incurred accordingly.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

47 Business Combination (Continued)

Consideration:	
At December 15, 2014	RMB million
– Cash	680
– Fair value of liability assumed	69
Total consideration	749
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment (Note 21)	2,754
Construction in progress (Note 22)	486
Other assets (Note 29)	295
Inventories	29
Trade receivables	119
Other receivables	109
Cash and cash equivalents	23
Prepaid expenses and other current assets	81
Borrowings	(724)
Obligations under finance leases	(1,331)
Trade and other payables	(206)
Sales in advance of carriage	(25)
Deferred revenue	(9)
Accrued expenses	(29)
Other liabilities	(791)
Total identifiable net assets	781
Non-controlling interest	(6)
Gain recognized (note 17)	(26)
	749

Acquisition-related costs of RMB287,000 have been charged to operating expenses in the consolidated income statement for the year ended December 15, 2014.

The revenue included in the consolidated income statement since December 31, 2014 contributed by Hebei Airline was RMB94 million. Hebei Airline also incurred a loss of RMB52 million over the same period. Had Hebei Airline been consolidated from January 1, 2014, the consolidated income statement would show pro-forma revenue of RMB109,859 million and net profit of RMB2,162 million.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company’s directors as disclosed in Note 18, is as follows:

	2014 RMB thousand	2013 RMB thousand	2012 RMB thousand
Salaries, wages and welfare	13,013	12,412	14,124
Retirement scheme contributions	2,359	2,074	1,303
	<u>15,372</u>	<u>14,486</u>	<u>15,427</u>
	2014 RMB thousand	2013 RMB thousand	2012 RMB thousand
Directors and supervisors (Note 18(a))	3,241	3,108	4,615
Senior management	12,131	11,378	11,342
	<u>15,372</u>	<u>14,486</u>	<u>15,957</u>

Total remuneration is included in “staff costs” (Note 14).

48 Material related party transactions (Continued)

(b) Transactions with CSAHC and its affiliates (the “CSAHC Group”), associates, joint ventures and other related company of the Group

The Group provided or received various operational services to or by the CSAHC Group, associates, joint ventures and other related company of the Group during the normal course of its business.

Details of the significant transactions carried out by the Group are as follows:

	Note	2014 RMB million	2013 RMB million	2012 RMB million
Income received from the CSAHC Group				
Charter flight and pallet income	(i)	32	107	82
Air catering supplies income	(ii)	1	-	-
Cargo handling income	(i)	-	1	7
Income received from other related company				
Aircraft sales income	(iii)	-	-	257
Aircraft purchase right transfer income	(iii)	-	-	16
Expenses paid to the CSAHC Group				
Repairing charges	(iv)	780	796	830
Lease charges for land and buildings	(v)	170	169	152
Handling charges	(vi)	119	121	96
Property management fee	(vii)	61	63	50
Air catering supplies expenses	(ii)	89	84	79
Cargo handling charges	(i)	46	33	18
Commission expenses	(i)	8	19	18
Printing expenses	(viii)	4	-	-
Expenses paid to joint ventures and associates				
Repairing charges	(ix)	1,335	1,783	1,468
Flight simulation service charges	(x)	316	270	257
Training expenses	(xi)	169	120	118
Ground service expenses	(xii)	111	14	-
Air catering supplies	(xiii)	102	-	-
Advertising expenses	(xiv)	75	77	49
Commission expense	(xv)	29	-	-
Maintenance material purchase expenses	(ix)	24	-	-
Income received from joint ventures and associates				
Entrustment income for advertising media business	(xiv)	34	32	17
Rental income	(x)	33	31	36
Commission income	(xvi)	40	12	8
Repairing income	(xv)	17	14	22
Air catering supplies	(xv)	10	18	-
Ground service income	(xvii)	8	7	-
Air ticket Income	(xvi)	2	-	-
Maintenance material sales revenue	(xviii)	2	-	-
Air catering supplies income	(xiii)	1	-	-
Income received from other related company				
Air tickets income	(xix)	12	12	-

48 Material related party transactions (continued)

(b) Transactions with CSAHC and its affiliates (the “CSAHC Group”), associates, joint ventures and other related company of the Group (continued)

Expenses paid to other related company				
Computer reservation services	(xx)	435	444	440
Advertising expenses	(xix)	20	10	-
Disposal to the CSAHC Group				
Disposal and losing control of a subsidiary	(xiv)	<u>-</u>	<u>-</u>	<u>43</u>

- (i)

China Southern Air Holding Ground Services Co.,Ltd (“CSA Groud Services”), a wholly- owned subsidiary of CSAHC, purchases cargo spaces and charter flights from the Group. In addition, cargo handling income/charges are earned/payable by the Group in respect of the cargo handling services with CSA Ground Services.

Commission is earned by CSA Ground Services in connection with the air tickets sold by them on behalf of the Group. Commission is calculated based on the rates stipulated by the CAAC and International Air Transportation Association.
- (ii)

Shenzhen Air Catering Company Limited (“SZ Catering”) became a related party of the Group since its Chairman, Mr. Yuan Xin An was appointed as a non-executive Director of the Company in November 2011.

Air catering supplies income/expenses are earned/payable by the group in respect of certain in-flight meals and related services with SZ catering.
- (iii)

During the year 2012, Xiamen Airlines and Hebei Airline, a subsidiary of a non-controlling interest of Xiamen Airlines, entered into an aircraft sale agreement, pursuant to which Xiamen Airlines sold and Hebei Airline purchased one B737-800 aircraft at the consideration of approximately RMB257 million. In addition, Xiamen Airlines transferred the purchase right of one B737-800 aircraft to Hebei Airline at the consideration of approximately RMB16 million

On December 15, 2014, the Group acquired 99.23% of the share capital of Hebei Airline from Hebei Airlines Investment Group Co., Ltd and Sichuan Airlines, third parties of the Group, for RMB749 million and obtained the control of Hebei Airline.
- (iv)

MTU Maintenance Zhuhai Co., Ltd, a joint venture of CSAHC, provides comprehensive maintenance services to the Group.
- (v)

The Group leases certain land and buildings in the PRC from CSAHC. The amount represents rental payments for land and buildings paid or payable to CSAHC.
- (vi)

The Group acquires aircraft, flight equipment and other airline-related facilities through Southern Airlines (Group) Import and Export Trading Company Limited (“SAIETC”), a wholly-owned subsidiary of CSAHC, and pays handling charges to SAIETC.
- (vii)

Guangzhou China Southern Airlines Property Management Company Limited, a subsidiary of CSAHC, provides property management services to the Group.
- (viii)

Printing Plant of China Northern Airlines Vestibule School provides printing services for the Group.
- (ix)

GAMECO and Shenyang Northern Aircraft Maintenance Limited (“AMECO”), joint ventures of the Group, provide comprehensive maintenance services to the Group.

The Group purchases maintenance material from GAMECO.

48 Material related party transactions (continued)

(b) Transactions with CSAHC and its affiliates (the “CSAHC Group”), associates, joint ventures and other related company of the Group (continued)

- (x)

Zhuhai Xiang Yi, a joint venture of the Group, provides flight simulation services to the Group.

In addition, the Group leased certain flight training facilities and buildings to Zhuhai Xiang Yi under operating lease agreements.
- (xi)

Flying College, a joint venture of the Group, provides training services to the Group.
- (xii)

Beijing Aviation Ground Services Co.,Ltd. and Shenyang Konggang Logistic Company Limited (“Shenyang Konggang Logistic”), associates of the Group provide ground service to the group.
- (xiii)

Air catering supplies income/expenses are earned/payable by the Group in respect of certain in-flight meals and related services with Beijing Airport Inflight Kitchen Co.,Ltd. which is an associate of the Group.
- (xiv)

SACM, an associate of the Group, provides advertising services to the Group.

In addition, Xiamen Airlines provides certain media resources to Xiamen Airlines Culture and Media Co., Ltd., a subsidiary of SACM.
- (xv)

Sichuan Airlines, an associate of the Group, provides commission service to the Group. The charge is determined according to the market price.

In addition, The Company provides aircraft maintenance services to Sichuan Airlines. The Group provides air catering services and repairing services to Sichuan Airlines.
- (xvi)

The Group provides certain website resources to SA Finance and Sichuan Airlines for the sales of air insurance to passengers.

The Group sells tickets to SA Finance as a gift to passengers for the sales of insurance.
- (xvii)

The Group provides ground services to Shenyang Konggang Logistic and Sichuan Airlines.
- (xviii)

The Company sells maintenance materials to AMECO.
- (xix)

Phoenix Satellite Television Holding Limited (“the Phoenix Group”) provides advertising services to the Group.

In addition, the Group sells tickets to the Phoenix Group on market price.
- (xx)

China Travel Sky Holding Company provides computer reservation services to the Group.

Notes to the consolidated financial statements
(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi unless otherwise indicated)

48 Material related party transactions (continued)

(c) Balances with the CSAHC Group, associates, joint ventures and other related company of the Group

Details of amounts due from/to the CSAHC Group, associates, joint ventures and other related company of the Group:

	Note	2014 RMB million	2013 RMB million
Receivables:			
The CSAHC Group		78	74
Associates		284	95
Joint ventures		124	162
	38(a)	486	331
	Note	2014 RMB million	2013 RMB million
Payables:			
The CSAHC Group		256	246
An associate		13	15
Joint ventures		119	96
Other related company		70	100
	38(b)	458	457
		2014 RMB million	2013 RMB million
Accrued expenses:			
The CSAHC Group		451	498
Associates		92	31
Joint ventures		836	772
Other related company		269	330
		1,648	1,631

The amounts due from/to the CSAHC Group, associates, joint ventures and other related company of the Group are unsecured, interest free and have no fixed terms of repayment.

48 Material related party transactions (continued)

(d) Loans from and deposits placed with related parties

(i) Loans from related parties

At December 31, 2014, loans from SA Finance to the Group amounted to RMB105 million (2013: RMB520 million).

In 2014, CSAHC, SA Finance and the Group entered into an entrusted loan agreement, pursuant to which, CSAHC, as the lender, entrusted SA Finance to lend RMB105 million to the Group from March 10, 2014 to March 9, 2015. The interest rate is 90% of benchmark interest rate stipulated by PBOC per annum.

The unsecured loans are repayable as follows:

	Note	2014 RMB million	2013 RMB million
Within 1 year		105	56
After 1 year but within 2 years		-	8
After 2 years but within 5 years		-	456
	34(f)	<u>105</u>	<u>520</u>

Interest expense paid on such loans amounted to RMB11 million (2013: RMB28 million; 2012: RMB30 million) and the interest rates ranged from 5.04% to 5.70% per annum during the year ended December 31, 2014(2013: 5.54% to 5.84%per annum; 2012: 4.86% to 5.84% per annum).

(ii) Deposits placed with SA Finance

At December 31, 2014 the Group’s deposits with SA Finance are presented in the table below. The applicable interest rates are determined in accordance with the rates published by the PBOC.

	Note	2014 RMB million	2013 RMB million
Deposits placed with SA Finance	33	<u>4,264</u>	<u>2,675</u>

Interest income received on such deposits amounted to RMB68 million during the year ended December 31, 2014 (2013: RMB66 million; 2012: RMB61 million).

(e) Commitments to CSAHC

At December 31, 2014, the Group had operating lease commitments to CSAHC in respect of lease payments for land and buildings of RMB207 million (2013: RMB66 million).

49 Employee benefits plan

(a) Retirement benefits

Employees of the Group participate in several defined contribution retirement schemes organised separately by the PRC municipal and provincial governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at rates ranging from 11% to 21% (2013: 10% to 22%; 2012: 8% to 25%) of salary costs including certain allowances. A member of the retirement schemes is entitled to pension benefits from the Local Labour and Social Security Bureau upon his/her retirement. The retirement benefit obligations of all retired staff of the Group are assumed by these schemes. The Group, as its sole discretion, had made certain welfare subsidy payments to these retirees.

In 2014, the Company and its major subsidiaries joined a new defined contribution retirement scheme (“Pension Scheme”) that was implemented by CSAHC. The annual contribution to the Pension Scheme is based on a fixed specified percentage of prior year’s annual wage. There will be no further obligation beyond the annual contribution according to the Pension Scheme. The total contribution into the Pension Scheme in 2014 was approximately RMB407,000,000.

(b) Housing benefits

The Group contributes on a monthly basis to housing funds organised by municipal and provincial governments based on certain percentages of the salaries of employees. The Group’s liability in respect of these funds is limited to the contributions payable in each year.

In addition to the housing funds, certain employees of the Group are eligible to one of the following housing benefit schemes:

- (i) Pursuant to a staff housing benefit scheme effective on September 2002, the Group agreed to pay lump sum housing allowances to certain employees who have not received quarters from CSAHC or the Group according to the relevant PRC housing reform policy. An employee who leaves the Company prior to the end of the vesting benefit period is required to pay back a portion of the lump sum housing benefits determined on a pro rata basis of the vesting benefit period. The Group has the right to effect a charge on the employee’s house and to enforce repayment through the sale of the house in the event of default in repayment. Any remaining shortfall is charged to income statement. The amount was fully amortised in 2012.
- (ii) The Group also pays cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are charged to income statement.

49 Employee benefits plan (continued)

(c) Share Appreciation Rights Scheme

On November 30, 2011, the Company’s General Meeting approved the “H Share Appreciation Rights Scheme of China Southern Airlines Company Limited” and “Initial Grant under the H Share Appreciation Rights Scheme of China Southern Airlines Company Limited” (“the Scheme”).

Under the Scheme, 24,660,000 units of SARs were granted to 118 employees of the Group at the exercise price of HKD3.92 per unit in December 2011. No shares will be issued under the Scheme and each SAR is notionally linked to one existing H share of the Company. Upon exercise of the SARs, a recipient will receive an amount of cash equal to the difference between the market share price of the relevant H share and the exercise price.

The SARs will have an exercise period of six years from the date of grant. Upon the satisfaction of certain performance conditions after the second, third and fourth anniversary of the date of grant, each one third of the SARs will become exercisable.

A dividend of RMB0.2 (equivalent to HKD0.25) (inclusive of applicable tax), a dividend of RMB 0.05(equivalent to HKD0.06) (inclusive of applicable tax) and a dividend of RMB0.04 (equivalent to HKD0.05) (inclusive of applicable tax) per share was approved by the Company’s General Meeting on May 31, 2012, June 18, 2013 and June 26, 2014 respectively (Note 45(b)), therefore, the exercise price for the SARs was adjusted to HKD3.56 per share in accordance with the predetermined formula stipulated in the Scheme. During the year, 8,326,667 units of SARs were lapsed.

The fair value of the liability for SARs is measured using the Black-Scholes option pricing model. The risk free rate, expected dividend yield and expected volatility of the share price are used as the inputs into the model. The fair value of the liability for SARs as at December 31, 2014 was determined to be 0 (2013: RMB1,893,000) and correspondingly, staff cost of RMB1,893,000 was reversed during the year ended December 31, 2014 (2013: RMB410,000).

50 Supplementary information to the consolidated cash flow statement

Non-cash transactions-acquisition of aircraft

During the year ended December 31, 2014, aircraft acquired under finance leases amounted to RMB19,162 million (2013: RMB17,268 million; 2012: RMB8,178 million).

51 Contingent liabilities

- (a) The Group leased certain properties and buildings from CSAHC which located in Guangzhou, Wuhan and Haikou, etc. which had been used by CSAHC before they are leased by the Company. However, such properties and buildings lack adequate documentation evidencing CSAHC’s rights thereto.

Pursuant to the indemnification agreement dated May 22, 1997 between the Group and CSAHC, CSAHC has agreed to indemnify the Group against any loss or damage arising from any challenge of the Group’s right to use such properties and buildings.

In addition, as disclosed in notes 21 and 23, the Group is applying title certificates for certain of the Group’s properties and land use rights certificates for certain parcels of land. The Company is of the opinion that the use of and the conduct of operating activities at these properties and these parcels of land are not affected by the fact that the Group has not yet obtained the relevant certificates.

51 Contingent liabilities (continued)

- (b) The Company and its subsidiary, Xiamen Airlines, entered into agreements with their pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB646 million (December 31, 2013: RMB656 million) that can be drawn by the pilot trainees to finance their respective flight training expenses. As at December 31, 2014, total personal bank loans of RMB486 million (December 31, 2013: RMB464million), under these guarantees, were drawn down from the banks. During the year, the Group paid RMB2 million (2013: RMB6 million) to the banks due to the default of payments of certain pilot trainees.
- (c) The Company received a claim on July 11, 2011 from an overseas entity (the “claimant”) against the Company for the alleged breach of certain terms and conditions of an aircraft sale agreement for aircraft sold by the Company to the claimant. The claimant claimed against the Company for damages in the sum of approximately USD46 million or for the refund of its down payments of approximately USD12 million paid to the Company, and also interest thereon which is to be calculated in accordance with Section 35A, Supreme Court Act 1981 of the United Kingdom. In 2012, the claimant subsequently changed its claim for the refund of the down payment to approximately USD14 million. On July 25, 2013, the High Court of England and Wales dismissed the claimant’s claim in its entirety but awarded damages in the sum of approximately USD28 million, interest thereon and also legal costs to the Company in respect of its counterclaim made against the claimant. The claimant appealed to the Court of Appeal and on December 17, 2014, the Court of Appeal dismissed the claimant’s appeal but varied the award of damages to the Company from USD28 million to USD18 million. The Court of Appeal also ordered the claimant to pay the Company’s costs of the appeal. The claimant has applied for permission to further appeal the case to the Supreme Court but the application has been rejected by both the Court of Appeal and the Supreme Court. Based on existing information available, the Directors are of the opinion that an outflow of resource embodying economic benefits is not probable to occur.
- (d) On May 31, 2014, the Company received a notice from the International Court of Arbitration of International Chamber of Commerce (“ICC”). The notice states that SASOF TR-81 AVIATION IRELAND LIMITED (the “lessor”) has applied for arbitration for the alleged breach of certain terms and conditions of an aircraft leasing agreement. The lessor has made a claim against the Company for an indemnity of approximately USD13 million, including the compensation for engine thrust upgrade damages, life components of engine, reserves of engines, cost of termination of the lease, external legal counsel’s remuneration and the interest thereon. On July 31, 2014, the Company has established a team to handle this arbitration and applied to ICC for a counter claim to request the lessor to compensate the Company for insurance fees amounting to USD8.2 million, deposits, default penalty, extra technical support fees and legal expenses and the interest thereon. As of the date of this report, the arbitration is still in early preparation phase and the arbitration session is expected to be held in early 2016. The Company cannot reasonably predict the result and potential impact of this pending litigation. Therefore, no additional provision has been made against this pending litigation.
- (e) According to publicly available information, certain former members of the Group's senior management are subjects of investigation. The Company has assessed the implications on this matter on the Group's financial results and financial position. Based on the results of the review, the Company's directors consider that there were no material consequential impact on the Group's financial statements. As of the date of this report, the investigation of these former members of the senior management is ongoing.
- (f) In late 2014 and early 2015, certain former executives of the Company became subjects of investigation by the PRC authorities for job-related crimes and the Company then removed each of these executives from office with immediate effect. In order to assess any implications on the Group’s financial statements, the Company and the Audit Committee has retained an outside counsel and independent forensic accountants to review those areas which may be impacted. Based on the results of the review, the Company’s directors concluded that there was no material impact on the Group’s financial statements. As of the date of this report, the PRC Authorities’ investigation of these former executives is ongoing and legal proceedings are subject to many uncertainties. Based on current information, the Company does not believe there will be any material impact on the Group’s financial statements.

52 Immediate and ultimate controlling party

As at December 31, 2014, the Directors of the Company consider the immediate parent and ultimate controlling party of the Group to be CSAHC, a state-owned enterprise established in the PRC. CSAHC does not produce financial statements available for public use.

A320 FAMILY

PURCHASE AGREEMENT

BETWEEN

AIRBUS S.A.S.
as Seller

AND

CHINA SOUTHERN AIRLINES COMPANY LIMITED
as Buyer

AND

CHINA SOUTHERN AIRLINES GROUP IMPORT
AND EXPORT TRADING CORP., LTD. as
Consenting Party

Buyer's reference: 14SIES2006FR
Seller's reference: CT1202318

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

CLAUSES	TITLES
0	DEFINITIONS AND INTERPRETATION
1	SALE AND PURCHASE
2	SPECIFICATION
3	PRICES
4	PRICE REVISION
5	PAYMENTS
6	MANUFACTURE PROCEDURE - INSPECTION
7	CERTIFICATION
8	TECHNICAL ACCEPTANCE
9	DELIVERY
10	EXCUSABLE DELAY
11	NON-EXCUSABLE DELAY
12	WARRANTIES AND SERVICE LIFE POLICY
13	PATENT AND COPYRIGHT INDEMNITY
14	TECHNICAL DATA AND SOFTWARE SERVICES
15	SELLER REPRESENTATIVES SERVICES
16	TRAINING SUPPORT AND SERVICES
17	EQUIPMENT SUPPLIER PRODUCT SUPPORT
18	BUYER FURNISHED EQUIPMENT
19	INDEMNIFICATION AND INSURANCE
20	TERMINATION
21	ASSIGNMENTS AND TRANSFERS
22	MISCELLANEOUS PROVISIONS

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

CONTENTS

EXHIBITS	TITLES
Exhibit A	SPECIFICATION
Exhibit B1	FORM OF A SPECIFICATION CHANGE NOTICE
Exhibit B2	FORM OF A MANUFACTURER’S SPECIFICATION CHANGE NOTICE
Exhibit C	PART 1 AIRFRAME PRICE REVISION FORMULA PART 2 PROPULSION SYSTEMS PRICE REVISION FORMULA
Exhibit D	FORM OF CERTIFICATE OF ACCEPTANCE
Exhibit E	FORM OF BILL OF SALE
Exhibit F	SERVICE LIFE POLICY – LIST OF ITEMS
Exhibit G	TECHNICAL DATA INDEX
Exhibit H	MATERIAL SUPPLY AND SERVICES
Exhibit I	LICENSES AND ON LINE SERVICES
[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission	

A320 FAMILY PURCHASE AGREEMENT

This A320 family purchase agreement (the "**Agreement**") is made on _____2014

BETWEEN:

AIRBUS S.A.S., a *société par actions simplifiée*, created and existing under French law having its registered office at 1 Rond-Point Maurice Bellonte, 31707 Blagnac-Cedex, France and registered with the Toulouse *Registre du Commerce* under number RCS Toulouse 383 474 814 (the "**Seller**"),

and

CHINA SOUTHERN AIRLINES COMPANY LIMITED, a company organised under the laws of the People's Republic of China having its principal place of business at Bai Yun Airport, Guangzhou 510405, People's Republic of China, (the “**Buyer**”).

witnessed by

CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD., having its principal office at Bai Yun Airport, Guangzhou 510405, People's Republic of China (the "**Consenting Party**").

WHEREAS subject to the terms and conditions of this Agreement, the Seller desires to sell the Aircraft to the Buyer and the Buyer desires to purchase the Aircraft from the Seller.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

0 DEFINITIONS AND INTERPRETATION

0.1 In addition to words and terms elsewhere defined in this Agreement, the initially capitalized words and terms used in this Agreement shall have the meaning set out below.

Affiliate means with respect to any person or entity, any other person or entity directly or indirectly controlling, controlled by or under common control with such person or entity.

AirbusWorld corresponds to the Seller’s customer portal as further defined in Part 2 of Exhibit I.

Aircraft means individually or collectively an Airbus A319 CEO Aircraft, A320 CEO Aircraft, A321 CEO Aircraft, A319 NEO Aircraft, A320 NEO Aircraft or A321 NEO Aircraft delivered under this Agreement, including the Airframe, the Propulsion Systems, and any part, component, furnishing or equipment installed on the Aircraft on Delivery.

Aircraft Training Services means any flight support services including but not limited to any and all training courses, flight training, flight assistance, line training, line assistance and more generally all flights of any kind performed by the Seller, its agents, employees or subcontractors, and maintenance support, maintenance training (including Practical Training), training support of any kind performed on aircraft and provided to the Buyer pursuant to this Agreement.

Airframe means the Aircraft excluding the Propulsion Systems.

Airframe Base Price has the meaning set out in Clause 3.1.

Airframe Price Revision Formula is set out in Part 1 of Exhibit C.

Average Propulsion Systems Base Price has the meaning set out in Clause 5.3.1.

Aviation Authority means when used in respect of any jurisdiction the government entity, which under the laws of such jurisdiction has control over civil aviation or the registration, airworthiness or operation of aircraft in such jurisdiction.

A319 CEO Aircraft or A319 CEO means an A319-100 aircraft type delivered under this Agreement.

A319 CEO Standard Specification means the A319-100 standard specification document [***], a copy of which has been annexed hereto as Exhibit A.

A319 NEO Aircraft or A319 NEO means an A319-100 type aircraft incorporating the New Engine Option.

A319 NEO Standard Specification has the meaning set out in Clause 2.1.2.2.2.

A320 CEO Aircraft or A320 CEO means an A320-200 type aircraft delivered under this Agreement.

A320 CEO Standard Specification means the A320-200 standard specification document [***], a copy of which has been annexed hereto as Exhibit A.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

A320 NEO Aircraft or **A320 NEO** means an A320-200N type Aircraft delivered under this Agreement.

A320 NEO Standard Specification means the A320-200N standard specification document [***], a copy of which has been annexed hereto as Exhibit A.

A321 CEO Aircraft or **A321 CEO** means an A321-200 type aircraft delivered under this Agreement.

A321 CEO Standard Specification means the A321-200 standard specification document [***], a copy of which has been annexed hereto as Exhibit A.

A321 NEO Aircraft or **A321 NEO** means an A321-200 type Aircraft incorporating the New Engine Option.

A321 NEO Standard Specification has the meaning set out in Clause 2.1.2.2.2.

Balance of Final Price has the meaning set out in Clause 5.4.1.

Base Price means the sum of the Airframe Base Price and the Propulsion Systems Base Price.

Bill of Sale has the meaning set out in Clause 9.2.2.

Business Day means a day, other than a Saturday or a Sunday (or a bank holiday where the obligation takes place), on which business of the kind contemplated by this Agreement is carried on in France, in Germany, and in the People’s Republic of China or, where used in relation to a payment, which is a day on which banks are open for business in France, in Germany, in the People’s Republic of China, and in New York, as appropriate.

Buyer Furnished Equipment or **BFE** has the meaning set out in Clause 18.1.1.1.

CEO Aircraft means individually or collectively an Airbus A319 CEO Aircraft, A320 CEO Aircraft or A321 CEO an Aircraft other than a NEO Aircraft.

CEO Propulsion Systems has the meaning set out in Clause 2.3.1.

CEO Standard Specification means individually or collectively the A319 CEO Standard Specification, the A320 CEO Standard Specification or the A321 CEO Standard Specification, as applicable.

Certificate of Acceptance has the meaning set out in Clause 8.3.

Chinese Delivery Location means the facilities of the Seller at the location of final assembly of the Aircraft in Tianjin, People's Republic of China.

Contractual Definition Freeze or **CDF** has the meaning set out in Clause 2.4.2.

Customization Milestones Chart has the meaning set out in Clause 2.4.1.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Declaration of Design and Performance or DDP means the documentation provided by an equipment manufacturer guaranteeing that the corresponding equipment meets the requirements of the Specification, the interface documentation as well as all the relevant certification requirements.

Delivery means the transfer of title to the Aircraft from the Seller to the Buyer in accordance with Clause 9.

Delivery Date means the date on which Delivery shall occur.

Delivery Location means the European Delivery Location or the Chinese Delivery Location as applicable.

European Delivery Location means the facilities of the Seller at the location of final assembly of the Aircraft currently in Toulouse, France or in Hamburg, Germany.

Excusable Delay has the meaning set out in Clause 10.1.

Export Airworthiness Certificate means an export certificate of airworthiness or an equivalent document issued by a European Aviation Authority.

Final Price has the meaning set out in Clause 3.3.

First Quarter or **Q1** means the months of January, February, March.

Fourth Quarter or **Q4** means the months of October, November, December.

General Terms and Conditions or **GTC** means the General Terms and Conditions of Access to and Use of AirbusWorld set out in Part 2 to Exhibit I.

Goods and Services means any goods and services that may be purchased by the Buyer from the Seller, excluding Aircraft.

Gross Negligence means any act or omission done with intent to cause damage or recklessly and with knowledge that damage would probably result.

Ground Training Services means all training courses performed in classrooms (classical or Airbus CBT courses), full flight simulator sessions, fixed base simulator sessions, field trips and any other services provided to the Buyer on the ground pursuant to this Agreement and which are not Aircraft Training Services.

Irrevocable SCNs means the list of SCNs, which are irrevocably part of the A319 NEO / A321 NEO Specifications, as expressly set out in Appendix 1 to Exhibit A.

Manufacture Facilities means the various manufacture facilities of the Seller, its Affiliates or any sub-contractor, where the Airframe or its parts are manufactured or assembled.

Manufacturer Specification Change Notice or **MSCN** has the meaning set out in Clause 2.2.2.1.

Material has the meaning set out in Clause 1.2 of Exhibit H.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

NEO Aircraft means individually or collectively an Airbus A319 NEO Aircraft, A320 NEO Aircraft or A321 NEO Aircraft.

NEO Propulsion Systems has the meaning set out in Clause 2.3.2.

NEO Standard Specification means individually or collectively the A319 NEO Standard Specification, the A320 NEO Standard Specification or the A321 NEO Standard Specification, as applicable.

New Engine Option or **NEO** has the meaning set out in Clause 2.1.2.2.1 hereof.

Non-Excusable Delay has the meaning set out in Clause 11.1.

Predelivery Payment means the payment(s) determined in accordance with Clause 5.3.

Predelivery Payment Reference Price or **PDPRP** has the meaning set out in Clause 5.3.1.

Propulsion Systems means, as applicable either the CEO Propulsion Systems or the NEO Propulsion Systems.

Propulsion Systems Base Price means the price of a set of Propulsion Systems as set out in Clause 3.2.

Propulsion Systems Reference Price means the reference price of a set of Propulsion Systems as set out in Part 2, Part 3 or Part 4 of Exhibit C, as applicable.

Propulsion Systems Manufacturer means the manufacturer of the Propulsion Systems as set out in Clause 2.3.

Propulsion Systems Price Revision Formula is set out in Part 2, Part 3 or Part 4 of Exhibit C, as applicable.

Quarter means, as applicable, any or all of the First Quarter, the Second Quarter, the Third Quarter or the Fourth Quarter.

Ready for Delivery means the time when the Technical Acceptance Process has been completed in accordance with Clause 8 and all technical conditions required for the issuance of the Export Airworthiness Certificate have been satisfied.

Scheduled Delivery Month has the meaning set out in Clause 9.1.

Scheduled Delivery Period has the meaning set out in Clause 9.1.

Second Quarter or **Q2** means the months of April, May, June.

Seller Furnished Equipment or **SFE** corresponds to items of equipment that are identified in the Specification as being furnished by the Seller.

Seller Representatives means the representatives of the Seller referred to in Clause 15.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Seller Representatives Services means the services provided by the Seller to the Buyer and from the Buyer to the Seller pursuant to Clause 15.

Seller Service Life Policy has the meaning set out in Clause 12.2.

Sharklets means a new large wingtip device designed to enhance the eco-efficiency and payload range performance of the A320 family aircraft, and which are fitted on the NEO Aircraft and are part of the A320 NEO Standard Specification or the Irrevocable SCNs, as applicable.

Spare Parts means the items of equipment and material that may be provided pursuant to Exhibit H.

Specification Change Notice or **SCN** means an agreement in writing between the parties to amend the Specification pursuant to Clause 2.

Specification means either (a) the Standard Specification if no SCNs are applicable or (b) if SCNs are issued, the Standard Specification as amended by all applicable SCNs.

Standard Specification means the A319 Standard Specification or the A320 Standard Specification or the A321 Standard Specification, as applicable.

Standard Specification means, individually or collectively, as the context may require, the CEO Standard Specification(s) or the NEO Standard Specification(s).

Supplier has the meaning set out in Clause 12.3.1.1.

Supplier Part has the meaning set out in Clause 12.3.1.2.

Supplier Product Support Agreement has the meaning set out in Clause 12.3.1.3.

SPSA Application means the application on AirbusWorld, which provides the Buyer with access to the Supplier Product Support Agreements.

Technical Data has the meaning set out in Clause 14.1.

Third Quarter or **Q3** means the months of July, August, September.

Total Loss has the meaning set out in Clause 10.4.

Type Certificate has the meaning set out in Clause 7.1.

US Dollars; **US\$** or **USD** means United States dollars.

Warranted Part has the meaning set out in Clause 12.1.1.

- 0.2 Clause headings and the Index are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.
- 0.3 In this Agreement unless the context otherwise requires:
- [* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- (a) references to Clauses, Schedules, Appendices and Exhibits are to be construed as references to the Clauses of, and Schedules, Appendices, and Exhibits to this Agreement and references to this Agreement include its Schedules, Exhibits and Appendices;
- (b) words importing the plural shall include the singular and vice versa; and
- (c) references to a person shall be construed as including, without limitation, references to an individual, firm, company, corporation, unincorporated body of persons and any state or agency of a state.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1 **SALE AND PURCHASE**

The Seller shall sell and deliver and the Buyer shall buy and take delivery of eighty (80) Aircraft, including thirty (30) CEO Aircraft and fifty (50) NEO Aircraft, on the Delivery Date at the Delivery Location upon the terms and conditions contained in this Agreement.

Unless it has been modified pursuant to the terms of the Agreement, the type of each Aircraft, A319 CEO Aircraft or A320 CEO Aircraft or A321 CEO Aircraft or A319 NEO Aircraft or A320 NEO Aircraft or A321 NEO Aircraft, (the “**Aircraft Type**”) shall be as set out in Clause 9.1 of the Agreement.

[* * *]” This information is subject to confidential treatment and has been omitted and filed separately with the commission

2	SPECIFICATION
2.1	Aircraft Specification
2.1.1	CEO Aircraft Specification
	The CEO Aircraft shall be manufactured in accordance with the CEO Standard Specifications, as may already have been modified or varied at to the date of this Agreement by the Specification Change Notices listed in Appendix 1 to Exhibit A.
2.1.2	NEO Aircraft Specification
2.1.2.1	A320 NEO Aircraft Specification
	The A320 NEO Aircraft shall be manufactured in accordance with the A320 NEO Standard Specification, as may already have been modified or varied at the date of this Agreement by the Specification Change Notices listed in Appendix 1 to Exhibit A.
2.1.2.2	A319 NEO Aircraft Specification and A321 NEO Aircraft Specification
2.1.2.2.1	New Engine Option
	The Seller is currently developing a new engine option (the “ New Engine Option ” or “ NEO ”), applicable to the A319/A321 aircraft. The specification of the A319/A321 NEO Aircraft shall be derived from the current A319/A321 respective CEO Standard Specification(s) and based on the new Propulsion Systems, as set forth in Clause 2.3 below, and Sharklets, as well as required airframe structural modifications and Aircraft systems and software adaptations required to operate such New Engine Option Aircraft. The foregoing is currently reflected in the Irrevocable SCNs listed in Appendix 1 to Exhibit A, the implementation of which is hereby irrevocably accepted by the Buyer.
2.1.2.2.2	Notwithstanding the foregoing, upon the freeze of the technical configuration applicable to the combination of the respective CEO Standard Specification(s) and the corresponding Irrevocable SCNs, the Seller shall issue respectively an A319-100N NEO Standard Specification Issue 1 (the “ A319 NEO Standard Specification ”) and an A321-200N NEO Standard Specification Issue 1 (the “ A321 NEO Standard Specification ”), which shall each automatically supersede the combination of the respective CEO Standard Specification(s) and the corresponding Irrevocable SCNs. The A319 NEO Aircraft and the A321 NEO Aircraft shall be manufactured in accordance with each such Issue 1 of the A319 NEO Standard Specification and the A321 NEO Standard Specification, as applicable, as may already have been modified or varied at the date of this Agreement by the Specification Change Notices listed in Appendix 1 to Exhibit A.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

2.1.2.2.3 A319 NEO and A321 NEO Weights

The New Engine Option shall modify the design weights of the respective CEO Standard Specification(s) as follows:

	A319-100	A321-200
MTOW	[***]	[***]
MLW	[***]	[***]
MZFW	[***]	[***]

The estimated basic Manufacturer’s Weight Empty (“MWE”) of the respective CEO Standard Specification(s) § 13-10.01.00 shall be modified as follows:

Propulsion Systems as per Clause 2.3	A319-100	A321-200
PW	[***]	[***]
CFM	[***]	[***]

It is agreed and understood that the above weights may be updated in each of the A319 NEO Standard Specification and A321 NEO Standard Specification.

2.2 Specification Amendment

The parties understand and agree that the Specification may be further amended following signature of this Agreement in accordance with the terms of this Clause 2.

2.2.1 Specification Change Notice

The Specification may be amended by written agreement between the parties in a Specification Change Notice (“SCN”). Each SCN shall be substantially in the form set out in Exhibit B1 and shall set out the SCN’s Aircraft embodiment rank and shall also set forth, in detail, the particular change to be made to the Specification and the effect, if any, of such change on design, performance, weight, Delivery Date of the Aircraft affected thereby and on the text of the Specification. An SCN may result in an adjustment of the Aircraft Base Price, which adjustment, if any, shall be specified in the SCN.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

2.2.2 **Development Changes**

The Specification may also be amended to incorporate changes deemed necessary by the Seller to improve the Aircraft, prevent delay or ensure compliance with this Agreement (“**Development Changes**”), as set forth in this Clause 2.

2.2.2.1 **Manufacturer Specification Changes Notices**

2.2.2.1.1 The Specification may be amended by the Seller through a Manufacturer Specification Change Notice (“**MSCN**”), which shall be substantially in the form set out in Exhibit B2 hereto, or by such other means as may be deemed appropriate, and shall set out the MSCN’s Aircraft embodiment rank as well as, in detail, the particular change to be made to the Specification and the effect, if any, of such change on performance, weight, Aircraft Base Price, Delivery Date of the Aircraft affected thereby and interchangeability or replaceability requirements under the Specification.

2.2.2.1.2 Except when the MSCN is necessitated by an Aviation Authority directive or by equipment obsolescence, in which case the MSCN shall be accomplished without requiring the Buyer’s consent, if the MSCN adversely affects the performance, weight, Base Price, Delivery Date of the Aircraft affected thereby or the interchangeability or replaceability requirements under the Specification, the Seller shall notify the Buyer of a reasonable period of time during which the Buyer must accept or reject such MSCN. If the Buyer does not notify the Seller of the rejection of the MSCN within such period, the MSCN shall be deemed accepted by the Buyer and the corresponding modification shall be accomplished.

2.2.2.2 In the event of the Seller revising the Specification to incorporate Development Changes which have no adverse effect on any of the elements as set forth in 2.2.2.1 above, such revision shall be performed by the Seller without the Buyer’s consent.

In such cases, the Buyer shall have access to the details of such changes through the relevant application in AirbusWorld.

2.3 **Propulsion Systems**

2.3.1 **CEO Aircraft Propulsion Systems**

The Airframes of the CEO Aircraft shall be equipped with a set of either two (2) CFM International Engines (“**CFM**”) or two (2) International Aero Engines (“**IAE**”) engines, upon selection referred to respectively as the “**CEO Propulsion Systems**”.

	CFM	IAE
A319 CEO Aircraft	***	***
A320 CEO Aircraft	***	***
A321 CEO Aircraft	***	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

**** The [***], [***] and [***] Propulsion Systems cannot be selected for A321 CEO Aircraft for which Sharklets are selected.**

2.3.2 NEO Propulsions Systems

The Airframes of the NEO Aircraft shall be equipped with a set of either two (2) CFM LEAP engines or two (2) Pratt & Whitney (“**PW**”) PW-1100G-JM engines, upon selection referred to respectively as the “**NEO Propulsion Systems**”.

	PW	CFM
A319 NEO Aircraft	[***]	[***]
A320 NEO Aircraft	[***]	[***]
A321 NEO Aircraft	[***]	[***]

** AET means Airbus Equivalent Thrust*

2.3.3 Upon its selection by the Buyer, any set of two (2) propulsion systems, shall, with respect to the respective Aircraft, be referred to as the “**Propulsion Systems**”.

2.3.4 The Buyer shall notify the Seller in writing of its selection of Propulsion Systems (i) no later than [***] months prior to the first day of the earliest CEO Aircraft’s Scheduled Delivery Month for the fleet of CEO Aircraft and (ii) no later than [***] months prior to the first day of the earliest NEO Aircraft’s Scheduled Delivery Month for the fleet of NEO Aircraft. Such selection shall be incorporated in the applicable Specification by signature of a Specification Change Notice. If the Buyer does not select its Propulsion Systems type as agreed herein, then, in addition to its other rights, the Seller shall have the right to defer the Scheduled Delivery Months of any or all of the CEO Aircraft or NEO Aircraft, as applicable.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

2.4 Milestones

2.4.1 Customization Milestones Chart

Within a reasonable period following signature of the Agreement, the Seller shall provide the Buyer with a customization milestones chart (the “**Customization Milestone Chart**”), setting out how far in advance of the Scheduled Delivery Month of the Aircraft an SCN must be executed in order to integrate into the Specification any items requested by the Buyer from the Seller’s catalogues of Specification change options (the “**Option Catalogues**”).

