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

FORM 20-F

(Mark One)

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, 2009

OR

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

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 _____

For the transition period from _____ to _____

Commission file number 1-14660

中国南方航空股份有限公司

(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)

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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
<i>Ordinary H Shares of par value RMB1.00 per share represented by American Depositary Receipts</i>	<i>New York Stock Exchange, Inc.</i>

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

None

(Title of Class)

SEC 1852 (05-06)

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

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

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 5,521,150,000 ordinary A Shares of par value RMB1.00 per share and 2,482,417,000 ordinary H Shares of par value RMB1.00 per share were issued and outstanding as of December 31, 2009.

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

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 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
as issued by the International Accounting
Standards Board

Other

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

TABLE OF CONTENTS
China Southern Airlines Company Limited

	Page
FORWARD-LOOKING STATEMENTS	1
INTRODUCTORY NOTE	1
GLOSSARY OF AIRLINE INDUSTRY TERMS	2
PART I	3
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS.	3
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.	3
ITEM 3. KEY INFORMATION.	3
Selected Financial Data	3
Capitalization and Indebtedness	6
Reasons for the Offer and Use of Proceeds	6
Risk Factors	6
ITEM 4. INFORMATION ON THE COMPANY.	12
History and Development of the Company	12
Business Overview	13
Organizational Structure	29
Property, Plant and Equipment	31
ITEM 4A. UNRESOLVED STAFF COMMENTS.	32
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.	32
Critical Accounting Policies	32
Recently Pronounced International Financial Reporting Standards	33
Overview	33
Certain Financial Information and Operating Data by Geographic Region	34
Operating Results	35
Liquidity and Capital Resources	41
Contractual Obligations and Commitments	43
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.	43
Directors, Senior Management and Employees	43
Compensation	48
Board Practices	49

Employees	50
Share Ownership	51
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.	51
Major Shareholders	51
Related Party Transactions	52
Interests of Experts and Counsel	55
ITEM 8. FINANCIAL INFORMATION.	55
Consolidated Statements and Other Financial Information	55
Significant Changes	55
Legal Proceedings	55
Dividend Information	55
ITEM 9. THE OFFER AND LISTING.	55
Offer and Listing Details	55
Plan of Distribution	57
Markets	57
Selling Shareholders	57
Dilution	57
Expenses of the Issue	57
ITEM 10. ADDITIONAL INFORMATION.	57
A. Share Capital	57
B. Memorandum and Articles of Association	57
C. Material Contracts	61
D. Exchange Controls	61
E. Taxation	62
F. Dividends and Paying Agents	66
G. Statement by Experts	66
H. Documents on Display	66
I. Subsidiary Information	66
ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.	66
ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.	68
PART II	70

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.	70
ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.	70
ITEM 15. CONTROLS AND PROCEDURES.	70
ITEM 16. RESERVED	71
ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.	71
ITEM 16B. CODE OF ETHICS.	72
ITEM 16C. PRINCIPAL ACCOUNTING FEES AND SERVICES.	72
ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE	72
ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.	72
ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT.	72
ITEM 16G. CORPORATE GOVERNANCE.	72
PART III	75
ITEM 17. FINANCIAL STATEMENTS.	75
ITEM 18. FINANCIAL STATEMENTS.	75
ITEM 19. EXHIBITS.	75
Index to Exhibits	75

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 “estimates”, “projects”, “expects”, “intends”, “believes”, “plans”, “anticipates”, 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 the Company’s 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. The Company’s 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;
- actions by government authorities, including changes in government regulations, and changes in the CAAC’s regulatory policies;
- the Company’s relationship with China Southern Air Holding Company (the “CSAHC”);
- uncertainties associated with legal proceedings;
- technological development;
- 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” 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 59.32% controlling interest in the Company as of May 7, 2010.

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, 2009 (the "Financial Statements") have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") 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 = RMB6.8282, 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, 2009. 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.

Capacity Measurements

"available seat kilometers" or "ASKs"	the number of seats made available for sale multiplied by the kilometers flown
"available ton kilometers" or "ATKs"	the tons of capacity available for the transportation of revenue load (passengers and cargo) multiplied by the kilometers flown

Traffic Measurements

"cargo ton kilometers"	the load in tons multiplied by the kilometers flown
"revenue passenger kilometers" or "RPKs"	the number of passengers carried multiplied by the kilometers flown
"revenue ton kilometers" or "RTKs"	the load (passenger and cargo) in tons multiplied by the kilometers flown

Yield Measurements

"average yield"	revenue from airline operations (passenger and cargo) divided by RTKs
"cargo yield"	revenue from cargo operations divided by cargo ton kilometers
"passenger yield"	revenue from passenger operations divided by RPKs
"ton"	a metric ton, equivalent to 2,204.6 pounds

Load Factors

"breakeven load factor"	the load factor required to equate scheduled traffic revenue with operating costs assuming that total operating surplus is attributable to scheduled traffic operations
"overall load factor"	RTKs expressed as a percentage of ATKs
"passenger load factor"	RPKs expressed as a percentage of ASKs

Utilization

“utilization rates” the actual number of flight and taxi hours per aircraft per operating day

Equipment

“expendables” aircraft parts that are ordinarily used up and replaced with new parts

“rotables” aircraft parts that are ordinarily repaired and reused

Liquidity Ratios

“current ratio” current assets divided by current liabilities

“quick ratio” current assets excluding inventories divided by current liabilities

Others

“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.

Selected Financial Data

The following tables present selected financial data of the Group as of and for each of the years in the five-year period ended December 31, 2009. The selected consolidated income statement data for each of the years in the three-year period ended December 31, 2009 and selected consolidated balance sheet data as of December 31, 2009 and 2008 excluding basic and diluted earnings/(loss) per ADR, are derived from the 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, 2006 and 2005 and selected consolidated balance sheet data as of December 31, 2007, 2006 and 2005 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" 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,

	2009 US\$	2009 RMB	2008 RMB	2007 RMB	2006 RMB	2005 RMB
(in million, except per share data)						
Consolidated Income Statement Data:						
Operating revenue	8,026	54,802	55,288	54,401	46,081	38,233
Operating expenses	(8,106)	(55,351)	(61,767)	(52,956)	(45,899)	(39,598)
Operating profit/(loss)	211	1,440	(5,646)	1,881	663	(1,323)
profit/(loss) before taxation	63	432	(4,724)	2,879	227	(1,913)
profit/(loss) for the year	77	527	(4,786)	2,032	104	(1,891)
profit/(loss) attributable to:						
Equity shareholders of the Company	48	330	(4,823)	1,839	106	(1,893)
Minority interests	29	197	37	193	(2)	2
Basic and diluted earnings/(loss) per share	0.01	0.05	(0.74)	0.28	0.02	(0.29)
Basic and diluted earnings/(loss) per ADR	0.34	2.33	(36.75)	14.01	0.81	(14.43)

Year ended December 31,

	2009 US\$	2009 RMB	2008 RMB	2007 RMB	2006 RMB	2005 RMB
(in million)						
Consolidated Balance Sheet Data:						
Cash and cash equivalents	636	4,343	4,649	3,824	2,264	2,901
Other current assets	701	4,785	4,599	4,966	4,419	4,320
Asset classified as held for sale	77	529	-	-	-	-
Property, plant and equipment, net	9,325	63,673	53,237	58,441	56,335	54,254
Total assets	13,876	94,750	83,042	82,006	75,689	71,491
Bank and other loans, including long-term bank and other loans due within one year	2,556	17,452	22,178	24,948	23,822	16,223
Short-term financing bills	-	-	2,000	-	-	-
Obligations under capital leases due within one year	210	1,431	1,781	2,877	3,091	3,373
Bank and other loans, excluding balance due within one year	4,082	27,875	17,429	9,074	10,018	12,740
Obligations under capital leases, excluding balance due within one year	1,741	11,887	11,157	12,858	12,307	12,459
Total equity	1,942	13,262	9,479	14,310	11,752	11,667
Number of shares (in million)	8,003	8,003	6,561	4,374	4,374	4,374

Selected Operating Data

The following selected operating data of the Group for each of the years in the five-year period ended December 31, 2009 have been derived from consolidated financial statements prepared in accordance with IFRSs and other data provided by the Group which have not been audited.

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,

	2009	2008	2007	2006	2005
Capacity					
ASK (million)	123,441	112,767	109,733	97,059	88,361
ATK (million)	15,446	14,276	14,208	12,656	11,509
Kilometers flown (thousand)	746,133	686,236	675,127	594,957	539,844
Hours flown (thousand)	1,195	1,106	1,075	931	846
Number of landing and take-offs	616,296	556,914	543,789	481,810	438,674
Traffic					
RPK (million)	93,002	83,184	81,727	69,582	61,923
RTK (million)	10,067	9,200	9,250	8,071	7,284
Passengers carried (thousand)	66,281	58,237	56,903	49,206	44,119
Cargo and mail carried (tons)	862,000	835,000	872,000	819,000	775,000
Load Factors					
Passenger load factor (RPK/ASK) (%)	75.3	73.8	74.5	71.7	70.1
Overall load factor (RTK/ATK) (%)	65.2	64.4	65.1	63.8	63.3
Breakeven load factor (%)	68.1	73.8	64.8	65.1	67.1
Yield					
Yield per RPK (RMB)	0.54	0.61	0.61	0.60	0.55
Yield per cargo and mail ton kilometers (RMB)	1.63	1.96	1.87	1.89	1.75
Yield per RTK (RMB)	5.26	5.86	5.75	5.57	5.13
Fleet					
— Boeing	194	179	177	159	140
— Airbus	157	133	119	103	71
— McDonnell Douglas	16	25	25	36	36
— Others	11	11	11	11	14
Total aircraft in service at period end	378	348	332	309	261
Overall utilization rate (hours per day)	9.4	9.1	9.4	9.5	9.6
Cost					
Operating cost per ATK (RMB)	3.58	4.33	3.73	3.63	3.44

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				
2005	8.0694	8.1825	8.2767	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176

(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		
November 2009	6.8300	6.8255
December 2009	6.8299	6.8299
January 2010	6.8295	6.8258
February 2010	6.8330	6.8258
March 2010	6.8270	6.8254
April 2010	6.8275	6.8229
May 2010 (up to May 7, 2010 the latest practicable date)	6.8265	6.8245

Dividend Payments

No interim dividends were paid during the year ended December 31, 2009. The Board of Directors of the Company did not recommend the payment of a final dividend in respect of the year ended December 31, 2009.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

Risks Relating to the Company

The Company is 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 59.32% of the equity of the Company. On August 21, 2009, the Company completed its capital injection from CSAHC directly, and indirectly through CSAHC's wholly-owned subsidiary, Nan Lung, in an aggregate amount of approximately RMB3 billion. On March 8, 2010, the Company entered into the A shares subscription agreement with CSAHC, pursuant to which CSAHC has conditionally agreed to subscribe and the Company has 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, a wholly owned subsidiary of CSAHC entered into the H shares subscription agreement, pursuant to which Nan Lung has conditionally agreed to subscribe and the Company has 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. Upon completion of the foregoing subscriptions, CSAHC's direct and indirect ownership in the Company will be approximately 51.50% of the issued share capital 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 proportionately higher decrease in its net income. 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 proportionately higher decrease in net income. 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 for the U.S. dollar. Net exchange gain decreased by RMB2,499 million, from RMB2,592 million in 2008 to RMB93 million in 2009 because the exchange rate of RMB against USD was relatively stable in 2009 while RMB appreciated significantly against USD in 2008.

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

As of December 31, 2009, the Group's current liabilities exceeded its current assets by RMB28,441 million. The Group generally maintains sound operating cash flow. However, both current ratio and quick ratio are below average, which have negatively impacted, or 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 2010 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. However, 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 operations and the availability of external financing on acceptable terms are inaccurate. In particular, our ability to access adequate external funding may be impacted by the economic stagnation globally.

As at December 31, 2009, the Group had banking facilities with several PRC commercial banks for providing loan finance up to approximately RMB128,175 million, of which approximately RMB50,455 million was utilized. The directors of the Company believe that sufficient financing will be available to the Group. However there can be no assurance that such loan financing will be available on terms acceptable to the Group.

CSAHC will continue to be the controlling shareholder of the Company, whose interests may conflict with those of the Group. CSAHC and certain of its associates will continue to provide certain important services to the Group. Any disruption of the provision of services by CSAHC or its associates 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 associates 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 catering, air ticket selling services, cleaning services, property management services, leasing of properties and financial services. The interests of CSAHC may conflict with those of the Group. In addition, any disruption of the provision of services by CSAHC's associates 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 significant amount of demand deposits 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, the Company has 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 the risks associated with the business of SA Finance over which the Group does not exercise control. As of December 31, 2008 and 2009, the Group had deposits of RMB1,139 million and RMB862 million, respectively, with SA Finance.

Certain transactions between the Company and CSAHC or its associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules")) will constitute connected transactions of the Company under the Hong Kong Listing Rules and, unless exemptions are applicable or waivers are granted, will be subject to disclosure requirements and/or independent shareholders' approval in a general meeting.

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.

The US subprime crisis meltdown is an ongoing economic problem manifesting itself through liquidity issues in the global banking system owing to foreclosures which accelerated in the United States in late 2006 and has an adverse impact on global economy in 2007 and 2008. The deepening global recession has continued into 2009. The aviation industry as a whole is experiencing significantly weaker demand for air travel driven by the severe downturn. 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 labour 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 global economic slowdown has also negatively affected 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.

In summary, both international and domestic economic fluctuations and Chinese macroeconomic controls affect the demand for air travel. 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.

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

The outbreak of the A/H1-N swine flu in March 2009 has had an adverse impact on the aviation industry globally (including the Group). The spread of the swine flu has been adversely affecting the Group's international routes operations. If the swine flu spreads more widely, it could also affect the Group's regional and domestic routes operations, and result in significant impact on our business operations. If there were another outbreak of a disease that affects travel behaviour in the future, it could have a material adverse impact on us.

In 2010, a number of large-scale natural disasters occurred globally, such as earthquakes in Haiti, Mexico and Qinghai province of China, and the volcanic eruption in Iceland in April 2010. Disasters such as these can affect the airline industry and the Group by reducing revenues and impacting travel behavior.

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.

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 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, Haikou and Zhengzhou 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 have 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.

The Company has been occupying all of the land and buildings described above without challenge or claim by third parties. CSAHC has received written assurance from the CAAC to the effect that CSAHC is entitled to continued use and occupancy of the land and certain related buildings and facilities. However, such assurance does not constitute formal evidence of CSAHC's right to occupy such lands, buildings and facilities or the right to transfer, mortgage or lease such real property interests. The Company cannot predict the magnitude of the adverse effect on its operations if its use of any one or more of these parcels of land or buildings were successfully challenged. 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 land and buildings.

Given the preliminary stage of direct flights arrangement between Taiwan and Mainland China, no assurance can be given that the Group will generate significant yields from such new route. In addition, any discontinuity or disruption in such arrangement may negatively affect the Group's results.

Further to temporary lifts of the ban on direct flights between Taiwan and Mainland China during certain festivals, as of July 4, 2008, the ban has been further liberalized to allow direct charter flights on weekends. Previously, travellers between Taiwan and China have had to make use of intermediate stops in Hong Kong or elsewhere. The Company became the first Chinese carrier to fly non-stop from Mainland China to Taiwan. 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. As a result, the permitted direct flights may benefit the Group by shortening flights time, cutting fuel costs and reducing flight fares between Taiwan and Mainland China. However, given the preliminary stage of such direct flights arrangement, no assurance can be given that the Group will generate significant yields from the new route. In addition, the results of the Group's operations will be negatively impacted by any discontinuity or disruption in the direct flight arrangement, which in turn will be subject to a number of factors beyond our control.

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

The aviation industry as a whole has been beset with high-profile terrorist attacks, most notably on September 11, 2001 in the United States. The issue could also affect China. Notably, on March 7, 2008, on a China Southern Airlines flight boarding in Urumqi, crew members discovered a suspected terrorist. Thereafter, the CAAC implemented increased security measures. 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 airline industry. Among possible effects that the Company could experience from terrorist attacks are substantial flight disruption costs caused by grounding of fleet, significant increase of security costs and associated passenger inconvenience, increased insurance costs, substantially higher ticket refunds and significantly decreased traffic and revenue per revenue passenger kilometer.

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'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 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 events, 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 help 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 these systems. Any substantial or repeated failure of these systems could impact 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 impact on our operations and our business.

The Company's 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 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. Our independent registered public accounting firm may not be satisfied with our internal controls, the level of which our controls are documented, designed, operated and reviewed, or our independent registered public accounting firm may interpret the requirements, rules and regulations differently from us, then it may conclude that our internal control over financial reporting are not effective. Although our management concluded that our internal control over financial reporting as of December 31, 2009 was effective, we may discover other 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, in accordance with the Sarbanes-Oxley Act. 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 value of our shares and ADRs and the nature of our assets and income over time, 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 2009. However, there can be no assurance that the Company will not be a PFIC for the taxable year 2010 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 percentage value of its gross assets during the taxable year that produce passive income or are held for the production of passive income is at least 50% of the value of its total gross assets (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 held for the production of passive income and (2) the average value of the Company's gross assets is calculated based on its market capitalization.

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 or dispose of or are deemed to dispose of your ADRs. An excess distribution would be either (1) a distribution with respect to ADRs that is greater than 125% of the average of such distributions over the preceding three years, or (2) 100% of the gain from the disposition of shares/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".

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 the CAAC, which encompasses substantially all aspects of the Chinese commercial aviation industry, including the approval of domestic, regional and international route allocation, air fares, aircraft acquisition, jet fuel prices and standards for aircraft maintenance, 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 CAAC policies could from time to time adversely affect the Group's operations. The CAAC has confirmed in writing that the Company will be treated equally with other Chinese airlines with respect to certain matters regulated by the CAAC. Nevertheless, there can be no assurance that the CAAC will, in all circumstances, apply its regulations and policies in a manner that results in equal treatment of all airlines.

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 2009 accounted for 55.95% 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, companies controlled and supervised by the CAAC. Chinese airlines may also purchase their jet fuel requirements 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.

Given the constant fluctuation in global oil prices, there is no way to assure that domestic prices for jet fuel do not fluctuate as well. For example, prior to 1994, domestic jet fuel prices were generally below international jet fuel prices. From 1994 to 2006, however, CAOSC's domestic jet fuel prices were above international jet fuel prices, sometimes creating tensions over the fuel supply. In 2007 through the first half of 2008, the crude oil price in the international market reached its historic high level. In response to the pressure imposed by such rocketing price, NDRC increased the domestic price for jet fuel on November 1, 2007 and June 20, 2008, respectively. The increased fuel costs have significantly limited the Group's ability to generate operating profit. In the second half of 2008, the crude oil price in the international market began to decrease continuously. In order to cushion fuel cost pressure faced by Chinese airlines, on December 19, 2008 and January 1, 2009, respectively, NDRC approved reductions in domestic prices for jet fuel. Starting from February 2009, the crude oil price in the international market started to pick up gradually. As a result, NDRC increased the domestic price for jet fuel in July 2009 and made several subsequent adjustments thereafter. (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 results will not be negatively impacted by the fluctuation in domestic prices for jet fuel.

In addition, jet fuel shortages have occurred in China and, on some rare occasions prior to 1993, required the Group 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 and the Group is forced to delay or cancel flights due to fuel shortage, its operational reputation among passengers as well as its operations may suffer.

In 2009, a reasonable possible increase or decrease of 10% in jet fuel price affects the Group's annual fuel costs by approximately RMB1,639 million, assuming no change in volume of fuel consumed. Accordingly, even if the jet fuel supply remains uninterrupted, increases in jet fuel prices will nevertheless adversely impact our financial results.

The Group's net income 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 net incomes. On January 14, 2009, the NDRC and the CAAC jointly announced the suspension of the collection of passenger fuel surcharge for domestic routes since January 15, 2009. In response to the pick up of international fuel prices, the NDRC and CAAC issued a notice to introduce a new pricing mechanism of fuel surcharge that links it with airlines' jet fuel costs on November 11, 2009. According to the new mechanism, when the purchase cost of jet fuel is lower than RMB 4,140 per ton (i.e., the benchmark price of jet fuel), airlines should not charge fuel surcharge. When the purchase cost of jet fuel exceeds RMB 4,140 per ton, the airlines may charge appropriate fuel surcharge provided that such airlines should digest at least 20 percent of the rising cost. As such, following a suspension period of more than one year, in November, 2009, the Group resumed the imposing of fuel surcharges for the domestic routes. However, the Group's net income may suffer from an unexpected change in the fuel surcharge collection policy and a number of factors beyond our control.