2.4.2 Contractual Definition Freeze

The Customization Milestone Chart shall in particular define the date(s) by which the contractual definition of the Aircraft must be finalized and all SCNs need to have been executed by the Buyer (the “**Contractual Definition Freeze**” or “**CDF**”) in order to enable their incorporation into the manufacturing of the Aircraft and Delivery of the Aircraft in the Scheduled Delivery Month. Each such date shall be referred to as a “**CDF Date**”.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

3	PRICES
3.1	Airframe Base Price
3.1.1	CEO Airframe Base Price
3.1.1.1	<div><div>The Airframe Base Price of an A319 CEO Aircraft is the sum of:</div><div><div>(i)</div><div>the base price of the Airframe as defined in the A319 CEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is :</div><div>[***]</div></div><div><div>(ii)</div><div>the sum of the base prices of all SCNs set forth in Appendix 1 to Exhibit "A", which is :</div><div>[***]</div></div><div><div>(iii)</div><div>for any A319 CEO Aircraft for which Sharklets have been selected by the Buyer, the base price of the Sharklets, which is:</div><div>[***]</div></div></div>
3.1.1.2	<div><div>The Airframe Base Price of an A320 CEO Aircraft is the sum of:</div><div><div>(i)</div><div>the base price of the Airframe as defined in the A320 CEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is :</div><div>[***]</div></div><div><div>(ii)</div><div>the sum of the base prices of all SCNs set forth in Appendix 1 to Exhibit "A", which is :</div><div>[***]</div></div><div><div>(iii)</div><div>for any A320 CEO Aircraft for which Sharklets have been selected by the Buyer, the base price of the Sharklets, which is:</div><div>[***]</div></div></div>

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 3.1.1.3
- The Airframe Base Price of an A321 CEO Aircraft is the sum of:

(i)

the base price of the Airframe as defined in the A321 CEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is :

[***]

(ii)

the sum of the base prices of all SCNs set forth in Appendix 1 to Exhibit "A", which is :

[***]

(iii)

for any A321 CEO Aircraft for which Sharklets have been selected by the Buyer, the base price of the Sharklets, which is:

[***]

3.1.1.4

The Airframe Base Prices set out in Clause 3.1.1 have been established in accordance with the average economic conditions prevailing in [***], [***] and [***] and corresponding to a theoretical delivery in [***] (the "**Base Period**").

3.1.2

NEO Airframe Base Price

3.1.2.1

The Airframe Base Price of an A320 NEO Aircraft is the sum of:

(i)

the base price of the Airframe as defined in the A320 NEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is:

[***]

(ii)

the sum of the base prices of all additional SCNs set forth in Appendix 1 to Exhibit "A", which is:

[***]

(iii)

the base price of the master charge, which is applicable if a CFM LEAP-1A Propulsion System is selected, which is:

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 3.1.2.2

The Airframe Base Price of an A319 NEO Aircraft is the sum of:

(i)

the base price of the Airframe as defined in the A319 CEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is:

[***]

(ii)

the base price of the New Engine Option (excluding Sharklets), an Irrevocable SCN, which is:

[***]

(iii)

the base price of the Sharklets, an Irrevocable SCN, which is:

[***]

(iv)

the sum of the base prices of all additional SCNs set forth in Appendix 1 to Exhibit "A", which is:

[***]

(v)

the base price of the master charge, which is applicable if a CFM LEAP-1A Propulsion System is selected, which is:

[***]

- 3.1.2.3

The Airframe Base Price of an A321 NEO Aircraft is the sum of:

(i)

the base price of the Airframe as defined in the A321 CEO Standard Specification (excluding Buyer Furnished Equipment), including nacelles and thrust reversers, which is:

[***]

(ii)

the base price of the New Engine Option (excluding Sharklets), an Irrevocable SCN, which is:

[***]

(iii)

the base price of the Sharklets, an Irrevocable SCN, which is:

[***]

(iv)

the sum of the base prices of all additional SCNs set forth in Appendix 1 to Exhibit "A", which is:

[***]

(v)

the base price of the master charge, which is applicable if a CFM LEAP-1A Propulsion System is selected, which is:

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

3.1.3 The Airframe Base Prices set out in Clause 3.1.2 have been established in accordance with the average economic conditions prevailing in [***],[***] and [***] and corresponding to a theoretical delivery in [***] (the "**Base Period**").

3.1.4 It is hereby agreed and understood between the parties that, upon issuance of the respective Issue 1.0 of the A319 NEO Standard Specification and the A321 NEO Standard Specification, the Airframe Base Price reflecting the Airframe as defined in each such Standard Specification shall correspond to the sum of (i), (ii) and (iii) as set forth in respectively Clauses 3.1.2.2 and 3.1.2.3 above, as applicable.

3.2 Propulsion Systems Base Price

3.2.1 The base prices of a set of two (2) CFM Propulsion Systems are

 (i) for CEO Aircraft:

 [***]

 (ii) for NEO Aircraft:

 [***]

3.2.2 The base prices of a set of two (2) IAE Propulsion Systems for CEO Aircraft are:

 [***]

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

- 3.2.3

The base prices of a set of two (2) PW Propulsion Systems for NEO Aircraft are:

[***]
- 3.2.4

The Propulsion Systems Base Prices in Clauses 3.2.1; 3.2.2; and 3.2.3 above have been established in accordance with the delivery conditions prevailing in [***] and have been calculated from the Propulsion Systems Reference Prices, as set forth in Part 2, Part 3 or Part 4 of Exhibit C, as applicable.
- 3.3

Final Price

The Final Price of each Aircraft shall be the sum of:

(i)

the Airframe Base Price as revised as of the Delivery Date in accordance with Clause 4.1; plus

(ii)

the aggregate of all increases or decreases to the Airframe Base Price as agreed in any Specification Change Notice or part thereof applicable to the Airframe subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.1; plus

(iii)

the Propulsion Systems Reference Price as revised as of the Delivery Date in accordance with Clause 4.2; plus

(iv)

the aggregate of all increases or decreases to the Propulsion Systems Reference Price as agreed in any Specification Change Notice or part thereof applicable to the Propulsion Systems subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.2; plus

(v)

any other amount due by the Buyer to the Seller pursuant to this Agreement and/or any other written agreement between the Buyer and the Seller with respect to the Aircraft.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 4

PRICE REVISION
- 4.1

Revision of Airframe Base Price

The Airframe Base Price is subject to revision in accordance with the Airframe Price Revision Formula up to and including the Delivery Date as set forth in Part 1 of Exhibit C.
- 4.2

Revision of Propulsion Systems Reference Price

4.2.1

The Propulsion Systems Reference Price is subject to revision in accordance with the Propulsion Systems Price Revision Formula up to and including the Delivery Date, as set forth in Part 2, Part 3 or Part 4 of Exhibit C, as applicable.

4.2.2

Modification of Propulsion Systems Reference Price, Propulsion Systems Price Revision Formula and Propulsion Systems Designations

The Propulsion Systems Reference Price, the prices of the related equipment, the Propulsion Systems designation(s) and the Propulsion Systems Price Revision Formula are based on information received from the Propulsions Systems Manufacturer and are subject to amendment by the Propulsion Systems Manufacturer at any time prior to the Delivery Date. If the Propulsion Systems Manufacturer makes any such amendment, the amendment shall be automatically incorporated into this Agreement and the Propulsion Systems Reference Price, the prices of the related equipment, the Propulsion Systems designation(s) and/or the Propulsion Systems Price Revision Formula shall be adjusted accordingly. The Seller agrees to notify the Buyer as soon as it receives notice of any such amendment from the Propulsion Systems Manufacturer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

5 PAYMENTS

5.1 Seller's Account

The Buyer shall pay the Predelivery Payments, the Balance of Final Price and/or any other amount due by the Buyer to the Seller, to the Seller's account:

[***]

or to such other account as may be designated by the Seller.

5.2 Intentionally left blank.

5.3 Predelivery Payments

5.3.1 The Buyer shall pay Predelivery Payments to the Seller calculated on the predelivery payment reference price of each Aircraft (the “Predelivery Payment Reference Price”). The Predelivery Payment Reference Price is determined by the following formula:

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 5.3.2.1
- Such Predelivery Payments shall be made in accordance with the following schedule:

[***]

In the event of the above schedule resulting in any Predelivery Payment falling due prior to the date of signature of the Agreement, such Predelivery Payments shall be made upon signature of this Agreement.
- 5.3.2.2
- In the event that more than [***] months separate the Predelivery Payments payable on the date of the Agreement and the next Predelivery Payments due (the “**Second PDP**”), an instalment equal to [***] of the Predelivery Payment Reference Price will be due every [***] months starting [***] months after the date of the Agreement until such Second PDP is due. Such payments made shall be considered as instalment for such Second PDP, and will be deducted from the amount due for such Second PDP.
- 5.3.3
- Any Predelivery Payment received by the Seller shall constitute an instalment in respect of the Final Price of the relevant Aircraft. The Seller shall be entitled to hold and use any Predelivery Payment as absolute owner thereof, subject only to (i) the obligation to deduct any such Predelivery Payment from the Final Price when calculating the Balance of Final Price of the relevant Aircraft or (ii) the obligation to pay to the Buyer an amount equal to the Predelivery Payments pursuant to any other provision of this Agreement.
- 5.3.4
- If any Predelivery Payment is not received within [***] days of the relevant due date specified in Clause 5.3.2 then, in addition to any other rights and remedies available to the Seller, the Seller shall have no obligation to deliver any or all of the Aircraft remaining to be delivered under the Agreement within their respective Scheduled Delivery Month(s). Upon receipt of the full amount of all delayed Predelivery Payments, together with any amount due pursuant to Clause 5.7, the Seller shall inform the Buyer of new Scheduled Delivery Month(s) consistent with the Seller's other commitments and production capabilities.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

5.3.5 Specification Change Notice Predelivery Payments

The Seller shall be entitled to request Predelivery Payments for each SCN executed after signature of this Agreement:

- (i) for each SCN executed prior to [***] prior to the Scheduled Delivery Month, this Predelivery Payment shall correspond to a percentage of the SCN price equal to [***] of Predelivery Payments as defined in Clause 5.3.2 above and shall be paid on the first day of [***] prior to the Scheduled Delivery Month;
- (ii) for each SCN executed [****] months prior to the Scheduled Delivery Month, this Predelivery Payment shall amount [***] of the SCN price and for each SCN executed [***] prior to the Scheduled Delivery Month this payment shall amount to [***] of the SCN price;

these payments shall be paid on [***] to the Scheduled Delivery Month ;
- (iii) each of the above Predelivery Payments shall constitute an instalment towards the Final Price of the corresponding Aircraft.

5.4 Balance of Final Price

5.4.1 The Balance of Final Price payable by the Buyer to the Seller on the Delivery Date shall be the Final Price less the amount of Predelivery Payments received by the Seller on or before the Delivery Date.

5.4.2 Upon receipt of the Seller’s invoice, and immediately prior to Delivery, the Buyer shall pay to the Seller the Balance of Final Price.

5.5 Other Charges

Unless expressly stipulated otherwise, any other charges due under this Agreement other than those set out in Clauses 5.2, 5.3 and 5.4 shall be paid by the Buyer at the same time as payment of the Balance of Final Price or, if invoiced after the Delivery Date, within [***] days after the invoice date.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 5.6

Method of Payment
- 5.6.1

All payments provided for in this Agreement shall be made in United States Dollars (USD) in immediately available funds.
- 5.6.2

All payments due to the Seller hereunder shall be made in full, without set-off, counterclaim, deduction or withholding of any kind. Consequently, the Buyer shall procure that the sums received by the Seller under this Agreement shall be equal to the full amounts expressed to be due to the Seller hereunder, without deduction or withholding on account of and free from any and all taxes, levies, imposts, dues or charges of whatever nature. If the Buyer is compelled by law to make any such deduction or withholding the Buyer shall pay such additional amounts as may be necessary in order that the net amount received by the Seller after such deduction or withholding shall be equal to the amounts which would have been received in the absence of such deduction or withholding and pay to the relevant taxation or other authorities within the period for payment permitted by applicable law, the full amount of the deduction or withholding.
- 5.7

Overdue Payments
- If any payment due to the Seller under this Agreement including but not limited to any Predelivery Payment, commitment fee, option fee for the Aircraft as well as any payment due to the Seller for any spare parts, data, documents, training and services, is not received on the due date, without prejudice to the Seller's other rights under this Agreement and at law, the Seller shall be entitled to claim from the Buyer, and the Buyer shall promptly pay to the Seller upon receipt of such claim, an agreed fixed amount destined to compensate the Seller for the negative consequences, costs, losses and expenses, that the Seller may suffer as a result of such late payment. The amount of such compensation shall be calculated at the rate of [***] on the amount of such overdue payment, counting from and including the due date of payment up to and including the date when the payment is received by the Seller.
- 5.8

Taxes
- 5.8.1

The amounts stated in this Agreement to be payable by the Buyer are exclusive of value added tax ("VAT") chargeable under the laws of the Delivery Location and accordingly the Buyer shall pay any VAT chargeable in respect of supplies to the Buyer as contemplated by this Agreement.
- 5.8.2

The Seller shall pay all other taxes, duties or similar charges of any nature whatsoever levied, assessed, charged or collected for or in connection with the manufacture, assembly, sale and delivery under this Agreement of any of the Aircraft, services, instructions and data delivered or furnished hereunder provided such charges have been promulgated and are enforceable under the laws of the Delivery Location.
- 5.8.3

The Buyer shall bear the costs of and pay any and all taxes, duties or similar charges of any nature whatsoever not assumed by the Seller under Clause 5.8.2 including but not limited to any duties or taxes due upon or in relation to the importation or registration of the Aircraft in the Buyer's country and/or any withholdings or deductions levied or required in the Buyer's country in respect of the payment to the Seller of any amount due by the Buyer hereunder.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

5.9 **Proprietary Interest**

The Buyer shall not, by virtue of anything contained in this Agreement (including, without limitation, any Predelivery Payments hereunder, or any designation or identification by the Seller of a particular aircraft as an Aircraft to which any of the provisions of this Agreement refers) acquire any proprietary, insurable or other interest whatsoever in any Aircraft before Delivery of and payment for such Aircraft, as provided in this Agreement.

5.10 **Set-Off**

The Seller may set-off any matured obligation owed by the Buyer to the Seller and/or its Affiliates against any obligation (whether or not matured) owed by the Seller to the Buyer, regardless of the place of payment or currency (it being understood that if this obligation is unascertainable it may be estimated and the set-off made in respect of such estimate).

5.11 **Cross-Collateralisation**

5.11.1 The Buyer hereby agrees that, notwithstanding any provision to the contrary in this Agreement, in the event that the Buyer should fail to make any material payment owing under this Agreement or under any other agreement between the Buyer and the Seller and/or any of their respective Affiliates (the “Other Agreement”), the Seller may:

- (i) withhold payment to the Buyer or its Affiliates of any sums that may be due to or claimed by the Buyer or its Affiliates from the Seller or its Affiliates pursuant to this Agreement or any Other Agreement, including Predelivery Payments, unless or until the default under this Agreement or the Other Agreement is cured or remedied; and
- (ii) apply any amount of any Predelivery Payment it then holds under this Agreement in respect of any of the Aircraft as well as any other monies held pursuant to any Other Agreement (collectively the “Relevant Amounts”) in such order as the Seller deems appropriate in satisfaction of any amounts due and unpaid by the Buyer or its Affiliates and to compensate for any losses and/or damages the Seller or its Affiliates may suffer as a result of the Buyer’s or its Affiliates’ failure to make payments in a timely manner under this Agreement or any Other Agreement. The Buyer acknowledges that the application of any of the Relevant Amounts as aforesaid may result in the Buyer or its Affiliates being in default (unless such default is otherwise cured or remedied) in relation to the agreement in respect of which such Relevant Amounts were originally granted or required to be paid, as the case may be.

The rights granted to the Seller in the preceding paragraphs (i) and (ii) are without prejudice and are in addition to and shall not be deemed a waiver of any other rights and remedies the Seller or its Affiliates may have at law or under this Agreement or any Other Agreement, including the right of set-off.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

5.11.2 In the event that the Seller applies any amount of any Predelivery Payment it then holds under this Agreement in respect of any of the Aircraft in satisfaction of the amount due and unpaid by the Buyer or its Affiliates or to compensate for losses and/or damages to the Seller or its Affiliates as a result of the Buyer’s or its Affiliates’ failure to make payment in a timely manner under the Agreement or any Other Agreement, then the Seller shall notify the Buyer to that effect. Within [***] days of issuance of such notification, the Buyer shall pay by wire transfer of funds immediately available to the Seller the amount of the Predelivery Payment that has been applied by the Seller as set forth above.

Failure of the Buyer to pay such amount in full, shall entitle the Seller to (i) collect interest on such unpaid amount in accordance with Clause 5.7 hereof from the [***] following the Seller’s written request to the Buyer for such payment and (ii) treat such failure as an additional termination event for which the Seller shall be entitled to the remedies available under Clause 20.2 of the Agreement.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

6 **MANUFACTURE PROCEDURE – INSPECTION**

6.1. **Manufacture Procedure**

The Airframe shall be manufactured in accordance with the relevant requirements of the laws of the jurisdiction of incorporation of the Seller or of its relevant Affiliate as enforced by the Aviation Authority of such jurisdiction.

6.2 **Inspection**

6.2.1 Subject to providing the Seller with certificates evidencing compliance with the insurance requirements set forth in Clause 19, the Buyer or its duly authorised representatives (the "**Buyer's Inspector(s)**") shall be entitled to inspect the manufacture of the Airframe and all materials and parts obtained by the Seller for the manufacture of the Airframe on the following terms and conditions;

- (i) any inspection shall be made according to a procedure to be agreed upon with the Buyer but shall be conducted pursuant to the Seller’s own system of inspection as developed under the supervision of the relevant Aviation Authority;
- (ii) the Buyer's Inspector(s) shall have access to such relevant technical data as is reasonably necessary for the purpose of the inspection;
- (iii) any inspection and any related discussions with the Seller and other relevant personnel by the Buyer's Inspector(s) shall be at reasonable times during business hours and shall take place in the presence of relevant inspection department personnel of the Seller;
- (iv) the inspections shall be performed in a manner not to unduly delay or hinder the manufacture or assembly of the Aircraft or the performance of this Agreement by the Seller or any other work in progress at the Manufacture Facilities.

6.2.2 **Location of Inspections**

The Buyer's Inspector(s) shall be entitled to conduct any such inspection at the relevant Manufacture Facility of the Seller or the Affiliates and where possible at the Manufacture Facilities of the sub-contractors provided that if access to any part of the Manufacture Facilities where the Airframe manufacture is in progress or materials or parts are stored are restricted for security or confidentiality reasons, the Seller shall be allowed reasonable time to make the relevant items available elsewhere.

6.3 **Seller's Service for Buyer's Inspector(s)**

For the purpose of the inspections, and commencing with the date of this Agreement until the Delivery Date, the Seller shall furnish without additional charge suitable space and office equipment in or conveniently located with respect to the Delivery Location for the use of a reasonable number of Buyer's Inspector(s) (such number not to exceed [***]).

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

- 7
- CERTIFICATION
- 7.1
- Type Certification
- The Aircraft has been type certificated under European Aviation Safety Agency (EASA) procedures for certification in the transport category. The Seller has obtained the relevant type certificate (the "**Type Certificate**") to allow the issuance of the Export Airworthiness Certificate.
- 7.2
- Export Airworthiness Certificate
- 7.2.1
- The Aircraft shall be delivered to the Buyer with an Export Airworthiness Certificate.
- 7.2.2
- If, any time before the date on which the Aircraft is Ready for Delivery, any law or regulation is enacted, promulgated, becomes effective and/or an interpretation of any law or regulation is issued which requires any change to the Specification for the purposes of obtaining the Export Airworthiness Certificate (a "**Change in Law**"), the Seller shall make the required variation or modification and the parties hereto shall sign a Specification Change Notice, or MSCN as applicable, which specifies the effects, if any, upon the guaranteed performances, weights, interchangeability, time of Delivery, price of the Aircraft and text of the Specification.
- 7.2.3
- The Seller shall as far as practicable (but at its sole discretion and without prejudice to Clause 7.3.1 (ii)) take into account the information available to it concerning any proposed law, regulation or interpretation which could become a Change in Law in order to minimise the costs of changes to the Specification as a result of such proposed law, regulation or interpretation becoming effective prior to the Aircraft being Ready for Delivery.
- 7.3
- Costs of Specification Change Notices for Certification
- 7.3.1
- The costs of implementing the variation or modification referred to in Clause 7.2.2 above shall be
- (i)for the account of the Seller if the Change in Law became effective prior to the date of this Agreement;
- (ii)shared equally between the Seller and the Buyer if the Change in Law became effective after the date of this Agreement.
- 7.3.2.
- Notwithstanding the provisions of sub-Clauses 7.3.1 (i) and (ii), if the Change in Law relates to the Propulsion Systems, the costs shall be borne in accordance with such arrangements as may be made separately between the Buyer and the Propulsion Systems Manufacturer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 7.4

Validation of the Export Airworthiness Certificate
- 7.4.1

The Seller shall endeavour to obtain the validation of the Export Airworthiness Certificate by the Buyer's Aviation Authority.
- 7.4.2

Where the Buyer's Aviation Authority requires a modification to comply with additional import aviation requirements and/or supply of additional data prior to the issuance of the Export Airworthiness Certificate, the Seller shall incorporate such modification and/or provide such data at costs to be borne by the Buyer. The parties shall sign a Specification Change Notice which specifies the effects, if any, upon the guaranteed performances, weights, interchangeability, time of Delivery and price of the Aircraft.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

8	TECHNICAL ACCEPTANCE
8.1	Technical Acceptance Process
8.1.1	Prior to Delivery the Aircraft shall undergo a technical acceptance process, proposed by the Seller (the " Technical Acceptance Process "). Completion of the Technical Acceptance Process shall demonstrate the satisfactory functioning of the Aircraft and shall be deemed to demonstrate compliance with the Specification. Should it be established that the Aircraft does not comply with the Technical Acceptance Process requirements, the Seller shall without hindrance from the Buyer be entitled to carry out any necessary changes and, as soon as practicable thereafter, resubmit the Aircraft to such further Technical Acceptance Process as is necessary to demonstrate the elimination of the non-compliance.
8.1.2	<p>The Technical Acceptance Process shall:</p> <ul style="list-style-type: none">(i) commence on a date notified by the Seller to the Buyer by no less than [***] days notice;(ii) take place at the Delivery Location;(iii) be carried out by the personnel of the Seller;(iv) include a technical acceptance flight which shall not exceed a period of [***] hours.
8.2	Buyer's Attendance
8.2.1	The Buyer shall be entitled to attend the Technical Acceptance Process, and notification of the start of such Technical Acceptance Process shall be done in accordance with Clause 8.1.1, 8.1.2 and 9.1.2.
8.2.2	<p>If the Buyer elects to attend the Technical Acceptance Process, the Buyer;</p> <ul style="list-style-type: none">(i) shall co-operate in complying with the reasonable requirements of the Seller with the intention of completing the Technical Acceptance Process within [***] after its commencement;(ii) may have a maximum of [***] of the Buyer’s representatives (with no more than [***] such representatives having access to the cockpit at any one time) accompany the Seller’s representatives on a technical acceptance flight and during such flight the Buyer’s representatives shall comply with the instructions of the Seller’s representatives.
8.2.3	If the Buyer does not attend or fails to co-operate in the Technical Acceptance Process, the Seller shall be entitled to complete the Technical Acceptance Process and the Buyer shall be deemed to have accepted the Technical Acceptance Process as satisfactory in all respects.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

8.3 **Certificate of Acceptance**

Following completion of the Technical Acceptance Process, the Buyer shall, in accordance with Clause 9.2.1, sign and deliver to the Seller a certificate of acceptance in respect of the Aircraft in the form of Exhibit D (the "**Certificate of Acceptance**").

8.4 **Aircraft Utilisation**

The Seller shall, without payment or other liability, be entitled to use the Aircraft prior to Delivery as may be necessary to obtain the certificates required under Clause 7, and such use shall not prejudice the Buyer's obligation to accept Delivery of the Aircraft hereunder.

However the Seller shall not be authorised to use the Aircraft during [***] for any other purpose without the specific agreement of the Buyer.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

9 DELIVERY

9.1 Delivery Schedule

9.1.1.1 Subject to Clauses 2, 7, 8, 10 and 18, the Seller shall have the **CEO Aircraft** Ready for Delivery at the Delivery Location within the following periods:

Aircraft Number	Aircraft Type	Scheduled Delivery Period
1	***	***
2	***	***
3	***	***
4	***	***
5	***	***
6	***	***
7	***	***
8	***	***
9	***	***
10	***	***
11	***	***
12	***	***
13	***	***
14	***	***
15	***	***
16	***	***
17	***	***
18	***	***
19	***	***
20	***	***
21	***	***
22	***	***
23	***	***
24	***	***
25	***	***
26	***	***
27	***	***
28	***	***
29	***	***
30	***	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

9.1.1.2 Subject to Clauses 2, 7, 8, 10 and 18, the Seller shall have the **NEO Aircraft** Ready for Delivery at the Delivery Location within the following periods:

Aircraft Number	Aircraft Type	Scheduled Delivery Period
31	***	***
32	***	***
33	***	***
34	***	***
35	***	***
36	***	***
37	***	***
38	***	***
39	***	***
40	***	***
41	***	***
42	***	***
43	***	***
44	***	***
45	***	***
46	***	***
47	***	***
48	***	***
49	***	***
50	***	***
51	***	***
52	***	***
53	***	***
54	***	***
55	***	***
56	***	***
57	***	***
58	***	***
59	***	***
60	***	***
61	***	***
62	***	***
63	***	***
64	***	***
65	***	***
66	***	***
67	***	***
68	***	***
69	***	***
70	***	***

Continued on next page

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Aircraft Number	Aircraft Type	Scheduled Delivery Period
71	[***]	[***]
72	[***]	[***]
73	[***]	[***]
74	[***]	[***]
75	[***]	[***]
76	[***]	[***]
77	[***]	[***]
78	[***]	[***]
79	[***]	[***]
80	[***]	[***]

9.1.1.3 Each period set out in Clauses 9.1.1.1 and 9.1.1.2 above shall be, with respect to the corresponding Aircraft, the “**Scheduled Delivery Period**”.

The Seller shall advise the Buyer by means of a written notice no later [***] months prior to the first month of such Scheduled Delivery Period of an Aircraft within which month of such Scheduled Delivery Period the Seller shall have such Aircraft Ready for Delivery at the Delivery Location. Such months shall be, with respect to such Aircraft, the "**Scheduled Delivery Month**". Until such notification, and for the purposes of this Agreement, including specifically Clause 5 hereof, (i) the [***] of such Scheduled Delivery Period shall be deemed to be the Scheduled Delivery Month of such Aircraft when such Scheduled Delivery Period is [***], and (ii) the [***] of such Scheduled Delivery Period shall be deemed to be the Scheduled Delivery Month of such Aircraft when such Scheduled Delivery Period is a year.

With regard to the NEO Aircraft scheduled for delivery in [***], the respective Scheduled Delivery Periods quoted above remain subject to the Seller’s industrial constraints regarding the availability and certification of the Propulsion Systems selected by the Buyer.

9.1.2 The Seller shall give the Buyer at least [***] days prior written notice of the anticipated date on which the Aircraft shall be Ready for Delivery. Thereafter the Seller shall notify the Buyer of any change in such date necessitated by the conditions of manufacture or flight.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 9.2

Delivery
- 9.2.1

The Buyer shall, within [***] days after the date on which the Aircraft is Ready for Delivery, sign the Certificate of Acceptance, pay the Balance of the Final Price and send its representatives to the Delivery Location to take Delivery of, and collect, the Aircraft.
- 9.2.2

The Seller shall deliver and transfer title to the Aircraft free and clear of all encumbrances to the Buyer provided that the Balance of the Final Price has been paid by the Buyer pursuant to Clause 5.4 and that the Certificate of Acceptance has been signed and delivered to the Seller pursuant to Clause 8.3. The Seller shall provide the Buyer with a bill of sale in the form of Exhibit E (the "**Bill of Sale**") and/or such other documentation confirming transfer of title and receipt of the Final Price as may reasonably be requested by the Buyer. Title to, property in and risk of loss of or damage to the Aircraft shall be transferred to the Buyer on Delivery.
- 9.2.3.1

Should the Buyer fail, within the period specified in Clause 9.2.1, to:

(i)

deliver the signed Certificate of Acceptance to the Seller; or

(ii)

pay the Balance of the Final Price for the Aircraft to the Seller and take Delivery of the Aircraft;

then the Buyer shall be deemed to have rejected delivery of the Aircraft without warrant when duly tendered to it hereunder. Without prejudice to Clause 5.7 and the Seller’s other rights under this Agreement or at law (a) the Seller shall retain title to the Aircraft and (b) the Buyer shall bear all risk of loss of or damage to the Aircraft and shall indemnify and hold the Seller harmless against any and all costs (including but not limited to any parking, storage, and insurance costs) and consequences resulting from such failure, it being understood that the Seller shall be under no duty towards the Buyer to store, park, insure, or otherwise protect the Aircraft.
- 9.2.3.2

Should the Buyer fail to collect the Aircraft as mentioned in Clause 9.2.1 above and without prejudice to the Seller’s other rights under this Agreement or at law, the provisions of Clause 9.2.3.1 (b) shall apply.
- 9.3

Fly Away
- 9.3.1

The Buyer and the Seller shall co-operate to obtain any licenses which may be required by the Aviation Authority of the Delivery Location for the purpose of exporting the Aircraft.
- 9.3.2

All expenses of, or connected with, flying the Aircraft from the Delivery Location after Delivery shall be borne by the Buyer. The Buyer shall make direct arrangements with the supplying companies for the fuel and oil required for all post-Delivery flights.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

10 **EXCUSABLE DELAY**

10.1 The Buyer acknowledges that the Aircraft are to be manufactured by Seller in performance of this Agreement and that the Scheduled Delivery Months are based on the assumption that there shall be no delay due to causes beyond the control of the Seller. Accordingly, Seller shall not be responsible for any delay in the Delivery of the Aircraft or delay or interruption in the performance of the other obligations of the Seller hereunder due to causes beyond its control, and not occasioned by its fault or negligence including (but without limitation) acts of God or the public enemy, war, civil war, warlike operations, terrorism, insurrections or riots, fires, explosions, natural disasters, compliance with any applicable foreign or domestic governmental regulation or order, labour disputes causing cessation, slowdown or interruption of work, inability after due and timely diligence to procure materials, equipment or parts, general hindrance in transportation or failure of a sub-contractor or supplier to furnish materials, equipment or parts. Any delay or interruption resulting from any of the foregoing causes is referred to as an **"Excusable Delay"**.

- 10.2 If an Excusable Delay occurs:
- (i) the Seller shall notify the Buyer of such Excusable Delay as soon as practicable after becoming aware of the same;
 - (ii) the Seller shall not be responsible for any damages arising from or in connection with such Excusable Delay suffered or incurred by the Buyer;
 - (iii) the Seller shall not be deemed to be in default in the performance of its obligations hereunder as a result of such Excusable Delay; and
 - (iv) the Seller shall as soon as practicable after the removal of the cause of the delay resume performance of its obligations under this Agreement and in particular shall notify to the Buyer the revised Scheduled Delivery Month.

10.3 **Termination on Excusable Delay**

10.3.1 If the Delivery of any Aircraft is delayed as a result of an Excusable Delay for a period of more than [***] months after the last day of the Scheduled Delivery Month then either party may terminate this Agreement with respect to the Aircraft so affected by giving written notice to the other party within [***] days after the expiry of such [***] month period provided that the Buyer shall not be entitled to terminate this Agreement pursuant to this Clause if the Excusable Delay results from a cause within its control.

10.3.2 If the Seller concludes that the Delivery of any Aircraft shall be delayed for more than [***] months after the last day of the Scheduled Delivery Month due to an Excusable Delay and as a result thereof reschedules Delivery of such Aircraft to a date or month reflecting such delay then the Seller shall promptly notify the Buyer in writing to this effect and shall include in such notification the new Scheduled Delivery Month. Either party may thereupon terminate this Agreement with respect to such Aircraft by giving written notice to the other party within [***] days after receipt by the Buyer of the notice of anticipated delay.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

10.3.3 If this Agreement shall not have been terminated with respect to the delayed Aircraft during the [***] day period referred to in either Clause 10.3.1 or 10.3.2 above, then the Seller shall be entitled to reschedule Delivery and the new Scheduled Delivery Month shall be notified to the Buyer and shall be binding on the parties.

10.4 **Total Loss, Destruction or Damage**

If prior to Delivery, any Aircraft is lost, destroyed or in the reasonable opinion of the Seller is damaged beyond repair (“**Total Loss**”), the Seller shall notify the Buyer to this effect within [***] of such occurrence. The Seller shall include in said notification (or as soon after the issue of the notice as such information becomes available to the Seller) the earliest date consistent with the Seller's other commitments and production capabilities that an aircraft to replace the Aircraft may be delivered to the Buyer and the Scheduled Delivery Month shall be extended as specified in the Seller's notice to accommodate the delivery of the replacement aircraft ; provided, however, that in the event the specified extension of the Scheduled Delivery Month to a month is exceeding [***] months after the last day of the original Scheduled Delivery Month then this Agreement shall terminate with respect to said Aircraft unless:

- (i) the Buyer notifies the Seller within [***] of the date of receipt of the Seller's notice that it desires the Seller to provide a replacement aircraft during the month quoted in the Seller’s notice; and
- (ii) the parties execute an amendment to this Agreement recording the variation in the Scheduled Delivery Month;

provided, however, that nothing herein shall require the Seller to manufacture and deliver a replacement aircraft if such manufacture would require the reactivation of its production line for the model or series of aircraft which includes the Aircraft purchased hereunder.

10.5 **Termination Rights Exclusive**

In the event that this Agreement shall be terminated as provided for under the terms of Clauses 10.3 or 10.4, such termination shall discharge all obligations and liabilities of the parties hereunder with respect to such affected Aircraft and undelivered material, services, data or other items applicable thereto and to be furnished hereunder and neither party shall have any claim against the other for any loss resulting from such non-delivery. The Seller shall in no circumstances have any liability whatsoever for Excusable Delay other than as set forth in this Clause 10.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

11 **NON-EXCUSABLE DELAY**

11.1 **Liquidated Damages**

Should any of the Aircraft not be Ready for Delivery to the Buyer within (a) [***] after the last day of the Scheduled Delivery Month (as varied by virtue of Clauses 2, 7 and 10) for CEO Aircraft and (b) [***] after the last day of the Scheduled Delivery Month (as varied by virtue of Clauses 2, 7 and 10) for NEO Aircraft (the "**Delivery Period**") and such delay is not as a result of an Excusable Delay or Total Loss (a "**Non-Excusable Delay**"), then the Buyer shall have the right to claim, and the Seller shall pay by way of liquidated damages to the Buyer [***] commencing on the date falling (a) [***] after the last day of the Scheduled Delivery Month for CEO Aircraft and (b) [***] after the last day of the Scheduled Delivery Month for NEO Aircraft .

The amount of such liquidated damages shall in no event exceed the total of [***] in respect of any one Aircraft.

The Buyer's right to be paid damages in respect of the Aircraft is conditional upon the Buyer submitting a claim in respect of such liquidated damages in writing to the Seller not later than [***] after the last day of the Scheduled Delivery Month.

11.2 **Re-negotiation**

If, as a result of Non-Excusable Delay, Delivery does not occur in the period falling [***] after the Delivery Period, the Buyer shall have the right exercisable by written notice to the Seller given not less than [***] nor more than [***] after the expiration of the [***] falling after the Delivery Period to require from the Seller a re-negotiation of the Scheduled Delivery Month for the affected Aircraft. Unless otherwise agreed between the Seller and the Buyer during such re-negotiation, the said re-negotiation shall not prejudice the Buyer's right to receive liquidated damages in accordance with Clause 11.1 during the period of Non-Excusable Delay.

11.3 **Termination**

If, as a result of Non-Excusable Delay, Delivery does not occur in the period falling [***] after the Delivery Period and the parties have not renegotiated the Scheduled Delivery Month pursuant to Clause 11.2, either party shall have the right exercisable by written notice to the other party, given not less [***] nor more than [***] after expiration of such [***] to terminate this Agreement in respect of the affected Aircraft and neither party shall have any claim against the other in respect of such non delivery except that the Seller shall pay to the Buyer an amount equal to the Predelivery Payments received from the Buyer hereunder in respect of such affected Aircraft and shall pay to the Buyer any amounts due pursuant to Clause 11.1.

11.4 **Limitation of Damages**

The Buyer and the Seller agree that payment by the Seller of the amounts due pursuant to Clause 11.1 shall be considered to be liquidated damages and have been calculated to compensate the Buyer for its entire damages for all losses of any kind due to Non-Excusable Delay. The Seller shall not in any circumstances have any liability whatsoever for Non-Excusable Delay other than as set forth in this Clause 11.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12 **WARRANTIES AND SERVICE LIFE POLICY**

This Clause covers the terms and conditions of the warranty and service life policy.

12.1 **Standard Warranty**

12.1.1 **Nature of Warranty**

For the purpose of this Agreement the term "**Warranted Part**" shall mean any Seller proprietary component, equipment, accessory or part, which is installed on an Aircraft at Delivery thereof and

- (a) which is manufactured to the detailed design of the Seller or a subcontractor of the Seller and
- (b) which bears a part number of the Seller at the time of such Delivery.

Subject to the conditions and limitations as hereinafter provided for and except as provided for in Clause 12.1.2, the Seller warrants to the Buyer that each Aircraft and each Warranted Part shall at Delivery to the Buyer be free from defects:

- (i) in material;
- (ii) in workmanship, including without limitation processes of manufacture;
- (iii) in design (including without limitation the selection of materials) having regard to the state of the art at the date of such design; and
- (iv) arising from failure to conform to the Specification, except to those portions of the Specification relating to performance or where it is expressly stated that they are estimates, approximations or design aims.

12.1.2 **Exclusions**

The warranties set forth in Clause 12.1.1 shall not apply to Buyer Furnished Equipment, nor to the Propulsion Systems, nor to any component, equipment, accessory or part installed on the Aircraft at Delivery that is not a Warranted Part except that:

- (i) any defect in the Seller's workmanship in respect of the installation of such items in the Aircraft, including any failure by the Seller to conform to the installation instructions of the manufacturers of such items, that invalidates any applicable warranty from such manufacturers, shall constitute a defect in workmanship for the purpose of this Clause 12.1 and be covered by the warranty set forth in Clause 12.1.1 (ii); and
- (ii) any defect inherent in the Seller's design of the installation, in consideration of the state of the art at the date of such design, which impairs the use of such items, shall constitute a defect in design for the purpose of this Clause 12.1 and be covered by the warranty set forth in Clause 12.1.1 (iii).

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.1.3 **Warranty Period**

The warranties set forth in Clauses 12.1.1 and 12.1.2 shall be limited to those defects that become apparent within [***] months after Delivery of the affected Aircraft (the “**Warranty Period**”).

12.1.4 **Buyer's Remedy and Seller's Obligation**

12.1.4.1 The Buyer's remedy and the Seller's obligation and liability under Clauses 12.1.1 and 12.1.2 are limited to, at the Seller’s expense and option, the repair, replacement or correction of any Warranted Part which is defective (or to the supply of modification kits rectifying the defect), together with a credit to the Buyer's account with the Seller of an amount equal to the mutually agreed direct labor costs expended in performing the removal and the reinstallation thereof on the Aircraft at the labor rate defined in Clause 12.1.7.5.

The Seller may alternatively furnish to the Buyer’s account with the Seller a credit equal to the price at which the Buyer is entitled to purchase a replacement for the defective Warranted Part.

12.1.4.2 In the event of a defect covered by Clauses 12.1.1 (iii), 12.1.1 (iv) and 12.1.2 (ii) becoming apparent within the Warranty Period, the Seller shall also, if so requested by the Buyer in writing, correct such defect in any Aircraft which has not yet been delivered to the Buyer, provided, however,

- (i) that the Seller shall not be responsible, nor deemed to be in default on account of any delay in Delivery of any Aircraft or otherwise in respect of the performance of this Agreement, due to the Seller's undertaking to make such correction and provided further
- (ii) that, rather than accept a delay in the Delivery of any such Aircraft, the Buyer and the Seller may agree to deliver such Aircraft with subsequent correction of the defect by the Buyer at the Seller's expense, or the Buyer may elect to accept Delivery and thereafter file a Warranty Claim as though the defect had become apparent immediately after Delivery of such Aircraft.

12.1.4.3 Cost of inspection

In addition to the remedies set forth in Clauses 12.1.4.1 and 12.1.4.2, the Seller shall reimburse the direct labor costs incurred by the Buyer in performing inspections of the Aircraft to determine whether or not a defect exists in any Warranted Part within the Warranty Period subject to the following conditions:

- (i) such inspections are recommended by a Seller Service Bulletin to be performed within the Warranty Period;
- (ii) the reimbursement shall not apply for any inspections performed as an alternative to accomplishing corrective action as recommended by the Seller when such corrective action has been made available to the Buyer and such corrective action could have reasonably been accomplished by the Buyer at the time such inspections are performed or earlier,

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

- (iii) the labor rate for the reimbursement shall be the labor rate defined in Clause 12.1.7.5, and
- (iv) the manhours used to determine such reimbursement shall not exceed the Seller's estimate of the manhours required for such inspections.

12.1.5 **Warranty Claim Requirements**

The Buyer’s remedy and the Seller’s obligation and liability under this Clause 12.1, with respect to any warranty claim submitted by the Buyer (each a “Warranty Claim”) are subject to the following conditions:

- (i) the defect having become apparent within the Warranty Period;
- (ii) the Buyer having filed a warranty claim within [***] days of discovering the defect;
- (iii) the Buyer having submitted to the Seller evidence reasonably satisfactory to the Seller that the claimed defect is due to a matter embraced within this Clause 12.1 and that such defect has not resulted from any act or omission of the Buyer, including but not limited to, any failure to operate and maintain the affected Aircraft or part thereof in accordance with the standards set forth in Clause 12.1.10 or from any act or omission of any third party;
- (iv) the Seller having received a Warranty Claim complying with the provisions of Clause 12.1.6 below.

12.1.6 **Warranty Administration**

The warranties set forth in Clause 12.1 shall be administered as hereinafter provided for:

12.1.6.1 Claim Determination

Determination as to whether any claimed defect in any Warranted Part is a valid Warranty Claim shall be made by the Seller and shall be based upon the claim details, reports from the Seller's Representatives, historical data logs, inspections, tests, findings during repair, defect analysis and other relevant documents.

12.1.6.2 Transportation Costs

The cost of transporting a Warranted Part claimed to be defective to the facilities designated by the Seller and for the return therefrom of a repaired or replaced Warranted Part shall be borne by the Buyer.

12.1.6.3 Return of an Aircraft

If the Buyer and the Seller mutually agree, prior to such return, that it is necessary to return an Aircraft to the Seller for consideration of a Warranty Claim, the Seller shall bear the direct costs of fuel and landing fees to and from the Seller’s facilities for such return of the Aircraft. The Buyer shall make its reasonable efforts to minimize the duration of the corresponding flights.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.1.6.4 On Aircraft Work by the Seller

If the Seller determines that a defect subject to this Clause 12.1 justifies the dispatch by the Seller of a working team to repair or correct such defect through the embodiment of one or several Seller's Service Bulletins at the Buyer's facilities, or if the Seller accepts the return of an Aircraft to perform or have performed such repair or correction, then the labor costs for such on-Aircraft work shall be borne by the Seller.

The condition which has to be fulfilled for on-Aircraft work by the Seller is that, in the opinion of the Seller, the work necessitates the technical expertise of the Seller as manufacturer of the Aircraft.

If said condition is fulfilled and if the Seller is requested to perform the work, the Seller and the Buyer shall agree on a schedule and place for the work to be performed.

12.1.6.5 Warranty Claim Substantiation

Each Warranty Claim filed by the Buyer under this Clause 12.1 shall contain at least the following data:

- a) description of defect and action taken, if any,
- b) date of incident and/or removal date,
- c) description of Warranted Part claimed to be defective,
- d) part number,
- e) serial number (if applicable),
- f) position on Aircraft,
- g) total flying hours or calendar time, as applicable, at the date of defect appearance,
- h) time since last shop visit at the date of defect appearance,
- i) Manufacturer Serial Number of the Aircraft and/or its registration,
- j) Aircraft total flying hours and/or number of landings at the date of defect appearance,
- k) Warranty Claim number,
- l) date of Warranty Claim,
- m) Delivery Date of Aircraft or Warranted Part to the Buyer,

Warranty Claims are to be addressed as follows:

AIRBUS
CUSTOMER SERVICES DIRECTORATE
WARRANTY ADMINISTRATION
Rond Point Maurice Bellonte
B.P. 33
F 31707 BLAGNAC CEDEX
FRANCE

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.1.6.6 Replacements

Title to and risk of loss of any Aircraft, component, accessory, equipment or part returned by the Buyer to the Seller shall at all times remain with the Buyer, except that:

- (i) risk of loss (limited to cost of replacement and excluding in particular loss of use) shall be with the Seller for as long as such Aircraft, component, accessory, equipment or part shall be under the care, custody and control of the Seller and;
- (ii) title to and risk of loss of a returned component, accessory, equipment or part shall pass to the Seller upon shipment by the Seller to the Buyer of any item furnished by the Seller to the Buyer as a replacement therefor.

Upon the Seller's shipment to the Buyer of any replacement component, accessory, equipment or part provided by the Seller pursuant to this Clause 12.1, title to and risk of loss of such replacement component, accessory, equipment or part shall pass to the Buyer.

12.1.6.7 Rejection

The Seller shall provide reasonable written substantiation in case of rejection of a Warranty Claim. In such event the Buyer shall refund to the Seller reasonable inspection and test charges incurred in connection therewith.

12.1.6.8 Inspection

The Seller shall have the right to inspect the affected Aircraft, documents and other records relating thereto in the event of any Warranty Claim under this Clause 12.1.

12.1.7 **Inhouse Warranty**

12.1.7.1 Seller’s Authorization

The Seller hereby authorizes the Buyer to repair Warranted Parts (“**Inhouse Warranty**”) subject to the terms of this Clause 12.1.7.

12.1.7.2 Conditions for Seller's Authorization

The Buyer shall be entitled to repair such Warranted Parts:

- (i) provided the Buyer notifies the Seller Representative of its intention to perform Inhouse Warranty repairs before any such repairs are started where the estimated cost of such repair is in excess of [***]. The Buyer’s notification shall include sufficient detail regarding the defect, estimated labor hours and material to allow the Seller to ascertain the reasonableness of the estimate. The Seller agrees to use all reasonable efforts to ensure a prompt response and shall not unreasonably withhold authorization;
- (ii) provided adequate facilities and qualified personnel are available to the Buyer;
- (iii) provided repairs are performed in accordance with the Seller's Technical Data or written instructions; and

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

(iii) only to the extent specified by the Seller, or, in the absence of such specification, to the extent reasonably necessary to correct the defect, in accordance with the standards set forth in Clause 12.1.10.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.1.7.3 Seller’s Rights

The Seller shall have the right to require the return of any Warranted Part, or any part removed therefrom, which is claimed to be defective if, in the judgment of the Seller, the nature of the claimed defect requires technical investigation. Such return shall be subject to the provisions of Clause 12.1.6.2. Furthermore, the Seller shall have the right to have a Seller Representative present during the disassembly, inspection and testing of any Warranted Part claimed to be defective, subject to such presence being practical and not unduly delaying the repair.

12.1.7.4 Inhouse Warranty Claim Substantiation

Claims for Inhouse Warranty credit shall be filed within the time period set forth in 12.1.5 (ii) and shall contain the same information as that required for Warranty Claims under Clause 12.1.6.5 and in addition shall include:

- a) a report of technical findings with respect to the defect,
- b) for parts required to remedy the defect:
 - part numbers,
 - serial numbers (if applicable),
 - parts description,
 - quantity of parts,
 - unit price of parts,
 - related Seller's or third party's invoices (if applicable),
 - total price of parts,
- c) detailed number of labor hours,
- d) Inhouse Warranty Labor Rate,
- e) total claim value.

12.1.7.5 Credit

The Buyer's sole remedy and the Seller’s sole obligation and liability with respect to Inhouse Warranty Claims shall be the credit to the Buyer’s account of an amount equal to the mutually agreed direct labor costs expended in performing the repair of a Warranted Part and to the direct costs of materials incorporated in said repair, determined as set forth below:

- (a) to determine direct labor costs, only manhours spent on removal from the Aircraft, disassembly, inspection, repair, reassembly, final inspection and test of the Warranted Part and reinstallation thereof on the Aircraft shall be counted. Any manhours required for maintenance work concurrently being carried out on the Aircraft or the Warranted Part shall not be included.
- (b) The manhours counted as set forth above shall be multiplied by an agreed labor rate of [***] (“**Inhouse Warranty Labour Rate**”), which is deemed to represent the Buyer’s composite labor rate meaning the average hourly rate (excluding all fringe benefits, premium time allowances, social security charges, business taxes and the like) paid to the Buyer’s employees whose jobs are directly related to the performance of the repair.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

The Inhouse Warranty Labor Rate is subject to annual adjustment by multiplication by the ratio [***]. For the purposes of this Clause 12.1.7.5 only, [***] defined in the Seller’s Price Revision Formula set forth in Exhibit C to the Agreement.

- (c) Direct material costs are determined by the prices at which the Buyer acquired such material, excluding any parts and materials used for overhaul and as may be furnished by the Seller at no charge.

12.1.7.6 Limitation

The Buyer shall in no event be credited for repair costs (including labor and material) for any Warranted Part in excess of [***] of the Seller’s current catalogue price for a replacement of such defective Warranted Part.

12.1.7.7 Scrapped Material

The Buyer shall retain any defective Warranted Part beyond economic repair and any defective part removed from a Warranted Part during repair for a period of either [***] after the date of completion of the repair or [***] days after submission of a claim for Inhouse Warranty credit relating thereto, whichever is longer. Such parts shall be returned to the Seller within [***] days of receipt of the Seller's request to that effect.

Notwithstanding the foregoing, the Buyer may scrap any such defective parts, which are beyond economic repair and not required for technical evaluation locally, with the agreement of the Seller Representative(s).

Scrapped Warranted Parts shall be evidenced by a record of scrapped material certified by an authorized representative of the Buyer and shall be kept in the Buyer’s file for a least the duration of the applicable Warranty Period.

12.1.8 **Standard Warranty in case of Pooling or Leasing Arrangements**

Without prejudice to Clause 21.1, the warranties provided for in this Clause 12.1 for any Warranted Part shall accrue to the benefit of any airline in revenue service, other than the Buyer, if the Warranted Part enters into the possession of any such airline as a result of a pooling or leasing agreement between such airline and the Buyer, in accordance with the terms and subject to the limitations and exclusions of the foregoing warranties and to the extent permitted by any applicable law or regulations.

12.1.9 **Warranty for Corrected, Replaced or Repaired Warranted Parts**

Whenever any Warranted Part, which contains a defect for which the Seller is liable under Clause 12.1, has been corrected, replaced or repaired pursuant to the terms of this Clause 12.1, the period of the Seller's warranty with respect to such corrected, repaired or replacement Warranted Part, whichever the case may be, shall be the remaining portion of the original warranty or [***], whichever is longer.

If a defect is attributable to a defective repair or replacement by the Buyer, a Warranty Claim with respect to such defect shall be rejected, notwithstanding any subsequent correction or repair, and shall immediately terminate the remaining warranties under this Clause 12.1 in respect of the affected Warranted Part.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

12.1.10 **Accepted Industry Standard Practices - Normal Wear and Tear**

The Buyer's rights under this Clause 12.1 are subject to the Aircraft and each component, equipment, accessory and part thereof being maintained, overhauled, repaired and operated in accordance with accepted industry standard practices, all Technical Data and any other instructions issued by the Seller, the Suppliers and the Propulsion Systems Manufacturer and all applicable rules, regulations and directives of the relevant Aviation Authorities.

The Seller's liability under this Clause 12.1 shall not extend to normal wear and tear nor to:

- (i) any Aircraft or component, equipment, accessory or part thereof, which has been repaired, altered or modified after Delivery, except by the Seller or in a manner approved by the Seller;
- (ii) any Aircraft or component, equipment, accessory or part thereof, which has been operated in a damaged state;
- (iii) any component, equipment, accessory and part from which the trademark, name, part or serial number or other identification marks have been removed.

12.1.11 **Limitation of liability**

THE SELLER SHALL NOT BE LIABLE FOR, AND THE BUYER SHALL INDEMNIFY THE SELLER AGAINST, ANY CLAIMS FROM ANY THIRD PARTIES FOR LOSSES DUE TO ANY DEFECT OR NON-CONFORMITY OF ANY KIND, ARISING OUT OF OR IN CONNECTION WITH ANY REPAIR OF ANY WARRANTED PART UNDERTAKEN BY THE BUYER UNDER THIS CLAUSE 12.1 OR ANY OTHER ACTIONS UNDERTAKEN BY THE BUYER UNDER THIS CLAUSE 12, WHETHER SUCH CLAIM IS ASSERTED IN CONTRACT OR IN TORT, OR IS PREMISED ON ALLEGED, ACTUAL, IMPUTED, ORDINARY OR INTENTIONAL ACTS OR OMISSIONS OF THE BUYER.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

12.2	Seller Service Life Policy
12.2.1	<p>In addition to the warranties set forth in Clause 12.1, the Seller further agrees that should a Failure occur in any Item (as these terms are defined herebelow) that has not suffered from an extrinsic force, then, subject to the general conditions and limitations set forth in Clause 12.2.4, the provisions of this Clause 12.2 shall apply.</p> <p>For the purposes of this Clause 12.2:</p> <ul style="list-style-type: none">(i) "Item" means any item listed in Exhibit F;(ii) "Failure" means a breakage or defect that can reasonably be expected to occur on a fleetwide basis and which materially impairs the utility of the Item.
12.2.2	<p>Periods and Seller's Undertakings</p> <p>The Seller agrees that if a Failure occurs in an Item before the Aircraft in which such Item was originally installed has completed [***] flying hours [***] flight cycles or within [***] years after the Delivery of said Aircraft, whichever shall first occur, the Seller shall, at its discretion and as promptly as practicable and with the Seller's financial participation as hereinafter provided, either:</p> <ul style="list-style-type: none">(i) design and furnish to the Buyer a correction for such Item with a Failure and provide any parts required for such correction (including Seller designed standard parts but excluding industry standard parts), or(ii) replace such Item.
12.2.3	<p>Seller's Participation in the Costs</p> <p>Subject to the general conditions and limitations set forth in Clause 12.2.4, any part or Item that the Seller is required to furnish to the Buyer under this Service Life Policy in connection with the correction or replacement of an Item shall be furnished to the Buyer at the Seller's then current sales price therefore, less the Seller's financial participation determined in accordance with the following formula:</p> <p>[***]</p>
12.2.4	<p>General Conditions and Limitations</p>
12.2.4.1	<p>The undertakings set forth in this Clause 12.2 shall be valid after the period of the Seller's warranty applicable to an Item under Clause 12.1.</p>
12.2.4.2	<p>The Buyer's remedies and the Seller's obligations and liabilities under this Service Life Policy are subject to the prior compliance by the Buyer with the following conditions:</p> <ul style="list-style-type: none">(i) the Buyer shall maintain log books and other historical records with respect to each Item, adequate to enable the Seller to determine whether the alleged Failure is covered by this Service Life Policy and, if so, to define the portion of the costs to be borne by the Seller in accordance with Clause 12.2.3;

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- (ii) the Buyer shall keep the Seller informed of any significant incidents relating to an Aircraft, howsoever occurring or recorded;
- (iii) the Buyer shall comply with the conditions of Clause 12.1.10;
- (iv) the Buyer shall implement specific structural inspection programs for monitoring purposes as may be established from time to time by the Seller. Such programs shall be as compatible as possible with the Buyer's operational requirements and shall be carried out at the Buyer's expense. Reports relating thereto shall be regularly furnished to the Seller;
- (v) the Buyer shall report any breakage or defect in a Item in writing to the Seller within [***] after such breakage or defect becomes apparent, whether or not said breakage or defect can reasonably be expected to occur in any other aircraft, and the Buyer shall have provided to the Seller sufficient detail on the breakage or defect to enable the Seller to determine whether said breakage or defect is subject to this Service Life Policy.

12.2.4.3 Except as otherwise provided for in this Clause 12.2, any claim under this Service Life Policy shall be administered as provided for in, and shall be subject to the terms and conditions of, Clause 12.1.6.

12.2.4.4 In the event of the Seller having issued a modification applicable to an Aircraft, the purpose of which is to avoid a Failure, the Seller may elect to supply the necessary modification kit free of charge or under a pro rata formula. If such a kit is so offered to the Buyer, then, to the extent of such Failure and any Failures that could ensue therefrom, the validity of the Seller's commitment under this Clause 12.2 shall be subject to the Buyer incorporating such modification in the relevant Aircraft, as promulgated by the Seller and in accordance with the Seller's instructions, within a reasonable time.

12.2.4.5 This Service Life Policy is neither a warranty, performance guarantee, nor an agreement to modify any Aircraft or Airframe components to conform to new developments occurring in the state of airframe design and manufacturing art.

The Seller's obligation hereunder is to furnish only those corrections to the Items or provide replacements therefor as provided for in this Clause 12.2.

The Buyer's sole remedy and relief for the non-performance of any obligation or liability of the Seller arising under or by virtue of this Service Life Policy shall be in the form of a credit, limited to the amount the Buyer reasonably expends in procuring a correction or replacement for any Item that is the subject of a Failure covered by this Service Life Policy and to which such non-performance is related.

The Buyer hereby waives, releases and renounces all claims to any further damages, direct, incidental or consequential, including loss of profits and all other rights, claims and remedies, arising under or by virtue of this Service Life Policy.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.3 Supplier Warranties and Service Life Policies

Prior to/at Delivery of the first Aircraft, the Seller shall provide the Buyer, in accordance with the provisions of Clause 17, with the warranties and, where applicable, service life policies that the Seller has obtained for Supplier Parts pursuant to the Supplier Product Support Agreements.

12.3.1 Definitions

12.3.1.1 “Supplier” means any supplier of Supplier Parts.

12.3.1.2 “Supplier Part” means any component, equipment, accessory or part installed in an Aircraft at the time of Delivery thereof and for which there exists a Supplier Product Support Agreement. For the sake of clarity, Propulsion Systems and Buyer Furnished Equipment and other equipment selected by the Buyer to be supplied by suppliers with whom the Seller has no existing enforceable warranty agreements are not Supplier Parts.

12.3.1.3 “Supplier Product Support Agreements” means agreements between the Seller and Suppliers, as described in Clause 17.1.2, containing enforceable and transferable warranties and, in the case of landing gear suppliers, service life policies for selected structural landing gear elements.

12.3.2 Supplier's Default

12.3.2.1 In the event of any Supplier, under any standard warranty obtained by the Seller pursuant to Clause 12.3.1, defaulting in the performance of any material obligation with respect thereto and the Buyer submitting in reasonable time to the Seller reasonable proof that such default has occurred, then Clause 12.1 shall apply to the extent the same would have been applicable had such Supplier Part been a Warranted Part, except that the Supplier's warranty period as indicated in the Supplier Product Support Agreement shall apply.

12.3.2.2 In the event of any Supplier, under any Supplier Service Life Policy obtained by the Seller pursuant to Clause 12.3.1, defaulting in the performance of any material obligation with respect thereto and the Buyer submitting in reasonable time to the Seller reasonable proof that such default has occurred, then Clause 12.2 shall apply to the extent the same would have been applicable had such Supplier Item been listed in Exhibit F, Seller Service Life Policy, except that the Supplier's Service Life Policy period as indicated in the Supplier Product Support Agreement shall apply.

12.3.2.3 At the Seller's request, the Buyer shall assign to the Seller, and the Seller shall be subrogated to, all of the Buyer's rights against the relevant Supplier with respect to and arising by reason of such default and shall provide reasonable assistance to enable the Seller to enforce the rights so assigned.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.4 **Interface Commitment**

12.4.1 **Interface Problem**

If the Buyer experiences any technical problem in the operation of an Aircraft or its systems due to a malfunction, the cause of which, after due and reasonable investigation, is not readily identifiable by the Buyer but which the Buyer reasonably believes to be attributable to the design characteristics of one or more components of the Aircraft ("**Interface Problem**"), the Seller shall, if so requested by the Buyer, and without additional charge to the Buyer except for transportation of the Seller's personnel to the Buyer's facilities, promptly conduct or have conducted an investigation and analysis of such problem to determine, if possible, the cause or causes of the problem and to recommend such corrective action as may be feasible. The Buyer shall furnish to the Seller all data and information in the Buyer's possession relevant to the Interface Problem and shall cooperate with the Seller in the conduct of the Seller's investigations and such tests as may be required.

At the conclusion of such investigation, the Seller shall promptly advise the Buyer in writing of the Seller's opinion as to the cause or causes of the Interface Problem and the Seller's recommendations as to corrective action.

12.4.2 **Seller's Responsibility**

If the Seller determines that the Interface Problem is primarily attributable to the design of a Warranted Part, the Seller shall, if so requested by the Buyer and pursuant to the terms and conditions of Clause 12.1, correct the design of such Warranted Part to the extent of the Seller's obligation as defined in Clause 12.1.

12.4.3 **Supplier's Responsibility**

If the Seller determines that the Interface Problem is primarily attributable to the design of any Supplier Part, the Seller shall, if so requested by the Buyer, reasonably assist the Buyer in processing any warranty claim the Buyer may have against the Supplier.

12.4.4 **Joint Responsibility**

If the Seller determines that the Interface Problem is attributable partially to the design of a Warranted Part and partially to the design of any Supplier Part, the Seller shall, if so requested by the Buyer, seek a solution to the Interface Problem through cooperative efforts of the Seller and any Supplier involved.

The Seller shall promptly advise the Buyer of such corrective action as may be proposed by the Seller and any such Supplier. Such proposal shall be consistent with any then existing obligations of the Seller hereunder and of any such Supplier towards the Buyer. Such corrective action, when accepted by the Buyer, shall constitute full satisfaction of any claim the Buyer may have against either the Seller or any such Supplier with respect to such Interface Problem.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

- 12.4.5

General
- 12.4.5.1

All requests under this Clause 12.4 shall be directed to both the Seller and the Supplier.
- 12.4.5.2

Except as specifically set forth in this Clause 12.4, this Clause shall not be deemed to impose on the Seller any obligations not expressly set forth elsewhere in this Clause 12.
- 12.4.5.3

All reports, recommendations, data and other documents furnished by the Seller to the Buyer pursuant to this Clause 12.4 shall be deemed to be delivered under this Agreement and shall be subject to the terms, covenants and conditions set forth in this Clause 12.
- 12.5

Waiver, Release and Renunciation

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER (AS DEFINED BELOW FOR THE PURPOSES OF THIS CLAUSE) AND REMEDIES OF THE BUYER SET FORTH IN THIS CLAUSE 12 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW, CONTRACT OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT OF ANY KIND, IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICES DELIVERED UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

- A. ANY WARRANTY AGAINST HIDDEN DEFECTS;
- B. ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- C. ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OR TRADE;
- D. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER IN CONTRACT OR IN TORT, WHETHER OR NOT ARISING FROM THE SELLER’S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- E. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM, OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICES DELIVERED UNDER THIS AGREEMENT, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES,

PROVIDED THAT IN THE EVENT THAT ANY OF THE AFORESAID PROVISIONS SHOULD FOR ANY REASON BE HELD UNLAWFUL OR OTHERWISE INEFFECTIVE THE REMAINDER OF THIS AGREEMENT SHALL REMAIN IN FULL FORCE AND EFFECT.

FOR THE PURPOSES OF THIS CLAUSE 12.5, THE “SELLER” SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS, SUBCONTRACTORS AND AFFILIATES.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

12.6 Duplicate Remedies

The Seller shall not be obliged to provide any remedy that duplicates any other remedy available to the Buyer in respect of the same defect under Clauses 12.1 and 12.2 as such Clauses may be amended, complemented or supplemented by other contractual agreements or by other Clauses of this Agreement.

12.7 Negotiated Agreement

The Buyer specifically recognizes that:

- (i) the Specification has been agreed upon after careful consideration by the Buyer using its judgment as a professional operator of aircraft;
- (ii) this Agreement, and in particular this Clause 12, has been the subject of discussion and negotiation and is fully understood by the Buyer; and
- (iii) the price of the Aircraft and the other mutual agreements of the Buyer set forth in this Agreement were arrived at in consideration of, inter alia, the provisions of this Clause 12, specifically including the waiver, release and renunciation by the Buyer set forth in Clause 12.5.

12.8 Disclosure to Third Party Entity

In the event of the Buyer intending to designate a third party entity (a “**Third Party Entity**”) to administrate this Clause 12, the Buyer shall notify the Seller of such intention prior to any disclosure of this Clause to the selected Third Party Entity and shall cause such Third Party Entity to enter into a confidentiality agreement and or any other relevant documentation with the Seller solely for the purpose of administrating this Clause 12.

12.9 Transferability

Without prejudice to Clause 21.1, the Buyer's rights under this Clause 12 may not be assigned, sold, transferred, novated or otherwise alienated by operation of law or otherwise, without the Seller's prior written consent, which shall not be unreasonably withheld.

Any transfer in violation of this Clause 12.9 shall, as to the particular Aircraft involved, void the rights and warranties of the Buyer under this Clause 12 and any and all other warranties that might arise under or be implied in law.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

13 PATENT AND COPYRIGHT INDEMNITY

13.1 Indemnity

13.1.1 Subject to the provisions of Clause 13.2.3, the Seller shall indemnify the Buyer from and against any damages, costs or expenses including legal costs (excluding damages, costs, expenses, loss of profits and other liabilities in respect of or resulting from loss of use of the Aircraft) resulting from any infringement or claim of infringement by the Airframe (or any part or software installed therein at Delivery) of:

- (i) any British, French, German, Spanish or U.S. patent;
- and
- (ii) any patent issued under the laws of any other country in which the Buyer may lawfully operate the Aircraft, provided that :
 - (1) from the time of design of such Airframe, accessory, equipment or part and until infringement claims are resolved, such country and the flag country of the Aircraft are each a party to the Chicago Convention on International Civil Aviation of December 7, 1944, and are each fully entitled to all benefits of Article 27 thereof,

or in the alternative,

- (2) from such time of design and until infringement claims are resolved, such country and the flag country of the Aircraft are each a party to the International Convention for the Protection of Industrial Property of March 20, 1883 ("Paris Convention");

and

- (iii) in respect of computer software installed on the Aircraft, any copyright, provided that the Seller's obligation to indemnify shall be limited to infringements in countries which, at the time of infringement, are members of The Berne Union and recognise computer software as a "work" under the Berne Convention.

13.1.2 Clause 13.1.1 shall not apply to

- (i) Buyer Furnished Equipment or Propulsion Systems; or
- (ii) parts not supplied pursuant to a Supplier Product Support Agreement ; or
- (iii) software not created by the Seller.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 13.1.3

In the event that the Buyer is prevented from using the Aircraft (whether by a valid judgement of a court of competent jurisdiction or by a settlement arrived at between claimant, Seller and Buyer), the Seller shall at its expense either :
- (i)

procure for the Buyer the right to use the same free of charge to the Buyer; or
- (ii)

replace the infringing part of the Aircraft as soon as possible with a non-infringing substitute complying in all other respects with the requirements of this Agreement.
- 13.2

Administration of Patent and Copyright Indemnity Claims
- 13.2.1

If the Buyer receives a written claim or a suit is threatened or commenced against the Buyer for infringement of a patent or copyright referred to in Clause 13.1, the Buyer shall :
- (i)

forthwith notify the Seller giving particulars thereof;
- (ii)

furnish to the Seller all data, papers and records within the Buyer's control or possession relating to such patent or claim;
- (iii)

refrain from admitting any liability or making any payment or assuming any expenses, damages, costs or royalties or otherwise acting in a manner prejudicial to the defense or denial of such suit or claim provided always that nothing in this sub-Clause (iii) shall prevent the Buyer from paying such sums as may be required in order to obtain the release of the Aircraft, provided such payment is accompanied by a denial of liability and is made without prejudice;
- (iv)

fully co-operate with, and render all such assistance to, the Seller as may be pertinent to the defense or denial of the suit or claim ;
- (v)

act in such a way as to mitigate damages and / or to reduce the amount of royalties which may be payable as well as to minimise costs and expenses.
- 13.2.2

The Seller shall be entitled either in its own name or on behalf of the Buyer to conduct negotiations with the party or parties alleging infringement and may assume and conduct the defense or settlement of any suit or claim in the manner which, in the Seller's opinion, it deems proper.
- 13.2.3

The Seller's liability hereunder shall be conditional upon the strict and timely compliance by the Buyer with the terms of this Clause and is in lieu of any other liability to the Buyer express or implied which the Seller might incur at law as a result of any infringement or claim of infringement of any patent or copyright.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

14 TECHNICAL DATA AND SOFTWARE SERVICES

14.1 Scope

This Clause 14 covers the terms and conditions for the supply of technical data (hereinafter “**Technical Data**”) and software services described hereunder (hereinafter “**Software Services**”) to support the Aircraft operation.

14.1.1 The Technical Data shall be supplied in the English language using the aeronautical terminology in common use.

14.1.2 Range, type, format and delivery schedule of the Technical Data to be provided under this Agreement are outlined in Exhibit G hereto.

14.2 Aircraft Identification for Technical Data

14.2.1 For those Technical Data that are customized to the Aircraft, the Buyer agrees to the allocation of fleet serial numbers (“**Fleet Serial Numbers**”) in the form of block of numbers selected in the range from 001 to 999.

14.2.2 The sequence shall not be interrupted unless two (2) different Propulsion Systems or two (2) different Aircraft models are selected.

14.2.3 The Buyer shall indicate to the Seller the Fleet Serial Number allocated to each Aircraft corresponding to the delivery schedule set forth in Clause 9.1.1 no later than [***] before the Scheduled Delivery Month of the first Aircraft. Neither the designation of such Fleet Serial Numbers nor the subsequent allocation of the Fleet Serial Numbers to Manufacturer Serial Numbers for the purpose of producing certain customized Technical Data shall constitute any property, insurable or other interest of the Buyer in any Aircraft prior to the Delivery of such Aircraft as provided for in this Agreement.

The customized Technical Data that are affected thereby are the following:

- Aircraft Maintenance Manual,
- Illustrated Parts Catalog,
- Trouble Shooting Manual,
- Aircraft Wiring Manual,
- Aircraft Schematics Manual,
- Aircraft Wiring Lists.

14.3 Integration of Equipment Data

14.3.1 Supplier Equipment

Information, including revisions, relating to Supplier equipment that is installed on the Aircraft at Delivery or through Airbus Service Bulletins thereafter shall be introduced into the customized Technical Data to the extent necessary for the comprehension of the affected systems, at no additional charge to the Buyer.

14.3.2 Buyer Furnished Equipment

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 14.3.2.1

The Seller shall introduce Buyer Furnished Equipment data for Buyer Furnished Equipment that is installed on the Aircraft by the Seller (hereinafter “BFE Data”) into the customized Technical Data, at no additional charge to the Buyer solely for the initial issue of the Technical Data provided at or before Delivery of the first Aircraft, provided such BFE Data is provided in accordance with the conditions set forth in Clauses 14.3.2.2 through 14.3.2.5.
- 14.3.2.2

The Buyer shall supply, or shall cause the BFE Supplier(s) to supply on its behalf, the BFE Data to the Seller at least [***] prior to the Scheduled Delivery Month of the first Aircraft.
- 14.3.2.3

The BFE Data shall be supplied in English and shall be established in compliance with the then applicable revision of ATA iSpecification 2200 (iSpec 2200), Information Standards for Aviation Maintenance.
- 14.3.2.4

The BFE Data shall be delivered in digital format and/or in Portable Document Format (PDF), as agreed between the Buyer and the Seller.
- 14.3.2.5

All costs related to the delivery to the Seller of the applicable BFE Data shall be borne by the Buyer.

14.4

Supply

- 14.4.1

Technical Data shall be supplied on-line and/or off-line, as set forth in Exhibit G hereto.
- 14.4.2

The Buyer shall not receive any credit or compensation for any unused or only partially used Technical Data supplied pursuant to this Clause 14.
- 14.4.3

Delivery
- 14.4.3.1

For Technical Data provided off-line, such Technical Data and corresponding revisions shall be sent to up to two (2) addresses as indicated by the Buyer.
- 14.4.3.2

Technical Data provided off-line shall be delivered by the Seller at the Buyer’s named place of destination under DAP conditions. The term Delivered At Place (DAP) is defined in the Incoterms 2010 publication issued by the International Chamber of Commerce.
- 14.4.3.3

The Technical Data shall be delivered according to a mutually agreed schedule to correspond with the Deliveries of Aircraft. The Buyer shall provide no less than [***] notice when requesting a change to such delivery schedule.
- 14.4.4

It shall be the responsibility of the Buyer to coordinate and satisfy local Aviation Authorities' requirements with respect to Technical Data. Reasonable quantities of such Technical Data shall be supplied by the Seller at no charge to the Buyer at the Buyer’s named place of destination.
- Notwithstanding the foregoing, and in agreement with the relevant Aviation Authorities, preference shall be given to the on-line access to such Buyer’s Technical Data through the Airbus customer portal **AirbusWorld**.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

14.5 **Revision Service**

For each firmly ordered Aircraft covered under this Agreement, revision service for the Technical Data shall be provided on a [***] after Delivery of such Aircraft (each a “**Revision Service Period**”).

Thereafter revision service shall be provided in accordance with the terms and conditions set forth in the Seller’s then current Customer Services Catalog.

14.6 **Service Bulletins (SB) Incorporation**

During any Revision Service Period and upon the Buyer’s request, which shall be made within two years after issuance of the applicable Service Bulletin, Seller Service Bulletin information shall be incorporated into the Technical Data, provided that the Buyer notifies the Seller through the relevant AirbusWorld on-line Service Bulletin Reporting application that it intends to accomplish such Service Bulletin, after which post Service Bulletin status shall be shown.

14.7 **Technical Data Familiarization**

Upon request by the Buyer, the Seller shall provide up to [***] of Technical Data familiarization training at the Seller’s or the Buyer’s facilities. The basic familiarization course is tailored for maintenance and engineering personnel.

14.8 **Customer Originated Changes (COC)**

In the event of the Buyer wishing to introduce Buyer originated data, including BFE Data after the initial issue of Technical Data (hereinafter “**COC Data**”) into any of the customized Technical Data that are identified as eligible for such incorporation in the Seller’s then current Customer Services Catalog, the Buyer shall notify the Seller of such intention.

The incorporation of any COC Data shall be performed under the methods and tools for achieving such introduction and the conditions specified in the Seller’s then current Customer Services Catalog.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

- 14.9

AirN@v Family products
- 14.9.1

The Technical Data listed herebelow are provided on DVD and include integrated software (hereinafter together referred to as “AirN@v Family”).
- 14.9.2

The AirN@v Family covers several Technical Data domains, reflected by the following AirN@v Family products:

-

AirN@v / Maintenance,

-

AirN@v / Planning,

-

AirN@v / Repair,

-

AirN@v / Workshop,

-

AirN@v / Associated Data,

-

AirN@v / Engineering.
- 14.9.3

The licensing conditions for the use of AirN@v Family integrated software shall be as set forth in Part 1 of Exhibit I to the Agreement, “End-User License Agreement for Airbus Software”.
- 14.9.4

The revision service and the license to use AirN@v Family products shall be granted [***] of the corresponding Revision Service Period. At the end of such Revision Service Period, the yearly revision service for AirN@v Family products and the associated license fee shall be provided to the Buyer under the commercial conditions set forth in the Seller’s then current Customer Services Catalog.
- 14.10

On-Line Technical Data
- 14.10.1

The Technical Data provided on-line shall be made available to the Buyer through the Airbus customer portal AirbusWorld (“AirbusWorld”).
- 14.10.2

Access to AirbusWorld shall be subject to the General Terms and Conditions of Access to and Use of AirbusWorld (hereinafter the “GTC”), as set forth in Part 2 of Exhibit I to this Agreement.
- 14.10.3

The list of the Technical Data provided on-line may be extended from time to time.

For any Technical Data which is or becomes available on-line, the Seller reserves the right to suppress other formats for the concerned Technical Data.
- 14.10.4

Access to AirbusWorld shall be granted free of charge for an unlimited number of the Buyer’s users (including two (2) Buyer’s Administrators) for the Technical Data related to the Aircraft which shall be operated by the Buyer.
- 14.10.5

For the sake of clarification, it is hereby specified that Technical Data accessed through AirbusWorld shall remain subject to the conditions of this Clause 14.

In addition, should AirbusWorld provide access to Technical Data in software format, the use of such software shall be further subject to the conditions of Part 1 of Exhibit I to the Agreement.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

14.11

Waiver, Release and Renunciation

The Seller warrants that the Technical Data are prepared in accordance with the state of art at the date of their conception. Should any Technical Data prepared by the Seller contain non-conformity or defect, the sole and exclusive liability of the Seller shall be to take all reasonable and proper steps to correct such Technical Data. Notwithstanding the above, no warranties of any kind shall be given for the Customer Originated Changes, as set forth in Clause 14.8.

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER (AS DEFINED BELOW FOR THE PURPOSES OF THIS CLAUSE) AND REMEDIES OF THE BUYER SET FORTH IN THIS CLAUSE 14 ARE EXCLUSIVE AND IN SUBSTITUTION FOR, AND THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER AND RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, EXPRESS OR IMPLIED, ARISING BY LAW, CONTRACT OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT OF ANY KIND, IN ANY TECHNICAL DATA OR SERVICES DELIVERED UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

- A. ANY WARRANTY AGAINST HIDDEN DEFECTS;
- B. ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- C. ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OR TRADE;
- D. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER IN CONTRACT OR IN TORT, WHETHER OR NOT ARISING FROM THE SELLER’S NEGLIGENCE, ACTUAL OR IMPUTED; AND
- E. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM, OR REMEDY FOR LOSS OF OR DAMAGE TO ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICES DELIVERED UNDER THIS AGREEMENT, FOR LOSS OF USE, REVENUE OR PROFIT, OR FOR ANY OTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES;

PROVIDED THAT, IN THE EVENT THAT ANY OF THE AFORESAID PROVISIONS SHOULD FOR ANY REASON BE HELD UNLAWFUL OR OTHERWISE INEFFECTIVE, THE REMAINDER OF THIS AGREEMENT SHALL REMAIN IN FULL FORCE AND EFFECT.
FOR THE PURPOSES OF THIS CLAUSE 14, THE “SELLER” SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS, SUBCONTRACTORS, AND AFFILIATES.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

14.12	Proprietary Rights
14.12.1	<p>All proprietary rights, including but not limited to patent, design and copyrights, relating to Technical Data shall remain with the Seller and/or its Affiliates as the case may be.</p> <p>These proprietary rights shall also apply to any translation into a language or languages or media that may have been performed or caused to be performed by the Buyer.</p>
14.12.2	<p>Whenever this Agreement and/or any Technical Data provides for manufacturing by the Buyer, the consent given by the Seller shall not be construed as express or implicit approval howsoever neither of the Buyer nor of the manufactured products. The supply of the Technical Data shall not be construed as any further right for the Buyer to design or manufacture any Aircraft or part thereof or spare part.</p>
14.13	Performance Engineer's Program
14.13.1	<p>In addition to the Technical Data provided under Clause 14, the Seller shall provide to the Buyer Software Services, which shall consist of the Performance Engineer's Programs (“PEP”) for the Aircraft type covered under this Agreement. Such PEP is composed of software components and databases and its use is subject to the license conditions set forth in Part 1 of Exhibit I to the Agreement “End-User License Agreement for Airbus Software”.</p>
14.13.2	<p>Use of the PEP shall be limited to one (1) copy to be used on the Buyer’s computers for the purpose of computing performance engineering data. The PEP is intended for use on ground only and shall not be embarked on board the Aircraft.</p>
14.13.3	<p>The license to use the PEP and the revision service shall be provided on a free of charge basis for the duration of the corresponding Revision Service Period as set forth in Clause 14.5.</p>
14.13.4	<p>At the end of such PEP Revision Service Period, the PEP shall be provided to the Buyer at the standard commercial conditions set forth in the Seller’s then current Customer Services Catalog.</p>
14.14	Future Developments
	<p>The Seller continuously monitors technological developments and applies them to Technical Data, document and information systems’ functionalities, production and methods of transmission.</p> <p>The Seller shall implement and the Buyer shall accept such new developments, it being understood that the Buyer shall be informed in due time by the Seller of such new developments and their application and of the date by which the same shall be implemented by the Seller.</p>

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

14.15 Confidentiality

14.15.1 This Clause, the Technical Data, the Software Services and their content are designated as confidential. All such Technical Data and Software Services are provided to the Buyer for the sole use of the Buyer who undertakes not to disclose the contents thereof to any third party without the prior written consent of the Seller save as permitted therein or pursuant to any government or legal requirement imposed upon the Buyer.

14.15.2 In the event of the Seller authorizing the disclosure of this Clause or any Technical Data or Software Services to third parties either under this Agreement or by an express prior written authorization and specifically, in the event of the Buyer intending to designate a maintenance and repair organization or a third party to perform the maintenance of the Aircraft or to perform data processing on its behalf (each a “**Third Party**”), the Buyer shall notify the Seller of such intention prior to any disclosure of this Clause and/or the Technical Data and/or the Software Services to such Third Party.

The Buyer hereby undertakes to cause such Third Party to agree to be bound by the conditions and restrictions set forth in this Clause 14 with respect to the disclosed Clause, Technical Data or Software Services and shall in particular cause such Third Party to enter into a confidentiality agreement with the Seller and appropriate licensing conditions, and to commit to use the Technical Data solely for the purpose of maintaining the Buyer’s Aircraft and the Software Services exclusively for processing the Buyer’s data.

14.16 Transferability

Without prejudice to Clause 21.1, the Buyer's rights under this Clause 14 may not be assigned, sold, transferred, novated or otherwise alienated by operation of law or otherwise, without the Seller's prior written consent.
Any transfer in violation of this Clause 14.16 shall, as to the particular Aircraft involved, void the rights and warranties of the Buyer under this Clause 14 and any and all other warranties that might arise under or be implied in law.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

15 SELLER REPRESENTATIVE SERVICES

The Seller shall provide at no charge to the Buyer the services described in this Clause 15, at the Buyer’s main base or at other locations to be mutually agreed.

15.1 Customer Support Representative(s)

15.1.1 The Seller shall provide free of charge to the Buyer the services of Seller customer support representative(s), as defined in Appendix A to this Clause 15 (each a "Seller Representative"), at the Buyer’s main base or such other locations as the parties may agree.

15.1.2 In providing the services as described hereabove, any Seller Representatives, or any Seller employee(s) providing services to the Buyer hereunder, are deemed to be acting in an advisory capacity only and at no time shall they be deemed to be acting as Buyer's employees or agents, either directly or indirectly.

15.1.3 The Seller shall provide to the Buyer an annual written accounting of the consumed man-months and any remaining man-month balance from the allowance defined in Appendix A. Such accounting shall be deemed final and accepted by the Buyer unless the Seller receives written objection from the Buyer within thirty (30) calendar days of receipt of such accounting.

15.1.4 In the event of a need for Aircraft On Ground (“AOG”) technical assistance after the end of the assignment referred to in Appendix A to this Clause 15, the Buyer shall have non-exclusive access to:

- (i) AIRTAC (Airbus Technical AOG Center);
- (ii) The Seller Representative network closest to the Buyer's main base. A list of contacts of the Seller Representatives closest to the Buyer's main base shall be provided to the Buyer.

As a matter of reciprocity, the Buyer shall authorize the Seller Representative(s), during his/their assignment at the Buyer’s, to provide similar assistance to another airline.

15.1.5 Should the Buyer request Seller Representative services exceeding the allocation specified in Appendix A to this Clause 15, the Seller may provide such additional services subject to terms and conditions to be mutually agreed.

15.1.6 The Seller shall cause similar services to be provided by representatives of the Propulsion Systems Manufacturer and Suppliers, when necessary and applicable.