The Group's results of operations tend to be volatile and fluctuate due 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 tend to be volatile and subject to rapid and unexpected change.

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, that 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 train, 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. In particular, the so-called "Four Longitudinal and Four Horizontal" high-speed railways under construction may have a huge negative impact on the domestic commercial aviation sector once it goes into operation. Since the Group has the most extensive domestic route network and the largest number of flights in China, the Group may be affected by the increasing popularity of high-speed trains to certain extent. For example, 38 lines of the "Four Longitudinal and Four Horizontal" overlap with current flights of the Group, 21 of which run for a distance of less than 4 hours. If the high-speed railways go into full operation, according to the statistic of the Group, 13 out of the total 18 airline subsidiaries and branches of the Group involving 798 flights (i.e. to and fro flights/week) may be seriously impacted.

Due to limitation on foreign ownership imposed by Chinese government policies, the Company may have no meaningful access to the international equity capital markets.

Chinese government policies limit foreign ownership in Chinese airlines. Under these policies, the percentage ownership of the Company's 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 31.02% 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, the Company will have no meaningful access to the international equity capital markets.

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, 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 and bank and other loans are denominated in foreign currencies, principally US dollars. Depreciation or appreciation of the Renminbi against foreign currencies affects the Group's results significantly because the Group's foreign currency payments generally exceed its foreign currency receipts. 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 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 has deprived, or may in the future deprive the Company of preferential income tax rates, which the Company previously enjoyed.

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 from 33% to 25% with effect from January 1, 2008. Prior to enactment of the new tax law, the headquarters of the Company was taxed at a preferential rate of 18% and the branches and subsidiaries 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.

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 the imposition of 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 income tax 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%. Currently, dividend income received by any foreign individual that holds overseas shares in any Chinese domestic enterprise is temporarily exempt from income tax. In the event that the exemption is discontinued, such payments will be subject to individual income tax at the 20% rate unless the holder is entitled to a tax waiver or a lower tax rate under an applicable double-taxation treaty.

ITEM 4. INFORMATION ON THE COMPANY.

History and Development of the Company

The Company is a joint stock company incorporated in China on March 25, 1995, and is 59.32% owned by CSAHC. The registered address of the Company is Guangzhou Economic & Technology Development Zone, People's Republic of China (telephone no: (86)20-8612-4462, website: www.csair.com).

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 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.

Pursuant to an extraordinary general meeting of shareholders held on May 21, 2002, a resolution was passed authorizing the Company to issue not more than 1,000,000,000 A Shares of par value of RMB1.00 each. The Company issued and listed its 1,000,000,000 A Shares with a par value of RMB1.00 each on the Shanghai Stock Exchange in July 2003.

Pursuant to a sale and purchase agreement dated November 12, 2004 between the Company, CSAHC, China Northern Airlines Company ("CNA") and Xinjiang Airlines Company ("XJA") which was approved by the Company's shareholders in an extraordinary general meeting held on December 31, 2004, the Company 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 April 30, 2006, the Company acquired certain assets of CSAHC Hainan Co., Limited, a wholly owned subsidiary of CSAHC, at a total consideration of RMB294 million.

On June 16, 2007, the Company together with an independent third party established Chongqing Airlines Company Limited (“Chongqing Airlines”), a non-wholly owned subsidiary of the Company. Up to December 31, 2009, the Company has transferred four aircraft to Chongqing Airlines as capital contribution.

On August 14, 2007, the Company signed an agreement to acquire a 51% equity interest of Nan Lung International Freight Company Limited beneficially owned by and registered in the name of Nan Lung Travel & Express (Hong Kong) Limited which is a wholly owned subsidiary of CSAHC and a 100% equity interest in Southern Airlines (Group) Catering Co., Limited, a wholly owned subsidiary of CSAHC for a total consideration of RMB112 million.

On August 14, 2007, the Company signed an agreement to dispose of its 90% equity interest in Guangzhou Aviation Hotel Company Limited to CSAHC at a consideration of RMB75 million.

In August 2008, the Company entered into an agreement with China Post Group to dispose of all of its 49% equity interest in China Postal Cargo Airlines Limited, its jointly controlled entity which China Post Group is the other venturer, at a consideration of RMB210 million and recorded a gain on disposal of RMB143 million.

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

In June 2009, the Company acquired 50% equity interest in a jointly controlled entity of the Company, Beijing Southern Airlines Ground Services Company Limited (“Beijing Ground Service”) from the other venturer, which has become a wholly-owned subsidiary of the Company since then.

On September 28, 2009, the Company entered into an agreement with CSAHC to dispose of its 50% equity interest in MTU Maintenance Zhuhai Co., Ltd (“MTU”), a jointly controlled entity of the Company, to CSAHC at a consideration of RMB1,607,850,000. The transfer was completed in February 2010.

Aircraft Acquisitions

Pursuant to the Xiamen Aircraft Acquisition Agreement dated April 18, 2008 between Xiamen Airlines Company Limited (“Xiamen Airlines”) and 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 is around US\$1,500 million, including price for airframe and engines. 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 the Aircraft General Terms Agreement dated January 20, 2010 between the Company and the Airbus S.A.S. and A320 Family Aircraft Purchase Agreement dated January 20, 2010 between the Company and Airbus SNC, the Company 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 is around US\$77 million including price for airframe and engine. The aggregate consideration for the acquisition will be partly payable in cash and partly through financing arrangements with banking institutions. The Airbus aircraft will be delivered in stages to the Company from 2011 to 2013.

Capital Expenditure

The Group had RMB17,178 million, RMB8,645 million and RMB 9,832 million capital expenditures in 2009, 2008 and 2007, respectively. Of such capital expenditures in 2009, RMB 2,171 million was financed by capital leases, RMB7,293 million was financed by bank borrowings while the remaining RMB7,714 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.

Business Overview

General

The Group provides commercial airline services throughout 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 year end of 2009, 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, 2009, the Group’s RPKs increased at a compound annual growth rate of 6.7% from 81,727 million in 2007 to 83,184 million in 2008, and to 93,002 million in 2009, while its capacity, measured in terms of ASKs, increased at a compound annual growth rate of 6.1%, from 109,733 million in 2007 to 112,767 million in 2008, and to 123,441 million in 2009. In 2009, the Group carried 66.28 million passengers and had passenger revenue of RMB50,059 million (US\$7,331 million).

The Group conducts a portion of its airline operations through its airline subsidiaries namely Xiamen Airlines, Southern Airlines Shantou Airlines Company Limited ("Shantou Airlines"), Zhuhai Airlines Company Limited ("Zhuhai Airlines"), Guizhou Airlines Company Limited ("Guizhou Airlines") and Chongqing Airlines Company Limited ("Chongqing Airlines") (collectively, the "Airline Subsidiaries"). In 2009, the Airline Subsidiaries carried 16.87 million passengers and had passenger revenue of RMB11,314 million (US\$1,657 million) and accounted for 25% and 23% 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 decreased by 16.9% to RMB2,908 million (US\$426 million) in 2009 as compared with that of 2008. 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 the year end of 2009, the Group operated 655 routes, of which 528 were domestic, 99 were international and 38 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 Shantou and etc.

In December 2005, the Company established a branch company in Beijing and has added wide-body airplanes to its operation base in Beijing, with the view to expanding its Beijing aviation business and building another main hub there in addition to its Guangzhou base. The establishment of Guangzhou and Beijing hubs will facilitate strategic refinement and enhancement of its route network operations, putting the Company 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 the year end of 2009, the Group had 38 regional routes and 99 international routes. The Group's regional operations include flights between destinations in China and Hong Kong, Macau and Taiwan. The Group's international operations include scheduled services to the cities in Australia, Bangladesh, France, India, Japan, Kazakhstan, Korea, Kyrgyzstan, Maldives, Nepal, Netherlands, Nigeria, Pakistan, Russia, Saudi Arabia, Tajikistan, UAE, USA and Southeast Asian destinations. After joining Skyteam Alliance, the Group has established a network reaching 905 destinations globally, connecting 169 countries of regions and covering major cities around the world.

As of December 31, 2009, the Group had a fleet of 378 aircraft, consisting primarily of Boeing 737 series, 747, 757, 777, Airbus 320 series, 300, 330 and McDonnell Douglas 82 and 90. The average age of the Group's registered aircraft was 6.32 years as of the year end of 2009.

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 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 the initial public offering of the Company. The restructuring was effect 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 associates 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 and all 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 the Company.

In July 1997, the Company 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 listing of the H Shares on the Stock Exchange of Hong Kong Limited (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 the issued and outstanding shares of capital stock of the Company, consisting of 2,200,000,000 non-tradable 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 were entitled to elect all the directors of the Company and to control the management and policies of the Group. Domestic Shares and H Shares are both ordinary shares of the Company.

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

Share Reform Scheme

Pursuant to relevant PRC laws, the Company launched the share reform scheme in May 2007, whereby all the 2,200,000,000 non-tradable Domestic Shares held by CSAHC shall 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, the shareholders of the Company approved a bonus share issue 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 at 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, the Company entered into an A Shares subscription agreement with CSAHC, pursuant to which CSAHC has conditionally agreed to subscribe and the Company has 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 a H Shares subscription agreement, pursuant to which Nan Lung has conditionally agreed to subscribe and the Company has 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, the Company received the formal approval from CSRC for the proposed non-public issue of H Shares. On August 14, 2009, the Company 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, the board of the Company approved (i) the placement of not more than 1,766,780,000 new A shares to not more than 10 specific investors (subject to the maximum number as permitted by PRC laws and regulations at the time of the issuance) including CSAHC, at the same subscription price of not less than RMB5.66 per A share; and (ii) the placement of not more than 312,500,000 new H shares to Nan Lung, at the subscription price of not less than HKD2.73 per H share.

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 HKD2.73 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 and are pending approval from the relevant security regulatory authorities.

Issuance of Short-term Financing Bills and Medium Term Notes

On April 18, 2008, the Company's Board approved the proposed issue 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, shareholders of the Company approved such proposed bill issue at the annual general meeting for the year 2007. The Company believes that the bill issue will provide a further source of funding at an interest rate which is expected to be lower than that for loans from commercial banks, lower the financing cost of borrowings for the Company, and is in the interests of the Company and its shareholders as a whole. The Company has 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 would be jointly underwritten by China CITIC Bank Cooperation Limited and Bank of China Limited. In October 2008, the Company issued short-term financing bills with total face value of RMB2 billion, bearing coupon interest rate at 4.7% with a maturity period of one year for funding of the business activities of the Company.

On May 28, 2008, the Board approved the proposed issue 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 issue at the annual general meeting for the year 2007. The Company believes that the notes issue will provide a further source of medium to long term funding at an interest rate lower than the best lending rate for loans from commercial bank, lower the finance costs of borrowings for the Company and improve the debt structure of the Company.

Traffic

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 Carried (tons)		Total traffic (tons kilometers)	
	Total (in million)	Increase (decrease) over previous year (%)	Total (in thousand)	Increase (decrease) over previous year (%)	Total (in million)	Increase (decrease) over previous year (%)
2007	56.90	15.6	872.0	6.5	9,250.0	14.6
2008	58.24	2.3	835.0	(4.2)	9,200.0	(0.5)
2009	66.28	13.8	862.0	3.2	10,067.0	9.4

Route Network

Overview

The Group operates the most extensive route network among the Chinese airlines. As of December 31, 2009, the Group operated 655 routes consisting of 528 domestic routes, 38 regional routes and 99 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 Delta Airlines, Asiana Airlines, Korean Air, Japan Air System, Vietnam Airlines, Air France, KLM Royal Dutch Airlines, Garuda Indonesian, Malaysian Airline, KENYA AIRWAYS, Pakistan International Airlines, Aeroflot-Russian Airlines and CSA Czech 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 905 destinations globally, connecting 169 countries of regions and covering major cities around the world.

Route Bases

In addition to its main route bases in Guangzhou and Beijing, the Group maintains certain regional route bases in Zhengzhou, Wuhan, Changsha, Shenzhen, Shenyang, Changchun, Dalian, Harbin, Urumqi, Haikou, Zhuhai, Xiamen, Shanghai, Xi'an, Fuzhou, Nanning, Guilin, Shantou, Guiyang, Chongqing 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 2009, the Group's most profitable domestic routes were between: Guangzhou-Beijing, Beijing-Guangzhou, Shenzhen-Beijing, Fuzhou-Beijing, Beijing-Shenzhen, Shanghai-Guangzhou, Guangzhou-Shanghai, Xiamen-Beijing, Urumqi-Beijing, and Beijing-Urumqi.

Regional Routes

The Group offers scheduled service between Hong Kong and Guangzhou, Shenyang, Wu Yi Shan, Zhang Jia Jie, Changchun, Yinchuan, Xiamen, Shantou, Beijing, Guilin, Meixian, Haikou, Wuhan, Zhengzhou, Nanning, Changsha, Sanya and Hohhot; between Macau and Hangzhou, Xiamen and Tianjin; between Taipei and Guangzhou, Shanghai, Fuzhou, Hangzhou, Xiamen, Shenyang, Changsha, Wuhan, Dalian, Guilin, Harbin, Guiyang, Zhengzhou and Shenzhen. In 2009, the most profitable scheduled regional routes were between: Taipei-Shanghai, Xiamen-Hong Kong, Shanghai-Taipei, Xiamen-Taipei, Taipei-Guangzhou, Fuzhou-Taipei, Guangzhou-Taipei, Hong Kong-Beijing, Changchun-Guangzhou-Hong Kong, and Hong Kong-Wuhan.

In 2009, the Group conducted a total of 12,227 flights on its regional routes, accounting for approximately 24.75% of all passengers carried by Chinese airlines on routes between Hong Kong, Macau or Taiwan and destinations in China according to CAAC statistics.

Previously, direct flights between Taiwan and Mainland China had only been available during certain festivals. And travelers between Taiwan and China have had to make use of intermediate stops in Hong Kong or elsewhere. Since July, 2008, however, the ban on direct flights has been further liberalized to allow direct charter flights on weekends. The Company became the first Chinese carrier to fly nonstop to Taiwan. 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 increased the number of regular cross-Strait direct passenger flights from 108 to 270 a week. The 108 direct passenger flights previously operating were all classed as charter flights. The new services comprise both regular charter and scheduled flights.

In order to further strengthen its presence in Taiwan, on June 23, 2008, the Company entered into a memorandum of cooperation with China Airlines, 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 Indonesia, Thailand, Malaysia, the Philippines, Vietnam, Myanmar and Cambodia.

In addition, the Group also provides scheduled services to the cities in Australia, Bangladesh, France, India, Japan, Kazakhstan, Maldives, Korea, Kyrgyzstan, Nepal, Netherlands, Nigeria, Pakistan, Russia, Saudi Arabia, Tajikistan, Turkmenistan, UAE and USA.

After joining Skyteam Alliance, the Group has established a network reaching 905 destinations globally, connecting 169 countries of regions and covering major cities around the world.

In 2009, the Group's most profitable international routes were: Tianjin-Xiamen-Singapore, Beijing-Guangzhou-Phnom Penh, Guangzhou-Beijing-Amsterdam, Guangzhou-Sydney, Guangzhou-Los Angeles, Phnom Penh-Guangzhou-Beijing, Singapore-Guangzhou-Shenyang, Guangzhou-Tokyo, Beijing-Guangzhou-Hanoi, Shenyang-Guangzhou-Singapore.

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, older aircraft. As of December 31, 2009, the Group operated a fleet of 378 aircraft with an average age of 6.32 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, 203 aircraft operated by the Group are leased pursuant to various types of leasing arrangements.

The following table sets forth certain information regarding the Group's fleet of 378 aircraft as of December 31, 2009.

Model	Number of Aircraft	Average age (years)	Average Passenger Capacity
Boeing 777-200A	4	13.71	380
Boeing 777-200B	6	11.36	292
Boeing 757-200	27	10.76	200
Boeing 747F	2	7.53	n/a
Boeing 737-800	80	3.09	167/170
Boeing 737-700	46	5.32	126
Boeing 737-500	2	13.53	130
Boeing 737-300	25	15.35	145
Boeing 777F	2	0.08	n/a
Airbus 319-100	44	3.36	128
Airbus 300-600	5	15.19	272
Airbus 320-200	54	6.26	158
Airbus 321-200	40	3.10	185
Airbus 330-200	6	4.10	264
Airbus 330-300	8	1.57	292
McDonnell Douglas 82	3	17.89	144
McDonnell Douglas 90	13	12.02	157
Embraer 145 Jet	6	5.31	50
ATR-72	5	12.58	72/79
Total	378		

During 2009, the Group continued to expand and modernize its aircraft fleet. The Group's major aircraft transactions included:

In 2009, the Group took scheduled delivery of 36 aircraft during the year (eight A319-100 aircraft, six A320-200 aircraft, nine A321-200 aircraft, three B737-700 aircraft and ten B737-800 aircraft). The acquisition was financed by bank loans and the Group's own funds. In addition, the Group took schedule delivery of two B777F Freighters, which was financed by a capital lease agreement with a ten-year lease term.

In 2009, the Group exercised purchase options of seven leased aircraft (one B777-200B aircraft, five A320-200 aircraft and one MD90 aircraft) upon expiry of the respective lease terms.

In 2009, four B737-800, three A319-100 were acquired under operating lease; one B757-200 aircraft, three B737-500 aircraft and one A320-200 aircraft under operating lease were returned during 2009.

In 2009, two MD82 aircraft were modified as simulators for training purpose and were reclassified as other flying equipment.

In 2009, the Group disposed of seven MD82 aircraft and one A300-600 aircraft.

In January, 2010, the Company entered into Aircraft General Terms Agreement and A320 Family Aircraft Purchase Agreement, pursuant to which the Company agreed to purchase 20 Airbus A 320 series aircraft from Airbus SNC, scheduled for delivery from 2011 to 2013.

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, 2009, 55 of the Group's 378 aircraft were operated under capital leases, 148 were operated under operating leases, 60 were financed by long-term mortgage loans, while the remaining were 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, 2009, the number of aircraft operated by the Group pursuant to capital and operating leases and the remaining terms, expressed in years, of such leases.

<u>Model</u>	<u>Capital Lease</u>	<u>Operating Lease</u>	<u>Average Remaining Lease Term</u>
Boeing 777-200A and 777-200B	0	4	2.95
Boeing 757-200	0	8	1.21
Boeing 737-700	9	15	4.60
Boeing 737-800	12	40	6.25
Boeing 737-500	0	2	0.11
Boeing 737-300	0	4	2.36
Boeing 777F	2	0	9.92
Airbus 319-100	6	30	6.20
Airbus 320-200	15	15	6.23
Airbus 321-100	7	20	8.20
Airbus 330-200	4	2	7.90
Airbus 330-300	0	8	10.68
Total	55	148	

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 2011 to 2019. As of December 31, 2009, the Group's aggregate future minimum lease payments (including future finance charges) required under its capital leases were RMB15,812 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, 2009, the Group's aggregate future minimum lease payments required under its operating leases were RMB30,366 million. As of the year end of 2009, the Group's operating leases had original terms generally ranging from six 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 6% to 10% 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 RMB198 million, RMB142 million and RMB143 million during 2009, 2008 and 2007 respectively, have been included as part of the lease charges.

In August 2008, Xiamen Airlines, a non wholly-owned subsidiary of the Company entered into an operating lease agreement with GE Commercial Aviation Services, and such agreement has been approved by the Board of the Company on August 18, 2008. Pursuant to the agreement, Xiamen Airlines plans to lease seven Boeing B737-800 aircraft by way of operating lease. The term of the lease is eight years from 2011 to 2019, with the price for the operating lease to be determined by the two parties with reference to the prevailing market price. The Board believes that the introduction of new aircraft under the operating lease is beneficial to the implementation of the Group's development strategy, will improve the Group's operating capacity to accommodate the continuous growth in demand for aviation services in the PRC, serve passengers with better services, and enhance the competitiveness of the Group.

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 69 and 66 spare jet engines for its fleet as of the year end of 2009 and 2008, 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 & Export Trading Corporation ("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 GAMECO, a jointly controlled entity established 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 an approval certificate from the United Kingdom Civil Aviation Authority 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 70% 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. GAMECO also provides line maintenance services to 13 other Chinese airlines and 19 international airlines. GAMECO provides heavy maintenance services to 7 other Chinese airlines and 6 international airlines.

The Company and GAMECO had entered into an Aircraft Maintenance and Engineering Agreement for the provision of aircraft repair and maintenance services. On May 17, 1996, the Company and GAMECO entered into an agreement regarding the fee arrangement for the provision of such repair and maintenance services.