15.2 Buyer's Support

15.2.1 From the date of arrival of the first Seller Representative and for the duration of the assignment, the Buyer shall provide free of charge a suitable lockable office, conveniently located with respect to the Buyer's maintenance facilities, with complete office furniture and equipment including telephone, internet, email and facsimile connections for the sole use of the Seller Representative(s). All related communication costs shall be borne by the Seller upon receipt by the Seller of all relevant justifications, however the Buyer shall not impose on the Seller any charges other than the direct cost of such communications.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 15.2.2

The Buyer shall reimburse the Seller the costs for the initial and termination assignment travel of the Seller Representatives of one (1) confirmed ticket, Business Class, to and from their place of assignment and Toulouse, France.
- 15.2.3

The Buyer shall also reimburse the Seller the costs for air transportation for the annual vacation of the Seller Representatives to and from their place of assignment and Toulouse, France.
- 15.2.4

Should the Buyer request any Seller Representative referred to in Clause 15.1 above to travel on business to a city other than his usual place of assignment, the Buyer shall be responsible for all related transportation costs and expenses.
- 15.2.5

Absence of an assigned Seller Representative during normal statutory vacation periods are covered by the Seller Representatives as defined in Clause 15.1.4 and as such are accounted against the total allocation provided in Appendix A hereto.
- 15.2.6

The Buyer shall assist the Seller in obtaining from the civil authorities of the Buyer's country those documents that are necessary to permit the Seller Representative to live and work in the Buyer's country. Failure of the Seller to obtain the necessary documents shall relieve the Seller of any obligation to the Buyer under the provisions of Clause 15.1.
- 15.2.7

The Buyer shall reimburse to the Seller charges, taxes, duties, imposts or levies of any kind whatsoever, imposed by the authorities of the Buyer's country upon:

the entry into or exit from the Buyer's country of the Seller Representatives and their families,

the entry into or the exit from the Buyer's country of the Seller Representatives and their families' personal property,

the entry into or the exit from the Buyer's country of the Seller's property, for the purpose of providing the Seller Representatives services.

15.3

Withdrawal of the Seller Representative

The Seller shall have the right to withdraw its assigned Seller Representatives as it sees fit if conditions arise, which are in the Seller's opinion dangerous to their safety or health or prevent them from fulfilling their contractual tasks.

15.4

Indemnities

INDEMNIFICATION PROVISIONS APPLICABLE TO THIS CLAUSE 15 ARE SET FORTH IN CLAUSE 19.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SELLER REPRESENTATIVE ALLOCATION

The Seller Representative allocation provided to the Buyer pursuant to Clause 15.1 is defined hereunder.

- 1
- The Seller shall provide to the Buyer Seller Representative services at the Buyer's main base or at other locations to be mutually agreed for a total of [***].
- 2
- For the sake of clarification, such Seller Representatives’ services shall include initial Aircraft Entry Into Service (EIS) assistance and sustaining support services.
- 3
- The number of the Seller Representatives assigned to the Buyer at any one time shall be mutually agreed, but shall at no time exceed [***] Seller Representatives.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

16	TRAINING SUPPORT AND SERVICES
16.1	General
16.1.1	This Clause 16 sets forth the terms and conditions for the supply of training support and services for the Buyer's personnel to support the Aircraft operation.
16.1.2	The range, quantity and validity of training to be provided free of charge under this Agreement are covered in Appendix A to this Clause 16.
16.1.3	Scheduling of training courses covered in Appendix A shall be mutually agreed during a training conference (the “ Training Conference ”) that shall be held no later than [***] prior to Delivery of the first Aircraft.
16.2	Training Location
16.2.1	The Seller shall provide training at its training center in Blagnac, France, and/or in Hamburg, Germany, or shall designate an affiliated training center in Miami, U.S.A., or Beijing, China (individually a “ Seller’s Training Center ” and collectively the “ Seller’s Training Centers ”).
16.2.2	If the unavailability of facilities or scheduling difficulties make training by the Seller at any Seller’s Training Center impractical, the Seller shall ensure that the Buyer is provided with such training at another location designated by the Seller.
16.2.3.1	Upon the Buyer's request, the Seller may also provide certain training at a location other than the Seller's Training Centers, including one of the Buyer's bases, if and when practicable for the Seller, under terms and conditions to be mutually agreed upon. In such event, all additional charges listed in Clauses 16.5.2 and 16.5.3 shall be borne by the Buyer.
16.2.3.2	If the Buyer requests training at a location as indicated in Clause 16.2.3.1 and requires such training to be an Airbus approved course, the Buyer undertakes that the training facilities shall be approved prior to the performance of such training. The Buyer shall, as necessary and in due time prior to the performance of such training, provide access to the training facilities set forth in Clause 16.2.3.1 to the Seller’s and the competent Aviation Authority’s representatives for approval of such facilities.
16.3	Training Courses
16.3.1	Training courses shall be as described in the Seller’s customer services catalog (the “ Seller's Customer Services Catalog ”). The Seller's Customer Services Catalog also sets forth the minimum and maximum number of trainees per course. All training requests or training course changes made outside of the frame of the Training Conference shall be submitted by the Buyer with a minimum of [***] prior notice.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 16.3.2 The following terms and conditions shall apply to training performed by the Seller:
- (i) Training courses shall be the Seller's standard courses as described in the Seller's Customer Services Catalog valid at the time of execution of the course. The Seller shall be responsible for all training course syllabi, training aids and training equipment necessary for the organization of the training courses; for the avoidance of doubt, for the purpose of performing training, such training equipment does not include aircraft.

(ii) The training equipment and the training curricula used for the training of flight, cabin and maintenance personnel shall not be fully customized but shall be configured in order to obtain the relevant Aviation Authority’s approval and to support the Seller's training programs.

(iii) Training data and documentation for trainees receiving the training at the Seller's Training Centers shall be provided free of charge. Training data and documentation shall be marked "FOR TRAINING ONLY" and as such are supplied for the sole and express purpose of training; training data and documentation shall not be revised.
- 16.3.3 When the Seller’s training courses are provided by the Seller’s instructors (individually an ”**Instructor**” and collectively “**Instructors**”) the Seller shall deliver a Certificate of Recognition or a Certificate of Course Completion (each a “**Certificate**”) or an attestation (an “**Attestation**”), as applicable, at the end of any such training course. Any such Certificate or Attestation shall not represent authority or qualification by any Aviation Authority but may be presented to such Aviation Authority in order to obtain relevant formal qualification.
- In the event of training courses being provided by a training provider selected by the Seller as set forth in Clause 16.2.2, the Seller shall cause such training provider to deliver a Certificate or Attestation, which shall not represent authority or qualification by any Aviation Authority, but may be presented to such Aviation Authority in order to obtain relevant formal qualification.
- 16.3.4.1 Should the Buyer wish to exchange any of the training courses provided under Appendix A hereto, the Buyer shall place a request for exchange to this effect with the Seller. The Buyer may exchange, subject to the Seller’s confirmation, the training allowances granted under Appendix A of the present Agreement as follows:
- (i) flight operations training courses as listed under Article 1 of Appendix A against any flight operations training courses described in the Seller's Customer Services Catalog current at the time of the Buyer's request;

(ii) maintenance training courses as listed under Article 3 of Appendix A against any maintenance training courses described in the Seller's Customer Services Catalog current at the time of the Buyer's request;

(iii) should any one of the allowances granted thereunder (flight operations or maintenance) have been fully drawn upon, the Buyer shall be entitled to exchange flight operations or maintenance training courses as needed against the remaining allowances.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- The exchange value shall be based on the Seller’s ”**Training Course Exchange Matrix**” applicable at the time of the request for exchange and which shall be provided to the Buyer at such time.
- It is understood that the above shall apply to the extent that training allowances granted under Appendix A remain in credit to the full extent necessary to perform the exchange.
- All requests to exchange training courses shall be submitted by the Buyer with a minimum of [***] prior notice. The requested training shall be subject to the Seller’s then existing planning constraints.
- 16.3.4.2

Should the Buyer use none or only part of the training to be provided pursuant to this Clause 16, no compensation or credit of any nature shall be provided.
- 16.3.5.1

Should the Buyer decide to cancel or reschedule, fully or partially, and irrespective of the location of the training, a training course, a minimum advance notification of at least [***] prior to the relevant training course start date is required.
- 16.3.5.2

If the notification occurs less than [***] but more than [***] prior to such training, a cancellation fee corresponding to [***] of such training shall be, as applicable, either deducted from the training allowance defined in Appendix A or invoiced at the Seller’s then applicable price.
- 16.3.5.3

If the notification occurs less than [***] prior to such training, a cancellation fee corresponding to [***] of such training shall be, as applicable, either deducted from the training allowance defined in Appendix A or invoiced at the Seller’s then applicable price.
- 16.3.5.4

All courses exchanged under Clause 16.3.4.1 shall remain subject to the provisions of this Clause 16.3.5.

16.4

Prerequisites and Conditions

- 16.4.1

Training shall be conducted in English and all training aids used during such training shall be written in English using common aeronautical terminology.
- 16.4.2

The Buyer hereby acknowledges that all training courses conducted pursuant to this Clause 16 are "**Standard Transition Training Courses**" and not "**Ab Initio Training Courses**".
- 16.4.3

Trainees shall have the prerequisite knowledge and experience specified for each course in the Seller’s Customer Services Catalog.
- 16.4.4.1

The Buyer shall be responsible for the selection of the trainees and for any liability with respect to the entry knowledge level of the trainees.
- 16.4.4.2

The Seller reserves the right to verify the trainees' proficiency and previous professional experience.
- 16.4.4.3

The Seller shall provide to the Buyer during the Training Conference an “**Airbus Pre- Training Survey**” for completion by the Buyer for each trainee.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

	The Buyer shall provide the Seller with an attendance list of the trainees for each course, with the validated qualification of each trainee, at the time of reservation of the training course and in no event any later than [***] before the start of the training course. The Buyer shall return concurrently thereto the completed Airbus Pre- Training Survey, detailing the trainees’ associated background. If the Seller determines through the Airbus Pre-Training Survey that a trainee does not match the prerequisites set forth in the Seller’s Customer Services Catalog, following consultation with the Buyer, such trainee shall be withdrawn from the program or directed through a relevant entry level training (ELT) program, which shall be at the Buyer’s expense.
16.4.4.4	If the Seller determines at any time during the training that a trainee lacks the required level, following consultation with the Buyer, such trainee shall be withdrawn from the program or, upon the Buyer's request, the Seller may be consulted to direct the above mentioned trainee (s), if possible, through any other required additional training, which shall be at the Buyer's expense.
16.4.5	The Seller shall in no case warrant or otherwise be held liable for any trainee's performance as a result of any training provided.
16.5	Logistics
16.5.1	Trainees
16.5.1.1	Living and travel expenses for the Buyer's trainees shall be borne by the Buyer.
16.5.1.2	It shall be the responsibility of the Buyer to make all necessary arrangements relative to authorizations, permits and/or visas necessary for the Buyer’s trainees to attend the training courses to be provided hereunder. Rescheduling or cancellation of courses due to the Buyer’s failure to obtain any such authorizations, permits and/or visas shall be subject to the provisions of Clauses 16.3.5.1 thru 16.3.5.3.
16.5.2	Training at External Location - Seller’s Instructors
16.5.2.1.1	In the event of training being provided at the Seller’s request at any location other than the Seller’s Training Centers, as provided for in Clause 16.2.2, the expenses of the Seller’s Instructors shall be borne directly by the Seller.
16.5.2.1.2	In the event of training being provided by the Seller’s Instructor(s) at any location other than the Seller's Training Centers at the Buyer’s request, the Buyer shall reimburse the Seller for all the expenses related to the assignment of such Seller Instructors and the performance of their duties as aforesaid.
16.5.2.2	Living Expenses
	Except as provided for in Clause 16.5.2.1.1 above, the Buyer shall reimburse the Seller the living expenses for each Seller Instructor and/or other Seller’s personnel providing support under this Clause 16, covering the entire period from his day of departure from his main base to day of return to such base at the per diem rate set forth in the Seller’s Customer Services Catalog current at the time of the corresponding training or support.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

	Such per diem shall include, but shall not be limited to, lodging, food and local transportation to and from the place of lodging and the training course location.
16.5.2.3	<p>Air Travel</p> <p>Except as provided for in Clause 16.5.2.1.1 above, the Buyer shall reimburse the Seller the airfares for each Seller Instructor and/or other Seller’s personnel providing support under this Clause 16, in confirmed business class to and from the Buyer's designated training site and the Seller's Training Centers, as such airfares are set forth in the Seller's Customer Services Catalog current at the time of the corresponding training or support.</p>
16.5.2.4	<p>Buyer’s Indemnity</p> <p>Except in case of Gross Negligence of the Seller, the Seller shall not be held liable to the Buyer for any delay or cancellation in the performance of any training outside of the Seller's Training Centers associated with any transportation described in this Clause 16.5.2 and the Buyer shall indemnify and hold harmless the Seller from any such delay and/or cancellation and any consequences arising therefrom.</p>
16.5.3	<p>Training Material and Equipment Availability - Training at External Location</p> <p>Training material and equipment necessary for course performance at any location other than the Seller's Training Centers or the facilities of a training provider selected by the Seller shall be provided by the Buyer at its own cost in accordance with the Seller's specifications.</p> <p>Notwithstanding the foregoing, should the Buyer request the performance of a course at another location as per Clause 16.2.3.1, the Seller may, upon the Buyer’s request, provide the training material and equipment necessary for such course’s performance. Such provision shall be at the Buyer’s expense.</p>
16.6	<p>Flight Operations Training</p> <p>The Seller shall provide training for the Buyer's flight operations personnel as further detailed in Appendix A to this Clause 16, including the courses described in this Clause 16.6.</p>
16.6.1	<p>Flight Crew Training Course</p> <p>The Seller shall perform a flight crew training course program for the Buyer's flight crews, each of which shall consist of [***], who shall be either captain(s) or first officer(s).</p>
16.6.2	<p>Base Flight Training</p>
16.6.2.1	<p>The Buyer shall provide at its own cost its delivered Aircraft, or any other aircraft it operates, for any base flight training, which shall consist of [***] per pilot, performed in accordance with the related Airbus training course definition (the “Base Flight Training”).</p>

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 16.6.2.2

Should it be necessary to ferry the Buyer’s delivered Aircraft to the location where the Base Flight Training shall take place, the additional flight time required for the ferry flight to and/or from the Base Flight Training field shall not be deducted from the Base Flight Training time.
- 16.6.2.3

If the Base Flight Training is performed outside of the zone where the Seller usually performs such training, the ferry flight to the location where the Base Flight Training shall take place shall be performed by a crew composed of the Seller’s and/or the Buyer’s qualified pilots, in accordance with the relevant Aviation Authority’s regulations related to the place of performance of the Base Flight Training.
- 16.6.3

Flight Crew Line Initial Operating Experience

In order to assist the Buyer with initial operating experience after Delivery of the first Aircraft, the Seller shall provide to the Buyer pilot Instructor(s) as set forth in Appendix A to this Clause 16.

Should the Buyer request, subject to the Seller's consent, such Seller pilot Instructors to perform any other flight support during the flight crew line initial operating period, such as but not limited to line assistance, demonstration flight(s), ferry flight(s) or any flight(s) required by the Buyer during the period of entry into service of the Aircraft, it is understood that such flight(s) shall be deducted from the flight crew line initial operating experience allowance set forth in Appendix A hereto.

It is hereby understood by the Parties that the Seller's pilot Instructors shall only perform the above flight support services to the extent they bear the relevant qualifications to do so.
- 16.6.4

Type Specific Cabin Crew Training Course

The Seller shall provide type specific training for cabin crews, at one of the locations defined in Clause 16.2.1.

If the Buyer’s Aircraft is to incorporate special features, the type specific cabin crew training course shall be performed no earlier than [***] before the scheduled Delivery Date of the Buyer's first Aircraft.
- 16.6.5

Training on Aircraft

During any and all flights performed in accordance with this Clause 16.6, the Buyer shall bear full responsibility for the aircraft upon which the flight is performed, including but not limited to any required maintenance, all expenses such as fuel, oil or landing fees and the provision of insurance in line with Clause 16.13.

The Buyer shall assist the Seller, if necessary, in obtaining the validation of the licenses of the Seller’s pilots performing Base Flight Training or initial operating experience by the Aviation Authority of the place of registration of the Aircraft.
- 16.7

Performance / Operations Courses

The Seller shall provide performance/operations training for the Buyer's personnel as defined in Appendix A to this Clause 16.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

The available courses shall be listed in the Seller’s Customer Services Catalog current at the time of the course.

16.8 Maintenance Training

16.8.1 The Seller shall provide maintenance training for the Buyer's ground personnel as further set forth in Appendix A to this Clause 16.

The available courses shall be as listed in the Seller’s Customer Services Catalog current at the time of the course.

The practical training provided in the frame of maintenance training shall be performed on the training devices in use in the Seller’s Training Centers.

16.8.2 Practical Training on Aircraft

Notwithstanding Clause 16.8.1 above, upon the Buyer’s request, the Seller may provide Instructors for the performance of practical training on aircraft (“**Practical Training**”).

Irrespective of the location at which the training takes place, the Buyer shall provide at its own cost an aircraft for the performance of the Practical Training.

Should the Buyer require the Seller’s Instructors to provide Practical Training at facilities selected by the Buyer, such training shall be subject to prior approval of the facilities by the Seller. All costs related to such Practical Training, including but not limited to the Seller's approval of the facilities, shall be borne by the Buyer.

The provision of a Seller Instructor for the Practical Training shall be deducted from the trainee days allowance defined in Appendix A to this Clause 16, subject to the conditions detailed in Paragraph 4.4 thereof.

16.9 Supplier and Propulsion Systems Manufacturer Training

Upon the Buyer’s request, the Seller shall provide to the Buyer the list of the maintenance and overhaul training courses provided by major Suppliers and the applicable Propulsion Systems Manufacturer on their respective products.

16.10 Proprietary Rights

All proprietary rights, including but not limited to patent, design and copyrights, relating to the Seller's training data and documentation shall remain with the Seller and/or its Affiliates and/or its Suppliers, as the case may be.

These proprietary rights shall also apply to any translation into a language or languages or media that may have been performed or caused to be performed by the Buyer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

16.11 Confidentiality

The Seller's training data and documentation are designated as confidential and as such are provided to the Buyer for the sole use of the Buyer, for training of its own personnel, who undertakes not to disclose the content thereof in whole or in part, to any third party without the prior written consent of the Seller, save as permitted herein or otherwise pursuant to any government or legal requirement imposed upon the Buyer.

In the event of the Seller having authorized the disclosure of any training data and documentation to third parties either under this Agreement or by an express prior written authorization, the Buyer shall cause such third party to agree to be bound by the same conditions and restrictions as the Buyer with respect to the disclosed training data and documentation and to use such training data and documentation solely for the purpose for which they are provided.

16.12 Transferability

Without prejudice to Clause 21.1, the Buyer's rights under this Clause 16 may not be assigned, sold, transferred, novated or otherwise alienated by operation of law or otherwise, without the Seller's prior written consent.

16.13 Indemnities and Insurance

INDEMNIFICATION PROVISIONS AND INSURANCE REQUIREMENTS APPLICABLE TO THIS CLAUSE 16 ARE AS SET FORTH IN CLAUSE 19.

THE BUYER SHALL PROVIDE THE SELLER WITH AN ADEQUATE INSURANCE CERTIFICATE PRIOR TO ANY TRAINING ON AIRCRAFT.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

TRAINING ALLOWANCE

17	EQUIPMENT SUPPLIER PRODUCT SUPPORT
17.1	Equipment Supplier Product Support Agreements
17.1.1	The Seller has obtained enforceable and transferable product support agreements from Suppliers of Supplier Parts, the benefit of which is hereby accepted by the Buyer. Said agreements become enforceable as soon as and for as long as an operator is identified as an Airbus aircraft operator.
17.1.2	These agreements are based on the "World Airlines Suppliers Guide", are made available to the Buyer through the SPSA Application, and include Supplier commitments contained in the " Supplier Product Support Agreements ", as defined in Clause 12.3.1.3, which include the following provisions:
17.1.2.1	Technical data and manuals required to operate, maintain, service and overhaul the Supplier Parts. Such technical data and manuals shall be prepared in accordance with the applicable provisions of ATA Specification including revision service and be published in the English language. The Seller shall recommend that a software user guide, where applicable, be supplied in the form of an appendix to the Component Maintenance Manual, such data shall be provided in compliance with the applicable ATA Specification;
17.1.2.2	Warranties and guarantees, including standard warranties. In addition, landing gear Suppliers shall provide service life policies for selected structural landing gear elements;
17.1.2.3	Training to ensure efficient operation, maintenance and overhaul of the Supplier Parts for the Buyer's instructors, shop and line service personnel;
17.1.2.4	Spares data in compliance with ATA iSpecification 2200, initial provisioning recommendations, spare parts and logistics service including routine and expedite deliveries;
17.1.2.5	Technical service to assist the Buyer with maintenance, overhaul, repair, operation and inspection of Supplier Parts as well as required tooling and spares provisioning.
17.2	Supplier Compliance
	The Seller shall monitor Suppliers' compliance with support commitments defined in the Supplier Product Support Agreements and shall, if necessary, jointly take remedial action with the Buyer.
17.3	Nothing in this Clause 17 shall be construed to prevent or limit the Buyer from entering into direct negotiations with a Supplier with respect to different or additional terms and conditions applicable to Suppliers Parts selected by the Buyer to be installed on the Aircraft.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

17.4 Familiarization Training

Upon the Buyer’s request, the Seller shall provide the Buyer with Supplier Product Support Agreements familiarization training at the Seller’s facilities in Blagnac, France. An on-line training module shall be further available through AirbusWorld, access to which shall be subject to the “General Terms and Conditions of Access to and Use of AirbusWorld” (hereinafter the “**GTC**”), as set forth in Part 2 of Exhibit I to this Agreement.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 18
- BUYER FURNISHED EQUIPMENT
- 18.1
- Administration
- 18.1.1.1
- In accordance with the Specification, the Seller shall install those items of equipment that are identified in the Specification as being furnished by the Buyer ("**Buyer Furnished Equipment**" or "**BFE**"), provided that the BFE and the supplier of such BFE (the "**BFE Supplier**") are referred to in the Airbus BFE Product Catalog valid at the time the BFE Supplier is selected.
- 18.1.1.2
- Notwithstanding the foregoing and without prejudice to Clause 2.4, if the Buyer wishes to install BFE manufactured by a supplier who is not referred to in the Airbus BFE Product Catalog, the Buyer shall so inform the Seller and the Seller shall conduct a feasibility study of the Buyer’s request, in order to consider approving such supplier, provided that such request is compatible with the Seller’s industrial planning and the associated Scheduled Delivery Month for the Buyer’s Aircraft. In addition, it is a prerequisite to such approval that the considered supplier be qualified by the Seller’s Aviation Authorities to produce equipment for installation on civil aircraft. Any approval of a supplier by the Seller shall be performed at the Buyer’s expense. The Buyer shall cause any BFE supplier approved under this Clause 18.1.1.2 (each an "**Approved BFE Supplier**") to comply with the conditions set forth in this Clause 18 and specifically Clause 18.2.
- Except for the specific purposes of this Clause 18.1.1.2, the term “BFE Supplier” shall be deemed to include Approved BFE Suppliers.
- 18.1.2.1
- The Seller shall advise the Buyer of the dates by which, in the planned release of engineering for the Aircraft, the Seller requires a written detailed engineering definition, encompassing a Declaration of Design and Performance (the "**BFE Engineering Definition**"). The Seller shall provide to the Buyer and/or the BFE Supplier(s), within an appropriate timeframe, the necessary interface documentation to enable the development of the BFE Engineering Definition.
- The BFE Engineering Definition shall include the description of the dimensions and weight of BFE, the information related to its certification and the information necessary for the installation and operation thereof, including when applicable 3D models compatible with the Seller’s systems. The Buyer shall furnish, or cause the BFE Suppliers to furnish, the BFE Engineering Definition by the dates specified.
- Thereafter, the BFE Engineering Definition shall not be revised, except through an SCN executed in accordance with Clause 2.
- 18.1.2.2
- The Seller shall also provide in due time to the Buyer a schedule of dates and the shipping addresses for delivery of the BFE and, where requested by the Seller, additional spare BFE to permit installation in the Aircraft and Delivery of the Aircraft in accordance with the Aircraft delivery schedule. The Buyer shall provide, or cause the BFE Suppliers to provide, the BFE by such dates in a serviceable condition, in order to allow performance of any assembly, installation, test or acceptance process in accordance with the Seller’s industrial schedule. In order to facilitate the follow-up of the timely receipt of BFE, the Buyer shall, upon the Seller’s request, provide to the Seller dates and references of all BFE purchase orders placed by the Buyer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

The Buyer shall also provide, when requested by the Seller, at AIRBUS OPERATIONS S.A.S. works in TOULOUSE (FRANCE) and/or at AIRBUS OPERATIONS GmbH works in HAMBURG (GERMANY) and/or at the Manufacture Facilities in Tianjin (PEOPLE’S REPUBLIC OF CHINA) adequate field service including support from BFE Suppliers to act in a technical advisory capacity to the Seller in the installation, calibration and possible repair of any BFE.

18.1.3 Without prejudice to the Buyer’s obligations hereunder, in order to facilitate the development of the BFE Engineering Definition, the Seller shall organize meetings between the Buyer and BFE Suppliers. The Buyer hereby agrees to participate in such meetings and to provide adequate technical and engineering expertise to reach decisions within the defined timeframe.

In addition, throughout the development phase and up to Delivery of the Aircraft to the Buyer, the Buyer agrees:

- § to monitor the BFE Suppliers and ensure that they shall enable the Buyer to fulfil its obligations, including but not limited to those set forth in the Customization Milestone Chart;
- § that, should a timeframe, quality or other type of risk be identified at a given BFE Supplier, the Buyer shall allocate resources to such BFE Supplier so as not to jeopardize the industrial schedule of the Aircraft;
- § for major BFE, including, but not being limited to, seats, galleys and IFE (“**Major BFE**”) to participate on a mandatory basis in the specific meetings that take place between BFE Supplier selection and BFE delivery, namely:
 - o Preliminary Design Review (“PDR”),
 - o Critical Design Review (“CDR”);
- § to attend the First Article Inspection (“FAI”) for the first shipset of all Major BFE. Should the Buyer not attend such FAI, the Buyer shall delegate the FAI to the BFE Supplier and confirmation thereof shall be supplied to the Seller in writing;
- § to attend the Source Inspection (“SI”) that takes place at the BFE Supplier’s premises prior to shipping, for each shipset of all Major BFE. Should the Buyer not attend such SI, the Buyer shall delegate the SI to the BFE Supplier and confirmation thereof shall be brought to the Seller in writing. Should the Buyer not attend the SI, the Buyer shall be deemed to have accepted the conclusions of the BFE Supplier with respect to such SI.

The Seller shall be entitled to attend the PDR, the CDR and the FAI. In doing so, the Seller’s employees shall be acting in an advisory capacity only and at no time shall they be deemed to be acting as Buyer's employees or agents, either directly or indirectly.

18.1.4 The BFE shall be imported into FRANCE or into the GERMANY or into the PEOPLE’S REPUBLIC OF CHINA by the Buyer under a suspensive customs system ("Régime de l'entrepôt douanier ou régime de perfectionnement actif " or "Zollverschluss") without application of any French or German tax, or of any Chinese customs duty, and shall be Delivered At Place (DAP) according to the Incoterms, to the following shipping addresses:

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

AIRBUS OPERATIONS S.A.S.
316 Route de Bayonne
31300 TOULOUSE
FRANCE

or

AIRBUS OPERATIONS DEUTSCHLAND GmbH Kreetstag 10
21129 HAMBURG
GERMANY

or

AIRBUS Final Assembly Co., Ltd
Tianjin Airport Industry Park
No. 6 West 9 Road
300638 TIANJIN
PEOPLE’S REPUBLIC OF CHINA

as specified by the Seller.

18.2 **Applicable Requirements**

The Buyer is responsible for ensuring, at its expense, and warrants that the BFE shall:

- § be manufactured by a qualified BFE Supplier, and
- § meet the requirements of the applicable Specification of the Aircraft, and
- § be delivered with the relevant certification documentation, including but not limited to the DDP, and
- § comply with the BFE Engineering Definition, and
- § comply with applicable requirements incorporated by reference to the Type Certificate and listed in the Type Certificate Data Sheet, and
- § be approved by the Aviation Authority issuing the Export Airworthiness Certificate and by the Buyer's Aviation Authority for installation and use on the Aircraft at the time of Delivery of the Aircraft, and
- § not infringe any patent, copyright or other intellectual property right of the Seller or any third party, and
- § not be subject to any legal obligation or other encumbrance that may prevent, hinder or delay the installation of the BFE in the Aircraft and/or the Delivery of the Aircraft.

The Seller shall be entitled to refuse any item of BFE that it considers incompatible with the Specification, the BFE Engineering Definition or the certification requirements.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 18.3

Buyer's Obligation and Seller's Remedies
- 18.3.1

Any delay or failure by the Buyer or the BFE Suppliers in:

§

complying with the foregoing warranty or in providing the BFE Engineering Definition or field service mentioned in Clause 18.1.2.2, or

§

furnishing the BFE in a serviceable condition at the requested delivery date, or

§

obtaining any required approval for such BFE equipment under the above mentioned Aviation Authorities’ regulations,

may delay the performance of any act to be performed by the Seller, including Delivery of the Aircraft. The Seller shall not be responsible for such delay which shall cause the Final Price of the Aircraft to be adjusted in accordance with the updated delivery schedule and to include in particular the amount of the Seller's additional costs attributable to such delay or failure by the Buyer or the BFE Suppliers, such as storage, taxes, insurance and costs of out-of sequence installation.
- 18.3.2

In addition, in the event of any delay or failure mentioned in 18.3.1 above, the Seller may:

(i)

select, purchase and install equipment similar to the BFE at issue, in which event the Final Price of the affected Aircraft shall also be increased by the purchase price of such equipment plus reasonable costs and expenses incurred by the Seller for handling charges, transportation, insurance, packaging and, if so required and not already provided for in the Final Price of the Aircraft, for adjustment and calibration; or

(ii)

if the BFE is delayed by more than [***] beyond, or is not approved within [***] of the dates specified in Clause 18.1.2.2, deliver the Aircraft without the installation of such BFE, notwithstanding applicable terms of Clause 7, if any, and the Seller shall thereupon be relieved of all obligations to install such equipment.
- 18.4

Title and Risk of Loss

Title to and risk of loss of any BFE shall at all times remain with the Buyer except that risk of loss (limited to cost of replacement of said BFE) shall be with the Seller for as long as such BFE is under the care, custody and control of the Seller.
- 18.5

Disposition of BFE Following Termination
- 18.5.1

If a termination of this Agreement pursuant to the provisions of Clause 20 occurs with respect to an Aircraft in which all or any part of the BFE has been installed prior to the date of such termination, the Seller shall be entitled, but not required, to remove all items of BFE that can be removed without damage to the Aircraft and to undertake commercially reasonable efforts to facilitate the sale of such items of BFE to other customers, retaining and applying the proceeds of such sales to reduce the Seller’s damages resulting from the termination.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 18.5.2

The Buyer shall cooperate with the Seller in facilitating the sale of BFE pursuant to Clause 18.5.1 and shall be responsible for all costs incurred by the Seller in removing and facilitating the sale of such BFE. The Buyer shall reimburse the Seller for all such costs within [***] of receiving documentation of such costs from the Seller.
- 18.5.3

The Seller shall notify the Buyer as to those items of BFE not sold by the Seller pursuant to Clause 18.5.1 above and, at the Seller’s request, the Buyer shall undertake to remove such items from the Seller’ facility within [***] of the date of such notice. The Buyer shall have no claim against the Seller for damage, loss or destruction of any item of BFE removed from the Aircraft and not removed from Seller’s facility within such period.
- 18.5.4

The Buyer shall have no claim against the Seller for damage to or destruction of any item of BFE damaged or destroyed in the process of being removed from the Aircraft, provided that the Seller shall use reasonable care in such removal.
- 18.5.5

The Buyer shall grant the Seller title to any BFE items that cannot be removed from the Aircraft without causing damage to the Aircraft or rendering any system in the Aircraft unusable.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

19 INDEMNIFICATION AND INSURANCE

19.1 Indemnities Relating to Inspection, Technical Acceptance Process and Ground Training

19.1.1 The Seller shall, except in case of Gross Negligence of the Buyer, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Buyer, its Affiliates and each of their respective directors, officers, agents, employees and insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) in respect of:

- (i) loss of, or damage to, the Seller's property;
- (ii) injury to, or death of, the directors, officers, agents or employees of the Seller;
- (iii) any damage caused by the Seller to third parties arising out of, or in any way connected with, any ground check, check or controls under Clause 6 or Clause 8 of this Agreement and/or Ground Training Services ; and
- (iv) any damage caused by the Buyer and/or the Seller to third parties arising out of, or in any way connected with, technical acceptance flights under Clause 8 of this Agreement.

19.1.2 The Buyer shall, except in case of Gross Negligence of the Seller, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Seller, its Affiliates and each of their respective directors, officers, agents, employees, sub-contractors and insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) in respect of:

- (i) loss of, or damage to, the Buyer’s property;
- (ii) injury to, or death of, the directors, officers, agents or employees of the Buyer; and
- (iii) any damage caused by the Buyer to third parties arising out of, or in any way connected with, any ground check, check or controls under Clause 6 or Clause 8 of this Agreement and/or Ground Training Services.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

19.2 **Indemnities Relating to Training on Aircraft after Delivery**

19.2.1 The Buyer shall, except in the case of Gross Negligence of the Seller, its directors, officers, agents and employees, be solely liable for and shall indemnify and hold harmless the Seller, its Affiliates and each of their respective directors, officers, agents, employees, sub-contractors and insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) incident thereto or incident to successfully establishing the right to indemnification in respect of:

- (i) injury to, or death of, any person (including any of the Buyer's directors, officers, agents and employees, but not directors, officers, agents and employees of the Seller); and
- (ii) loss of, or damage to, any property and for loss of use thereof (including the aircraft on which the Aircraft Training Services are performed), arising out of, or in any way connected with, the performance of any Aircraft Training Services.

19.2.2 The foregoing indemnity shall not apply with respect to the Seller’s legal liability towards any person other than the Buyer, its directors, officers, agents or employees arising out of an accident caused solely by a product defect in the Aircraft delivered to and accepted by the Buyer hereunder.

19.3 **Indemnities relating to Seller Representatives Services**

19.3.1 The Buyer shall, except in case of Gross Negligence of the Seller, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Seller, its Affiliates and each of their respective directors, officers, agents, employees, sub-contractors and insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) in respect of:

- (i) injury to, or death of, any person (except Seller’s Representatives); and
- (ii) loss of, or damage to, any property and for loss of use thereof;

arising out of, or in any way connected with the Seller’s Representatives Services.

19.3.2 The Seller shall, except in case of Gross Negligence of the Buyer, its directors, officers, agents or employees, be solely liable for and shall indemnify and hold harmless the Buyer, its Affiliates and each of their respective directors, officers, agents, employees and insurers from and against all liabilities, claims, damages, costs and expenses (including legal expenses and attorney fees) in respect of all injuries to, or death of, the Seller’s Representatives arising out of, or in any way connected with the Seller’s Representatives Services.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

19.4 **Insurances**

To the extent of the Buyer's undertaking set forth in Clause 19.2.1, for all training periods on aircraft, the Buyer shall:

- (i) cause the Seller, its directors, officers, agents, employees, Affiliates and sub- contractors, and their respective insurers, to be named as additional insureds under the Buyer’s Comprehensive Aviation Legal Liability insurance policies, including War Risks and Allied Perils such insurance shall include the AVN 52E Extended Coverage Endorsement Aviation Liabilities as well as additional coverage in respect of War and Allied Perils Third Parties Legal Liabilities Insurance; and
- (ii) with respect to the Buyer's Hull All Risks and Hull War Risks insurances and Allied Perils, cause the insurers of the Buyer's hull insurance policies to waive all rights of subrogation against the Seller, its directors, officers, agents, employees, Affiliates and sub-contractors, and their respective insurers.

Any applicable deductible shall be borne by the Buyer.

With respect to the above policies, the Buyer shall furnish to the Seller, not less than [***] prior to the start of any such training period, certificates of insurance from the Buyer's insurance broker(s), in English, evidencing the limit of liability cover and period of insurance in a form acceptable to the Seller certifying that such policies have been endorsed as follows:

- (i) under the Comprehensive Aviation Legal Liability Insurances, the Buyer's policies are primary and non-contributory to any insurance maintained by the Seller;
- (ii) such insurance can only be cancelled or materially altered by the giving of not less than thirty (30) days (but seven (7) days or such lesser period as may be customarily available in respect of War Risks and Allied Perils) prior written notice thereof to the Seller; and
- (iii) under any such cover, all rights of subrogation against the Seller, its directors, officers, agents, employees, Affiliates and sub-contractors, and their respective insurers, have been waived to the extent of the Buyer's undertaking and specifically referring to Clause 19.2.1 and to this Clause 19.4.

19.5 **Notice of Claims**

If any claim is made or suit is brought against either party (or its respective directors, officers, agents, employees, Affiliates and sub-contractors) for damages for which liability has been assumed by the other party in accordance with the provisions of this Agreement, the party against which a claim is so made or suit is so brought shall promptly give notice to the other party, and the latter shall (unless otherwise requested by the party against which a claim is so made or suit is so brought, in which case the other party nevertheless shall have the right to) assume and conduct the defence thereof, or effect any settlement which it, in its opinion, deems proper.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

20 **TERMINATION**

20.1 **Termination for Insolvency**

In the event that either the Seller or the Buyer:

- (a) makes a general assignment for the benefit of creditors or becomes insolvent;
- (b) files a voluntary petition in bankruptcy;
- (c) petitions for or acquiesces in the appointment of any receiver, trustee or similar officer to liquidate or conserve its business or any substantial part of its assets;
- (d) commences under the laws of any competent jurisdiction any proceeding involving its insolvency, bankruptcy, readjustment of debt, liquidation or any other similar proceeding for the relief of financially distressed debtors;
- (e) becomes the object of any proceeding or action of the type described in (c) or (d) above and such proceeding or action remains undismissed or unstayed for a period of at least [***]; or
- (f) is divested of a substantial part of its assets for a period of at least [***]

then the other party may, to the full extent permitted by law, by written notice, terminate all or part of this Agreement.

20.2 **Termination for Non-Payment of Predelivery Payments**

If for any Aircraft the Buyer fails to make any Predelivery Payments at the time, in the manner and in the amount specified in Clause 5.3 the Seller may, by written notice, terminate all or part of this Agreement with respect to undelivered Aircraft.

20.3 **Termination for Failure to Take Delivery**

If the Buyer fails to comply with its obligations as set forth under Clause 8 and/or Clause 9, or fails to pay the Final Price of the Aircraft, the Seller shall have the right to put the Buyer on notice to do so within a period of [***] after the date of such notification.

If the Buyer has not cured such default within such period, the Seller may, by written notice, terminate all or part of this Agreement with respect to undelivered Aircraft.

All costs referred to in Clause 9.2.3 and relating to the period between the notified date of delivery (as referred to in Clause 9.2.1) and the date of termination of all or part of this Agreement shall be borne by the Buyer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

20.4	Termination for Default under other Agreements If the Buyer or any of its Affiliates fails to perform or comply with any material obligation expressed to be assumed by it in any other agreement between the Buyer or any of its Affiliates and the Seller or any of its Affiliates and such failure is not remedied within [***] after the Seller has given notice thereof to the Buyer, then the Seller may, by written notice, terminate all or part of this Agreement.
20.5	General
20.5.1	To the full extent permitted by law, the termination of all or part of this Agreement pursuant to Clauses 20.1, 20.2, 20.3 and 20.4 shall become effective immediately upon receipt by the relevant party of the notice of termination sent by the other party without it being necessary for either party to take any further action or to seek any consent from the other party or any court or arbitral panel having jurisdiction.
20.5.2	The right for either party under Clause 20.1 and for the Seller under Clauses 20.2, 20.3, and 20.4 to terminate all or part of this Agreement shall be without prejudice to any other rights and remedies available to such party to seek termination of all or part of this Agreement before any court or arbitral panel having jurisdiction pursuant to any failure by the other party to perform its obligations under this Agreement.
20.5.3	If the party taking the initiative of terminating this Agreement decides to terminate part of it only, the notice sent to the other party shall specify those provisions of this Agreement which shall be terminated.
20.5.4	In the event of termination of this Agreement following a default from the Buyer, including but not limited to a default under Clauses 20.1, 20.2, 20.3 and 20.4, the Seller without prejudice to any other rights and remedies available under this Agreement or by law, shall retain all predelivery payments, commitment fees, option fees and any other monies paid by the Buyer to the Seller under this Agreement and corresponding to the Aircraft, services, data and other items covered by such termination.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

21	ASSIGNMENTS AND TRANSFERS
21.1	Assignments by Buyer
	Except as hereinafter provided, the Buyer may not sell, assign, novate or transfer its rights and obligations under this Agreement to any person without the prior written consent of the Seller.
21.1.1	Assignments for Predelivery Financing
	The Buyer shall be entitled to assign its rights under this Agreement at any time in order to provide security for the financing of any Predelivery Payments subject to such assignment being in form and substance acceptable to the Seller.
21.1.2	Assignments for Delivery Financing
	The Buyer shall be entitled to assign its rights under this Agreement at any time in connection with the financing of its obligation to pay the Final Price subject to such assignment being in form and substance acceptable to the Seller.
21.2	Assignments by Seller
	The Seller may at any time sell, assign, novate or transfer its rights and obligations under this Agreement to any person, provided such sale, assignment or transfer be notified to Buyer and shall not have a material adverse effect on any of Buyer’s rights and obligations under this Agreement.
21.2.1	Transfer of Rights and Obligations upon Restructuring
	In the event that the Seller is subject to a corporate restructuring having as its object the transfer of, or succession by operation of law in, all or a substantial part of its assets and liabilities, rights and obligations, including those existing under this Agreement, to a person (the “ Successor ”) under the control of the ultimate controlling shareholders of the Seller at the time of that restructuring, for the purpose of the Successor carrying on the business carried on by the Seller at the time of the restructuring, such restructuring shall be completed without consent of the Buyer following notification by the Seller to the Buyer in writing. The Buyer recognises that succession of the Successor to the Agreement by operation of law, which is valid under the law pursuant to which that succession occurs, shall be binding upon the Buyer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

22 MISCELLANEOUS PROVISIONS

22.1 Data Retrieval

On the Seller's reasonable request, the Buyer shall provide the Seller with all the necessary data, as customarily compiled by the Buyer and pertaining to the operation of the Aircraft, to assist the Seller in making an efficient and coordinated survey of all reliability, maintenance, operational and cost data with a view to monitoring the efficient and cost effective operations of the Airbus fleet worldwide.