Overhauls of jet engines are performed by MTU, a jointly controlled entity of the Company and MTU Aero Engines GmbH, and also by overseas qualified service providers in Germany, Malaysia, Canada and England. On September 28, 2009, the Company entered into an agreement with CSAHC to dispose of its 50% equity interest in 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 MTU were RMB1,344 million, RMB1,129 million, and RMB1,047 million for the years ended December 31, 2009, 2008 and 2007, 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. There were no serious incidents involving casualty or flight damage throughout the three years ended December 31, 2009. For minor "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 the standard prescribed by the CAAC. For example, the Company's "Accident Signs Per Ten Thousands Hours Ratio" was 0.089, 0.064 and 0.065 in 2009, 2008 and 2007, respectively. In comparison, CAAC's published maximum acceptable Accident Signs Per Ten Thousands Hours Ratio was 0.6, 0.6, 0.7 in 2009, 2008 and 2007, respectively. This ratio is defined as the occurrence of one incident for every 10,000 hours of flight time. In 2009, the Group strengthened its flight safety management as per the internal and external safety requirements. In 2008, the Group received the "Five-Star Flight Safety Award" from CAAC, making it the first in the aviation industry to receive such a great honor. By December 2009, the Company's continuous safe flight span totaled to 6.53 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 29.6%, 37.4% and 34.6% of the Group's operating expenses for the years ended December 31, 2009, 2008 and 2007, 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, Zhuhai, 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 rocketing prices, on November 1, 2007 and June 20, 2008, respectively, NDRC increased the domestic price for jet fuel. Thereafter, in order to cushion fuel cost pressure faced by Chinese airlines, on December 19, 2008 and January 1, 2009, respectively, NDRC approved reductions in domestic prices for jet fuel. However, starting from February 2009, the crude oil price in the international market started to pick up gradually. As a result, NDRC increased the domestic price for jet fuel in July 2009 and made several subsequent adjustments thereafter.

Jet fuel costs decreased from RMB23,086 million in 2008 to RMB16,390 million in 2009 as a result of decrease in average jet fuel price by 35.3%.

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 7% and 9% of the Group's total jet fuel consumption in 2009 and 2008, respectively.

Fuel Surcharge

According to the relevant regulations promulgated by the NDRC and the CAAC, domestic airlines imposed fuel surcharges for all the domestic routes (excluding those from the mainland PRC to Hong Kong and Macau) with effect from August 1, 2005 (based on flight time). The imposition of the fuel surcharge helped relieve, to a certain extent, the burden of high jet fuel cost, on the Group. The level of fuel surcharges, and any adjustment of which, are determined by CAAC and NDRC based on such factors as jet fuel price, route miles and the location of destination. Due to the downward trend in domestic fuel prices, on December 19, 2008, the CAAC and the NDRC decided, on December 25, 2008, to reduce fuel surcharges for both domestic and international routes. Thereafter, the CAAC and the NDRC called for a stop on imposing fuel surcharges for domestic routes by Chinese airlines with effect from January 15, 2009. Such suspension on imposing fuel surcharge lasted until November 2009. As international fuel prices gradually pick up, and in response to rises in the fuel cost, on November 11, 2009, the NDRC issued a notice to introduce a new pricing mechanism of fuel surcharge that links it with airlines' jet fuel costs. According to the new mechanism, when the purchase cost of jet fuel is lower than RMB 4,140 per ton (i.e., the benchmark price of jet fuel), airlines should not charge fuel surcharge. When the purchase cost of jet fuel exceeds RMB 4,140 per ton, the airlines may charge appropriate fuel surcharge provided that such airlines should digest at least 20 percent of the rising cost. As such, following a suspension period of almost one year, in November 2009, the Group resumed the imposing of fuel surcharges for domestic routes.

Flight Operations

Flight operations for the Group's flights originating in Guangzhou are managed by the Company's 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. The Company's general dispatch offices are responsible for monitoring conditions on 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 Aeronautics and Aviation University (the "BAAU") 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 BAAU. After successful completion of academic and physical examinations, the trainees receive flight training for a period of approximately 20 months at Australian Pilot College, a company that is 91% owned by the Company and 9% owned by CSAHC. Each trainee at the Australian Pilot College is required to fly at least 230 hours before being awarded a flight certificate. Graduates of the BAAU and the Australian Pilot 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 has about 1,720 trainees as at the end of May 7, 2010, about 790 trainees are expected to graduate in 2010.

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 all 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 recertification examination. The Group's pilots attend courses in simulator training twice annually and in simulator emergency procedures 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 used to fund 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 and August 27, 2009, 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 and not more than RMB184,750,000 respectively. On December 29, 2009, Xiamen Airlines, a 60%-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 covering a period till December 31, 2011. As of December 31, 2009, the Group has provided a guarantee with joint liability for the loans of such self-sponsored pilots in an aggregate amount of RMB292,586,000, under which an aggregate of personal bank loans of RMB60,025,500 were drawn down from the banks.

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 choices to repay their loans in advance or in instalments.

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 jet-ways, waiting areas, ticket counters and support services buildings, at each airport that it serves. The Group pays landing, parking and other fees to such airports, including 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 other airlines that operate in Guangzhou Baiyun Airport.

Ground services at the airports in Shenzhen, Changsha, Wuhan, Zhengzhou, Haikou, Zhuhai, Xiamen, Fuzhou, Guilin, Shantou, Guiyang and Beihai are primarily operated directly by the Group. Ground services at the airport in Beijing are primarily provided by Beijing Ground Service, which has become a wholly-own subsidiary of the Company in June 2009, since April 2004. 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

The Company owns a 55% equity interest in Guangzhou Nanland Air Catering Company Limited ("Nanland") as of December 31, 2009. 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.

To facilitate the Company to optimize its assets structure, better tightening its cost control, reduce the number of connected transactions and enhance the independence of the Company's operations in the long-run, the Company acquired 100% interest in China Southern Airlines Group Air Catering Company Limited ("SAG Air Catering") on August 31, 2007 from CSAHC. SAG Air Catering mainly provides in-flight meals to airlines for different flights of the Company originating or stopping at the 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. Currently, the Group has two Boeing 747 freighters and two Boeing 777 freighters mainly servicing four international cargo routes, Shanghai to Amsterdam, Shanghai to Anchorage to Chicago, Shanghai to Frankfurt and Shanghai to Urumchi to Frankfurt.

Currently, the Group conducts its cargo business primarily through its cargo division in Guangzhou and Shenzhen.

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 associates. 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, Astana, Baku, Bangkok, Bishkek, Brisbane, Busan, Chicago, Daegu, Daejeon, Delhi, Dubai (Sharjah), Dushanbe, Frankfurt, Fukuoka, Hanoi, Ho Chi Minh City, Islamabad, Irkutsk, Jakarta, Jeddah, Khabarovsk, Kathmandu, Kuala Lumpur, Lagos, Lahore, London, Los Angeles, Luanda, Manila, Melbourne, Moscow, New York, Novosibirsk, Osaka, Osh, Paris, Penang, Phnom Penh, Samarkand, Sapporo, Seoul, Singapore, Sydney, Tashkent, Tehran, Tokyo, Vancouver, Vladivostok 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 2009, approximately 11.02% of all ticket sales for the Group's scheduled flights were made by the Group's network of sales offices and CSAHC's associates. 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%-9% 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 2009, independent sales agents accounted for approximately 88.98% of the Group's ticket sales for its scheduled flights.

Substantially all of the Group's sales offices and agents in China are linked electronically to the CAAC'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. During 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, and launched the 95539 services hotlines, which provide SMS information services on mileage, flight schedule, flight status, and air ticket price.

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. The Group generally pays such agents a commission of 4% - 5% of the relevant cargo freight rate for domestic and international services.

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. In addition, the Group also promotes and markets its regional and international routes on the basis of price.

The Group has been seeking 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 offers 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.

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 "Egret Mileage Plus". By the end of 2009, the Group had approximately 8,483,053 members 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 the approval of domestic, regional and international route allocation, published air fares, aircraft acquisition, jet fuel prices and standards for aircraft maintenance, airport operations and air traffic control. 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, and 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. Such rights are allocated by the CAAC among the four Chinese airlines permitted to fly to Hong Kong or Macau. 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 had only been 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. The 108 direct passenger flights previously operating were all classed as charter flights. The new services comprise both regular charter and scheduled flights. The Company became the first Chinese carrier to fly nonstop to Taiwan. Previously, travelers between Taiwan and China have had to make use of intermediate stops in Hong Kong or elsewhere.

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 the number of passengers carried annually exceeds 100,000 and if there is a minimum average load factor of 68% for routes with at least five weekly flights by Chinese airlines, or 80% for routes with four or fewer weekly flights by Chinese 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.

Published air fares of Chinese airlines for the Hong Kong and Macau routes are determined by the CAAC and the relevant civil aviation authorities in Hong Kong or Macau, subject to consultation between the relevant Chinese airlines and Hong Kong or Macau airlines. Airlines may offer discounts on flights on their Hong Kong regional routes. With respect to the Taiwan routes, the air fares are currently determined by Chinese airlines at their own discretion and may be subject to certain pricing guidance to be issued by the CAAC in the future.

Published air fares of Chinese airlines for international routes are determined through consultation between the relevant Chinese airlines and foreign airlines in accordance with the civil aviation agreements between the Chinese government and the relevant foreign government, taking into account the international air fare standards established through the International Air Transport Association. All air fares for international routes must be approved by the CAAC. Discounting of published international air fares is permitted.

Acquisition of Aircraft and Flight Equipment

The CAAC requires all Chinese airlines to acquire their aircraft through China Aviation Supplies Import and Export Corporation ("CASC"), an entity controlled by the CAAC. 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 CASC 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 is paid an agency fee for its services.

Jet Fuel Supply and Pricing

CAOSC and Bluesky Oil Supplies Company, companies controlled and 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 the Shenzhen, Zhuhai, Sanya, Haikou, Shanghai Pudong and other small airports, in each of which CAOSC is a partner. 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.

The CAAC oversees the standards of all Chinese airline pilots through its operation of the CAAC Aviation College. The CAAC Aviation College is a monitoring unit located in Tianjin which implements a uniform pilot certification process applicable to all Chinese airline pilots and is responsible for the issuance, renewal, suspension and cancellation of pilot licenses. 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 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, including the Guangzhou Baiyun Airport with limited exceptions. 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 and China Eastern Airlines. In 2009, these three airlines together controlled approximately 69.8% 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 has not increased proportionately. This has resulted in a reduction in the passenger load factors for most Chinese airlines. As a result, Chinese airlines 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 Four Horizontal" high-speed railways under construction may have a huge negative impact on the domestic commercial aviation sector once it goes into operation. 38 lines of the "Four Longitudinal and Four Horizontal" overlap with current flights of the Group, 21 of which run for a distance of less than 4 hours. If the high-speed railways go into full operation, according to the statistic of the Group, 13 out of the total 18 subsidiaries and branches of the Company involving 798 flights (i.e. to and fro flights/week) may be seriously impacted.

Relative to other Chinese airlines, however, the Group believes that it possesses certain competitive advantages. 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 of any Chinese airline, 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 enjoys an advantageous 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, 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 (ton kilometers)	
	Industry Total (in millions)	Group's Share (% of total)	Industry Total (in thousands)	Group's Share (% of total)	Industry Total (in billion)	Group's Share (% of total)
2005	138.3	31.8	3,067	25.3	26.1	27.9
2006	159.7	30.8	3,494	23.4	30.6	26.4
2007	185.8	30.6	4,018	21.7	36.5	25.3
2008	192.5	30.3	4,076	20.5	37.7	24.4
2009	230.5	28.8	4,455	19.3	42.7	23.6

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 ten other 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 eight 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 of the passengers carried, cargo and mail carried on departing flights and total departing flights at the ten busiest airports in China, based on passenger volume data from CAAC statistics, in 2009.

Airport	Passenger carried (% of total)	Cargo and Mail Carried (% of total)	Departing flight (% of total)
Beijing	18.05%	11.33%	17.22%
Shanghai Pudong	8.68%	2.83%	9.18%
Guangzhou	49.26%	26.84%	48.73%
Shanghai Hongqiao	15.78%	18.69%	15.53%
Shenzhen	29.06%	21.96%	27.69%
Chengdu	15.01%	15.71%	13.67%
Kunming	16.91%	19.24%	15.75%
Hangzhou	37.47%	31.99%	36.06%
Xi'an	19.27%	23.03%	17.97%
Chongqing	23.12%	26.43%	21.85%

The following table sets forth the Group's market share of the 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), based on passenger volume data from CAAC statistics, in 2009.

Airport	Passenger carried (% of total)	Cargo and Mail Carried (% of total)	Departing flight (% of total)
Wuhan	44.41%	54.06%	39.91%
Changsha	45.25%	63.73%	44.35%
Haikou	26.16%	26.05%	25.21%
Sanya	27.47%	27.50%	28.28%
Zhengzhou	51.48%	63.05%	47.41%
Guilin	37.03%	47.16%	36.13%
Nanning	37.05%	36.68%	32.22%
Zhang Jia Jie	36.28%	30.54%	38.02%

Regional Routes

In 2009, the Group conducted a total of 12,227 flights on its regional routes, accounting for approximately 24.75% 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, 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 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.

Air China has the most extensive international route network among Chinese airlines. Beijing, the hub of Air China's operations, has been the destination for most international flights to China. The Group competes against, among other airlines, Thai Airways International, Singapore Airlines, Malaysian Airlines System, Air China and China Eastern on flights to Southeast Asian destinations. In the case of its European routes, the Group's competitors include Cathay Pacific Airways. The Group faces competition on its international routes from Air China and China Eastern, each of which operates several routes between destinations in China and the United States, as well as international airlines that fly to Los Angeles from Hong Kong. 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. The Company owns a 60% equity interest in each of the Airline Subsidiaries.

As of December 31, 2009, Xiamen Airlines operated under its own "MF" code with a fleet of 57 aircraft on 100 domestic routes, 7 international routes and 10 regional routes. In 2009, Xiamen Airlines carried a total of about 11.12 million passengers, or approximately 16.78% of the passengers carried by the Group in that year, and had RMB7,622 million in traffic revenue.

As of December 31, 2009, Shantou Airlines operated under the Group's "CZ" code with a fleet of ten aircraft. In 2009, under the centralized allocation of flight routes of the Group, Shantou Airlines carried a total of about 1.95 million passengers, or 2.94% of the passengers carried by the Group in that year. Total traffic revenue of Shantou Airlines for the year ended December 31, 2009 was RMB1,422 million.

As of December 31, 2009, Chongqing Airlines operated under the "OQ" code with a fleet of seven aircraft. In 2009, under the centralized allocation of flight routes of the Group, Chongqing Airlines carried a total of about 1.41 million passengers, or 2.13% 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, 2009 was RMB779 million.

As of December 31, 2009, Zhuhai Airlines operated under the "CZ" code with a fleet of five aircraft. In 2009, under the centralized allocation of flight routes of the Group, Zhuhai Airlines carried a total of about 0.87 million passengers, or approximately 1.30% 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, 2009 was RMB673 million.

As of December 31, 2009, Guizhou Airlines operated under the "CZ" code with a fleet of eight aircraft. In 2009, under the centralized allocation of flight routes of the Group, Guizhou Airlines carried a total of about 1.52 million passengers, or approximately 2.29% of the total number of passengers carried by the Group in that year. Total traffic revenue of Guizhou Airlines was approximately RMB1,172 million for the year ended December 31, 2009.

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\$58,581) 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

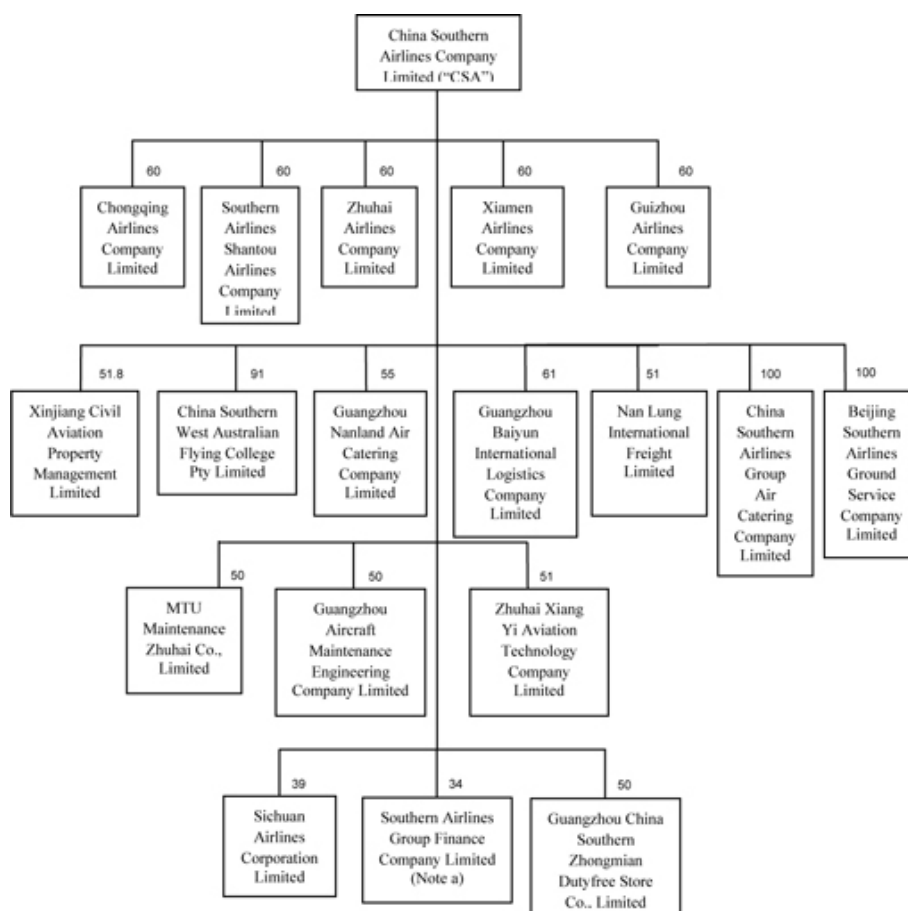
The Group's businesses and operations, other than the businesses and operations of Xiamen Airlines and Chongqing Airlines, are conducted under the names "China Southern" and "China Southern Airlines" in both English and Chinese. The Group uses as its logo a stylized rendition of a kapok plant. Xiamen 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.

The names "China Southern" and "China Southern Airlines" contain Chinese words of common usage and are therefore not eligible for registration as tradenames 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 10-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 associates 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 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.

The Company owns all rights to three trademarks, being SKY PEARL CLUB, the logo relating to Easy Cargo 5000 and "SKY PEARL CARD" which are registered in China, and recorded with Trademark Office of the State Administration for Industry and Commerce. Zhuhai Airlines Company Limited owns all rights to the airline logo which is registered with the Trademark Office of the State Administration for Industry and Commerce.

Organizational Structure

The following chart illustrates the corporate structure of the Group as of December 31, 2009 and the aggregate effective equity interest of the Company in each of its principal subsidiaries, associates and jointly controlled entities.



Note a: Including 13% ownership interest held by CSA's subsidiaries.

The particulars of the Group's principal subsidiaries as of December 31, 2009 are as follows:

Name of company	Place and date of establishment /operation	Proportion of ownership interest held by the Company
Southern Airlines 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	60%
Guizhou Airlines Company Limited	PRC November 12, 1991	60%
Chongqing Airlines Company Limited	PRC June 16, 2007	60%
Guangzhou Nanland Air Catering Company Limited	PRC November 21, 1989	55%
China Southern West Australian Flying College Pty Limited	Australia January 26, 1971	91%
Guangzhou Baiyun International Logistics Company Limited	PRC July 23, 2002	61%
Xinjiang Civil Aviation Property Management Limited	PRC February 12, 2002	51.8%
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 Service Company Limited	PRC April 1, 2004	100%

The particulars of the Group's principal associates and jointly controlled entities as of December 31, 2009 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	34%	21.1%	12.9%
Sichuan Airlines Corporation Limited	PRC August 28, 2002	39%	39%	—
MTU Maintenance Zhuhai Co., Limited	PRC April 6, 2001	50%	50%	—
Zhuhai Xiang Yi Aviation Technology Company Limited	PRC July 10, 2002	51%	51%	—
Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited	PRC September 29, 2006	50%	50%	—

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 429,833 square meters of land and a total gross floor area of approximately 653,043 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 and Xinjiang.