22.2 Notices

All notices and requests required or authorized hereunder shall be given in writing either by personal delivery to an authorized representative of the party to whom the same is given or by registered mail (return receipt requested), express mail (tracking receipt requested) or by facsimile, to be confirmed by subsequent registered mail, and the date upon which any such notice or request is so personally delivered or if such notice or request is given by registered mail, the date upon which it is received by the addressee or, if given by facsimile, the date upon which it is sent with a correct confirmation printout, provided that if such date of receipt is not a Business Day notice shall be deemed to have been received on the first following Business Day, shall be deemed to be the effective date of such notice or request.

The Seller’s address for notices is:

Attention: V. P. Contracts

Airbus S.A.S.
1 Rond-Point Maurice Bellonte
31707 Blagnac Cedex
France

The Buyer’s address for notices is:

CHINA SOUTHERN AIRLINES COMPANY LIMITED
Bai Yun Airport, Guangzhou 510405, People's Republic of China

Attention:
Mr. Dong Su Guang, Vice President
email: dongsg@cs-air.com
fax: +86-20-8665-1191

Planning Department
Mr. Zhang Chao Yang, Deputy GM of Planning Department
email: zhangcy@cs-air.com
fax: +86-20-8612-3452

Maintenance & Engineering Department
Mr. Li Ming, Deputy GM of Maintenance & Engineering Department
email: ming-li@cs-air.com
fax: +86-20-8612-3556

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Legal Department
Ms. Xie Mila
email: xiemila@cs-air.com
fax: +86-20-8613-2454

Finance Department
Ms. Wang Xiao Feng email: wang-xf@cs-air.com
Mr. William Huang email: huangwei@cs-air.com
fax: +86-20-8658-0245

or such other address or such other person as the party receiving the notice or request may reasonably designate from time to time.

22.3 **Waiver**

The failure of either party to enforce at any time any of the provisions of this Agreement, or to exercise any right herein provided, or to require at any time performance by the other party of any of the provisions hereof, shall in no way be construed to be a present or future waiver of such provisions nor in any way to affect the validity of this Agreement or any part thereof or the right of the other party thereafter to enforce each and every such provision. The express waiver (whether made one (1) or several times) by either party of any provision, condition or requirement of this Agreement shall not constitute a waiver of any future obligation to comply with such provision, condition or requirement.

22.4 **Law and Jurisdiction**

22.4.1 This Agreement shall be governed by and construed in accordance with the laws of England.

22.4.2 Any dispute arising out of or in connection with this Agreement shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by three (3) arbitrators appointed in accordance with such rules.

Arbitration shall take place in London in the English language.

22.5 **Contracts (Rights of Third Parties) Act 1999**

The parties do not intend that any term of this Agreement shall be enforceable solely by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to this Agreement.

22.6 **International Supply Contract**

The Buyer and the Seller recognise that this Agreement is an international supply contract which has been the subject of discussion and negotiation, that all its terms and conditions are fully understood by the parties, and that the Specification and price of the Aircraft and the other mutual agreements of the parties set forth herein were arrived at in consideration of, inter alia, all the provisions hereof specifically including all waivers, releases and renunciations by the Buyer set out herein.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

The Buyer and the Seller hereby also agree that the United Nations Convention on Contracts for the International Sale of Goods shall not apply to this transaction.

22.7 **Severability**

In the event that any provision of this Agreement should for any reason be held ineffective, the remainder of this Agreement shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law, which renders any provision of this Agreement prohibited or unenforceable in any respect.

22.8 **Alterations to Contract**

This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any previous understandings, commitments or representations whatsoever oral or written in respect thereto. This Agreement shall not be varied except by an instrument in writing of date even herewith or subsequent hereto executed by both parties or by their duly authorised representatives.

22.9 **Language**

All correspondence, documents and any other written matters in connection with this Agreement shall be in English.

22.10 **Counterparts**

This Agreement has been executed in three (3) original copies.

Notwithstanding the above, this Agreement may be executed by the parties in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same Agreement.

22.11 **Inconsistencies**

In the event of any inconsistency between the terms of this Agreement and the terms contained in either (i) the Specification, or (ii) any other Exhibit, in each such case the terms of this Agreement shall prevail over the terms of the Specification or any other Exhibit. For the purpose of this Clause 22.10, the term Agreement shall not include the Specification or any other Exhibit hereto.

22.12 **Confidentiality**

For the purpose of this Clause 22.12, the term "Buyer" shall, throughout this clause 22.12, be deemed to include a reference to the Consenting Party.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

This Agreement including any Exhibits, other documents or data exchanged between the Seller and the Buyer for the fulfilment of their respective obligations under the Agreement shall be treated by both parties as confidential and shall not be released in whole or in part to any third party except as may be required by law, or to professional advisors for the purpose of implementation hereof.

In particular, both parties agree:

- not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior written consent of the other party hereto.
- that any and all terms and conditions of the transaction contemplated in this Agreement are strictly personal and exclusive to the Buyer, including in particular, but not limited to, the Aircraft pricing (the “**Personal Information**”). The Buyer therefore agrees to enter into consultations with the Seller reasonably in advance of any required disclosure of Personal Information to financial institutions, including operating lessors, investment banks and their agents or other relevant institutions for aircraft sale and leaseback or any other Aircraft or Predelivery Payment financing purposes (the “**Receiving Party**”).

Without limiting the generality of the foregoing, the Buyer will use its best efforts to limit the disclosure of the contents of this Agreement to the extent legally permissible in (i) any filing required to be made by the Buyer with any governmental agency and will make such applications as will be necessary to implement the foregoing, and (ii) any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto. With respect to any public disclosure or filing (notably to the New York, Shanghai and Hong-Kong Stock Exchange), the Buyer agrees to submit to the Seller a copy of the proposed document to be filed or disclosed and will give the Seller a reasonable period of time in which to review said document. The Buyer and the Seller will consult with each other prior to the making of any public disclosure or filing, permitted hereunder, of this Agreement or the terms and conditions thereof.

The provisions of this Clause 22.12 shall survive any termination of this Agreement for a period of five (5) years.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

IN WITNESS WHEREOF this Agreement was entered into the day and year first above written.

For and on behalf of

CHINA SOUTHERN AIRLINES

Name: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Name: _____

Title: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SPECIFICATION

The Standard Specifications of the A319 CEO Aircraft, the A320 CEO Aircraft, the A320 NEO Aircraft and the A321 CEO Aircraft are contained in separate folders.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

List of IRREVOCABLE SCNs for NEO Aircraft

These options shall be irrevocably part of the NEO A/C specification		A319-100 NEO	A321-200 NEO
ATA chapter	TITLE	***	***
***	***	***	***
***	***	***	***
***	***	***	***

(*): MLW and MZFW are indicative design weights representative of the Aircraft with NEO option. NEO design weights shall be updated with final specification

(**): The indicated thrust is the Airbus Equivalent Thrust at Mach number 0.25 / ISA +15°C / sea level thrust divided by 0.8 (representative of sea level aircraft performance). It may differ from the nominal thrust that will be eventually indicated by the engine manufacturer.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Customization budget A319 CEO
Aircraft
and A319 NEO Aircraft



For



China Southern Airlines

Total SCN Price [***]
Total Estimated BFE Price [***]
[***]

Option	Description	Comments	Estimated BFE Price	SCN List Price
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

© AIRBUS S.A.S. All rights reserved. Confidential and proprietary document. This document and all information contained herein is the sole property of AIRBUS S.A.S. No intellectual property rights are granted by the delivery of this document or the disclosure of its content. This document shall not be reproduced or disclosed to a third party without the express written consent of AIRBUS S.A.S. This document and its content shall not be used for any purpose other than that for which it is supplied. They are based on the mentioned assumptions and are expressed in good faith. Where the supporting grounds for these statements are not shown, AIRBUS S.A.S. will be pleased to explain the basis thereof.
AIRBUS, its logo, A300, A310, A318, A319, A320, A321, A330, A340, A350, A380, A400M are registered trademarks.

Customization budget
A320 CEO Aircraft



For



China Southern Airlines

Total SCN Price [***]
Total Estimated BFE Price [***]
[***]

Option	Description	Comments	Estimated BFE Price	SCN List Price
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

© AIRBUS S.A.S. All rights reserved. Confidential and proprietary document. This document and all information contained herein is the sole property of AIRBUS S.A.S. No intellectual property rights are granted by the delivery of this document or the disclosure of its content. This document shall not be reproduced or disclosed to a third party without the express written consent of AIRBUS S.A.S. This document and its content shall not be used for any purpose other than that for which it is supplied. They are based on the mentioned assumptions and are expressed in good faith. Where the supporting grounds for these statements are not shown, AIRBUS S.A.S. will be pleased to explain the basis thereof.

AIRBUS, its logo, A300, A310, A318, A319, A320, A321, A330, A340, A350, A380, A400M are registered trademarks.

Customization budget
A320 NEO Aircraft



For



China Southern Airlines

Total SCN Price [***]
Total Estimated BFE Price [***]
[***]

Option	Description	Comments		Estimated BFE Price	SCN List Price
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]

© AIRBUS S.A.S. All rights reserved. Confidential and proprietary document. This document and all information contained herein is the sole property of AIRBUS S.A.S. No intellectual property rights are granted by the delivery of this document or the disclosure of its content. This document shall not be reproduced or disclosed to a third party without the express written consent of AIRBUS S.A.S. This document and its content shall not be used for any purpose other than that for which it is supplied. They are based on the mentioned assumptions and are expressed in good faith. Where the supporting grounds for these statements are not shown, AIRBUS S.A.S. will be pleased to explain the basis thereof.

AIRBUS, its logo, A300, A310, A318, A319, A320, A321, A330, A340, A350, A380, A400M are registered trademarks.

Customization budget A321 CEO
Aircraft
and
A321 NEO Aircraft

For



China Southern Airlines

Total SCN Price [***]
Total Estimated BFE Price [***]
[***]

Option	Description	Comments	Estimated BFE Price	SCN List Price
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

© AIRBUS S.A.S. All rights reserved. Confidential and proprietary document. This document and all information contained herein is the sole property of AIRBUS S.A.S. No intellectual property rights are granted by the delivery of this document or the disclosure of its content. This document shall not be reproduced or disclosed to a third party without the express written consent of AIRBUS S.A.S. This document and its content shall not be used for any purpose other than that for which it is supplied. They are based on the mentioned assumptions and are expressed in good faith. Where the supporting grounds for these statements are not shown, AIRBUS S.A.S. will be pleased to explain the basis thereof.

AIRBUS, its logo, A300, A310, A318, A319, A320, A321, A330, A340, A350, A380, A400M are registered trademarks.

APPENDIX 2 TO EXHIBIT A – LIST OF WEIGHT VARIANTS

A/C TYPE	OPTION	MTOW	MLZ	MZFW	WV REF	***
A319	***	***	***	***	***	***
A319 NEO	***	***	***	***	***	***
A320	***	***	***	***	***	***
A320 NEO	***	***	***	***	***	***
A321	***	***	***	***	***	***
A321 NEO	***`	***	***	***	***	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

FORM OF
SPECIFICATION CHANGE NOTICE

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

<div><div>AIRBUS</div><div>SPECIFICATION CHANGE NOTICE</div><div>(SCN)</div></div>	<div>For</div> <div>SCN Number</div> <div>Issue</div> <div>Dated</div> <div>Page</div>
<div>Title:</div> <div>Description</div> <div>Remarks / References</div> <div>Specification changed by this SCN</div> <div>This SCN requires prior or concurrent acceptance of the following SCNI (s):</div> <div><div>Price per aircraft</div><div>US DOLLARS:</div><div>AT DELIVERY CONDITIONS:</div><div>This change will be effective on</div><div>Provided approval is received <i>tAj</i></div><div>Buyer approval</div><div>By</div><div>Date :</div></div> <div><div>AIRCRAFT N°</div><div>and subsequent.</div><div>Seller approval</div><div>By</div><div>Date :</div></div>	

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

<div><div>AIRBUS</div><div>SPECIFICATION CHANGE NOTICE</div><div>(SCN)</div></div>	<div>For</div> <div>SCN Number</div> <div>Issue</div> <div>Dated</div> <div>Page</div>
<div><div>Specification repercussion:</div><div>Aner contractualagreement with respect to weight, performance, delivery,etc, the indicated part of the specificallon wording will read as follows:</div></div>	

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

FORM OF
MANUFACTURER SPECIFICATION
CHANGE NOTICE

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

<div><div>AIRBUS</div><div>MANUFACTURER'S SPECIFICATION CHANGE NOTICE</div><div>(MSCN)</div></div>	<div>For</div> <div>MSCN Number</div> <div>Issue</div> <div>Dated</div> <div>Page</div>
<div>Title:</div> <div>Description:</div> <div>Effect on weight</div> <div>Manufacturer's Weight Empty Change</div> <div>OperationalWeight Empty Change</div> <div>Allowable Payload Change</div> <div>Remarks / References</div> <div>Specificati on changed by this MSCN</div>	
<div>Price per aircraft</div> <div>US DOLLARS:</div> <div>AT DELIVERY CONDITIONS:</div> <div>This change will be effective on AIRCRAFT <i>W</i></div> <div>Provided MSCN is not rejected by</div> <div>Buyer Approval</div> <div>9y :</div> <div>Date :</div> <div>and subsequent.</div> <div>Seller Approval</div> <div>By :</div> <div>Date :</div>	

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

<div>'\$ AIRBUS</div> <div>MANUFACTURER'S SPECIFICATION CHANGE NOTICE</div> <div>(MSCN)</div>	<div>For</div> <div>MSCN Number</div> <div>Issue</div> <div>Dated</div> <div>Page</div>
<div>Specification repercussion:</div>	

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

<div>'\$ AIRBUS</div> <div>MANUFACTURER'S SPECIFICATION CHANGE NOTICE</div> <div>(MSCN)</div>	<div>For</div> <div>MSCN Number</div> <div>Issue</div> <div>Dated</div> <div>Page</div>
<div>Scope of change (FOR INFORMATION ONLY)</div>	

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

PART 1 AIRFRAME PRICE REVISION FORMULA

1 BASE PRICE

The Airframe Base Price quoted in Clause 3.1 of the Agreement is subject to adjustment for changes in economic conditions as measured by data obtained from the United States Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

2 BASE PERIOD

[***]

3 INDEXES

Labor Index: [***]

Material Index: [***]

4 REVISION FORMULA

[***]

5 GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Substitution of Indexes for Airframe Price Revision Formula

[***]

5.3 Final Index Values

[***]

5.4 Limitation

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

PART 2 PROPULSION SYSTEMS PRICE REVISION FORMULA CFM INTERNATIONAL

1 REFERENCE PRICE OF THE PROPULSION SYSTEMS

1.1 The Reference Prices of a set of two (2) CFM CFM56 series Propulsion Systems are:

1.2 The Reference Prices of a set of two (2) CFM LEAPseries Propulsion Systems are:

$$[***]$$

2. REFERENCE PERIOD

$$[***]$$

3. INDEXES

Labor Index: [***]

Material Index: [***]

4. REVISION FORMULA

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

5. GENERAL PROVISIONS

5.1 Roundings

[***]

5.2 Final Index Values

[***]

5.3 Interruption of Index Publication

[***]

5.4 Annulment of the Formula

[***]

5.5 Limitations

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

PART 3	PROPULSION SYSTEMS PRICE REVISION FORMULA INTERNATIONAL AERO ENGINES
1	REFERENCE PRICE OF THE PROPULSION SYSTEMS
	[***]
2	REFERENCE PERIOD
	[***]
3	INDEXES
	<u>Labor Index:</u> [***]
	<u>Material Index:</u> [***]
4	REVISION FORMULA
	[***]
5	GENERAL PROVISIONS
5.1	Roundings
	[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

5.2	Final Index Values	***
5.3	Interruption of Index Publication	***
5.4	Annulment of Formula	***
5.5	Limitation	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

PART 4 PROPULSION SYSTEMS PRICE REVISION FORMULA PRATT AND WHITNEY

1 REFERENCE PRICE OF THE PROPULSION SYSTEMS

The Reference Prices of a set of two (2) PRATT AND WHITNEY Propulsion Systems are:
[***]

2 BASE PERIOD

[***]

3 INDEXES

Labor Index: [***]

Material Index: [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

4	REVISION FORMULA	***
5.	GENERAL PROVISIONS	
5.1	Roundings	***
5.2	Substitution of Indexes for Price Revision Formula	***
5.3	Final Index Values	***
5.4	Limitation	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

CERTIFICATE OF ACCEPTANCE

In accordance with the terms of clause 8 of the purchase agreement dated [day] [month] [year] and made between China Southern Airlines Company Limited (the “**Customer**”) and Airbus S.A.S. as amended and supplemented from time to time (the “**Purchase Agreement**”), the technical acceptance tests relating to one Airbus A3[]-[] aircraft, bearing manufacturer’s serial number [], and registration mark [](the “**Aircraft**”) have taken place in [Tianjin/Blagnac/Hamburg].

In view of said tests having been carried out with satisfactory results, the Customer [as agent of [insert the name of the lessor/SPC] (the “**Owner**”) pursuant to the [purchase agreement assignment] dated [day] [month] [year], between the Customer and the Owner] hereby approves the Aircraft as being in conformity with the provisions of the Purchase Agreement and accepts the Aircraft for delivery in accordance with the provisions of the Purchase Agreement.

Such acceptance shall not impair the rights that may be derived from the warranties relating to the Aircraft set forth in the Purchase Agreement.

Any right at law or otherwise to revoke this acceptance of the Aircraft is hereby irrevocably waived.

IN WITNESS WHEREOF, the Customer, [as agent of the Owner] has caused this instrument to be executed by its duly authorised representative this ____ day of [month], [year] in [Tianjin/Blagnac/Hamburg].

*The **Customer** [as agent of the **Owner**]*

Name:
Title:
Signature:

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

BILL OF SALE

Know all men by these presents that Airbus S.A.S., a *Société par Actions Simplifiée* existing under French law and having its principal office at 1 rond-point Maurice Bellonte, 31707 Blagnac Cedex, FRANCE (the “**Seller**”), was this [day] [month] [year] the owner of the title to the following airframe (the “**Airframe**”), the propulsion systems as specified (the “**Propulsion Systems**”) and all appliances, components, parts, instruments, accessories, furnishings, modules and other equipment of any nature, excluding buyer furnished equipment (“**BFE**”), incorporated therein, installed thereon or attached thereto on the date hereof (the “**Parts**”):

AIRFRAME:

AIRBUS Model A3[]-[]

MANUFACTURER'S
SERIAL NUMBER: []

[ENGINES/PROPULSION SYSTEMS]:

[Insert name of engine or propulsion system manufacturer] Model []

ENGINE SERIAL NUMBERS:
LH: []
RH: []

REGISTRATION MARK: []

[and [had] such title to the BFE as was acquired by it from [insert name of vendor of the BFE] pursuant to a bill of sale dated ____ [month] [year] (the “**BFE Bill of Sale**”)].

The Airframe, Propulsion Systems and Parts are hereafter together referred to as the “**Aircraft**”.

The Seller did this ____ day of [month] [year], sell, transfer and deliver all of its above described rights, title and interest in and to the Aircraft [and the BFE] to the following entity and to its successors and assigns forever, said Aircraft [and the BFE] to be the property thereof:

[Insert Name/Address of Buyer]
(the “**Buyer**”)

The Seller hereby warrants to the Buyer, its successors and assigns that it had good and lawful right to sell, deliver and transfer title to the Aircraft to the Buyer and that there was conveyed to the Buyer good, legal and valid title to the Aircraft, free and clear of all liens, claims, charges, encumbrances and rights of others and that the Seller will warrant and defend such title forever against all claims and demands whatsoever [and (ii) such title to the BFE as Seller has acquired from [insert name of vendor of the BFE] pursuant to the BFE Bill of Sale].

This Bill of Sale shall be governed by and construed in accordance with the laws of England.

IN WITNESS WHEREOF, the undersigned has caused this instrument to be executed by its duly authorized representative this ____day of [month], [year] in [Tianjin/Blagnac/Hamburg].

AIRBUS S.A.S.

Name:
Title:
Signature:

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

EXHIBIT F

SERVICE LIFE POLICY

LIST OF ITEMS

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SELLER SERVICE LIFE POLICY

1	The Items covered by the Service Life Policy pursuant to Clause 12.2 are those Seller Items of primary and auxiliary structure described hereunder.
2	WINGS - CENTER AND OUTER WING BOX (LEFT AND RIGHT)
2.1	Wing Structure
2.1.1	***
2.1.2	***
2.1.3	***
2.2	Fittings
2.2.1	***
2.2.2	***
2.2.3	***
2.2.4	***
2.3	Auxiliary Support Structure
2.3.1	***
2.3.1.1	***
2.3.1.2	***
2.3.2	***
2.3.2.1	***
2.3.2.2	***
2.3.3	***
2.3.3.1	***
2.3.3.2	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

2.4	Pylon
2.4.1	***
2.4.1.1	***
2.4.1.2	***
2.4.1.3	***
2.4.1.4	***

3 FUSELAGE

3.1 Fuselage structure

3.1 Fuselage structure

3.1.1	***
3.1.2	***
3.1.3	***
3.1.4	***
3.1.5	***
3.1.6	***
3.1.7	***
3.1.8	***

3.2 Fittings

3.2.1	***
3.2.2	***
3.2.3	***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

4	STABILIZERS
4.1	Horizontal Stabilizer Main Structural Box
4.1.1	[***]
4.1.2	[***]
4.1.3	[***]
4.1.4	[***]
4.1.5	[***]
4.1.5.1	[***]
4.1.5.2	[***]
4.2	Vertical Stabilizer Main Structural Box
4.2.1	[***]
4.2.2	[***]
4.2.3	[***]
4.2.4	[***]
4.2.5	[***]
4.2.5.1	[***]
4.2.5.2	[***]
5	EXCLUSIONS

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

TECHNICAL DATA & SOFTWARE

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

TECHNICAL DATA & SOFTWARE

Where applicable, data shall be established in general compliance with the ATA 100 Information Standards for Aviation Maintenance and the applicable provisions for digital standard of ATA Specification 2200 (iSpec2200).

The Seller shall provide the Buyer with the following Technical Data (or such other equivalent Technical Data as may be applicable at the time of their provision to the Buyer).

- 1** [***]
- 1.1 [***]
- 1.2 [***]
- 2** [***]
- 2.1 [***]
- 2.2 [***]
- 3** [***]
- 4** [***]
- 4.1 [***]
- 4.2 [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

EXHIBIT H
MATERIAL
SUPPLY AND SERVICES

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1 GENERAL

1.1 Scope

- 1.1.1 This Exhibit H defines the terms and conditions for the support and services that may be offered by the Seller to the Buyer in the area of Material, as such term in defined in Article 1.2.1 hereafter.
- 1.1.2 References made to Articles shall refer to articles of this Exhibit H unless otherwise specified.
- 1.1.3 Notwithstanding the definition set forth in Clause 12.3.1 of the Agreement and for the exclusive purpose of this Exhibit H, the term “**Supplier**” shall mean any supplier providing any of the Material listed in Article 1.2.1 hereunder (each a “**Supplier Part**”).
- 1.1.4 The term “**SPEC 2000**” as used throughout this Exhibit H means the E-Business Specification for Materiels Management document published by the Air Transport Association of America.

1.2 Material Categories

- 1.2.1 Material covered by this Exhibit H is classified according to the following categories (hereinafter individually and collectively referred to as "**Material**"):
- (i) “**Seller Parts**” (corresponding to Seller's proprietary Material bearing a part number of the Seller or Material for which the Seller has the exclusive sales rights);
 - (ii) Supplier Parts classified as Repairable Line Maintenance Parts (as defined in SPEC 2000);
 - (iii) Supplier Parts classified as Expendable Line Maintenance Parts (as defined in SPEC 2000);
 - (iv) Seller and/or Supplier ground support equipment and specific-to-type tools.
- 1.2.2 Propulsion Systems, engine exchange kits, their accessories and parts, including associated parts, are not covered under this Exhibit H and shall be subject to direct agreements between the Buyer and the relevant Propulsion System Manufacturer.

1.3 Term

[***]

1.4 Airbus Material Center

1.4.1 [***]

1.4.2 [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 1.4.3 [***]
- 1.5 Customer Order Desk
 - [***]
- 1.6 Material and Logistics Support Representative
 - [***]
- 1.7 Agreements of the Buyer
 - 1.7.1 [***]
 - 1.7.2 [***]
 - 1.7.3 [***]
 - 1.7.4.1 [***].
 - 1.7.4.2 [***]
 - 1.7.4.3 [***]
 - 1.7.4.4 [***]

2 INITIAL PROVISIONING

- 2.1 Period
 - [***]
- 2.2 Pre Provisioning Meeting
 - 2.2.1 [***]
 - 2.2.2 [***]
- 2.3 Initial Provisioning Conference
 - [***]
- 2.4 Provisioning Data
 - 2.4.1 [***]
 - 2.4.1.1 [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 2.4.1.2

[***]
- 2.4.1.3

[***]
- 2.4.2

Supplier Supplied Data

[***]
- 2.4.3

Supplementary Data

[***]
- 2.5

Commercial Offer

[***]
- 2.6

Delivery of Initial Provisioning Material
- 2.6.1

[***]
- 2.6.2

[***]
- 2.7

Buy Back Period and Buy-Back of Initial Provisioning Surplus Material

[***]
- 3

OTHER MATERIAL SUPPORT
- 3.1

Replenishment and Delivery
- 3.1.1

General

[***]
- 3.1.2

Lead times

[***]
- 3.1.2.1

[***]
- 3.1.2.2

[***]
- 3.1.3

Expedite Service

[***]
- 3.1.3.1

[***]
- 3.1.3.2

[***]
- 3.1.4

Shortages, Overshipments, Non Conformity in Orders

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

3.1.4.1	***
3.1.4.2	***
3.1.5	Delivery Terms ***
3.1.6	Packaging ***
3.1.7	Cessation of Deliveries ***
3.2	Seller Parts Leasing ***
3.3	Tools and Ground Support Equipment ***
3.4	Seller Parts Repair ***
4	WARRANTIES
4.1	Seller Parts ***
4.1.1	Warranty Period
4.1.1.1	***
4.1.1.2	***
4.1.2	Buyer's Remedy and Seller's Obligation ***
4.2	Supplier Parts ***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

4.3 **Waiver, Release and Renunciation**

 [***]

5 **COMMERCIAL CONDITIONS**

5.1 **Price**

5.1.1 [***]

5.1.2 [***]

5.1.3 [***]

5.1.4 [***]

5.2 **Payment Procedures and Conditions**

 [***]

5.3 **Title**

 [***]

6 **EXCUSABLE DELAY**

 [***]

7 **TERMINATION OF MATERIAL PROCUREMENT COMMITMENTS**

7.1 [***]

7.2 [***]

8 **INCONSISTENCY**

In the event of any inconsistency between this Exhibit H and the Customer Services Catalog or any order placed by the Buyer, this Exhibit H shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

EXHIBIT I
LICENSES AND ON LINE SERVICES

Part 1 END-USER LICENSE AGREEMENT FOR AIRBUS SOFTWARE

[**]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Part 2 GENERAL TERMS AND CONDITIONS OF ACCESS TO AND USE OF AIRBUSWORLD

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Part 3 END-USER SUBLICENSE AGREEMENTS FOR SUPPLIER SOFTWARE

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 1

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

LETTER AGREEMENT No 1

- 1

- 2

- 3

- 4

- 5

- 6

- 7

- 8

- 9

- 10

- 11

- 12

13Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

14Confidentiality

For the purpose of this Clause 14, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 1

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 2

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

1 [***]

13 Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

14 Confidentiality

For the purpose of this Clause 14, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 2

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 3

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

LETTER AGREEMENT No 3

1 [***]

2 Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

3 Confidentiality

For the purpose of this Clause 3, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 3

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

Signature: _____

Name: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Agreed and Accepted

For and on behalf of

AIRBUS S.A.S.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 04

CHINA SOUTHERN AIRLINES COMPANY LIMITED
Bai Yun Airport
Guangzhou 510405
People’s Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

1 Performance guarantees

The guarantees applicable to the Aircraft (the “Guarantees”) are set out in the following appendixes hereto:

(i) NEO Aircraft

Appendix	Aircraft	Design Weights (MTOW - MLW - MZFW)	Propulsion Systems
1A	[***]	[***]	[***]
1B	[***]	[***]	[***]
2A	[***]	[***]	[***]
2B	[***]	[***]	[***]
3A	[***]	[***]	[***]
3B	[***]	[***]	[***]
3A-BIS	[***]	[***]	[***]
3B-BIS	[***]	[***]	[***]

It is agreed and understood that the above design weights may be updated upon final NEO specification freeze.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

(ii) CEO Aircraft with Sharklets

	Appendix	Aircraft	Design Weights (MTOW - MLW - MZFW)	Propulsion Systems
	4	***	***	***
	5	***	***	***
	6	***	***	***

2 ***

3 ***

4 ***

5 ***

6 ***

7 Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

8 Confidentiality

This Letter Agreement (and its existence) shall be treated by both parties as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT No 04

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

Signature: _____

Name: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Agreed and Accepted

For and on behalf of

AIRBUS S.A.S.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1	Aircraft Configuration
	[***]
2	[***]
3	[***]
4	[***]
5	[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[**]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 1

Aircraft Configuration
- ***
- 2

***.
- 3

- 4

- 5

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[**]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 1

Aircraft Configuration
- ***
- 2

- 3

- 4

- 5

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[**]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 1

Aircraft Configuration

- 2

- 3

- 4

- 5

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1 Aircraft Configuration

[***]

2 [***]

3 [***]

4 [***]

5 [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1 Aircraft Configuration

[***]

2 [***]

3 [***]

4 [***]

5 [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1 Aircraft Configuration

[***]

2 [***]

3 [***]

4 [***]

5 [***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1	Aircraft Configuration	***
2	***	
3	***	
4	***	
5	***	

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Annex 1

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

APPENDIX 4 to LETTER AGREEMENT No 04

- 1

Aircraft Configuration
- ***
- 2

- 3

- 4

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

- 1

Aircraft Configuration

- 2

- 3

- 4

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

1	Aircraft Configuration	***
2		***
3		***
4		***

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 5

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

LETTER AGREEMENT N° 5

1 [***]

2 Assignment

Notwithstanding any other provision of this Letter Agreement, or the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

3 Confidentiality

For the purpose of this Clause 3, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) or any data exchanged between the Seller and the Buyer for the fulfillment of their respective obligations under this Letter Agreement shall be treated by both Parties as confidential and shall not be released in whole or in part to any third party except as may be required by law, or to auditors, legal or tax advisors for the purpose of implementation hereof.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 5

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

Signature: _____

Name: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Agreed and Accepted

For and on behalf of

AIRBUS S.A.S.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 6

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

LETTER AGREEMENT N° 6

1 [***]

8 Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

9 Confidentiality

For the purpose of this Clause 9, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 6

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 7

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

LETTER AGREEMENT N° 7

1 [***]

11 Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

12 Confidentiality

For the purpose of this Clause 12, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 7

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 8

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

LETTER AGREEMENT N° 8

1 [***]

10 Assignment

Notwithstanding any other provision of this Letter Agreement or of the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

11 Confidentiality

For the purpose of this Clause 11, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N° 8

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N°9

CHINA SOUTHERN AIRLINES COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : [*]**

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**") have entered into a purchase agreement (the “**Agreement**") dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, non-severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Letter Agreement.

If there is any inconsistency between the Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N°9

1 [***]

2 Assignment

Notwithstanding any other provision of this Letter Agreement, or the Agreement, this Letter Agreement and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

3 Confidentiality

For the purpose of this Clause 3, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Letter Agreement (and its existence) or any data exchanged between the Seller and the Buyer for the fulfillment of their respective obligations under this Letter Agreement shall be treated by both Parties as confidential and shall not be released in whole or in part to any third party except as may be required by law, or to auditors, legal or tax advisors for the purpose of implementation hereof.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

LETTER AGREEMENT N°9

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Letter Agreement to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 1

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

SIDE LETTER No 1

- 1

- 2

- 3

4Assignment

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

5Confidentiality

For the purpose of this Clause 5, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 1

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 2

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject: [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

SIDE LETTER No 2

1 [***]

2 Assignment

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

3 Confidentiality

For the purpose of this Clause 3, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 2

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 3

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions, as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

SIDE LETTER No 3

1 [***]

2 Assignment

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

3 Confidentiality

For the purpose of this Clause 3, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 3

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 4

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject: [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions; as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

SIDE LETTER No 4

1 [***]

3 Assignment

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

4 Confidentiality

For the purpose of this Clause 4, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 4

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER 5

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [*]**

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions; as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER 5

1 [***]

2. [***]

3 **Assignment**

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

4 **Confidentiality**

For the purpose of this Clause 4, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

SIDE LETTER 5

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER 6

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [*]**

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions; as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER 6

1 [***]

3 Assignment

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

4 Confidentiality

For the purpose of this Clause 4, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER 6

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

DATED 2014

CHINA SOUTHERN AIRLINES COMPANY LIMITED
as the seller

and

AIRBUS S.A.S.
as the buyer

and

**CHINA SOUTHERN AIRLINES GROUP
IMPORT & EXPORT TRADING CORP., LTD.**
as the Consenting Party

[***]

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 7

CHINA SOUTHERN AIRLINES
COMPANY LIMITED
Bai Yun Airport,
Guangzhou 510405,
People's Republic of China

Subject : [***]

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**") and AIRBUS S.A.S. (the “**Seller**”) have entered into a purchase agreement (the “**Agreement**”) dated as of even date herewith which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft as described in the Agreement.

Capitalized terms used herein and not otherwise defined in this Side Letter shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Side Letter, upon execution thereof, shall constitute an integral, non- severable part of said Agreement and shall be governed by all its provisions; as such provisions have been specifically amended pursuant to this Side Letter.

If there is any inconsistency between the Agreement and this Side Letter, the latter shall prevail to the extent of such inconsistency.

[* * *] **This information is subject to confidential treatment and has been omitted and filed separately with the commission**

SIDE LETTER No 7

1 [***]

2 [***]

3 Assignment

Notwithstanding any other provision of this Side Letter, or of the Agreement, this Side Letter and the rights and obligations of the Buyer herein shall not be assigned or transferred in any manner, and any attempted assignment or transfer in contravention of the provisions of this Clause shall be void and of no force or effect.

4 Confidentiality

For the purpose of this Clause 4, the term "Buyer" shall be deemed to include a reference to the Consenting Party.

This Side Letter (and its existence) shall be treated by the Seller and the Buyer as confidential and shall not be released (or revealed) in whole or in part to any third party without the prior consent of the other party. In particular, each party agrees not to make any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior consent of the other party.

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

SIDE LETTER No 7

If the foregoing correctly sets forth our understanding, please execute three (3) originals in the space provided below and return one (1) original of this Side Letter to the Seller.

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

CHINA SOUTHERN AIRLINES
COMPANY LIMITED

AIRBUS S.A.S.

Signature: _____

Signature: _____

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged by:

CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.

Signature: _____

Name: _____

Title: _____

Date: _____

[* * *] This information is subject to confidential treatment and has been omitted and filed separately with the commission

Asset Lease Agreement

Party A: China Southern Air Holding Company (Lessor)

Party B: China Southern Airlines Company Limited (Lessee)

In consideration of Party B’s business development needs, upon mutual friendly consultation, Party A and Party B reach the following agreement in connection with Party B’s lease of the assets of Party A and its wholly-owned subsidiaries.

Article 1 Undertakings

1 Party A is a Chinese enterprise lawfully subsisting and has obtained a business license from the industrial and commercial administrative department according to PRC laws and regulations and fulfilled its obligations of annual inspection according to relevant provisions.

2 Party A and its wholly-owned subsidiaries lawfully have the legal and compete titles to the properties listed in Annex 1 hereto and the corresponding legal land use right. Party A agrees that Party B and its subsidiaries have an option to utilize the leased properties and land within the scope hereunder.

3 Party B, a Chinese enterprise legally subsisting, has obtained a business license from the industrial and commercial administrative department according to PRC laws and regulations. It has also fulfilled its obligations of annual inspection according to relevant provisions.

Article 2 Lease Subject and Rental

Upon mutual consultation and confirmation, the annual rental payable by Party B for lease of the assets listed in Annex 1 hereto is RMB 86,268,700 (Say RMB Eighty-six Million Two Hundred and Sixty-eight Thousand Seven Hundred only). The price agreed by both parties conforms to the fair and reasonable principles, based on the market fair value and the asset appraisal report. Party A undertakes that the price offered to Party B is not higher than the average rental prevailing in comparable regions and locations.

Article 3 Lease Term

It is agreed that the lease term hereunder shall be 3 years from 1 January 2015 to 31 December 2017. Upon expiration of the lease term, the two parties will either terminate or renew the Agreement as case may be.

Article 4 Payment of Rental

The rental shall be paid on a quarterly basis. Party B shall pay a quarter of the annual rental within 15 days from the first date of the first month of every quarter by bank transfer. Party A shall issue an invoice of the same amount within 15 business days after receipt of the rental.

Article 5 Rights and Obligations of The Two Parties

(I) Rights and obligations of Party A

- (1) Party A shall have the right to collect the rental in accordance with the Agreement.
- (2) Party A shall deliver the leased property to Party B in accordance with the Agreement.
- (3) During the lease term, where Party A has to take back the leased property for its own use, Party A shall inform Party B in writing 3 months in advance, and shall adjust and reduce the rental accordingly based on the actual lease scope at the same time.
- (4) Party A shall bear the repair expenses for natural damages to the main structures of the properties as listed in Annex 1 hereto.
- (5) Party A shall bear the property tax and the land use tax for the assets listed in the annex hereto. Party A shall pay such taxes to Party B within 15 business days after Party B provides Party A with the original tax payment certificates and the tax return. The property tax shall be settled on a quarterly basis, and the land use tax shall be settled on a yearly basis.

(II) Rights and obligations of Party B

- (1) Party B shall pay the rental to Party A in accordance with the Agreement.
 - (2) Party B shall bear heating fee, water fee, electricity charge, gas fee, property management fee and other relevant expenses incurred during the lease term.
 - (3) As appointed by Party A, Party B shall declare and pay the property tax and the land use tax (except Guangzhou) for and on behalf of Party A according to the relevant regulations of the local competent tax authorities.
 - (4) Party B shall be responsible for the daily repair and maintenance of the main structures other than natural damage during the lease term, such as roof leakage, and shall be cooperative in the insurance claims and remedial work related to house repair.
 - (5) Party B shall use, cherish and normally use the properties and equipment pertaining thereto based on the nature of the leased assets, shall pay attention to fire control, and shall not illegally store any inflammable, explosive and other dangerous articles in the properties.
 - (6) Without Party A’s consent, Party B shall not change the floor structure and purpose of the properties during the lease term. Any fitment of the properties shall be subject to the prior consent of Party A. Party B may either transfer at a discount or remove any attachments it increased at the time of fitment when Party B has to move out the leased assets upon expiration of the Agreement, provided that Party B must restore the original state of the leased assets. During the lease term, Party A shall not increase the rental due to rise in the property value arising from Party B’s fitment and reconstruction.
- Where Party B has to increase additional houses or buildings on the leased land, Party B shall comply with the urban planning and general land utilization planning requirements, and shall complete the approval formalities with the appropriate authorities upon Party A’s prior written consent. Party A shall offer necessary assistance. Party A acknowledges that the new houses or buildings built on the leased land are owned by Party B, and that Party A shall not increase the rental to this end. Upon expiration of the lease term, when Party A does not renew the Agreement with Party B, such new houses or buildings shall be owned by Party A, provided that Party A shall make appropriate compensations to Party B therefor. The specific compensation amount shall be agreed by Party A and Party B separately.
- Where Party B has to remove Party A’s original houses due to construction of new buildings, Party B must obtain Party A’s prior written consent, and shall make appropriate compensations to Party A if necessary. The specific compensation amount shall be agreed by both parties separately.
- (7) During the lease term, where Party B has to increase or reduce the lease scope, Party B must inform Party A in writing 3 months in advance, and the rental shall be increased or reduced accordingly based on the actual lease scope at the same time.

Article 6 Liability for Breach of Contract

(I) Party A’s liability for breach of contract

(1) Where Party A fails to provide the leased assets to Party B on schedule hereunder, Party A shall pay to Party B the liquidated damages at 1/1000 of the rental payable per overdue day, and shall return to Party B the rental paid by Party B during the overdue delivery period.

(2) Where Party A fails to repair the natural damage to the main structure of the houses, Party B may surrender the tenancy or repair such damage for Party A with the repair costs deductible from the rental.

(3) Where Party A cannot continue fulfilling the obligations hereunder due to government decrees, urban planning or other special reasons, Party A may terminate or alter the Agreement early, and take back the leased properties or lands hereunder in whole or part, provided that Party A is obligated to make compensations to Party B for the recovered assets within the government compensation scope according to the relevant regulations.

(II) Party B’s liability for breach of contract

(1) Party B shall use the leased assets strictly in accordance with the relevant government laws and regulations. Without permission of Party A, Party B shall not transfer, sub-let or mortgage the leased properties or land. Where losses are incurred to Party A due to illegal use by Party B of the leased assets, Party B shall make compensations accordingly.

(2) Party B shall pay the rental as agreed. Where Party B is behind in payment of the rental, Party B shall pay the overdue fine at 1/1000 of the rental payable every overdue day. Where Party B’s default in payment of rental exceeds 3 months, Party A may take back the houses, and recover the rental in arrears and the liquidated damages according to laws.

(3) Where Party B damages the houses and the inherent facilities and fixtures pertaining thereto on purpose or due to negligence, Party B shall restore the original state or make compensation for the losses.

Article 7 Force Majeure

1 If this Agreement cannot be performed due to force majeure, neither party shall bear any liability and this Agreement shall terminate automatically. If this Agreement cannot be performed in part due to force majeure, the party affected by force majeure shall be exempted from relevant liabilities. However, continuous performance is required for other parts of this Agreement not affected by force majeure. No liability shall be exempted if any force majeure arises after delay in performance of this Agreement.

Force majeure refers to any unforeseeable, unavoidable or insurmountable events, including but not limited to war, plague, strike, earthquake and flood.

2 Where either party cannot perform this Agreement because of any force majeure, the said party shall notify the other party within 48 hours in order to reduce possible losses of the other party, and shall provide evidence within 15 workdays. If the said party fails to fulfil its notification obligations and provide evidence for reasonable grounds, the time limit herein may be extended according to actual circumstances.

Article 8 Settlement of Disputes

Any dispute arising from the conclusion or performance of this Agreement shall preferably be settled through friendly negotiation. If negotiation fails, either party may initiate legal proceedings to the people’s court with jurisdiction.

Article 9 Other Matters

(I) The Agreement shall become effective from the date when both parties sign and affix seal hereon.

(II) For any matter not covered herein, the two parties may sign a supplementary agreement, which shall have the same legal force as this Agreement. This Agreement shall be performed in strict accordance with the PRC laws and regulations and relevant laws and regulations and listing rules at the location where Party A is listed.

(III) The original Agreement shall be in six identical counterparts, with each party holding three copies respectively, all of which shall have the same legal effect.

Party A: China Southern Air Holding Company

Party B: China Southern Airlines Company Limited

Authorized Representative:

Authorized Representative:

This Agreement was executed in Guangzhou on DD MM YYYY.

Annex 1: Rental Summary Table

Unit: RMB'00,000

S/N	Area	Properties/ Buildings	Land Use Right	Structures	Equipment Assets	Total
1	Wuhan	155.86	1,466.74	0.77		1,623.37
2	Changsha	157.05	11.85	-		168.90
3	Haikou	327.67	-	-		327.67
4	Zhanjiang	14.56	37.33	-		51.89
5	Guangzhou	886.44	530.13	-		1,416.57
6	Nanyang	507.07	2097.59	1765.53	625.43	4995.62
7	Hengyang	16.31				16.31
8	Shashi	26.54				26.54
	Total	2,091.50	4,143.64	1,766.30	625.43	8,626.87

Supplemental Agreement to the
Media Services Framework Agreement

Party A: China Southern Airlines Company Limited

Party B: Southern Airlines Culture and Media Co., Ltd.

Based on the *Media Services Framework Agreement* (hereinafter referred to as “the Original Agreement”) concluded between them on 19 April 2013, Party A and Party B, in the spirit of equality and mutual benefit and upon negotiation, enter into this supplemental agreement, with the specific clauses set out as follows:

- I. Party A shall comprise China Southern Airlines Company Limited and its wholly-owned or holding subsidiaries.
- Party B shall comprise Southern Airlines Culture and Media Co., Ltd. and its wholly-owned or holding subsidiaries, including but not limited to Guangzhou Guangtianhe Media Co., Ltd., Shenyang Guangtianhe Media Consultation Co., Ltd., Xinjiang Guangtianhe Media Co., Ltd., Beijing Guangtianhe Culture Media Co., Ltd., Xiamen Airlines Media Co., Ltd. and Guangdong South Pearl Media Co., Ltd.
- II. Article 1 of the Original Agreement shall be amended as follows: “The scope and content of the media services in this framework agreement shall include exclusive advertising agency of China Southern Airlines Company Limited and advertising agency of its wholly-owned and holding subsidiaries, planning, purchase and production agency of entertainment programs on Party A’s flights, channel publicity and production, recruitment of public relations practitioners, placement of journals and other media services.”
- III. Clause 5 of Article 11 of the Original Agreement shall be amended as follows: “Party B shall, according to the contract, be responsible for the whole process of selection, negotiation, purchase, implementation and supervision relating to the media or media agency, implement media assessment and purchase, and publish ads in time. Party B shall set up a supplier purchase management system, subdivide the process of selection, negotiation, purchase and implementation relating to media suppliers, define the suppliers’ qualification criteria, asset size and credit standing, specify the procedures for ad purchase and contract conclusion and performance, purchase in strict accordance with regulations and rules and carefully select large and experienced ad suppliers.”

IV. Clause 6 of Article 11 of the Original Agreement shall be amended as follows: “After Party B publishes the ads as an agent for Party A, Party B shall monitor the actual effect of ad publication and provide Party A with a monitoring report before the 30th day every month. The monitoring report shall be a part of the settlement voucher between the two parties, with its content including but not limited to general information of ad publication such as ad position, date and time of publication, and format, specifications and number of ads; gap between the actual time and scheduled time for ads display (give reasons); and the advertising coverage. Moreover, supporting evidence like photos and pictures shall be attached. The two parties may, according to the actual circumstances, separately specify the time of providing the monitoring report and the specific form and content of the report in the advertising agency agreement.”

V. Article 13 of the Original Agreement shall be amended as follows: “Party A and Party B unanimously confirm that the transaction amount for the media services under this agreement shall be capped at RMB105 million at most in 2014 and RMB118.5 million in 2015.”

VI. This supplemental agreement shall be deemed as supplement to the Original Agreement. In the event of any discrepancy between the Original Agreement and this supplemental agreement, the latter shall prevail.

VII. After consideration and approval by the boards of directors of the two parties, this supplemental agreement shall take effect upon affixing of signatures and seals by the two parties. This supplemental agreement shall be executed in four counterparts with equal legal force, with two held by Party A and Party B respectively.

Party A: China Southern Airlines Company Limited

Signature:

Party B: Southern Airlines Culture and Media Co., Ltd.

Signature:

Date: DD MM YYYY

Property Management Framework Agreement

This Agreement was entered into by and between the following parties in Guangzhou on DD MM YYYY:

Party A: China Southern Airlines Company Limited
Address: 278 Jichang Road, Guangzhou
Legal representative: Si Xianmin

Party B: Guangzhou China Southern Airlines Property Management Company Limited
Domicile: 2/F, Southern Airlines Building No. 4, Guangzhou Baiyun International Airport, Baiyun District, Guangzhou
Legal representative: Guo Binghua

To realize optimal allocation of resources, make full use of Party B’s management strengths and improve the company’s economic returns, Party A and Party B, upon friendly negotiation, arrive at the following framework agreement on Party A authorizing Party B to carry out property management and repair work:

Article 1 Undertakings

1. Party A is a Chinese enterprise lawfully subsisting and has obtained a business license from the industrial and commercial administrative department according to PRC laws and regulations and fulfilled its obligations of annual inspection according to relevant provisions.
2. Party B, a Chinese enterprise legally subsisting, has obtained a business license from the industrial and commercial administrative department according to PRC laws and regulations. It also fulfills its obligations of annual inspection according to relevant provisions, and has the management ability and management and service staff in the related industry.

Article 2 Property Management

To ensure that Party A’s facilities are in good condition and the equipment functions well in the production, office and living areas in and around the old and new sites of Guangzhou Baiyun International Airport, Party A has engaged Party B to be responsible for the management and maintenance of the property of China Southern Airlines Company Limited in and around the old site of Guangzhou Baiyun International Airport and the property rented by Party A in the China Southern Air’s base and terminal in the new site of Guangzhou Baiyun International Airport, effective supervision and management of the operation maintenance of the 110kV transformer substation of China Southern Airlines Company Limited in the new site of Guangzhou Baiyun International Airport, operation management and maintenance of the high-and low-voltage transformation and distribution equipment in Guangzhou freight depot and collection of electricity fees. Upon negotiation, the two parties concluded a specific entrusted management agreement. Party B undertakes that the price (or charging standard) for Party A will not be higher than that offered by an independent third party in the industry.

Article 3 Rights and Obligations of The Two Parties

(I) Rights and obligations of Party A

- 1. Pay the management fee according to the property management agreement;
- 2. Supervise and evaluate Party B’s management and maintenance and provide guiding suggestions;

(II) Rights and obligations of Party B

- 1. Receive management fee according to the property management agreement;
- 2. Accept Party A’s supervision, management and evaluation;
- 3. Work with diligence in managing the property consigned by Party A, staffing qualified property management personnels to make sure finishing various tasks satisfactorily on time.

Article 4 Maximum Transaction Amount

The two parties to this Agreement have agreed that the amount of this Agreement shall be capped at RMB90 million in 2015, RMB92 million in 2016 and RMB96 million in 2017.

Article 5 Force Majeure

1. If this Agreement cannot be performed due to force majeure, neither party shall bear any liability and this Agreement shall terminate automatically. If this Agreement cannot be performed in part due to force majeure, the party affected by force majeure shall be exempted from relevant liabilities. However, continuous performance is required for other parts of this Agreement not affected by force majeure. No liability shall be exempted if any force majeure arises after delay in performance of this Agreement.

Force majeure refers to any unforeseeable, unavoidable or insurmountable events, including but not limited to war, plague, strike, earthquake and flood.

2. Where either party cannot perform this Agreement because of any force majeure, the said party shall notify the other party within 48 hours in order to reduce possible losses of the other party, and shall provide evidence within 15 workdays. If the said party fails to fulfil its notification obligations and provide evidence for reasonable grounds, the time limit herein may be extended according to actual circumstances.

Article 6 Settlement of Disputes

Any dispute arising from the conclusion or performance of this Agreement shall preferably be settled through friendly negotiation. If negotiation fails, either party may initiate legal proceedings to the people’s court with jurisdiction.

Article 7 Other Matters

- (I) This Agreement shall be valid for three years, i.e., from 1 January 2015 to 31 December 2017.
- (II) For any matter not covered herein, the two parties may sign a supplementary agreement, which shall have the same legal force as this Agreement. This Agreement shall be performed in strict accordance with the PRC laws and regulations and relevant laws and regulations and listing rules at the location where Party A is listed.
- (III) This Agreement shall be executed in two originals with equal legal force, with one held by Party A and Party B respectively.

Party A:	Party B:
Authorized representative:	Authorized representative:

Electronic Aviation Passenger Comprehensive Insurance Four-parties Cooperation Agreement

Party A: Guangdong CSA E-commerce Co., Ltd.(广东南航电子商务有限公司)

Legal Representative: Guo Zhiqiang
Domicile: No. 05 of Unit 201, 68 Huacui Street, Jianye Road, Zhongshan Road West Industrial Park, Tianhe District, Guangzhou
Telephone: 020-86131534

Party B: Southern Airlines Group Finance Company Limited (中国南航集团财务有限公司)

Legal Representative: Wang Jianjun
Domicile: No. 17 Hangyun Southern Street, Baiyun District, Guangzhou
Telephone: 020-61052798

Party C: Air Union Insurance Brokers (Beijing) Co., Ltd. (航联保险销售(北京)有限公司)

Legal Representative: Li Yongqi
Domicile: Rm 801-803 CYTS Plaza, 5 Dongzhimen Nan Street, Dongcheng District, Beijing
Telephone: 010-58157000

Party D: Ping An Property & Casualty Insurance Company of China, Ltd., Guangdong Branch

Legal Representative: Lu Chengdao
Domicile: Floors 15-28 PingAn Building, 160 Tiyu Dong Road, Guangzhou
Telephone: 020-38782009

General Provisions

According to the *Contract Law of the People's Republic of China*, *Insurance Law of the People's Republic of China* and the relevant laws and regulations, Guangdong CSA E-commerce Co., Ltd. (hereafter referred to as ‘Party A’) Southern Airlines Group Finance Company Limited (hereafter referred to as ‘Party B’), Air Union Insurance Brokers (Beijing) Co., Ltd. (hereafter referred to as ‘Party C’) and Ping An Property & Casualty Insurance Company of China, Ltd., Guangdong Branch (hereafter referred to as ‘Party D’) shall further cooperate in electronic comprehensive air passenger insurance business for genuine fulfillment of resource sharing and complementary advantages. In order to enter into higher and newer stages of development, better products and services which better cater to customers’ needs shall be offered jointly. Party A, Party B, Party C and Party D have reached the following agreements on the principle of reciprocity, complementary advantages and mutual development through amicable negotiations.

Chapter 1 Cooperation

Article 1 Content of cooperation

- 1.1
- The four parties agree to cooperate in the development of electronic comprehensive air passenger insurance projects and jointly handle business matters relating to the sale of insurance.
- 1.2
- ’Electronic comprehensive air passenger insurance’ specifically refers to the broad comprehensive air passenger insurance business, which includes aviation accident insurance (mainly injury in aviation accidents) and air passenger-related insurance products such as short-term traffic accident injury insurance, checked luggage insurance, flight delay insurance, flight cancellation insurance, compensation for cancellation of special price passenger tickets and travel insurance for international air tickets. It aims to replace the traditional paper insurance policies with electronic comprehensive air passenger insurance policies, implement centralized management of policy holders’ and air passengers’ information through online information sharing, and create a kind of new product by inputting insurance payment information into the system and printing them on ‘Air Transport Itineraries of E-tickets’ to be sold together with E-ticket insurance.

- 1.3 Party A shall within the scope authorized by China Southern Airlines Company Limited (hereafter referred to as ‘CS Air’) permits Party B, Party C and Party D to use its Business to Customer website at www.csair.com (hereafter referred to as ‘B2C website’), mobile customer terminal ticket sale platform and VOS sales system for selling insurance.
- 1.4 Party B shall provide services including overall coordination, in-process support, assistance for settlement and claims and product marketing in accordance with this Agreement.
- 1.5 As the sales agent of the project, Party C shall sell Party D’s electronic air passage insurance products on the platform provided by CS Air.
- 1.6 As the insurer of the cooperation project, Party D shall offer insurance products on consistent terms of coverage for CS Air’s B2C website, mobile applications and VOS system; offer insurance of uniform service standards and voluntary compensation services; provide supporting consultation services and bear insurance liabilities specified in insurance clauses. Its products should cover personal accident injury insurance, additional travel delay insurance, additional luggage delay insurance, additional travel changes insurance, additional passenger’s personal effect insurance and additional aircraft hijacking insurance.

Main responsibilities of the products include:

- Accidental death and disability:** Insurance amount shall be RMB600,000
- Flight delay insurance:** RMB300 shall be compensated for every four hours; the maximum amount of compensation shall be RMB900
- Luggage delay insurance:** RMB500 shall be compensated for every eight hours; the maximum amount of compensation shall be RMB1,500
- Travel cancellation insurance (including flight cancellation):** Amount of compensation shall be RMB600
- Passenger’s personal effect insurance:** Amount of compensation shall be RMB1,000

- Aircraft hijacking insurance:** Amount of compensation shall be RMB1,000
- 1.7 See Appendix 1 for applicable insurance clauses for electronic comprehensive air passenger insurance under this Agreement.
- 1.8 Party D shall, as requested by Party A, Party B and Party C, upgrade or optimize the insurance products in the light of market conditions.

Article 2 Period of cooperation

- 2.1 This Agreement shall take effect from 12 June 2014 and remain valid until 31 May 2017.
- 2.2 All Parties unanimously agree that negotiation on extension of the cooperation period shall be conducted within three months prior to the date of expiration.

Chapter 2 Rights and obligations of all Parties

Article 3 Rights and obligations of Party A

(I) Rights of Party A

- 3.1 To understand the insurance settlement data from Party C.
- 3.2 To complete premium concentration with its own system.
- 3.3 To suspend sale of Party D’s insurance products due to business changes or organizational restructuring.
- 3.4 To decide the proportion of its electronic comprehensive air passenger insurance products to be sold on CS Air website, mobile applications and VOS system according to the number of air tickets sold through Party D’s promotion of business class E-ticket and insurance cooperation projects.

(II) Party A’s obligations

- 3.5 To design and develop insurance sale webpages in line with Party C’s frontend interface for development of website sale system according to Party C’s suggestions and requests. If any changes take place in CS Air website in terms of design and presentation during the period of cooperation, Party A shall timely notify Party C.

- 3.6 To provide conditions necessary for docking with Party D’s electronic system; to transmit insurance data in a real-time manner. The data field shall include but not be limited to premium, E-ticket numbers, policy numbers, order numbers, names, contact information and ID numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.
- 3.7 To be responsible for daily maintenance of the electronic direct sale system, and ensure stable operation of the website, mobile applications and insurance sale platform of the VOS system.
- 3.8 To make full use of customer services of CS Air’s Call Center, and complete off-line sale of insurance products and premium payment according to customers’ needs.
- 3.9 To be responsible for timely transferring the received premiums to Party B on monthly basis as agreed in this Agreement.
- 3.10 To be responsible for developing and maintaining 24-hour telephone customers services.
- 3.11 To provide information inquiry services including names of insurance companies, names of insurance products, names of the insured, premiums, insurance amount, policy term, reminder of disclaimer, marketing companies, customer services hotline and ways for policy inquiries.
- 3.12 To return premiums to customers who surrender their policies as entrusted by Party D.

Article 4 Rights and obligations of Party B

(I) Rights of Party B

- 4.1 To charge commissions from Party D as agreed in this Agreement.
- 4.2 To obtain insurance settlement data from Party C.

(II) Obligations of Party B

- 4.3 To provide services including providing general support, making settlements and helping with claim settlements as agreed in this Agreement.
- 4.4 To be responsible for overall coordination of the project, and propose and complete overall design of marketing plan according to needs of Parties A and C.
- 4.5 To ensure that it has the qualifications for concurrent-business insurance agency and remained qualified during the valid period of this Agreement.

- 4.6 To proceed with the formalities for registering additional items with competent business authorities and applying for tax invoice necessary for its insurance business.
- 4.7 To provide agency settlement services as agreed in this Agreement. To issue settlement bills based on data provided by Party A; complete reconciliations with all Parties and ensure premium settlement with Party D.
- 4.8 To provide clearing services to all Parties as agreed in this Agreement.
- 4.9 To be responsible for developing the management and customer services manual for operation of the project, but consent from Party A, Party C and Party D shall be obtained for contents involving them.
- 4.10 To assist all Parties of the Project with tasks such as customers inquiries and complaint management.
- 4.11 To provide services such as voluntary claims as needed by products, design logic of claim settlement and complete screening of claims data for the project and collection of claimer accounts; to offer all conditions which facilitate Party D’s final payment of compensation for the insured.

Article 5 Rights and obligations of Party C

(一)Rights of Party C

- 5.1 To charge commissions as agreed in this Agreement.
- 5.2 To use marketing platforms including the designated Internet within Party A’s authorized scope under the project for selling Party D’s electronic air travel insurance products to travelers who buy CS Air tickets, as an sales agent.

(II) Obligations of Party C

- 5.3 To assist CS Air with development of sale webpages and system data transmission, and provide training for customers services staff of Party A and Party B.
- 5.4 To be responsible for providing data processing system; to ensure real-time docking of the system with Party D’s insurance system and real-time receipt of sales data from CS Air platform.
- 5.5 To provide all Parties with innovative models for the electronic comprehensive air passenger insurance project, and offer assistance to fulfill function of the ‘Premium’ section of the CS Air travel itinerary list.

- 5.6 To provide by-telephone manual verification and on-website self-service verification of electronic policies.
- 5.7 To help Party A and CS Air with complaints from passengers.

Article 6 Rights and obligations of Party D

(I) Rights of Party D

- 6.1 To receive premium as agreed in this Agreement.
- 6.2 To obtain real-time sales data from Party A regarding the insurance products under cooperation as agreed in this Agreement. The data field shall include premium, E-ticket numbers, policy numbers, order numbers, names, contact information and credential numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.

(II) Obligations of Party D

- 6.3 To permit air ticket platforms including the Internet within Party A’s authorized scope as the marketing platforms of insurance products; and appoint Party C as an insurance sales agent for selling its insurance products on air ticket platforms including the Internet;
- 6.4 To recognize services that Party B shall provide for the project including agency settlement, marketing support and agency claims;
- 6.5 To recognize sales services of Party A including off-line sale of insurance;
- 6.6 To pay commissions to Party B and Party C as agreed in Article 7 of this Agreement;
- 6.7 To file the insurance products under cooperation with the insurance regulatory authority according to requirements of the insurance regulations , and provide unified services to customers in the agreed regions;
- 6.8 To assist Party A or Party B with application, changes and renewal of the qualifications for concurrent-business insurance agency free of charge as requested by Party A or Party B.
- 6.9 To provide conditions necessary for docking with Party A’s electronic system; to ensure that sales data can be obtained from Party A and are imported into the insurance system in a real-time manners besides taking reasonable and essential measures to ensure normal and stable operation of the data transmission system.

- 6.10 To send insurance data in a real-time manners to Party B and Party C as agreed. Data shall be transmitted in the form of encryption algorithm to ensure safe and stable data transmission of the entire insurance sales system.
- 6.11 To bear relevant insurance liabilities as insurer of the insurance products in accordance with insurance contracts. If the policy holder has paid his or her premium to Party A, compensation responsibility shall not be refused on the ground of non-receipt of premium.
- 6.12 As to policies of insurance products issued under this Agreement, in the case that the insurance accidents specified in the insurance contract occur, Party D shall compensate according to the system sales data and flight departure data provided by Party A no matter whether the specific insurance data has been input into Party D’s system, unless Party D has evidence to prove loss of such data, and the loss is caused by Party A’s subjective deliberate acts. If data error takes place due to Party A’s deliberate acts and has caused losses to the insured, beneficiaries and Party D, Party A shall bear the relevant liabilities.
- 6.13 To be responsible for accepting accident claims of the insurance products under cooperation. As to the insurance responsibilities for executable voluntary claim services as agreed by all Parties, Party D shall recognize Party B’s claims data, dock with Party B’s claim data system and be responsible for compensating the insured in accordance with the terms of insurance of this Agreement.
- 6.14 To provide real-time policy inquiry services regarding the insurance products under cooperation via telephone and Internet for travelers; and provide at the prominent spot of its web portal a section for inquiries of information about accident insurance policies. The inquiry content and interface shall include the following information: names of insurance products, policy numbers, premium, insurance amount, policy term and marketing entity. A hotline should also be provided for claim settlement services.
- 6.15 Party D shall timely provide feedback to all Parties about new regulatory policies implemented in various regions involved in this Agreement and regulations involving the Company’s business.

- 6.16 To carry out due marketing campaigns for the project; and provide Party A and CS Air with the marketing support for purpose of direct ticket sale business.

Chapter 3 Settlement of fees

Article 7 Fee criteria

- 7.1 The value of each electronic comprehensive air passenger insurance amounts to RMB20.
- 7.2 For every policy of Party D’s insurance product under cooperation successfully sold through websites within the Party A’s authorized scope, mobile applications and VOS system (successful sale is marked by the insured’s successful payment through CS Air website, mobile applications and VOS, excluding policy surrenders), Party D shall pay RMB10 to Party B and RMB1 to Party C as their commissions. Upon receipt of all commissions, Party B shall pay RMB5 to Party A as platform service fee.
- 7.3 In the case of a policy surrender, Party D does not need tp pay any commissions. if Party D had already paid the said commissions, the other Parties shall refund accordingly.
- 7.4 The process and ways of settlement shall follow relevant rules of the local regulatory departments.
- 7.5 In the case that new government policies are enacted regarding fee adjustments, all Parties shall negotiate and adjust the products or fee rates.

Article 8 Settlement of fees

- 8.1 Before the 15th day of each month, Party A shall issue a bill for the last settlement period based on sales data of the last cycle provided by the business regions. Upon receipt of the data and settlement bill from Party A, Party B, Party C and Party D shall confirm the accounts before the 17th day of each month. In the case of inconsistent data, such data should be rectified in a prompt manner, and settlement of premiums and relevant fees shall defer accordingly.

- 8.2 Upon confirmation of accounts, Party A shall transfer the full amount of premium of the previous month to the bank account designated by Party B before the 23rd day of each month.
- Name of Party B’s beneficiary’s account: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number 3602065229200084927.
- 8.3 Upon receipt of premium and confirmation, Party B shall transfer part of the previous month’s premium attributable to Party D’s sales regions to Party D’s designated bank account before the 24th day of each month. Name of Party B’s account of premium payment: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065229200084927.
- Name of Party D’s beneficiary’s account: Ping An Property & Casualty Insurance Company of China, Ltd., Guangdong Branch; Bank: Industrial and Commercial Bank of China Limited Guangzhou Hong Mian Sub-branch; Bank account number: 3602014329200046626.
- 8.4 Upon receipt of full amount of premium transferred by Party B, Party D shall pay commissions to Party B and Party C in the proportion agreed in this Agreement before the 29th day of each month. At the same time, Party B and Party C shall issue to Party D a receipt for the commissions received before the 30th day of each month. Name of Party B’s beneficiary account for commissions: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065209000088916.
- Name of Party C’s beneficiary’s account: Air Union Insurance Brokers (Beijing) Co., Ltd. Bank: China Merchants Bank, Beijing Fangzhuang Sub-branch; Bank account number: 110908750810999.
- 8.5 Upon receipt of commissions from Party D, Party B shall pay Party A service fees before the 30th day of each month. Upon receipt of full amount of all service fees, Party A shall issue to Party B a receipt of service fees before the 30th day of each month.

- Name of Party A’s beneficiary account: Guangdong CSA E-commerce Co., Ltd.; Bank: China Merchants Bank, Fengshen Sub-branch; Bank account number: 120902062710622.
- 8.6 In the case of statutory holiday, the said settlement day shall be postponed to the first working day following the statutory holiday.
- 8.7 If any Party hereto fails to perform its payment obligation upon confirmation of the settlement bills and causes losses to the other three Parties, the other three Parties may reserve the right of claiming for compensation based on their losses.

Article 9 Invoice management

- 9.1 Upon receipt of full amount of all commissions on time, Party B shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month.
- 9.2 Upon receipt of commissions, Party C shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month
- 9.3 Party B and Party C shall ensure that Party D receives the receipt within that month (except for reason of force majeure).

Chapter 4 Representations & Warranties

Article 10 Representations & Warranties

All parties guarantee:

- 10.1 All parties guarantee that each has its capacities for corresponding civil rights and civil acts.
- 10.2 Execution of this Agreement constitutes no infringement upon any third party’s legitimate interests.
- 10.3 Each has all the rights, authorization and approval for entering into this Agreement, and has all the rights, authorization and approval necessary for performing all obligations under this Agreement.
- 10.4 The provisions of this Agreement shall become its legal, effective and binding obligations after its legally authorized representative has signed this Agreement on its behalf.

10.5 The execution and performance of this Agreement shall not contradict or breach its business licence, articles of association, any law or approval granted by any government organization or institution or any rules they set for any legal document of the signatory.

Chapter 5 Responsibilities for Breach of Agreement

Article 11 Compensation for breach of agreement

- 11.1 Party D shall timely handle insurance claims application or surrender of policy in a timely manner as agreed in the contract. In the case that Party D is complained by travelers for three times or more during the period of contract, Party A has the right to rescind the contract unilaterally.
- 11.2 Pursuant to the *Rules on Punishment of Illegal Acts in the Intermediary Business*, Party D has the right to demand Party C to rectify its insurance-related illegal acts. In the case that Party C refuses to rectify it, Party D has the right to terminate the agency of Party C.

The clauses below are applicable to sales data commonly recognized by the four Parties:

- 11.3 Party A and Party B shall fully transfer all premiums to Party D as agreed in this contract. In the case of late delivery, it shall bear the responsibility of late payment by paying 1/10,000 of the payable premium for each day delayed besides paying the payable premium. Party D has the right to terminate the contract in the case of delay for more than 60 days.
- 11.4 Party D shall pay Party B the commissions payable to Party B. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party B has the right to terminate the contract in the case of delay for more than 60 days.

- 11.5 Party D shall pay Party C the commissions payable to Party C. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party C has the right to terminate the contract in the case of delay for more than 60 days.
- 11.6 Party B shall pay Party A the service fees payable to Party A. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable service fees for each day delayed besides paying the payable service fees. Party A has the right to terminate the contract in the case of delay for more than 60 days.

Chapter 6 Termination of Agreement

Article 12 Force Majeure

- 12.1 In the case that any Party is unable to discharge its obligations due to conditions beyond its control, performance of this Agreement shall be terminated. The conditions which directly affect a Party’s ability to discharge its obligations include wars, natural disasters, government acts (including rules or prohibition order issued by government departments) and civil disorder, etc.
- 12.2 In the case of occurrence of force majeure, the Party which adduces the ground of force majeure shall timely notify the other Parties within seven days so as to minimize possible losses to the other Parties and submit evidences within a reasonable timeframe. In the case that the Party which experienced force majeure fails to timely notify the other Parties and this results in greater losses to the other Parties, the Party which experienced force majeure shall be responsible to compensate for the greater losses.
- 12.3 The Party which claims to have experienced force majeure shall take all essential measures to minimize the damages that may be caused as a result of force majeure.

Article 13 Transfer and Early Termination of Contract

- 13.1
- If either Party A or Party B, as required by internal management, has to make an early withdrawal from the project and transfer the rights and obligations under this Agreement to the other Parties, provided that the current normal operation of the project is not affected, it can be done so by sending a written notice to Party C and Party D two months in advance. Party C and Party D shall not object to such transfer.
- 13.2
- In the case that any of the Parties unilaterally requests for early termination of this Agreement, a written notice should be sent to the other Parties one month in advance. This Agreement shall terminate upon expiry of one month from the date of the notice. Upon termination of this Agreement, all Parties shall settle the claims and debts under this Agreement.
- 13.3
- Unless otherwise agreed, any decision to terminate this Agreement shall not hinder the other Parties’ right to make claim for damages.

Article 7 Confidentiality

Article 14 Confidentiality

- 14.1
- All Parties to this Agreement shall take essential measures to keep all contents of this Agreement confidential.
- 14.2
- Unless for compliance of the law or compulsory requirements of the statutory regulators, no party shall disclose any information about the other Parties it came to know under this Agreement or any content of this Agreement to any other parties without consent of the other Parties. If losses are caused to the Parties or non-signatory third party as a result of the disclosure, the disclosing Party shall be responsible for compensating the suffering party for all its losses.

Chapter 8 Other matters

Article 15 Notices

- 15.1
- Any notice for the purpose of or related to this Agreement shall take no effect unless delivered by hand, mail, express delivery or fax to the contact address stated at the beginning of this Agreement. Any of the Parties shall promptly notify the other Parties of any changes in its contact information.

- 15.2
- Unless otherwise agreed, the dates below shall be deemed the dates when all notices and correspondences are duly delivered to and noted by the Party being notified:
- 1) For delivery by hand, it is the date when the Party being notified receives the notice;

2) For delivery by ordinary mail, it is the 7th working day after the mail is posted;

3)For delivery by express delivery, it is the 3rd working day after the mail is delivered;

4) For delivery by fax, it is the date when the message was faxed and confirmation report is received;

5) Notices delivered by hand, mail and express delivery shall be deemed to have been delivered upon reaching the address stated at the beginning of this Agreement.

Article 16 Partial invalidity

- 16.1
- If one or more clauses of this Agreement are invalid, the remaining clauses of this Agreement shall remain unaffected.
- 16.2
- If this Agreement becomes invalid due to changes in law, regulations or regulatory requirements, all Parties to this Agreement agree that this shall be solved by way of negotiating and signing a supplemental agreement under the premises that operation of the project is not affected.
- 16.3
- All Parties agree that amendments to the clauses announced to be invalid should be negotiated on principles of objectivity and sincerity so that they comply with the statutory requirements.

Article 17 Applicable law and settlement of disputes

- 17.1
- The law of the People’s Republic of China shall apply in the conclusion, validity, interpretation, performance and solution of disputes of this Agreement.
- 17.2
- All Parties shall solve any disputes arising from or related to this Agreement through negotiation. In the case of fruitless negotiation, any Party may solve the dispute through litigation by referring it to the people’s court in the jurisdiction where Party A is domiciled.

Article 18 Appendices to Agreement

The Appendices to Agreement is an integral part of this Agreement and, together with articles of this Agreement, constitute complete contents of the cooperation agreed by all Parties through negotiation and bear the same effect as this Agreement.

Article 19 Validity of Agreement

This Agreement shall take effect from the date when authorized representatives of all Parties sign and affix the official seals on it. This Agreement is in six duplicate, Party A shall keep three copies and each of the remaining Parties shall keep one copy. All copies shall bear the same legal effect.

List of appendices:

- 1. Appendix 1: Insurance Clauses
- 2. Appendix 2: Settlement Process
- 3. Appendix 3: Process of individual surrender of policy

(This is the signature page of the Four-party Agreement on Electronic Aviation Passenger Comprehensive Insurance and contains no text.)

Party A:
Authorized Representative (Signature):

Date:

Party B:
Authorized Representative (Signature):

Date:

Party C:
Authorized Representative (Signature):

Date:

Party D:
Authorized Representative (Signature):

Date:

Electronic Aviation Passenger Comprehensive Insurance Four-parties Cooperation Agreement

Party A: Guangdong CSA E-commerce Co., Ltd. (广东南航电子商务有限公司)

Legal Representative: Guo Zhiqiang
Domicile: No. 05 of Unit 201, 68 Huacui Street, Jianye Road, Zhongshan Road West Industrial Park, Tianhe District, Guangzhou
Telephone: 020-86131534

Party B: Southern Airlines Group Finance Company Limited (中国南航集团财务有限公司)

Legal Representative: Wang Jianjun
Domicile: No. 17 Hangyun Southern Street, Baiyun District, Guangzhou
Telephone: 020-61052798

Party C: Air Union Insurance Brokers (Beijing) Co., Ltd. (航联保险销售(北京)有限公司)

Legal Representative: Li Yongqi
Domicile: Rm 801-803 CYTS Plaza, 5 Dongzhimen Nan Street, Dongcheng District, Beijing
Telephone: 010-58157000

Party D: Sunshine Property and Casualty Insurance Company Limited (阳光财产保险股份有限公司)

Legal Representative: Zhang Weigong
Domicile: Floors 5-6 Kuntai International Mansion Building, Block 1, Yi No. 12 Chao Wai Road Chaoyang District, Beijing
Telephone: 010-58289998

General Provisions

According to the *Contract Law of the People's Republic of China*, *Insurance Law of the People's Republic of China* and the relevant laws and regulations, Guangdong CSA E-commerce Co., Ltd. (hereafter referred to as ‘Party A’), Southern Airlines Group Finance Company Limited (hereafter referred to as ‘Party B’), Air Union Insurance Brokers (Beijing) Co., Ltd. (hereafter referred to as ‘Party C’) and Sunshine Property and Casualty Insurance Company Limited (hereafter referred to as ‘Party D’) shall further cooperate in electronic comprehensive air passenger insurance business for genuine fulfillment of resource sharing and complementary advantages. In order to enter into higher and newer stages of development, better products and services which better cater to customers’ needs shall be offered jointly. Party A, Party B, Party C and Party D have reached the following agreements on the principle of reciprocity, complementary advantages and mutual development through amicable negotiations.

Chapter 1 Cooperation

Article 1 Content of cooperation

- 1.1
- The four parties agree to cooperate in the development of electronic comprehensive air passenger insurance projects and jointly handle business matters relating to the sale of insurance.
- 1.2
- ’Electronic comprehensive air passenger insurance’ specifically refers to the broad comprehensive air passenger insurance business, which includes aviation accident insurance (mainly injury in aviation accidents) and air passenger-related insurance products such as short-term traffic accident injury insurance, checked luggage insurance, flight delay insurance, flight cancellation insurance, compensation for cancellation of special price passenger tickets and travel insurance for international air tickets. It aims to replace the traditional paper insurance policies with electronic comprehensive air passenger insurance policies, implement centralized management of policy holders’ and air passengers’ information through online information sharing, and create a kind of new product by inputting insurance payment information into the system and printing them on ‘Air Transport Itineraries of E-tickets’ to be sold together with E-ticket insurance.
- 1.3
- Party A shall within the scope authorized by China Southern Airlines Company Limited (hereafter referred to as ‘CS Air’) permits Party B, Party C and Party D to use its Business to Customer website at www.csair.com (hereafter referred to as ‘B2C website’), mobile customer terminal ticket sale platform and VOS sales system for selling insurance.

- 1.4
- Party B shall provide services including overall coordination, in-process support, assistance for settlement and claims and product marketing in accordance with this Agreement.
- 1.5
- As the sales agent of the project, Party C shall sell Party D’s electronic air passage insurance products on the platform provided by CS Air.
- 1.6
- As the insurer of the cooperation project, Party D shall offer insurance products on consistent terms of coverage for CS Air’s B2C website, mobile applications and VOS system; offer insurance of uniform service standards and voluntary compensation services; provide supporting consultation services and bear insurance liabilities specified in insurance clause. Its products should cover personal accident injury insurance, additional travel delay insurance, additional luggage delay insurance, additional travel changes insurance, additional passenger’s personal effect insurance and additional aircraft hijacking insurance.

Main responsibilities of the products include:

- Accidental death and disability:** Insurance amount shall be RMB600,000
- Flight delay insurance:** RMB300 shall be compensated for every four hours; the maximum amount of compensation shall be RMB900
- Luggage delay insurance:** RMB500 shall be compensated for every eight hours; the maximum amount of compensation shall be RMB1,500
- Travel cancellation insurance (including flight cancellation):** Amount of compensation shall be RMB600
- Passenger’s personal effect insurance:** Amount of compensation shall be RMB1,000
- Aircraft hijacking insurance:** Amount of compensation shall be RMB1,000

- 1.7
- See Appendix 1 for applicable insurance clauses for electronic comprehensive air passenger insurance under this Agreement.
- 1.8
- Party D shall , as requested by Party A, Party B and Party C, upgrade or optimize the insurance products in the light of market conditions.

Article 2 Period of cooperation

- 2.1
- This Agreement shall take effect from 12 June 2014 and remain valid until 31 May 2017.

2.2 All Parties unanimously agree that negotiation on extension of the cooperation period shall be conducted within three months prior to the date of expiration.

Chapter 2 Rights and obligations of all Parties

Article 3 Rights and obligations of Party A

(I) Rights of Party A

- 3.1 To understand the insurance settlement data from Party C.
- 3.2 To complete premium concentration with its own system.
- 3.3 To suspend sale of Party D’s insurance products due to business changes or organizational restructuring.
- 3.4 To decide the proportion of its electronic comprehensive air passenger insurance products to be sold on CS Air website, mobile applications and VOS system according to the number of air tickets sold through Party D’s promotion of business class E-ticket and insurance cooperation projects.

(II) Party A’s obligations

- 3.5 To design and develop insurance sale webpages in line with Party C’s frontend interface for development of website sale system according to Party C’s suggestions and requests. If any changes take place in CS Air website in terms of design and presentation during the period of cooperation, Party A shall timely notify Party C.
 - 3.6 To provide conditions necessary for docking with Party D’s electronic system; to transmit insurance data in a real-time manner. The data field shall include but not be limited to premium, E-ticket numbers, policy numbers, order numbers, names, contact information and ID numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.
 - 3.7 To be responsible for daily maintenance of the electronic direct sale system, and ensure stable operation of the website, mobile applications and insurance sale platform of the VOS system.
 - 3.8 To make full use of advantages of customer services of CS Air’s Call Center, and complete off-line sale of insurance products and premium payment according to customers’ needs.
 - 3.9 To be responsible for timely transferring the received premiums to Party B on monthly basis as agreed in this Agreement.
-

- 3.10 To be responsible for developing and maintaining 24-hour telephone customers services.
- 3.11 To provide information inquiry services including names of insurance companies, names of insurance products, names of the insured, premiums, insurance amount, policy term, reminder of disclaimer, marketing companies, customer services hotline and ways for policy inquiries.
- 3.12 To return premiums to customers who surrender their policies as entrusted by Party D.

Article 4 Rights and obligations of Party B

(I) Rights of Party B

- 4.1 To charge commissions from Party D as agreed in this Agreement.
- 4.2 To obtain insurance settlement data from Party C.

(II) Obligations of Party B

- 4.3 To provide services including providing general support, making settlements and helping with claim settlement as agreed in this Agreement.
 - 4.4 To be responsible for overall coordination of the project, and propose and complete overall design of marketing plan according to needs of Parties A and C.
 - 4.5 To ensure that it has the qualifications for concurrent-business insurance agency and remains qualified during the valid period of this Agreement.
 - 4.6 To proceed with the formalities for registering additional items with competent business authorities and applying for tax invoices necessary for its insurance business.
 - 4.7 To provide agency settlement services as agreed in this Agreement. To issue settlement bills based on data provided by Party A; complete reconciliations with all Parties and ensure premium settlement with Party D.
 - 4.8 To provide clearing services to all Parties as agreed in this Agreement.
 - 4.9 To be responsible for developing the management and customer services manual for operation of the project, but consent from Party A, Party C and Party D shall be obtained for contents involving them.
 - 4.10 To assist all Parties of the Project with tasks such as customers inquiries and complaint management.
 - 4.11 To provide services such as voluntary claims as needed by products, design logic of claim settlement and complete screening of claims data for the project and collection of claimer accounts; to offer all conditions which facilitate Party D’s final payment of compensation for the insured.
-

Article 5 Rights and obligations of Party C

(一) Rights of Party C

- 5.1
- To charge commissions as agreed in this Agreement.
- 5.2
- To use marketing platforms including the designated Internet within Party A’s authorized scope under the project for selling Party D’s electronic air travel insurance products to travelers who buy CS Air tickets,as an sales agent.

(II) Obligations of Party C

- 5.3
- To assist CS Air with development of sale webpages and system data transmission, and provide training for customers services staff of Party A and Party B.
- 5.4
- To be responsible for providing data processing system; to ensure real-time docking of the system with Party D’s insurance system and real-time receipt of sales data from CS Air platform.
- 5.5
- To provide all Parties with innovative models for the electronic comprehensive air passenger insurance project, and offer assistance to fulfill function of the ‘Premium’ section of the CS Air travel itinerary list.
- 5.6
- To provide by-telephone manual verification and on-website self-service verification of electronic policies.
- 5.7
- To help Party A and CS Air with complaints from passengers.

Article 6 Rights and obligations of Party D

(I) Rights of Party D

- 6.1
- To receive premium as agreed in this Agreement.
- 6.2
- To obtain real-time sales data from Party A regarding the insurance products under cooperation as agreed in this Agreement. The data field shall include premium, E-ticket numbers, policy numbers, order numbers, names, contact information and credential numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.