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)		Buildings (in square meters)	
	Owned	Leased	Owned	Leased
	Guangzhou	330,163	99,670	624,667
Shenzhen	208,740	—	105,040	—
Zhuhai	170,062	—	18,791	—
Changsha	138,949	—	52,552	—
Zhengzhou	290,841	—	66,542	—
Haikou	5,265	1,711	83,923	20,917
Wuhan	—	31,061	17,335	22,831
Nanyang	—	—	18,156	60,035
Sanya	106,680	—	16,968	—
Shenyang	—	167,502	79,626	93,445
Dalian	—	14,403	20,290	33,597
Jilin	134,488	65,076	38,210	7,767
Harbin	—	286,871	36,925	3,188
Xinjiang	17,460	631,094	177,710	4,135
Guilin	72,563	—	73,379	139

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)		Buildings (in square meters)	
	Owned	Leased	Owned	Leased
Xiamen	581,401	—	511,847	26,044
Shantou	36,931	53,000	61,468	2,773
Zhuhai	99,306	—	57,730	1,800
Guizhou	259,879	—	106,245	2,032
Chongqing	—	—	6,785	3,482

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 base 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 May 7, 2010, 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, Hainan, Jilin, Dalian, Hunan, Xinjiang, Henan and Shenzhen, 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 PRC Accounting Standards for Business Enterprises ("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 condition 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 for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognized in accordance with IAS 36, 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 judgment 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 regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Recently Pronounced International Financial Reporting Standards

Information relating to the recently pronounced IFRSs is presented in Note 56 to the consolidated financial statements.

Overview

2009 proved to be an unusual year. In view of the complicated and ever-changing environment of China and elsewhere throughout the year, the Group prudently analyzed the changes in the market, and made quick response by putting effective measures into practice. It assured the safe operation for the whole year under its enhanced safety management. In addition, through network structure optimization, market development, additional sales activities as well as deeper strategic transformation, the Group controlled costs stricter and took advantage of all policy supports. As such, the fast growth of its operations was ensured that led to a turnaround from loss to profit for the year.

The Group secured a record of safe operation during 2009 by highlighting the importance of safety, enhancing the training and standard of safety, and intensifying the safety information management and system control. Up to December 2009, the Company had achieved records of 122 consecutive safe flight months, 6.53 million accumulated safe flight hours and 186 consecutive months of air security.

In 2009, facing the sustainable slump in the international aviation market and new conditions such as the rapid change in the domestic aviation market, the Group endeavored to react and adjust itself to the changing market. The centralized deployment of traffic capacity was strengthened with emphasis on major and high-profit markets. Moreover, we tried hard to grasp opportunities quicker and increase our income and profitability by developing major markets and making full use of all favorable opportunities, including the Lunar New Year, Canton Fairs and high seasons for the market; and making a series of actions to explore a new operation model. Such actions included pushing on with the centralized scheduling and sales management, commencing the operation of air express, implementing the electronic ticket and transport networking system, as well as strengthening the strategic cooperation.

The Group staged the activities of "Year of Branded Services Improvement Campaign" during 2009. Through enhanced operation management and improved flight on-schedule rate, our passengers were provided with more punctual and convenient services. In addition, the Group proactively explored the control model of service system, and strengthened the standardization of services. We continued to optimize the whole process and each step of services so as to improve its service capability. Also, enhancement in both highend customer service and passenger load factor of first class and business class lounges together with the new transit business of "Through Check-In" further elevated our brand value and market influence.

In 2009, the Company successfully obtained a capital injection of RMB3 billion through a non-public issue of 721,150,000 A shares to CSAHC and another non-public issue of 721,150,000 H shares to Nan Lung a foreign wholly-owned subsidiary of CSAHC. The proceeds replenished the Company's capital and lowered the gearing ratio, thereby laying a solid foundation for improvement in the financial position as well as the future development. To further reduce the gearing ratio and financial burden and support the strategic development with funds, the Company is planning to raise an amount of RMB10 billion through non-public issues of A shares and H shares in 2010.

In 2009, the Group continued to give back to society with love and contribution in fulfilling its responsibility of corporate citizen. During 2009, our Ten Cent Care Foundation continued to sponsor poor undergraduates and provided 22 flights for specific purposes, peacekeeping, evacuation of compatriots living abroad, etc. On our principle of "Green Flight", we continuously increased the energy utilization rate and decreased the emission of greenhouse gases through fleet upgrade, route network optimization and aircraft weight reduction.

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 Express Rail, as well as sharp fluctuation in oil price.

Since July 21, 2005, the PRC government has begun to adopt a managed floating exchange rate system based on market supply and demand of currencies, which is subject to adjustments with reference to a basket of currencies. The exchange rate of Renminbi would no longer be pegged to the U.S. dollar only and a more flexible exchange rate system was established. 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 RMB appreciation. RMB appreciation has brought a one-off exchange gain to the Group and reduced its operating costs which are denominated in foreign currencies. However, RMB 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 gain decreased by RMB2,499 million, from RMB2,592 million in 2008 to RMB93 million in 2009 because the exchange rate of RMB against USD was relatively stable in 2009 while RMB appreciated significantly against USD in 2008.

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.

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, 2009, 2008 and 2007:

Traffic	Year ended December 31,			2009 vs. 2008 % increase (decrease)	2008 vs. 2007 % increase (decrease)
	2009	2008	2007		
RPK (million)					
Domestic	80,697	70,619	68,369	14.3	3.3
Regional	1,337	1,139	1,180	17.4	(3.5)
International	10,968	11,426	12,178	(4.0)	(6.2)
Total	93,002	83,184	81,727	11.8	1.8
RTK (million)					
Domestic	8,342	7,392	7,219	12.9	2.4
Regional	126	110	115	14.5	(4.3)
International	1,599	1,698	1,916	(5.8)	(11.4)
Total	10,067	9,200	9,250	9.4	(0.5)
Passengers carried (thousand)					
Domestic	61,130	53,063	51,326	15.2	3.4
Regional	1,276	1,220	1,339	4.6	(8.9)
International	3,875	3,954	4,238	(2.0)	(6.7)
Total	66,281	58,237	56,903	13.8	2.3
Cargo and mail carried (thousand tons)					
Domestic	750	713	733	5.2	(2.7)
Regional	9	11	12	(18.2)	(8.3)
International	103	111	127	(7.2)	(12.6)
Total	862	835	872	3.2	(4.2)

Capacity	Year ended December 31,			2009 vs. 2008	2008 vs. 2007
	2009	2008	2007	%increase (decrease)	%increase (decrease)
ASK (million)					
Domestic	105,379	93,384	89,452	12.8	4.4
Regional	1,916	1,790	1,881	7.0	(4.8)
International	16,146	17,593	18,400	(8.2)	(4.4)
Total	123,441	112,767	109,733	9.5	2.8
ATK (million)					
Domestic	12,425	10,985	10,440	13.1	5.2
Regional	219	200	210	9.5	(4.8)
International	2,802	3,091	3,558	(9.3)	(13.1)
Total	15,446	14,276	14,208	8.2	0.5
Load Factors					
Passenger load factor (RPK/ASK) (%)					
Domestic	76.6	75.6	76.4	1.3	(1.0)
Regional	69.8	63.6	62.7	9.7	1.4
International	67.9	64.9	66.2	4.6	(2.0)
Overall	75.3	73.8	74.5	2.0	(0.9)
Overall load factor (RTK/ATK) (%)					
Domestic	67.1	67.3	69.1	(0.3)	(2.6)
Regional	57.7	55.0	55.1	4.9	(0.2)
International	57.1	54.9	53.8	4.0	2.0
Overall	65.2	64.4	65.1	1.2	(1.1)
Yield					
Yield per RPK (RMB)					
Domestic	0.53	0.59	0.60	(10.2)	(1.7)
Regional	0.75	0.84	0.91	(10.7)	(7.7)
International	0.55	0.67	0.63	(17.9)	6.3
Overall	0.54	0.61	0.61	(11.5)	0.0
Yield per RTK (RMB)					
Domestic	5.36	5.90	5.89	(9.2)	0.2
Regional	8.30	9.23	9.91	(10.1)	(6.9)
International	4.52	5.47	5.03	(17.4)	8.7
Overall	5.26	5.86	5.75	(10.2)	1.9
Financial					
Passenger revenue (RMB million)					
Domestic	43,033	41,854	40,717	2.8	2.8
Regional	1,000	952	1,074	5.0	(11.4)
International	6,026	7,606	7,708	(20.8)	(1.3)
Total	50,059	50,412	49,499	(0.7)	1.8
Cargo and mail revenue (RMB million)	2,908	3,051	3,697	(4.7)	(17.5)

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.

2009 compared with 2008

The profit attributable to equity shareholders of the Company of RMB330 million was recorded in 2009 as compared to the loss attributable to equity shareholders of the Company of RMB4,823 million in 2008, mainly due to the increase in revenue excluding fuel surcharge income and the decrease in fuel costs, which exceeded the drop in fuel surcharge income. Due to the decrease of fuel cost, the Group's operating costs decreased sharply. The Group's operating revenue decreased by RMB486 million or 0.9% from RMB55,288 million in 2008 to RMB54,802 million in 2009 resulting from the decrease in fuel surcharge income. Excluding the fuel surcharge income of RMB8,197 million and RMB1,986 million for 2008 and 2009, operating revenue increased from RMB47,091 million in 2008 to RMB52,816 million in 2009. Passenger load factor increased by 1.5 percentage point, from 73.8% in 2008 to 75.3% in 2009. Passenger yield (in passenger revenue per RPK) decreased by RMB0.07 or 11.5% from RMB0.61 in 2008 to RMB0.54 in 2009. Average yield (in traffic revenue per RTK) decreased by 10.2% from RMB5.86 in 2008 to RMB5.26 in 2009. Operating expenses decreased by RMB6,416 million or 10.4% from RMB61,767 million in 2008 to RMB55,351 million in 2009 due to the decrease of fuel cost from RMB23,086 million in 2008 to RMB16,390 million in 2009. As a result of the decrease in operating expenses, operating profit of RMB1,440 million was recorded in 2009 as compared to operating loss of RMB5,646 million in 2008.