(II) Obligations of Party D

- 6.3 To permit air ticket platforms including the Internet within Party A’s authorized scope as the marketing platforms of insurance products; and appoint Party C as an insurance sales agent for selling its insurance products on air ticket platforms including the Internet;
 - 6.4 To recognize services that Party B shall provide for the project including agency settlement, marketing support and agency claims;
 - 6.5 To recognize sales services of Party A including off-line sale of insurance;
 - 6.6 To pay commissions to Parties B and C as agreed in Article 7 of this Agreement;
 - 6.7 To file the insurance products under cooperation with the insurance regulatory authority according to requirements of the insurance regulations, and provide unified services to customers in the agreed regions;
 - 6.8 To assist Party A or Party B with application, changes and renewal of the qualifications for concurrent-business insurance agency free of charge as requested by Party A or Party B.
 - 6.9 To provide conditions necessary for docking with Party A’s electronic system; to ensure that sales data can be obtained from Party A and are imported into the insurance system in a real-time manner besides taking reasonable and essential measures to ensure normal and stable operation of the data transmission system.
 - 6.10 To send insurance data in a real-time manner to Party B and Party C as agreed. Data shall be transmitted in the form of encryption algorithm to ensure safe and stable data transmission of the entire insurance sales system.
 - 6.11 To bear relevant insurance liabilities as insurer of the insurance products in accordance with insurance contracts. If the policy holder has paid his or her premium to Party A, compensation responsibility shall not be refused on the ground of non-receipt of premium.
 - 6.12 As to policies of insurance products issued under this Agreement, in the case that the insurance accidents specified in the insurance contract occur, Party D shall compensate according to the system sales data and flight departure data provided by Party A no matter whether the specific insurance data has been input into Party D’s system, unless Party D has evidence to prove loss of such data, and the loss is caused by Party A’s subjective deliberate acts. If data error takes place due to Party A’s deliberate acts and has caused losses to the insured, beneficiaries and Party D, Party A shall bear the relevant liabilities.
 - 6.13 To be responsible for accepting accident claims of the insurance products under cooperation. As to the insurance responsibilities for executable voluntary claim services as agreed by all Parties, Party D shall recognize Party B’s claims data, dock with Party B’s claim data system and be responsible for compensating the insured in accordance with the terms of insurance of this Agreement.
-

- 6.14 To provide real-time policy inquiry services regarding the insurance products under cooperation via telephone and Internet for travelers; and provide at the prominent spot of its web portal a section for inquiries of information about accident insurance policies. The inquiry content and interface shall include the following information: names of insurance products, policy numbers, premium, insurance amount , policy term and marketing entity. A hotline should also be provided for claim settlement services.
- 6.15 Party D shall timely provide feedback to all Parties about new regulatory policies implemented in various regions involved in this Agreement and regulations involving the Company’s business.
- 6.16 To carry out due marketing campaigns for the project; and provide Party A and CS Air with the marketing support for purpose of direct ticket sale business.

Chapter 3 Settlement of fees

Article 7 Fee criteria

- 7.1 The value of each electronic comprehensive air passenger insurance amounts to RMB20.
 - 7.2 For every policy of Party D’s insurance product under cooperation successfully sold through websites within the Party A’s authorized scope, mobile applications and VOS system (successful sale is marked by the insured’s successful payment through CS Air website, mobile applications and VOS, excluding policy surrenders), Party D shall pay RMB10 to Party Band RMB1 to Party C as their commissions. Upon receipt of all commissions, Party B shall pay RMB5 to Party A as platform service fee.
 - 7.3 In the case of policy surrender, Party D does not need to pay any commissions. if Party D had already paid the said commissions, the other Parties shall refund accordingly.
 - 7.4 The process and ways of settlement shall follow relevant rules of the local regulatory departments.
 - 7.5 In the case that new government policies are enacted regarding fee adjustments, all Parties shall negotiate and adjust the products or fee rates.
-

Article 8 Settlement of fees

- 8.1 Before the 15th day of each month, Party A shall issue a bill for the last settlement period based on sales data of the last cycle provided by the business regions. Upon receipt of the data and settlement bill from Party A, Party B, Party C and Party D shall confirm the accounts before the 17th day of each month. In the case of inconsistent data, such data should be rectified in a prompt manner, and settlement of premiums and relevant fees shall defer accordingly.
- 8.2 Upon confirmation of accounts, Party A shall transfer the full amount of premium of the previous month to the bank account designated by Party B before the 23rd day of each month.

Name of Party B’s beneficiary’s account: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number 3602065229200084927。
- 8.3 Upon receipt of premium and confirmation, Party B shall transfer part of the previous month’s premium attributable to Party D’s sales region to Party D’s designated bank account before the 24th day of each month. Name of Party B’s account of premium payment : Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065229200084927.

Name of Party D’s beneficiary’s account: Sunshine Property and Casualty Insurance Company Limited; Bank: China Merchants Bank Beijing Shangdi Sub-branch; Bank account number: 110902180410107.
- 8.4 Upon receipt of full amount of premium transferred by Party B, Party D shall pay commissions to Party B and Party C in the proportion agreed in this Agreement before the 29th day of each month. At the same time, Party B and Party C shall issue to Party D a receipt for the commissions received commissions before the 30th day of each month. Name of Party B’s beneficiary account for commissions: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065209000088916。

Name of Party C’s beneficiary’s account: Air Union Insurance Brokers (Beijing) Co., Ltd. Bank: China Merchants Bank, Beijing Fangzhuang branch; Bank account number: 110908750810999.
-

- 8.5
- Upon receipt of commissions from Party D, Party B shall pay Party A service fees before the 30th day of each month. Upon receipt of full amount of all service fees, Party A shall issue to Party B a receipt of service fees before the 30th day of each month.
- Name of Party A’s beneficiary account: Guangdong CSA E-commerce Co., Ltd.; Bank: China Merchants Bank, Fengshen Sub-branch; Bank account number: 120902062710622.
- 8.6
- In the case of statutory holiday, the said settlement day shall be postponed to the first working day following the statutory holiday.
- 8.7
- If any Party hereto fails to perform its payment obligation upon confirmation of the settlement bills and causes losses to the other three Parties, the other three Parties may reserve the right of claiming for compensation based on their losses.

Article 9 Invoice management

- 9.1
- Upon receipt of full amount of all commissions on time, Party B shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month.
- 9.2
- Upon receipt of commissions, Party C shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month
- 9.3
- Party B and Party C shall guarantee that Party D receives the receipt within that month (except for reason of force majeure).

Chapter 4 Representations & Warranties

Article 10 Representations & Warranties

All parties guarantee:

- 10.1
- All parties guarantee that each has its capacity for corresponding civil rights and civil acts.
- 10.2
- Execution of this Agreement constitutes no infringement upon any third party’s legitimate interests.
- 10.3
- Each has all the rights, authorization and approval for entering into this Agreement, and has all the rights, authorization and approval necessary for performing all obligations under this Agreement.

- 10.4
- The provisions of this Agreement shall become its legal, effective and binding obligations after its legally authorized representative has signed this Agreement on its behalf.
- 10.5
- The execution and performance of this Agreement shall not contradict or breach its business licence, articles of association, any law or approval granted by any government organization or institution or any rules they set for any legal document of the signatory.

Chapter 5 Responsibilities for Breach of Agreement

Article 11 Compensation for breach of agreement

- 11.1
- Party D shall timely handle insurance claims application or surrender of policy in a timely manner as agreed in the contract. In the case that Party D is complained by travelers for three times or more during the period of contract, Party A has the right to rescind the contract unilaterally.
- 11.2
- Pursuant to the *Rules on Punishment of Illegal Acts in the Intermediary Business*, Party D has the right to demand Party C to rectify its insurance-related illegal acts. In the case that Party C refuses to rectify it, Party D has the right to terminate the agency of Party C.

The clauses below are applicable to sales data commonly recognized by the four Parties:

- 11.3
- Party A and Party B shall fully transfer all premiums to Party D as agreed in this contract. In the case of late delivery, it shall bear the responsibility of late payment by paying 1/10,000 of the payable premium for each day delayed besides paying the payable premium. Party D has the right to terminate the contract in the case of delay for more than 60 days.
- 11.4
- Party D shall pay Party B the commissions payable to Party B. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party B has the right to terminate the contract in the case of delay for more than 60 days.
- 11.5
- Party D shall pay Party C the commissions payable to Party C. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party C has the right to terminate the contract in the case of delay for more than 60 days.
-

- 11.6 Party B shall pay Party A the service fees payable to Party A. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable service fees for each day delayed besides paying the payable service fees. Party A has the right to terminate the contract in the case of delay for more than 60 days.

Chapter 6 Termination of Agreement

Article 12 Force Majeure

- 12.1 In the case that any Party is unable to discharge its obligations due to conditions beyond its control, performance of this Agreement shall be terminated. The conditions which directly affect a Party’s ability to discharge its obligations include wars, natural disasters, government acts (including rules or prohibition order issued by government departments) and civil disorder, etc.
- 12.2 In the case of occurrence of force majeure, the Party which adduces the ground of force majeure shall timely notify the other Parties within seven days so as to minimize possible losses to the other Parties and submit evidences within a reasonable timeframe. In the case that the Party which experienced force majeure fails to timely notify the other Parties and this result in greater losses to the other Parties, the Party which experienced force majeure shall be responsible to compensate for the greater losses.
- 12.3 The Party which claims to have experienced force majeure shall take all essential measures to minimize the damages that may be caused as a result of force majeure.

Article 13 Transfer and Early Termination of Contract

- 13.1 If either Party A or Party B, as required by internal management, has to make an early withdrawal from the project and transfer the rights and obligations under this Agreement to the other Parties, provided that the current normal operation of the project is not affected, it can be done so by sending a written notice to Party C and Party D two months in advance. Party C and Party D shall not object to such transfer.
- 13.2 In the case that any of the Parties unilaterally requests for early termination of this Agreement, a written notice should be sent to the other Parties one month in advance. This Agreement shall terminate upon expiry of one month from the date of the notice. Upon termination of this Agreement, all Parties shall settle the claims and debts under this Agreement.
-

13.3 Unless otherwise agreed, any decision to terminate this Agreement shall not hinder the other Parties’ right to make claim for damages.

Article 7 Confidentiality

Article 14 Confidentiality

- 14.1 All Parties to this Agreement shall take essential measures to keep all contents of this Agreement confidential.
- 14.2 Unless for compliance of the law or compulsory requirements of the statutory regulators, no party shall disclose any information about the other Parties it came to know under this Agreement or any content of this Agreement to any other parties without consent of the other Parties. If losses are caused to the Parties or non-signatory third party as a result of the disclosure, the disclosing Party shall be responsible for compensating the suffering party for all its losses.

Chapter 8 Other matters

Article 15 Notices

- 15.1 Any notice for the purpose of or related to this Agreement shall take no effect unless delivered by hand, mail, express delivery or fax to the contact address stated at the beginning of this Agreement. Any of the Parties shall promptly notify the other Parties of any changes in its contact information.
- 15.2 Unless otherwise agreed, the dates below shall be deemed the dates when all notices and correspondences are duly delivered to and noted by the Party being notified:

1) For delivery by hand, it is the date when the Party being notified receives the notice;

2) For delivery by ordinary mail, it is the 7th working day after the mail is posted;

3) For delivery by express delivery, it is the 3rd working day after the mail is delivered;

4) For delivery by fax, it is the date when the message is faxed and confirmation report is received;

5) Notices delivered by hand, mail and express delivery shall deemed to have been delivered upon reaching the address stated at the beginning of this Agreement.

Article 16 Partial invalidity

- 16.1 If one or more clauses of this Agreement are invalid, the remaining clauses of this Agreement shall remain unaffected.
- 16.2 If this Agreement becomes invalid due to changes in law, regulations or regulatory requirements, all Parties to this Agreement agree that this shall be solved by way of negotiating and signing a supplemental agreement under the premises that operation of the project is not affected.
- 16.3 All Parties agree that amendments to the clauses announced to be invalid should be negotiated on principles of objectivity and sincerity so that they comply with the statutory requirements.

Article 17 Applicable law and settlement of disputes

- 17.1 The law of the People’s Republic of China shall apply in the conclusion, validity, interpretation, performance and solution of disputes of this Agreement.
- 17.2 All Parties shall solve any disputes arising from or related to this Agreement through negotiation. In the case of fruitless negotiation, any Party may solve the dispute through litigation by referring it to the people’s court in the jurisdiction where Party A is domiciled.

Article 18 Appendices to Agreement

 The Appendices to Agreement is an integral part of this Agreement and, together with articles of this Agreement, constitute complete contents of the cooperation agreed by all Parties through negotiation and bear the same effect as this Agreement.

Article 19 Validity of Agreement

 This Agreement shall take effect from the date when authorized representatives of all Parties sign and affix the official seals on it. This Agreement is in six duplicate, Party A shall keep three copies and each of the remaining Parties shall keep one copy. All copies shall bear the same legal effect.

List of appendices:

1. Appendix 1: Insurance Clauses
2. Appendix 2: Settlement Process
3. Appendix 3: Process of individual surrender of policy

(This is the signature page of the Four-party Agreement on Electronic Aviation Passenger Comprehensive Insurance and contains no text.)

Party A:
Authorized Representative (Signature):

Date:

Party B:
Authorized Representative (Signature):

Date:

Party C:
Authorized Representative (Signature):

Date:

Party D:
Authorized Representative (Signature):

Date:

Electronic Aviation Passenger Comprehensive Insurance Four-parties Cooperation Agreement

Party A: Guangdong CSA E-commerce Co., Ltd. (广东南航电子商务有限公司)
Legal Representative: Guo Zhiqiang
Residence: No. 05 of Unit 201, 68 Huacui Street, Jianye Road, Zhongshan Road West Industrial Park, Tianhe District, Guangzhou
Telephone: 020-86131534

Party B: Southern Airlines Group Finance Company Limited (中国南航集团财务有限公司)
Legal Representative: Wang Jianjun
Domicile: No. 17 Hangyun Southern Street, Baiyun District, Guangzhou
Telephone: 020-61052798

Party C: Air Union Insurance Brokers (Beijing) Co., Ltd. (航联保险销售(北京)有限公司)
Legal Representative: Li Yongqi
Domicile: Rm 801-803 CYTS Plaza, 5 Dongzhimen Nan Street, Dongcheng District, Beijing
Telephone: 010-58157000

Party D: PICC Property and Casualty Company Limited, Guangzhou Branch (中国人民财产保险股份有限公司广州市分公司)
Legal Representative: Ye Jianming
Domicile: 303, Guangzhou Dadao (M), Guangzhou, China
Telephone: 020-87355210

General Provisions

According to the *Contract Law of the People's Republic of China*, *Insurance Law of the People's Republic of China* and the relevant laws and regulations, Guangdong CSA E-commerce Co., Ltd. (hereafter referred to as ‘Party A’), Southern Airlines Group Finance Company Limited (hereafter referred to as ‘Party B’), Air Union Insurance Brokers (Beijing) Co., Ltd. (hereafter referred to as ‘Party C’) and PICC Property and Casualty Company Limited, Guangzhou Branch. (hereafter referred to as ‘Party D’) shall further cooperate in electronic comprehensive air passenger insurance business for genuine fulfillment of resource sharing and complementary advantages. In order to enter into higher and newer stages of development, better products and services which better cater to customers’ needs shall be offered jointly. Party A, Party B, Party C and Party D have reached the following agreements on the principles of reciprocity, complementary advantages and mutual development through amicable negotiations.

Chapter 1 Cooperation

Article 1 Content of cooperation

- 1.1
- The four parties agree to cooperate in the development of electronic comprehensive air passenger insurance projects and jointly handle business matters relating to the sale of insurance.
- 1.2
- ’Electronic comprehensive air passenger insurance’ specifically refers to the broad comprehensive air passenger insurance business, which includes aviation accident insurance (mainly injury in aviation accidents) and air passenger-related insurance products such as short-term traffic accident injury insurance, checked luggage insurance, flight delay insurance, flight cancellation insurance, compensation for cancellation of special price passenger tickets and travel insurance for international air tickets. It aims to replace the traditional paper insurance policies with electronic comprehensive air passenger insurance policies, implement centralized management of policy holders’ and air passengers’ information through online information sharing, and create a kind of new product by inputting insurance payment information into the system and printing them on ‘Air Transport Itineraries of E-tickets’ to be sold together with E-ticket insurance.

- 1.3 Party A shall within the scope authorized by China Southern Airlines Company Limited (hereafter referred to as ‘CS Air’) permits Party B, Party C and Party D to use its Business to Customer website at www.csair.com (hereafter referred to as ‘B2C website’), mobile customer terminal ticket sale platform and VOS sales system for selling insurance.
- 1.4 Party B shall provide services including overall coordination, in- process support, assistance for settlement and claims and product marketing in accordance with this Agreement.
- 1.5 As the sales agent of the project, Party C shall sell Party D’s electronic air passage insurance products on the platform provided by CS Air.
- 1.6 As the insurer of the cooperation project, Party D shall offer insurance products on consistent terms of coverage for CS Air’s B2C website, mobile applications and VOS system; offer insurance of uniform service standards and voluntary compensation services; provide supporting consultation services and bear insurance liabilities specified in insurance clause. Its products should cover personal accident injury insurance, additional travel delay insurance, additional luggage delay insurance, additional travel changes insurance, additional passenger’s personal effect insurance and additional aircraft hijacking insurance.

Main responsibilities of the products include:

- Accidental death and disability:** Insurance amount shall be RMB600,000
- Flight delay insurance:** RMB300 shall be compensated for every four hours; the maximum amount of compensation shall be RMB900
- Luggage delay insurance:** RMB500 shall be compensated for every eight hours; the maximum amount of compensation shall be RMB1,500
- Travel cancellation insurance (including flight cancellation):** Amount of compensation shall be RMB600
- Passenger’s personal effect insurance:** Amount of compensation shall be RMB1,000

- Aircraft hijacking insurance:** Amount of compensation shall be RMB1,000
- 1.7 See Appendix 1 for applicable insurance clauses for electronic comprehensive air passenger insurance under this Agreement.
- 1.8 Party D shall, as requested by Party A, Party B and Party C, upgrade or optimize the insurance products in the light of market conditions

Article 2 Period of cooperation

- 2.1 This Agreement shall take effect from 12 June 2014 and remain valid until 31 May 2017.
- 2.2 All Parties unanimously agree that negotiation on extension of the cooperation period shall be conducted within three months prior to the date of expiration.

Chapter 2 Rights and obligations of all Parties

Article 3 Rights and obligations of Party A

(I) Rights of Party A

- 3.1 To understand the insurance settlement data from Party C.
- 3.2 To complete premium concentration with its own system.
- 3.3 To suspend sale of Party D’s insurance products due to business changes or organizational restructuring.
- 3.4 To decide the proportion of its electronic comprehensive air passenger insurance products to be sold on CS Air website, mobile applications and VOS system according to the number of air tickets sold through Party D’s promotion of business class E-ticket and insurance cooperation projects.

(II) Party A’s obligations

- 3.5 To design and develop insurance sale webpages in line with Party C’s frontend interface for development of website sale system according to Party C’s suggestions and requests. If any changes take place in CS Air website in terms of design and presentation during the period of cooperation, Party A shall timely notify Party C.

- 3.6 To provide conditions necessary for docking with Party D’s electronic system; to transmit insurance data in a real-time manner data. The data field shall include but not be limited to premium, E-ticket numbers, policy numbers, order numbers, names, contact information and ID numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.
- 3.7 To be responsible for daily maintenance of the electronic direct sale system, and ensure stable operation of the website, mobile applications and insurance sale platform of the VOS system.
- 3.8 To make full use of customer services of CS Air’s Call Center, and complete off-line sale of insurance products and premium payment according to customers’ needs.
- 3.9 To be responsible for timely transferring the received premiums to Party B on monthly basis as agreed in this Agreement.
- 3.10 To be responsible for developing and maintaining 24-hour telephone customers services.
- 3.11 To provide information inquiry services including names of insurance companies, names of insurance products, names of the insured, premiums, insurance amount, policy term, reminder of disclaimer, marketing companies, customer services hotline and ways for policy inquiries.
- 3.12 To return premiums to customers who surrender their policies as entrusted by Party D.

Article 4 Rights and obligations of Party B

(I) Rights of Party B

- 4.1 To charge commissions from Party D as agreed in this Agreement.
- 4.2 To obtain insurance settlement data from Party D.

(II) Obligations of Party B

- 4.3 To provide services including providing general support, making settlements and helping with claim settlement as agreed in this Agreement.
- 4.4 To be responsible for overall coordination of the project, and propose and complete overall design of marketing plan according to needs of Parties A and C.
- 4.5 To ensure that it has the qualifications for concurrent-business insurance agency and remains qualified during the valid period of this Agreement.
- 4.6 To proceed with the formalities for registering additional items with competent business authorities and applying for tax invoice necessary for its insurance business.

- 4.7 To provide agency settlement services as agreed in this Agreement. To issue settlement bills based on data provided by Party A; complete reconciliations with all Parties and ensure premium settlement with Party D.
- 4.8 To provide clearing services to all Parties as agreed in this Agreement.
- 4.9 To be responsible for developing the management and customer services manual for operation of the project, but consent from Party A, Party C and Party D shall be obtained for contents involving them.
- 4.10 To assist all Parties of the Project with tasks such as customers inquiries and complaint management.
- 4.11 To provide services such as voluntary claims as needed by products, design logic of claim settlement and complete screening of claims data for the project and collection of claimer accounts; to offer all conditions which facilitate Party D’s final payment of compensation for the insured.

Article 5 Rights and obligations of Party C

(一) Rights of Party C

- 5.1 To charge commissions as agreed in this Agreement.
- 5.2 To use marketing platforms including the designated Internet within Party A’s authorized scope under the project for selling Party D’s electronic air travel insurance products to travelers who buy CS Air tickets, as sales agent.

(II) Obligations of Party C

- 5.3 To assist CS Air with development of sale webpages and system data transmission, and provide training for customers services staff of Party A and Party B.
- 5.4 To be responsible for providing data processing system; to ensure real-time docking of the system with Party D’s insurance system and real-time receipt of sales data from CS Air platform.
- 5.5 To provide all Parties with innovative models for the electronic comprehensive air passenger insurance project, and offer assistance to fulfill function of the ‘Premium’ section of the CS Air travel itinerary list.

- 5.6 To provide by-telephone manual verification and on-website self-service verification of electronic policies.
- 5.7 To help Party A and CS Air with complaints from passengers.

Article 6 Rights and obligations of Party D

(I) Rights of Party D

- 6.1 To receive premium as agreed in this Agreement.
- 6.2 To obtain real-time sales data from Party A regarding the insurance products under cooperation as agreed in this Agreement. The data field shall include premium, E-ticket numbers, policy numbers, order numbers, names, contact information and credential numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.

(II) Obligations of Party D

- 6.3 To permit air ticket platforms including the Internet within Party A’s authorized scope as the marketing platforms of insurance products; and appoint Party C as an insurance sales agent for selling its insurance products on air ticket platforms including the Internet;
- 6.4 To recognize services that Party B shall provide for the project including agency settlement, marketing support and agency claims;
- 6.5 To recognize sales services of Party A including off-line sale of insurance;
- 6.6 To pay commissions to Party B and Party C as agreed in Article 7 of this Agreement;
- 6.7 To file the insurance products under cooperation with the insurance regulatory authority according to requirements of the insurance regulations, and provide unified services to customers in the agreed regions;
- 6.8 To assist Party A or Party B with application, changes and renewal of the qualifications for concurrent-business insurance agency free of charge as requested by Party A or Party B.
- 6.9 To provide conditions necessary for docking with Party A’s electronic system; to ensure that sales data can be obtained from Party A and are imported into the insurance system in a real-time manners besides taking reasonable and essential measures to ensure normal and stable operation of the data transmission system.

- 6.10 To send insurance data in a real-time manners to Party B and Party C as agreed. Data shall be transmitted in the form of encryption algorithm to ensure safe and stable data transmission of the entire insurance sales system.
- 6.11 To bear relevant insurance liabilities as insurer of the insurance products in accordance with insurance contracts. If the policy holder has paid his or her premium to Party A, compensation responsibility shall not be refused on the ground of non-receipt of premium.
- 6.12 As to policies of insurance products issued under this Agreement, in the case that the insurance accidents specified in the insurance contract occur, Party D shall compensate according to the system sales data and flight departure data provided by Party A no matter whether the specific insurance data has been input into Party D’s system, unless Party D has evidence to prove loss of such data, and the loss is caused by Party A’s subjective deliberate acts. If data error takes place due to Party A’s deliberate acts and has caused losses to the insured, beneficiaries and Party D, Party A shall bear the relevant liabilities.
- 6.13 To be responsible for accepting accident claims of the insurance products under cooperation. As to the insurance responsibilities for executable voluntary claim services as agreed by all Parties, Party D shall recognize Party B’s claims data, dock with Party B’s claim data system and be responsible for compensating the insured in accordance with the terms of insurance of this Agreement.
- 6.14 To provide real-time policy inquiry services regarding the insurance products under cooperation via telephone and Internet for travelers; and provide at the prominent spot of its web portal a section for inquiries of information about accident insurance policies. The inquiry content and interface shall include the following information: names of insurance products, policy numbers, premium, insurance amount, policy term and marketing entity. A hotline should also be provided for claim settlement services.
- 6.15 Party D shall timely provide feedback to all Parties about new regulatory policies implemented in various regions involved in this Agreement and regulations involving the Company’s business.

6.16 To carry out due marketing campaigns for the project; and provide Party A and CS Air with the marketing support for purpose of direct ticket sale business.

Chapter 3 Settlement of fees

Article 7 Fee criteria

- 7.1 The value of each electronic comprehensive air passenger insurance amounts to RMB20.
- 7.2 For every policy of Party D’s insurance product under cooperation successfully sold through websites within the Party A’s authorized scope, mobile applications and VOS system (successful sale is marked by the insured’s successful payment through CS Air website, mobile applications and VOS, excluding surrender of policy), Party D shall pay RMB10 to Party B and RMB1 to Party C as their commissions. Upon receipt of all commissions, Party B shall pay RMB5 to Party as platform service fee.
- 7.3 In the case of policy surrender, Party D does not need to pay any commissions. if Party D had already paid the said commissions, the other Parties shall refund accordingly.
- 7.4 The process and ways of settlement shall follow relevant rules of the local regulatory departments.
- 7.5 In the case that new government policies are enacted regarding fee adjustments, all Parties shall negotiate and adjust the products or fee rates.

Article 8 Settlement of fees

- 8.1 Before the 15th day of each month, Party A shall issue a bill for the last settlement period based on sales data of the last cycle provided by the business regions. Upon receipt of the data and settlement bill from Party A, Party B, Party C and Party D shall confirm the accounts before the 17th day of each month. In the case of inconsistent data, such data should be rectified in a prompt manner, and settlement of premiums and relevant fees shall defer accordingly.

- 8.2 Upon confirmation of accounts, Party A shall transfer the full amount of premium of the previous month to the bank account designated by Party B before the 23rd day of each month.
- Name of Party B’s beneficiary’s account: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number 3602065229200084927.
- 8.3 Upon receipt of premium and confirmation, Party B shall transfer part of the previous month’s premium attributable to Party D’s sales region to Party D’s designated bank account before the 24th day of each month. Name of Party B’s account of premium payment: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065229200084927.
- Name of Party D’s beneficiary’s account: PICC Property and Casualty Company Limited, Guangzhou Branch; Bank: Industrial and Commercial Bank of China Limited Guangzhou First Sub-branch; Bank account number: 9558853602001209187.
- 8.4 Upon receipt of full amount of premium transferred by Party B, Party D shall pay commissions to Party B and Party C in the proportion agreed in this Agreement before the 29th day of each month. At the same time, Party B and Party C shall issue a receipt for the commissions received commissions before the 30th day of each month. Name of Party B’s beneficiary account for commission: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065209000088916.
- Name of Party C’s beneficiary’s account: Air Union Insurance Brokers (Beijing) Co., Ltd. Bank: China Merchants Bank, Beijing Fangzhuang Sib-branch; Bank account number: 110908750810999.
- 8.5 Upon receipt of commissions from Party D, Party B shall pay Party A service fees before the 30th day of each month. Upon receipt of full amount of all service fees, Party A shall issue to Party B a receipt of service fees before the 30th day of each month.

Name of Party A’s beneficiary account: Guangdong CSA E-commerce Co., Ltd.; Bank: China Merchants Bank, Fengshen Sub-branch; Bank account number: 120902062710622.

- 8.6
- In the case of statutory holiday, the said settlement day shall be postponed to the first working day following the statutory holiday.
- 8.7
- If any Party hereto fails to perform its payment obligation upon confirmation of the settlement bills and causes losses to the other three Parties, the other three Parties may reserve the right of claiming for compensation based on their losses.

Article 9 Invoice management

- 9.1
- Upon receipt of full amount of all commissions on time, Party B shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month.
- 9.2
- Upon receipt of commissions, Party C shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month
- 9.3
- Party B and Party C shall ensure that Party D receives the receipt within that month (except for reason of force majeure).

Chapter 4 Representations & Warranties

Article 10 Representations & Warranties

All parties guarantee:

- 10.1
- All parties guarantee that each has its capacity for corresponding civil rights and civil acts.
- 10.2
- Execution of this Agreement constitutes no infringement upon any third party’s legitimate interests.
- 10.3
- Each has all the rights, authorization and approval for entering into this Agreement, and has all the rights, authorization and approval necessary for performing all obligations under this Agreement.

- 10.4
- The provisions of this Agreement shall become its legal, effective and binding obligations after its legally authorized representative has signed this Agreement on its behalf.
- 10.5
- The execution and performance of this Agreement shall not contradict or breach its business licence, articles of association, any law or approval granted by any government organization or institution or any rules they set for any legal document of the signatory.

Chapter 5 Responsibilities for Breach of Agreement

Article 11 Compensation for breach of agreement

- 11.1
- Party D shall timely handle insurance claims application or surrender of policy in a timely manner as agreed in the contract. In the case that Party D is complained by travelers for three times or more during the period of contract, Party A has the right to rescind the contract unilaterally.
- 11.2
- Pursuant to the *Rules on Punishment of Illegal Acts in the Intermediary Business*, Party D has the right to demand Party C to rectify its insurance-related illegal acts. In the case that Party C refuses to rectify it, Party D has the right to terminate the agency of Party C.

The clauses below are applicable to sales data commonly recognized by the four Parties:

- 11.3
- Party A and Party B shall fully transfer all premiums to Party D as agreed in this contract. In the case of late delivery, it shall bear the responsibility of late payment by paying 1/10,000 of the payable premium for each day delayed besides paying the payable premium. Party D has the right to terminate the contract in the case of delay for more than 60 days.
- 11.4
- Party D shall pay Party B the commissions payable to Party B. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party B has the right to terminate the contract in the case of delay for more than 60 days.

- 11.5 Party D shall pay Party C the commissions payable to Party C. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party C has the right to terminate the contract in the case of delay for more than 60 days.
- 11.6 Party B shall pay Party A the service fees payable to Party A. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable service fees for each day delayed besides paying the payable service fees. Party A has the right to terminate the contract in the case of delay for more than 60 days.

Chapter 6 Termination of Agreement

Article 12 Force Majeure

- 12.1 In the case that any Party is unable to discharge its obligations due to conditions beyond its control, performance of this Agreement shall be terminated. The conditions which directly affect a Party’s ability to discharge its obligations include wars, natural disasters, government acts (including rules or prohibition order issued by government departments) and civil disorder, etc.
- 12.2 In the case of occurrence of force majeure, the Party which adduces the ground of force majeure shall timely notify the other Parties within seven days so as to minimize possible losses to the other Parties and submit evidences within a reasonable timeframe. In the case that the Party which experienced force majeure fails to timely notify the other Parties and this results in greater losses to the other Parties, the Party which experienced force majeure shall be responsible to compensate for the greater losses.
- 12.3 The Party which claims to have experienced force majeure shall take all essential measures to minimize the damages that may be caused as a result of force majeure.

Article 13 Transfer and Early Termination of Contract

- 13.1
- If either Party A or Party B, as required by internal management, has to make an early withdrawal from the project and transfer the rights and obligations under this Agreement to the other Parties, provided that the current normal operation of the project is not affected, it can be done so by sending a written notice to Party C and Party D two months in advance. Party C and Party D shall not object to such transfer.
- 13.2
- In the case that any of the Parties unilaterally requests for early termination of this Agreement, a written notice should be sent to the other Parties one month in advance. This Agreement shall terminate upon expiry of one month from the date of the notice. Upon termination of this Agreement, all Parties shall settle the claims and debts under this Agreement.
- 13.3
- Unless otherwise agreed, any decision to terminate this Agreement shall not hinder the other Parties’ right to make claim for damages.

Article 7 Confidentiality

Article 14 Confidentiality

- 14.1
- All Parties to this Agreement shall take essential measures to keep all contents of this Agreement confidential.
- 14.2
- Unless for compliance of the law or compulsory requirements of the statutory regulators, no party shall disclose any information about the other Parties it came to know under this Agreement or any content of this Agreement to any other parties without consent of the other Parties. If losses are caused to the Parties or non-signatory third party as a result of the disclosure, the disclosing Party shall be responsible for compensating the suffering party for all its losses.

Chapter 8 Other matters

Article 15 Notices

- 15.1
- Any notice for the purpose of or related to this Agreement shall take no effect unless delivered by hand, mail, express delivery or fax to the contact address stated at the beginning of this Agreement. Any of the Parties shall promptly notify the other Parties of any changes in its contact information.

- 15.2 Unless otherwise agreed, the dates below shall be deemed the dates when all notices and correspondences are duly delivered to and noted by the Party being notified:
- 1) For delivery by hand, it is the date when the Party being notified receives the notice;
 - 2) For delivery by ordinary mail, it is the 7th working day after the mail is posted;
 - 3) For delivery by express delivery, it is the 3rd working day after the mail is shipped;
 - 4) For delivery by fax, it is the date when the message is faxed and confirmation report was received;
 - 5) Notices delivered by hand, mail and express delivery shall deemed to have been delivered upon reaching the address stated at the beginning of this Agreement.

Article 16 Partial invalidity

- 16.1 If one or more clauses of this Agreement are invalid, the remaining clauses of this Agreement shall remain unaffected.
- 16.2 If this Agreement becomes invalid due to changes in law, regulations or regulatory requirements, all Parties to this Agreement agree that this shall be solved by way of negotiating and signing a supplemental agreement under the premises that operation of the project is not affected.
- 16.3 All Parties agree that amendments to the clauses announced to be invalid should be negotiated on principles of objectivity and sincerity so that they comply with the statutory requirements.

Article 17 Applicable law and settlement of disputes

- 17.1 The law of the People’s Republic of China shall apply in the conclusion, validity, interpretation, performance and solution of disputes of this Agreement.
- 17.2 All Parties shall solve any disputes arising from or related to this Agreement through negotiation. In the case of fruitless negotiation, any Party may solve the dispute through litigation by referring it to the people’s court in the jurisdiction where Party A is domiciled.

Article 18 Appendices to Agreement

The Appendices to Agreement is an integral part of this Agreement and, together with articles of this Agreement, constitute complete content of the cooperation agreed by all Parties through negotiation and bear the same effect as this Agreement.

Article 19 Validity of Agreement

This Agreement shall take effect from the date when authorized representatives of all Parties sign and affix the official seals on it. This Agreement is in six duplicate, Party A shall keep three copies and each of the remaining Parties shall keep one copy. All copies shall bear the same legal effect.

List of appendices:

- 1. Appendix 1: Insurance Clauses
- 2. Appendix 2: Settlement Process
- 3. Appendix 3: Process of individual surrender of policy

(This is the signature page of the Four-party Agreement on Electronic Aviation Passenger Comprehensive Insurance and contains no text.)

Party A:
Authorized Representative (Signature):

Date:

Party B:
Authorized Representative (Signature):

Date:

Party C:
Authorized Representative (Signature):

Date:

Party D:
Authorized Representative (Signature):

Date:

Electronic Aviation Passenger Comprehensive Insurance Four-parties Cooperation Agreement

Party A: Guangdong CSA E-commerce Co., Ltd. (广东南航电子商务有限公司)
Legal Representative: Guo Zhiqiang
Domicile: No. 05 of Unit 201, 68 Huacui Street, Jianye Road, Zhongshan Road West Industrial Park, Tianhe District, Guangzhou
Telephone: 020-86131534

Party B: Southern Airlines Group Finance Company Limited (中国南航集团财务有限公司)
Legal Representative: Wang Jianjun
Domicile: No. 17 Hangyun South Street, Baiyun District, Guangzhou
Telephone: 020-61052798

Party C: Air Union Insurance Brokers (Beijing) Co., Ltd. (航联保险销售(北京)有限公司)
Legal Representative: Li Yongqi
Domicile: Rm 801-803 CYTS Plaza, 5 Dongzhimen Nan Street, Dongcheng District, Beijing
Telephone: 010-58157000

Party D: Taiping Pension Co., Ltd (太平养老保险股份有限公司)
Legal Representative: Zheng Changyong
Domicile: 25/F-26/F (200120) Taiping Finance Building, 488 Yin Cheng Road (M), Pudong New Area, Shanghai
Telephone: 021-61002888

General Provisions

According to the *Contract Law of the People's Republic of China*, *Insurance Law of the People's Republic of China* and the relevant laws and regulations, Guangdong CSA E-commerce Co., Ltd. (hereafter referred to as ‘Party A’), Southern Airlines Group Finance Company Limited (hereafter referred to as ‘Party B’), Air Union Insurance Brokers (Beijing) Co., Ltd. (hereafter referred to as ‘Party C’) and Taiping Pension Co., Ltd (hereafter referred to as ‘Party D’) shall further cooperate in electronic comprehensive air passenger insurance business for genuine fulfillment of resource sharing and complementary advantages. In order to enter into higher and newer stages of development, better products and services which better cater to customers’ needs shall be offered jointly. Party A, Party B, Party C and Party D have reached the following agreements on the principles of reciprocity, complementary advantages and mutual development through amicable negotiations.

Chapter 1 Cooperation

Article 1 Content of cooperation

- 1.1
- The four parties agree to cooperate in the development of electronic comprehensive air passenger insurance projects and jointly handle business matters relating to the sale of insurance.
- 1.2
- ’Electronic comprehensive air passenger insurance’ specifically refers to the broad comprehensive air passenger insurance business, which includes aviation accident insurance (mainly injury in aviation accidents) and air passenger-related insurance products such as short-term traffic accident injury insurance, checked luggage insurance, flight delay insurance, flight cancellation insurance, compensation for cancellation of special price passenger tickets and travel insurance for international air tickets. It aims to replace the traditional paper insurance policies with electronic comprehensive air passenger insurance policies, implement centralized management of policy holders’ and air passengers’ information through online information sharing, and create a kind of new product by inputting insurance payment information into the system and printing them on ‘Air Transport Itineraries of E-tickets’ to be sold together with E-ticket insurance.

- 1.3 Party A shall, within the scope authorized by China Southern Airlines Company Limited (hereafter referred to as ‘CS Air’), permits Party B, Party C and Party D to use its Business to Customer website at www.csair.com (hereafter referred to as ‘B2C website’), mobile customer terminal ticket sale platform and VOS sales system for selling insurance.
- 1.4 Party B shall provide services including overall coordination, in-process support, assistance for settlement and claims and product marketing in accordance with this Agreement.
- 1.5 As the sales agent of the project, Party C shall sell Party D’s electronic air passage insurance products on the platform provided by CS Air.
- 1.6 As the insurer of the cooperation project, Party D shall offer insurance products on consistent terms of coverage for CS Air’s B2C website, mobile applications and VOS system; offer insurance of uniform service standards and voluntary compensation services; provide supporting consultation services and bear insurance liabilities specified in insurance clause. Its products should cover personal accident injury insurance, additional travel delay insurance, additional luggage delay insurance, additional travel changes insurance, additional passenger’s personal effect insurance and additional aircraft hijacking insurance.

Main responsibilities of the products include:

- Accidental death and disability:** Insurance amount shall be RMB600,000
- Flight delay insurance:** RMB300 shall be compensated for every four hours; the maximum amount of compensation shall be RMB900
- Luggage delay insurance:** RMB500 shall be compensated for every eight hours; the maximum amount of compensation shall be RMB1,500
- Travel cancellation insurance (including flight cancellation):** Amount of compensation shall be RMB600
- Passenger’s personal effect insurance:** Amount of compensation shall be RMB1,000

- Aircraft hijacking insurance:** Amount of compensation shall be RMB1,000
- 1.7 See Appendix 1 for applicable insurance clauses for electronic comprehensive air passenger insurance under this Agreement.
- 1.8 Party D shall, as requested by Party A, Party B and Party C, upgrade or optimize the insurance products in the light of market conditions.

Article 2 Period of cooperation

- 2.1 This Agreement shall take effect from 12 June 2014 and remain valid until 31 May 2017.
- 2.2 All Parties unanimously agree that negotiation on extension of the cooperation period shall be conducted within three months prior to the date of expiration.

Chapter 2 Rights and obligations of all Parties

Article 3 Rights and obligations of Party A

(I) Rights of Party A

- 3.1 To understand the insurance settlement data from Party C.
- 3.2 To complete premium concentration with its own system.
- 3.3 To suspend sale of Party D’s insurance products due to business changes or organizational restructuring.
- 3.4 To decide the proportion of its electronic comprehensive air passenger insurance products to be sold on CS Air website, mobile applications and VOS system according to the number of air tickets sold through Party D’s promotion of business class E-ticket and insurance cooperation projects.

(II) Party A’s obligations

- 3.5 To design and develop insurance sale webpages in line with Party C’s frontend interface for development of website sale system according to Party C’s suggestions and requests. If any changes take place in CS Air website in terms of design and presentation during the period of cooperation, Party A shall timely notify Party C.

- 3.6 To provide conditions necessary for docking with Party D’s electronic system, and to transmit insurance data in a real-time manner . The data field shall include but not be limited to premium, E-ticket numbers, policy numbers, order numbers, names, contact information and ID number of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.
- 3.7 To be responsible for daily maintenance of the electronic direct sale system, and ensure stable operation of the website, mobile applications and insurance sale platform of the VOS system.
- 3.8 To make full use of customer services of CS Air’s Call Center, and complete off-line sale of insurance products and premium payment according to customers’ needs.
- 3.9 To be responsible for timely transferring the received premiums to Party B on monthly basis as agreed in this Agreement.
- 3.10 To be responsible for developing and maintaining 24-hour telephone customers services.
- 3.11 To provide information inquiry services including names of insurance companies, names of insurance products, names of the insured, premiums, insurance amount, policy terms, reminder of disclaimer, marketing companies, customer service hotline and ways for policy inquiries.
- 3.12 To return premiums to customers who surrender their policies, as entrusted by Party D.

Article 4 Rights and obligations of Party B

(I) Rights of Party B

- 4.1 To charge commissionsfrom Party D as agreed in this Agreement.
- 4.2 To obtain insurance settlement data from Party C.

(II) Obligations of Party B

- 4.3 To provide services including providing general support, making settlements and helping with claim settlement as agreed in this Agreement.
- 4.4 To be responsible for overall coordination of the project, and propose and complete overall design of marketing plan according to needs of Parties A and C.
- 4.5 To ensure that it has the qualifications for concurrent-business insurance agency and remains qualified during the valid period of this Agreement.
- 4.6 To proceed with the formalities for registering additional items with competent business authorities and applying for tax invoices necessary for its insurance business.

- 4.7 To provide agency settlement services as agreed in this Agreement. To issue settlement bills based on data provided by Party A; complete reconciliations with all Parties and ensure premium settlement with Party D.
- 4.8 To provide clearing services to all Parties as agreed in this Agreement.
- 4.9 To be responsible for developing the management and customer services manual for operation of the project, but consent from Party A, Party C and Party D shall be obtained for contents involving them.
- 4.10 To assist all Parties of the Project with tasks such as customer inquiries and complaint management.
- 4.11 To provide services such as voluntary claims as needed by products, design logic of claim settlement and complete screening of claims data for the project and collection of claimer accounts; to offer all conditions which facilitate Party D’s final payment of compensation for the insured.

Article 5 Rights and obligations of Party C

(一)Rights of Party C

- 5.1 To charge agency commissions as agreed in this Agreement.
- 5.2 To use marketing platforms including the designated Internet within Party A’s authorized scope under the project for selling Party D’s electronic air travel insurance products to travelers who buy CS Air tickets, as an sales agent.

(II) Obligations of Party C

- 5.3 To assist CS Air with development of sale webpages and system data transmission, and provide training for customers service staff of Party A and Party B.
- 5.4 To be responsible for providing data processing system; to ensure real-time docking of the system with Party D’s insurance system and real-time receipt of sales data from CS Air platform.
- 5.5 To provide all Parties with innovative models for the electronic comprehensive air passenger insurance project, and offer assistance to fulfill function of the ‘Premium’ section of the CS Air travel itinerary list.
- 5.6 To provide by-telephone manual verification and on-website self-service verification of electronic policies.

5.7 To help Party A and CS Air with complaints from passengers.

Article 6 Rights and obligations of Party D

(I) Rights of Party D

- 6.1 To receive premium as agreed in this Agreement.
- 6.2 To obtain real-time sales data from Party A regarding the insurance products under cooperation as agreed in this Agreement. The data field shall include premium, E-ticket numbers, policy numbers, order numbers, names, contact information and credential numbers of the insured, flight numbers, routes, dates of flight, dates of taking out insurance and types of sale.

(II) Obligations of Party D

- 6.3 To permit air ticket platforms, including the Internet, within Party A’s authorized scope as the marketing platforms of insurance products; and appoint Party C as an insurance sales agent for selling its insurance products on air ticket platforms including the Internet;
- 6.4 To recognize services that Party B shall provide for the project, including agency settlement, marketing support and agency claims;
- 6.5 To recognize services of Party A, including off -line sale of insurance;
- 6.6 To pay agency commissions to Party B and Party C as agreed in Article 7 of this Agreement;
- 6.7 To file the insurance products under cooperation with the insurance regulatory authority according to requirements of the insurance regulations, and provide unified services to customers in the agreed regions;
- 6.8 To assist Party A or Party B with application, changes and renewal of the qualifications for concurrent-business insurance agency free of charge as requested by Party A or Party B.
- 6.9 To provide conditions necessary for docking with Party A’s electronic system; to ensure that sales data can be obtained from Party A and are imported into the insurance system in a real-time manners besides taking reasonable and essential measures to ensure normal and stable operation of the data transmission system.

- 6.10 To send insurance data in a real-time manner to Party B and Party C as agreed. Data shall be transmitted in the form of encryption algorithm to ensure safe and stable data transmission of the entire insurance sales system.
- 6.11 To bear relevant insurance liabilities as insurer of the insurance products in accordance with insurance contracts. If the policy holder has paid his or her premium to Party A, compensation responsibility shall not be refused on the ground of non-receipt of premium.
- 6.12 As to policies of insurance products issued under this Agreement, in the case that the insurance accidents specified in the insurance contract occur, Party D shall compensate according to the system sales data and flight departure data provided by Party A, no matter whether the specific insurance data has been input into Party D's system, unless Party D has evidence to prove loss of such data and the loss is caused by Party A's subjective deliberate acts. If data error takes place due to Party A's deliberate acts and has caused losses to the insured, beneficiaries and Party D, Party A shall bear the relevant liabilities.
- 6.13 To be responsible for accepting accident claims of the insurance products under cooperation. As to the insurance responsibilities for executable voluntary claim services as agreed by all Parties, Party D shall recognize Party B's claims data, dock with Party B's claim data system and be responsible for compensating the insured in accordance with the terms of insurance of this Agreement.
- 6.14 To provide real-time policy inquiry services regarding the insurance products under cooperation via telephone and Internet for travelers; and provide at the prominent spot of its web portal a section for inquiries of information about accident insurance policies. The inquiry content and interface shall include the following information: names of insurance products, policy numbers, premium, insurance amount, policy term and marketing entity. A hotline should also be provided for claim settlement services.
- 6.15 Party D shall timely provide feedback to all Parties about new regulatory policies implemented in various regions involved in this Agreement and regulations involving the Company's business.

- 6.16 To carry out due marketing campaigns for the project; and provide Party A and CS Air with the marketing support for purpose of direct ticket sale business.

Chapter 3 Settlement of fees

Article 7 Fee criteria

- 7.1 The value of each electronic comprehensive air passenger insurance amounts to RMB20.
- 7.2 For every policy of Party D’s insurance product under cooperation successfully sold through websites within the Party A’s authorized scope, mobile applications and VOS system (successful sale is marked by the insured’s successful payment through CS Air website, mobile applications and VOS, excluding policy surrenders), Party D shall pay RMB10 to Party B , and RMB1 to Party C as their commissions. Upon receipt of all commissions, Party B shall pay RMB5 to Party A as platform service fee.
- 7.3 In the case of a policy surrender, Party D does not need to pay any commission. if Party D had already paid the said commissions, the other parties shall refund accordingly.
- 7.4 The process and ways of settlement shall follow relevant rules of the local regulatory departments.
- 7.5 In the case that new government policies are enacted regarding fee adjustments, all Parties shall negotiate and adjust the products or fee rates.

Article 8 Settlement of fees

- 8.1 Before the 15th day of each month, Party A shall issue a bill for the last settlement period based on sales data of the last cycle provided by the business regions. Upon receipt of the data and settlement bill from Party A, Party B, Party C and Party D shall confirm the accounts before the 17th day of each month. In the case of inconsistent data, such data should be rectified in a prompt manner, and settlement of premiums and relevant fees shall defer accordingly.
- 8.2 Upon confirmation of accounts, Party A shall transfer the full amount of premium of the previous month to the bank account designated by Party B before the 23rd day of each month.

- Name of Party B’s beneficiary’s account: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number 3602065229200084927.
- 8.3 Upon receipt of premium and confirmation, Party B shall transfer part of the previous month’s premium attributable to Party D’s sales regions to Party D’s designated bank account before the 24th day of each month. Name of Party B’s account of premium payment: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065229200084927.
- Name of Party D’s beneficiary’s account: Liaoning Branch of Taiping Pension Co., Ltd; Bank: Industrial and Commercial Bank of China Limited Shenyang Nanjing Street Sub-branch, Bank account number: 3301002819248103933.
- 8.4 Upon receipt of full amount of premium transferred by Party B, Party D shall pay commissions to Party B and Party C in the proportion agreed in this Agreement before the 29th day of each month. At the same time, Party B and Party C shall issue to Party D a receipt for the commissions received, before the 30th day of each month. Name of Party B’s beneficiary account for commissions: Southern Airlines Group Finance Company Limited; Bank: Industrial and Commercial Bank of China Limited Guangzhou Airport Sub-branch; Bank account number: 3602065209000088916.
- Name of Party C’s beneficiary’s account: Air Union Insurance Brokers (Beijing) Co., Ltd. Bank: China Merchants Bank, Beijing Fangzhuang Sub-branch; Bank account number: 110908750810999.
- 8.5 Upon receipt of commissions from Party D, Party B shall pay Party A service fees before the 30th day of each month. Upon receipt of full amount of all service fees, Party A shall issue to Party B a receipt of service fees before the 30th day of each month.
- Name of Party A’s beneficiary account: Guangdong CSA E-commerce Co., Ltd.; Bank: China Merchants Bank, Fengshen Sub-branch; Bank account number: 120902062710622.

- 8.6
- In the case of statutory holiday, the said settlement day shall be postponed to the first working day following the statutory holiday.
- 8.7
- If any Party hereto fails to perform its payment obligation upon confirmation of the settlement bills and causes losses to the other three Parties, the other three Parties may reserve their right of claiming for compensation based on their losses.

Article 9 Invoice management

- 9.1
- Upon receipt of full amount of all commissions on time, Party B shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month.
- 9.2
- Upon receipt of commissions, Party C shall issue to Party D a receipt of insurance intermediary service fee for the commissions received and mail it to Party D before the 30th day of each month
- 9.3
- Party B and Party C shall ensure that Party D receives the receipt within that month (except for reason of force majeure).

Chapter 4 Representations & Warranties

Article 10 Representations & Warranties

All parties guarantee:

- 10.1
- All parties guarantee that each has its capacity for corresponding civil rights and civil acts.
- 10.2
- Execution of this Agreement constitutes no infringement upon any third party’s legitimate interests.
- 10.3
- Each has all the rights, authorization and approval for entering into this Agreement, and has all the rights, authorization and approval necessary for performing all obligations under this Agreement.
- 10.4
- The provisions of this Agreement shall become its legal, effective and binding obligations after its legally authorized representative has signed this Agreement on its behalf.

10.5 The execution and performance of this Agreement shall not contradict or breach its business licence, articles of association, any law or approval granted by any government organization or institution or any rules they set for any legal document of the signatory.

Chapter 5 Responsibilities for Breach of Agreement

Article 11 Compensation for breach of agreement

- 11.1 Party D shall timely handle insurance claim application or surrender of policy in a timely manner as agreed in the contract. In the case that Party D is complained by travelers for three times or more during the period of contract, Party A has the right to rescind the contract unilaterally.
- 11.2 Pursuant to the *Rules on Punishment of Illegal Acts in the Intermediary Business*, Party D has the right to demand Party C to rectify its insurance-related illegal acts. In the case that Party C refuses to rectify it, Party D has the right to terminate the agency of Party C.

The clauses below are applicable to sales data commonly recognized by the four Parties:

- 11.3 Party A and Party B shall fully transfer all premiums to Party D as agreed in this contract. In the case of late delivery, it shall bear the responsibility of late payment by paying 1/10,000 of the payable premium for each day delayed besides paying the payable premium. Party D has the right to terminate the contract in the case of delay for more than 60 days.
- 11.4 Party D shall pay Party B the commission payable to Party B. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party B has the right to terminate the contract in the case of delay for more than 60 days.
- 11.5 Party D shall pay Party C the commissions payable to Party C. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable commissions for each day delayed besides paying the payable commissions. Party C has the right to terminate the contract in the case of delay for more than 60 days.

- 11.6 Party B shall pay Party A the service fees payable to Party A. In the case of late payment, it shall bear the responsibility of late payment by paying 1/10,000 of the payable service fees for each day delayed besides paying the payable service fees. Party A has the right to terminate the contract in the case of delay for more than 60 days.

Chapter 6 Termination of Agreement

Article 12 Force Majeure

- 12.1 In the case that any Party is unable to discharge its obligations due to conditions beyond its control, performance of this Agreement shall be terminated. The conditions which directly affect a Party’s ability to discharge its obligations include wars, natural disasters, government acts (including rules or prohibition order issued by government departments) and civil disorder, etc.
- 12.2 In the case of occurrence of force majeure, the Party which adduces the ground of force majeure shall timely notify the other Parties within seven days so as to minimize possible losses to the other Parties and submit evidences within a reasonable timeframe. In the case that the Party which experienced force majeure fails to timely notify the other Parties and this results in greater losses to the other Parties, the Party which experienced force majeure shall be responsible to compensate for the greater losses.
- 12.3 The Party which claims to have experienced force majeure shall take all essential measures to minimize the damages that may be caused as a result of force majeure.

Article 13 Transfer and Early Termination of Contract

- 13.1 If either Party A or Party B, as required by internal management, has to make an early withdrawal from the project and transfer the rights and obligations under this Agreement to the other Parties, provided that the current normal operation of the project is not affected, it can be done so by sending a written notice to Party C and Party D two months in advance. Party C and Party D shall not object to such transfer.

- 13.2
- In the case that any of the Parties unilaterally requests for early termination of this Agreement, a written notice should be sent to the other Parties one month in advance. This Agreement shall terminate upon expiry of one month from the date of the notice. Upon termination of this Agreement, all Parties shall settle the claims and debts under this Agreement.
- 13.3
- Unless otherwise agreed, any decision to terminate this Agreement shall not hinder the other Parties’ right to make claim for damages.

Article 7 Confidentiality

Article 14 Confidentiality

- 14.1
- All Parties to this Agreement shall take essential measures to keep all contents of this Agreement confidential.
- 14.2
- Unless for compliance of the law or compulsory requirements of the statutory regulators, no party shall disclose any information about the other Parties it came to know under this Agreement or any content of this Agreement to any other parties without consent of the other Parties. If losses are caused to the Parties or non-signatory third party as a result of the disclosure, the disclosing Party shall be responsible for compensating the suffering party for all its losses.

Chapter 8 Other matters

Article 15 Notices

- 15.1
- Any notice for the purpose of or related to this Agreement shall take no effect unless delivered by hand, mail, express delivery or fax to the contact address stated at the beginning of this Agreement. Any of the Parties shall promptly notify the other Parties of any changes in its contact information.
- 15.2
- Unless otherwise agreed, the dates below shall be deemed the dates when all notices and correspondences are duly delivered to and noted by the Party being notified:

1) For delivery by hand, it is the date when the Party being notified receives the notice;

- 2) For delivery by ordinary mail, it is the 7th working day after the mail is posted;
- 3) For delivery by express delivery, it is the 3rd working day after the mail is delivered;
- 4) For delivery by fax, it is the date when the message is faxed and confirmation report is received;
- 5) Notices delivered by hand, mail and express delivery shall be deemed to have been delivered upon reaching the address stated at the beginning of this Agreement.

Article 16 Partial invalidity

- 16.1 If one or more clauses of this Agreement are invalid, the remaining clauses of this Agreement shall remain unaffected.
- 16.2 If this Agreement becomes invalid due to changes in law, regulations or regulatory requirements, all Parties to this Agreement agree that this shall be solved by way of negotiating and signing a supplemental agreement under the premises that operation of the project is not affected.
- 16.3 All Parties agree that amendments to the clauses announced to be invalid should be negotiated on principles of objectivity and sincerity so that they comply with the statutory requirements.

Article 17 Applicable law and settlement of disputes

- 17.1 The law of the People’s Republic of China shall apply in the conclusion, validity, interpretation, performance and solution of disputes of this Agreement.
- 17.2 All Parties shall solve any disputes arising from or related to this Agreement through negotiation. In the case of fruitless negotiation, any Party may solve the dispute through litigation by referring it to the people’s court in the jurisdiction where Party A is domiciled.

Article 18 Appendices to Agreement

The Appendices to Agreement is an integral part of this Agreement and, together with articles of this Agreement, constitute complete contents of the cooperation agreed by all Parties through negotiation and bear the same effect as this Agreement.

Article 19 Validity of Agreement

This Agreement shall take effect from the date when authorized representatives of all Parties sign and affix the official seals on it. This Agreement is in six duplicate, Party A shall keep three copies and each of the remaining Parties shall keep one copy. All copies shall bear the same legal effect.

List of appendices:

- 1. Appendix 1: Insurance Clauses
- 2. Appendix 2: Settlement Process
- 3. Appendix 3: Process of individual surrender of policy

(This is the signature page of the Four-party Agreement on Electronic Aviation Passenger Comprehensive Insurance and contains no text.)

Party A:
Authorized Representative (Signature):

Date:

Party B:
Authorized Representative (Signature):

Date:

Party C:
Authorized Representative (Signature):

Date:

Party D:
Authorized Representative (Signature):

Date:

Equity Transfer Agreement
between
Hebei Airlines Investment Group Co., Ltd.
and
Xiamen Airlines Co., Ltd.
July 2014, Shijiazhuang, China

Equity Transfer Agreement

Equity Transfer Agreement

This Equity Transfer Agreement (the “Agreement”) is made in Shijiazhuang, Hebei Province, the People's Republic of China (the “PRC” or “China”), by and between

Equity Transferor (“Party A”): Hebei Airlines Investment Group Company Limited
Domicile: World Trade Plaza Hotel, 303 Zhongshan East Road, Shijiazhuang
Legal Representative: Jiao Guangyin

and

Equity Transferee (“Party B”): Xiamen Airlines Company Limited
Domicile: 22 Dailiao Road, Xiamen
Legal Representative: Che Shanglun

Whereas:

1. Hebei Airlines Company Limited (hereinafter referred to as the “Target Company”) is a limited liability company duly incorporated and validly subsisting under the PRC laws. As of the signing date hereof, the registered capital and the paid-in capital of the Target Company are RMB 1.8 billion.
2. As of the signing date hereof, Party A is the lawful shareholder of the Target Company, has actually made contribution of RMB 1.71720 billion, now holds 95.4% of equity in the Target Company, and is exclusively entitled to the capital reserve of RMB 820 million. Party A is willing to transfer the 95.4% equity it holds and all equity interests it owns in the Target Company to Party B, and Party B is willing to accept the same, according to the terms and conditions hereof.

Pursuant to the *Contract Law of the People’s Republic of China*, the *Enterprise State-owned Assets Law*, the *Interim Measures for the Management of the Transfer of the State-owned Property Right of Enterprises*, and other relevant laws, regulations and rules, and in the spirit of equity, mutual benefit and good faith, Party A and Party B arrive at the following agreement in connection with transfer of equity in the Target Company, terms and conditions of which the two Parties shall jointly comply with.

Article 1 Definitions and Interpretation

Unless otherwise agreed herein, the following terms shall have the following meanings:

1.1 “Subject Equity” refers to the 95.4% of equity in the Target Company held by Party A (actual contribution of RMB 1.71720 billion) and all underlying equity interests (including all of Party A’s interests in the capital reserve of RMB 820 million as represented in the balance sheet of the Target Company);

1.2 “Pricing Base Date/ Audit Base Date/ Evaluation Base Date” refers to the base date when the two Parties jointly appoint a qualified intermediary for audit, evaluation and issuance of report, i.e. 30 April 2014;

1.3 “Equity Delivery Date/ Equity Transfer Completion Date” refers to the date when the Parties complete the change registration formalities for transfer of the Subject Equity with the industrial and commercial administrative department;

1.4 “Approving Authority” refers to the People’s Government of Hebei Province, the Civil Aviation Administration of China (CAAC) and any of its local administrative bureaus, the State-owned Assets Supervision and Administration Commission of Hebei Province, Hebei Administration for Industry and Commerce, China Southern Airlines Group Corporation, China Southern Airlines Company Limited or any other appropriate authority or its authorized body having the power of approval under applicable laws and regulations;

1.5 “Equity Transfer Transition Period” refers to the period from the Pricing Base Date to the Equity Delivery Date;

1.6 “*Auditor’s Report*” refers to the *Auditor’s Report* (TJXS [2014] No.495) issued by Xiamen Branch of Pan-China Certified Public Accountants after auditing the assets and liabilities of the Target Company as of 30 April 2014;

1.7 “*Evaluation Report*” refers to the *Evaluation Report concerning Proposed Acquisition by Xiamen Airlines Company Limited of Equity held by Hebei Airlines Investment Group Company Limited in Hebei Airlines Co., Ltd.* (ZQHPBZ (2014) No.1172) issued by China Enterprise Appraisals Company, Inc. after evaluating the assets and liabilities of the Target Company on 30 April 2014;

1.8 “Agreement” refers to this Agreement and all annexes hereto confirmed by the two Parties.

Article 2 Basic Information of Target Company

2.1 Name of Company: Hebei Airlines Co., Ltd.

2.2 Domicile: World Trade Plaza Hotel, 303 Zhongshan East Road, Shijiazhuang

2.3 Legal Representative: Mou Jianyong

2.4 Registered Capital: RMB 1.8 billion

2.5 Paid-in capital: RMB 1.8 billion

2.6 Type of Company: Limited liability company

2.7 Business scope: domestic air passenger and cargo transportation business (the operating period expires on 21 October 2016); operation and management of dedicated roads for airports; advertising design, production, agency and publishing; lease of aviation supplies, tools and equipment; sale of aviation supplies (except items that are prohibited or restricted by laws, regulations and State Council's decrees); and import and export of goods and technology (except items prohibited internationally or subject to approval).

2.8 Information about shareholders: ① Party A holds 95.4% of shares in the Target Company; ② Sichuan Airlines Group Co., Ltd. holds 3.83% of shares in the Target Company; ③ Shenyang Zhongrui Investment Co., Ltd. holds 0.77% of shares in the Target Company.

Article 3 Equity Transfer, Transfer Price and Payment Terms

3.1 Party A agrees to transfer the Subject Equity it holds in the Target Company to Party B, and Party B agrees to accept the Subject Equity, according to the terms and conditions hereof.

3.2 According to the *Evaluation Report concerning Proposed Acquisition by Xiamen Airlines Company Limited of Equity held by Hebei Airlines Investment Group Company Limited in Hebei Airlines Co., Ltd.* (ZQHPBZ (2014) No.1172) issued by China Enterprise Appraisals Company, Inc., the value of all equity interests of Hebei Airlines is RMB 830 million. Based on this evaluation result, the two Parties agree that the transfer price of the Subject Equity is RMB 680 million, subject to approval by the People’s Government of Hebei Province. Party B agrees to pay off the transfer price in full within 5 workdays after this Agreement becomes effective.

Article 4 Delivery of Subject Equity

4.1 Party A and Party B shall cooperate with the Target Company in applying to the CAAC or its local administrative bureau for restructuring approval in connection with this equity transfer, and shall cause the Target Company to apply for relevant change registration (e.g. *Business License* change registration) within 7 workdays after effective date hereof.

4.2 Party A and Party B shall cause the Target Company to submit all documents required for equity change registration to the industrial and commercial administrative department, and go through the equity change registration formalities within 7 workdays after obtaining the Permit for Business License Change of Public Air Transport Enterprises.

4.3 Party A and Party B shall cooperate with each other to sign the legal instruments required for equity transfer approval and change registration.

Article 5 Assets and Liabilities of Target Company

5.1 Party A confirms that the financial and accounting books of the Target Company are prepared according to the applicable PRC accounting standards, codes and conventions, and are complete, true and valid.

5.2 Party A confirms that the financial and accounting books of the Target Company have given true views on the assets, liabilities, and the financial and operating position of the Target Company as of the Pricing Base Date.

5.3 Party A confirms that the assets as set out and disclosed in the *Auditor’s Report* and the *Evaluation Report* are owned by the Target Company legally, and are true, complete and valid. Party A further acknowledges that:

5.3.1 The major assets in possession of the Target Company (excluding the pending assets) are in good and safe conditions in all significant aspects (except reasonable wear and tear), and are maintained properly on a regular basis.

5.3.2 The value of the important assets required for the Target Company to engage in normal operating activities has been fully reflected on the account books of the Target Company, and the Target Company is in a position to lawfully own, manage or control such important assets.

5.4 The Target Company shall continue exercising and fulfilling its creditors’ rights and obligations as recorded and disclosed in the *Auditor’s Report* and the *Evaluation Report*. Party A shall be liable for any and all losses caused to the Target Company and Party B by the creditors’ rights, obligations and contingent liabilities that the Target Company has incurred prior to the Pricing Base Date but has not recorded and disclosed in the *Auditor’s Report* and the *Evaluation Report*. Party A shall notify or obtain consent from the creditors, and the Target Company shall offer cooperation. In case of any losses caused to the Target Company and Party B thereby, Party A shall be liable for indemnity in proportion to the shares held prior to this transfer.

5.5 The Target Company shall continue fulfilling the contracts that have been signed by the Target Company and confirmed by the two Parties in writing. In case of any losses caused to the Target Company and Party B by fulfillment of contracts not confirmed by the two Parties in writing, Party A shall be liable for indemnity in proportion to the shares held prior to transfer. Party A further acknowledges that:

5.5.1 The Target Company has complied with all contracts, agreements, commitments and all contractual obligations. If the Target Company is held liable after the Pricing Base Date for breach of any contracts, agreements, commitments or any contractual obligations prior to the Pricing Base Date, Party A shall be liable for such breach in proportion to shares held prior to this transfer.

5.5.2 No agreements concluded by the Target Company are deemed as invalid, or are terminated, cancelled or abolished or become invalid without reasonable grounds. If any agreements concluded by the Target Company are deemed as invalid, or are terminated, cancelled or abolished or become invalid due to the behaviors of the Target Company prior to the Pricing Base Date, thus causing losses to the Target Company after the Pricing Base Date, then Party A shall be liable for such losses in proportion to the shares held prior to this transfer.

5.6 In case of any contracts that have been signed in the name of Party A but actually performed by the Target Company, upon mutual consent of Party A and Party B, the Target Company shall continue fulfilling such contracts after Party A has obtained approval from the counterparty thereto and the two Parties have signed with that counterparty all necessary legal instruments for transfer of rights and obligations under such contracts.

5.7 Except as disclosed by Party A to Party B in writing before execution of this Agreement, Party A and its affiliates have not signed with the Target Company any written related party transaction contracts that are being fulfilled.

Article 6 Admission and Arrangement of Staff of Target Company

6.1 The Parties hereto acknowledge that staff of the Target Company involved in this equity transfer will be arranged by the Target Company in the “asset-oriented” principle.

6.1.1 For staff employed by, and having signed labor contracts with, the Target Company according to labor laws and regulations, their employment with the Target Company will continue as agreed in the labor contracts.

6.1.2 Dispatched staff shall be subject to the labor dispatching agreement signed by the Target Company with the labor dispatching agency.

6.1.3 Staff who is reemployed after retirement shall be subject to the *Labor Agreement for Reemployment of Retired Staff* as included in the *List of Pending Contract* and confirmed by the two Parties in writing.

6.2 Party A acknowledges that the existing staff of the Target Company does not have any issues concerning transformation of identity, and that the Target Company has convened the employee representative congress to adopt this restructuring.

6.3 If, in the future, the Target Company has to pay economic compensations for termination of labor contracts with staff enrolled prior to the signing date hereof and retained after completion of this equity transfer, the Target Company shall make payment according to the labor laws and regulations.

Equity Transfer Agreement

6.4 Party A shall make arrangement for persons borrowed from or assigned by Party A, its affiliates or other companies prior to execution of this Agreement to work for the Target Company whether on full-time or part-time basis who have not signed any labor contract or employment agreement with the Target Company. However, any such person shall have the option to sign a labor contract/ employment contract with the Target Company if consent is given by Party B and the Target Company, provided that Party A shall be responsible for the costs and expenses incurred by any such person's termination of contract relationship/ employment relationship with his/her former employer.

6.5 Except as agreed in the foregoing paragraphs, the two Parties shall consult with each other on the arrangement of the 23 senior executives (including assistant chief engineers and above) of the Target Company.

6.6 Party A undertakes that the Target Company has paid social insurance and housing provident fund for the insured staff in full, on time and according to national and local regulations and standards. However, as Party A is the registered payer of said social insurance and housing provident fund at the time of execution of this Agreement, Party A agrees to assist the Target Company to change the registered payer into the Target Company not later than one month after the Equity Delivery Date. Wherever needed, Party A shall assist staff of the Target Company in demonstrating their entitlement to social insurance and housing provident fund.

6.7 Party A acknowledges that as of the signing date hereof, the Target Company has not gotten involved in any pending labor dispute lawsuits or arbitrations. Party A agrees that any labor disputes between the Target Company and its staff that have entered into the labor arbitration/ lawsuit proceedings prior to the Equity Delivery Date shall be settled by the Target Company; in case of any losses caused to the Target Company, Party A shall be liable for indemnity in proportion to shares held prior to this equity transfer.

Article 7 Tax Payment of Target Company

7.1 Party A undertakes that as of the Pricing Base Date, the Target Company has paid all applicable taxes and expenses in full, on time and according to tax laws and regulations. Party A further acknowledges that as of the signing date hereof, the Target Company has not received any written notices from any tax authorities related to penalty or overdue fine for certain tax or expense.

7.2 Party A undertakes to indemnify and hold harmless the Target Company from and against all losses and damages (including but not limited to back taxes, overdue fines and penalties) suffered or incurred by the Target Company after the Pricing Base Date resulting from its failure to pay or withhold in full and on time any taxes payable or due prior to the Pricing Base Date, or resulting from the revocation of tax preferences granted to the Target Company prior to the Pricing Base Date.

Article 8 Intellectual Property Rights of Target Company

8.1 The Target Company lawfully owns the Registered Trademarks No. 10148664 and 10148665 without any limitations, and has obtained the Registration Certificates for such Trademarks.

8.2 Party A undertakes that except Party A and its subsidiaries, the Target Company has not arrived at any agreements, arrangements or undertakings that allow or permit a third party to use or utilize the Registered Trademarks owned by the Target Company, or such agreements, arrangements or undertakings that limit or hinder the Target Company to use or utilize the Registered Trademarks.

8.3 Application by the Target Company to the State Administration for Industry and Commerce (SAIC) for registering of “Individual Graphic” Trademark No. 10150472 has been rejected because this Trademark is similar to the Graphic Trademark No. 5765436 and other several trademarks that have been registered by others. The Target Company has appointed a trademark agency to apply to the SAIC for reconsideration. After completion of this equity transfer, Party A shall assist the Target Company to finish such trademark registration application. The expenses incurred after the Equity Delivery Date shall be borne by the Target Company.

8.4 Party B agrees that Party A and its subsidiaries may use the Registered Trademarks No. 10148664, 10148665 and 10150472 free of charge before 31 December 2015. The two Parties shall cause a trademark license agreement, specifying, inter alia, the period and scope of licensed use of the trademarks, to be executed between the Target Company and Party A (including its subsidiaries) and submitted to the Trademark Office for filing. The aforesaid Registered Trademarks shall be used by Party A and its subsidiaries in strict accordance with the *Trademark Law*, and shall not be used in any businesses which are the same as or otherwise substantially similar to those offered by the Target Company.

8.5 Without consent of the Target Company, Party A and its subsidiaries shall not use the aforesaid Registered Trademarks after 31 December 2015, and shall, at its own expense, remove the aforesaid Registered Trademarks logos from, including but not limited to, the business premises, relevant assets, websites, and promotional materials.

8.6 As of the signing date hereof, the operating activities of the Target Company have not infringed any industrial or intellectual property rights of any third parties.

Article 9 Arrangement for Equity Transfer Transition Period

9.1 According to the *Equity Transfer Transition Period Cooperation Agreement* signed by Party A and Party B on 23 April 2014, the two Parties are obligated to manage the Target Company and its assets in good faith during the Equity Transfer Transition Period. The two Parties shall take all reasonable measures to guarantee and promote normal operation of the Target Company, ensure the safety and intactness of assets of the Target Company, maintain good relationship with government agencies, clients and employees, maintain the stability of air crews, and refrain from reducing assets or increasing liabilities of the Target Company maliciously, engaging in any abnormal transactions or incurring any abnormal debts. In case of any significant adverse influence, either Party shall inform the other Party promptly and take proper actions.

9.2 During the Equity Transfer Transition Period, the following matters related to the Target Company shall be jointly decided by the Parties through consultation: acquisition, sale or replacement of important assets, or foreign investment, cooperation, merger or provision of guarantee with the assets of the Target Company, or significant investment, foreign financing, related party transactions and significant foreign financing loans, significant financial expenditures, significant contract conclusion, and asset impairment provision write-off and calculation.

9.3 Party A guarantees that all seals, licenses, financial materials, operation and management materials, property files, contract documents and other important operating materials of the Target Company will be kept in the Target Company, and undertakes to assist Party B to take over all materials of the Target Company in a step-by-step manner during the Equity Transfer Transition Period.

9.4 It is agreed that Party B shall bear the gains and losses of the Target Company during the period from the Pricing Base Date to the Equity Delivery Date, and that the Target Company is entitled to the government subsidies attributable to the Target Company after the Pricing Base Date.

Article 10 Representations and Warranties of Party A

10.1 Party A is a limited liability company that is duly incorporated and validly subsisting, and has the legal, valid and complete right to dispose of the Subject Equity hereunder.

10.2 Party A warrants that the transferred Subject Equity is Party A’s real contributions to the Target Company, and is lawfully owned by Party A. The Subject Equity is not frozen or auctioned by the people’s court, and is free from any mortgage, pledge, guarantee or other defects that may affect the interests of the Transferee. Furthermore, prior to delivery of the Subject Equity, Party A shall not transfer, present, mortgage, pledge or otherwise dispose of the Subject Equity in such way that may affect the interests of the Transferee.

10.3 Party A’s fulfillment of this Agreement will not constitute breach of any contracts, unilateral commitments or guarantees it has made with third parties.

10.4 Party A warrants that all information related to the Target Company and the Subject Equity has been fully disclosed to Party B, and that all certificates, documents and materials related to the Target Company and the Subject Equity provided by Party A to Party B, as well as all representations and warranties made by Party A hereunder are true, accurate and complete, and free from any omissions that may mislead Party B.

10.5 Party A undertakes that there are no pending, outstanding or otherwise threatened lawsuits, arbitration or administrative punishment proceedings related to the Target Company or the Subject Equity.

10.6 Party A agrees to assist Party B and/or the Target Company to apply to Hebei Provincial Government for maintaining or increasing all government subsidies and preferential policies granted to the Target Company.

Article 11 Representations and Warranties of Party B

11.1 Party B is a limited liability company that is duly incorporated and validly subsisting, and has such rights, powers and capacity under all laws and regulations to conclude and execute this Agreement. Party B warrants not invalidating this Agreement for its own reasons.

11.2 All representations and warranties made and all materials provided by Party B hereunder are true, complete and accurate, and free from any omissions that may mislead Party A.

11.3 Party B warrants to maintain the name of the Target Company and its independent legal personality unchanged after completion of the Subject Equity delivery.

11.4 Party B warrants to accept the Subject Equity and fulfill all obligations hereunder strictly according to this Agreement.

Article 12 Taxes and Expenses

12.1 All costs and expenses (including handling charges and taxes, etc.) incurred by this equity transfer shall be borne by Party A and Party B respectively as required by law.

12.2 The industrial and commercial registration expenses related to the Subject Equity transfer shall be borne by the Target Company.

12.3 If the industrial and commercial change registration formalities cannot be finished through no fault of any Party hereto, any evaluation expenses so incurred shall be shared between the two Parties equally.

Article 13 Amendment and Termination of this Agreement

13.1 Prior to the equity transfer change registration, the two Parties may, by mutual agreement, amend or terminate this Agreement on the occurrence of any of the following events:

13.1.1 This Agreement cannot be fulfilled due to force majeure, government acts or external factors not attributable to and not controllable by either Party.

13.1.2 Either Party loses the contractual capacity.

13.1.3 The breach by a Party of this Agreement has materially affected the economic benefits of the non-breaching Party, and makes it unnecessary to continue the performance of this Agreement.

13.2 The two Parties may also, by mutual agreement, amend or terminate this Agreement if circumstances change.

13.3 During the performance of this Agreement, where this equity transfer is revoked, announced invalid or ordered to be stopped by the competent authorities lawfully for reasons not attributable to Party A and Party B, then this Agreement shall be terminated, and the two Parties shall be exempted from the liability for breach of contract.

Article 14 Confidentiality Obligation

14.1 For the purpose of this Agreement, the following information shall be regarded as Confidential Information:

(1) All materials and information related to the Subject Equity transfer, whether in writing or in other forms, including but not limited to information of each Party and the equity transfer conditions, etc.

(2) Any business, technical and commercial materials and information of either Party that are disclosed to the other Party or generated during the Subject Equity transfer process, whether in writing or in other forms.

14.2 The Confidential Information hereunder shall not include information which is:

(1) already in the public domain, except information that is disclosed by or on behalf of either Party in violation of this Agreement;

(2) collected or obtained by a Party from independent sources other than the other Party, whether directly or indirectly, and other than a third party subject to confidentiality obligation.

14.3 The two Parties hereto shall limit access to the Confidential Information to those shareholders, directors, employees, legal consultants and financial consultants (“Representatives”) who have a need to know for the purpose of Subject Equity transfer. Without written consent of the other Party, neither Party shall make available or disclose to any third parties or otherwise use any such Confidential Information. The two Parties shall also cause their own Representatives to refrain from making available or disclosing to any third parties or otherwise using the same. This shall not apply to disclosure required to be made under applicable laws and regulations.

Article 15 Liability for Breach of Contract

15.1 Any of the following circumstances shall constitute a breach by the Party of this Agreement:

(1) A Party violates any provisions hereof;

(2) A Party violates any of its representations, warranties or commitments made herein, or any representations, warranties or commitments made by the Party herein are identified materially false, grossly wrong or misleading;

15.2 Party A and Party B shall always ensure timely and proper performance of this Agreement. If a Party breaches this Agreement and causes losses to the other Party, then the non-breaching Party shall have the right to claim compensation from the breaching Party for all losses incurred thereby (including but not limited to travel expenses, arbitration fees/ legal costs, attorney fees and notarization fees incurred by the non-breaching Party during such compensation claim) in accordance with this Agreement and/or laws, without prejudice to other rights and remedies available to the non-breaching Party under applicable laws.

Article 16 Governing Law and Dispute Resolution

16.1 The execution, validity, interpretation, performance and fulfillment of this Agreement, as well as the resolution of disputes in connection herewith shall be governed by the PRC laws.

16.2 Any disputes arising from or in connection with this Agreement shall be submitted to the China International Economic and Trade Arbitration Commission (CIETAC) for arbitration in accordance with the Arbitration Rules of CIETAC in force and effect at the time of application for arbitration. The arbitral award shall be final and binding upon the two Parties.

Article 17 Establishment and Effectiveness of this Agreement

This Agreement shall be established upon signature and seal by the authorized representatives of the two Parties, and shall become effective upon approval by appropriate Approving Authorities and a written notice thereof duly delivered to both Parties.

Article 18 Other Matters

18.1 The descriptive headings used in this Agreement are included for convenience of reference only, and shall not affect in any way the meaning or interpretation of this Agreement.

18.2 Where this Agreement is inconsistent with the *Equity Transfer Transition Period Cooperation Agreement* by and between Party A and Party B dated 23 April 2014, this Agreement shall prevail.

18.3 If any provisions hereof become invalid for whatever reasons, such invalidity shall not affect the validity of remaining provisions hereof, and the Parties shall continue fulfilling the remaining provisions hereof.

18.4 For any matter not covered herein, the two Parties shall enter into good-faith consultation and sign a supplementary agreement thereof, which shall become an integral part of this Agreement and shall have the same legal effect as this Agreement.

18.5 This Agreement shall be executed in ten identical counterparts, of which each Party holds two counterparts, with the rest six counterparts used for the purposes of applying for approval, change of registration and filing of the Target Company. All of such counterparts shall constitute one and the same instrument and shall have equal legal effect.

Annex: List of Pending Contract of Hebei Airlines Co., Ltd. as of 30 April 2014

(The remainder of this page is intentionally left blank.)

(This is the signature page for the transfer of equity in Hebei Airlines Co., Ltd. between Hebei Airlines Investment Group Company Limited and Xiamen Airlines Company Limited)

Equity Transferor (Party A): Hebei Airlines Investment Group Company Limited

Representative:

Date of Signing: DD MM YYYY

Equity Transferee (Party B): Xiamen Airlines Company Limited

Representative:

Date of Signing: DD MM YYYY

SUBSIDIARIES OF CHINA SOUTHERN AIRLINES COMPANY LIMITED

The particulars of the Company’s principal subsidiaries as of December 31, 2014 are as follows:

Name of Company	Jurisdiction of Incorporation
Shantou Airlines Company Limited	PRC
Zhuhai Airlines Company Limited	PRC
Xiamen Airlines Company Limited	PRC
Guizhou Airlines Company Limited	PRC
Chongqing Airlines Company Limited	PRC
Guangzhou Nanland Air Catering Company Limited	PRC
Guangzhou Baiyun International Logistic Company Limited	PRC
Xinjiang Civil Aviation Property Management Limited	PRC
China Southern Airlines Group Air Catering Company Limited	PRC
Nan Lung International Freight Limited	Hong Kong
Beijing Southern Airlines Ground Services Company Limited	PRC
China Southern Airlines Henan Airlines Company Limited	PRC

CERTIFICATION

I, Tan Wan Geng, certify that:

1. I have reviewed this annual report on Form 20-F of China Southern Airlines Company Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: April 30, 2015

By: /s/Tan Wan Geng
Name: Tan Wan Geng

Title: President

CERTIFICATION

I, Xiao Li Xin, certify that:

1. I have reviewed this annual report on Form 20-F of China Southern Airlines Company Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2015

By: /s/Xiao Li Xin
Name: Xiao Li Xin

Title: Chief Financial Officer

CERTIFICATION

**Pursuant to 18 U.S.C. Section 1350
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of China Southern Airlines Company Limited (the “Company”) on Form 20-F for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Tan Wan Geng, President of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2015

By: /s/Tan Wan Geng
Name: Tan Wan Geng

Title: President

* This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION

**Pursuant to 18 U.S.C. Section 1350
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of China Southern Airlines Company Limited (the “Company”) on Form 20-F for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Xiao Li Xin, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 30, 2015

By: /s/Xiao Li Xin
Name: Xiao Li Xin

Title: Chief Financial Officer

* This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

* A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.