Operating revenue

	2009		2008		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	52,967	96.7%	53,913	97.5%	(1.8)
Including: Passenger revenue	50,059		50,412		(0.7)
– Domestic	43,033		41,854		2.8
– Hong Kong, Macau and Taiwan	1,000		952		5.0
– International	6,026		7,606		(20.8)
Cargo and mail revenue	2,908		3,501		(16.9)
Other operating revenue	1,835	3.3%	1,375	2.5%	33.5
Mainly including: Commission income	342		317		7.9
Ground service income	320		250		28.0
Expired sales in advance of carriage	350		276		26.8
Total operating revenue	54,802	100.0%	55,288	100.0%	(0.9)
Less: fuel surcharge income	(1,986)		(8,197)		(75.8)
Total operating revenue excluding fuel surcharge	52,816		47,091		12.2

Traffic revenue composition

	2009		2008		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger Revenue	50,059	94.5%	50,412	93.5%	(0.7)
Cargo and Mail Revenue	2,908	5.5%	3,501	6.5%	(16.9)
Traffic revenue	52,967	100.0%	53,913	100.0%	(1.8)

Passenger revenue composition

	2009		2008		Change in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	43,033	86.0%	41,854	83.0%	2.8
Hong Kong, Macao and Taiwan	1,000	2.0%	952	1.9%	5.0
International	6,026	12.0%	7,606	15.1%	(20.8)
Passenger revenue	50,059	100.0%	50,412	100.0%	(0.7)

Substantially all of the Group's operating revenue is attributable to airline and airline related operations. Traffic revenue accounted for 96.7% and 97.5% of total operating revenue in 2009 and 2008 respectively. Passenger revenue and cargo and mail revenue accounted for 94.5% and 5.5% respectively of the total traffic revenue in 2009. The other operating revenue is mainly derived from commission income, income from general aviation operations, fees charged for ground services rendered to other Chinese airlines and income from expired sales in advance of carriage.

The decrease in operating revenue was primarily due to a 0.7% decrease in passenger revenue from RMB50,412 million in 2008 to RMB50,059 million in 2009. The total number of passengers carried increased by 13.8% to 66.28 million passengers in 2009. RPKs increased by 11.8% from 83,184 million in 2008 to 93,002 million in 2009, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK decreased from RMB0.61 in 2008 to RMB0.54 in 2009. Passenger revenue and passenger yield per RPK decreased mainly due to the decrease in fuel surcharge income.

Fuel surcharge income, which accounted for 3.6% and 14.8% of total operating revenue in 2009 and 2008, decreased by 75.8% or RMB6,211 million, from RMB8,197 million in 2008 to RMB1,986 million in 2009. On January 14, 2009, the National Development and Reform Commission (NDRC) and the CAAC jointly announced the suspension of the collection of passenger fuel surcharge since January 15, 2009. On November 11, 2009, the NDRC and the CAAC announced to resume the collection of fuel surcharge income and issued a new pricing mechanism, which was effective on November 14, 2009. Under the new pricing mechanism, domestic airline companies could adjust the fuel surcharge level within a prescribed range set by the pricing mechanism without prior approval of the relevant authorities. In addition, the Group reduced the fuel surcharge level of international routes in view of the decrease in fuel prices.

Domestic passenger revenue, which accounted for 86.0% of the total passenger revenue in 2009, increased by 2.8% from RMB41,854 million in 2008 to RMB43,033 million in 2009. Passenger capacity in ASKs increased by 12.8%, while domestic passenger traffic in RPKs increased by 14.3%, resulting in an increase in passenger load factor by 1.0 percentage point from 75.6% in 2008 to 76.6% in 2009. Domestic passenger yield per RPK decreased from RMB0.59 in 2008 to RMB0.53 in 2009.

Hong Kong, Macau and Taiwan passenger revenue, which accounted for 2.0% of total passenger revenue, increased by 5.0% from RMB952 million in 2008 to RMB1,000 million in 2009. For Hong Kong, Macau and Taiwan flights, passenger capacity in ASKs increased by 7.0%, while passenger traffic in RPKs increased by 17.4%, resulting in an increase in passenger load factor by 6.2 percentage points from 63.6% in 2008 to 69.8% in 2009. Passenger yield per RPK decreased from RMB0.84 in 2008 to RMB0.75 in 2009, mainly resulted from the decrease of fuel surcharge income and stronger competition in the region during the year.

International passenger revenue, which accounted for 12.0% of total passenger revenue, decreased by 20.8% from RMB7,606 million in 2008 to RMB6,026 million in 2009. For international flights, passenger capacity in ASKs decreased by 8.2%, while passenger traffic in RPKs decreased by 4.0%, resulting in a 3.0 percentage point increase in passenger load factor from 64.9% in 2008 to 67.9% in 2009. Passenger yield per RPK decreased by 17.9% from RMB0.67 in 2008 to RMB0.55 in 2009, mainly due to the decrease in fuel surcharge income and stronger competition in international routes during the year.

Cargo and mail revenue, which accounted for 5.5% of the Group's total traffic revenue and 5.3% of total operating revenue, decreased by 16.9% from RMB3,501 million in 2008 to RMB2,908 million in 2009. The decrease was attributable to reduced cargo traffic demand under global financial crisis.

Other operating revenue increased by 33.5% from RMB1,375 million in 2008 to RMB1,835 million in 2009. The increase was primarily due to the general growth in income from various auxiliary operations.

Operating expenses

Total operating expenses in 2009 amounted to RMB55,351 million, representing a decrease of 10.4% or RMB6,416 million over 2008, primarily due to the total effect of decreases in jet fuel costs and impairment on property, plant and equipment. Total operating expenses as a percentage of total operating revenue decreased from 111.7% in 2008 to 101.0% in 2009.

	2009		2008		Change in
	RMB million	Percentage	RMB million	Percentage	operating expenses %
Flight operations	29,296	52.9%	34,982	56.6%	(16.3)
Mainly including: Jet fuel costs	16,390		23,086		(29.0)
Operating lease charges	5,123		4,527		13.2
Flight personnel payroll and welfare	2,622		2,490		5.3
Maintenance	4,446	8.0%	4,890	7.9%	(9.1)
Aircraft and traffic servicing	9,169	16.6%	8,476	13.7%	8.2
Promotion and sales	4,170	7.5%	3,491	5.7%	19.5
General and administrative	1,844	3.3%	2,041	3.3%	(9.7)
Impairment on property, plant and equipment	26	0.1%	1,884	3.1%	(98.6)
Depreciation and amortisation	5,971	10.8%	5,746	9.3%	3.9
Others	429	0.8%	257	0.4%	66.9
Total operating expenses	55,351	100.0%	61,767	100.0%	(10.4)

Flight operations expenses, which accounted for 52.9% of total operating expenses, decreased by 16.3% from RMB34,982 million in 2008 to RMB29,296 million in 2009, primarily as a result of significant decrease in jet fuel costs. Jet fuel costs, which accounted for 55.9% of flight operations expenses, decreased by 29.0% from RMB23,086 million in 2008 to RMB16,390 million in 2009 mainly as a result of decrease in average fuel costs by 35.3%.

Maintenance expenses, which accounted for 8.0% of total operating expenses, decreased by 9.1% from RMB4,890 million in 2008 to RMB4,446 million in 2009. The decrease was mainly due to the decrease in number of engines repaired during the year.

Aircraft and traffic servicing expenses, which accounted for 16.6% of total operating expenses, increased by 8.2% from RMB8,476 million in 2008 to RMB9,169 million in 2009. The increase was primarily due to a 10.4% rise in landing and navigation fees from RMB6,135 million in 2008 to RMB6,772 million in 2009, due to the increase in number of flights.

Promotional and sales expenses, which accounted for 7.5% of total operating expenses, increased by 19.5% from RMB3,491 million in 2008 to RMB4,170 million in 2009, which is in line with the increase in operating revenue excluding fuel surcharge income.

General and administrative expenses, which accounted for 3.3% of the total operating expenses, decreased by 9.7% from RMB2,041 million in 2008 to RMB1,844 million in 2009. The decrease was due to stricter cost control implemented by the Group in 2009.

Impairment on property, plant and equipment decreased by RMB1,858 million from RMB1,884 million in 2008 to RMB26 million in 2009. Please see Note 20(g) to the Financial Statements for more details.

Depreciation and amortization, which accounted for 10.8% of total operating expenses, increased by 3.9% from RMB5,746 million in 2008 to RMB5,971 million in 2009, mainly due to the additional depreciation charges on aircraft delivered in 2009.

Operating profit/(loss)

Operating profit of RMB1,440 million was recorded in 2009 as compared to operating loss of RMB5,646 million in 2008. The increase in profit was mainly due to the net effect of decrease in operating revenue by RMB486 million or 0.9% in 2009, decrease in operating expenses by RMB6,416 million or 10.4% and the receipt of CAAC Infrastructure Development Fund contributions of RMB1,328 million in 2009.

Other (expenses)/income

Interest expense decreased by 24.7% from RMB1,987 million in 2008 to RMB1,497 million in 2009, mainly due to the decrease in average effective interest rate of bank and other loans and obligations under finance leases.

Net exchange gain decreased by RMB2,499 million, from RMB2,592 million in 2008 to RMB93 million in 2009 because the exchange rate of RMB against USD was relatively stable in 2009 while RMB appreciated significantly against USD in 2008.

Taxation

Income tax credit of RMB95 million was recorded in 2009 as compared to an income tax expense of RMB62 million in 2008, mainly due to the utilization of unused tax losses not recognized in prior year.

2008 compared with 2007

The loss attributable to equity shareholders of the Company of RMB4,823 million was recorded in 2008 as compared to a profit attributable to equity shareholders of the Company of RMB1,839 million in 2007. The Group experienced a slow down of growth in traffic revenue and rising operating expenses as a result of global financial crisis and increase of jet fuel cost. The Group's operating revenue increased by RMB887 million or 1.6% from RMB54,401 million in 2007 to RMB55,288 million in 2008. Passenger load factor decreased by 0.7 percentage point, from 74.5% in 2007 to 73.8% in 2008. Passenger yield (in passenger revenue per RPK) was RMB0.61, which was unchanged from 2007. Average yield (in traffic revenue per RTK) increased by 1.9% from RMB5.75 in 2007 to RMB5.86 in 2008. Operating expenses increased by RMB8,811 million or 16.6% from RMB52,956 million in 2007 to RMB61,767 million in 2008. As a result of the increase in operating expenses which outweighed the growth in revenue, operating loss of RMB5,646 million was recorded in 2008, as compared to operating profit of RMB1,881 million in 2007.

Operating revenue

	2008		2007		Change in revenue %
	Operating revenue RMB million	Percentage %	Operating revenue RMB million	Percentage %	
Traffic revenue	53,913	97.5%	53,196	97.8%	1.3
Including: Passenger revenue	50,412		49,499		1.8
– Domestic	41,854		40,717		2.8
– Hong Kong, Macau and Taiwan	952		1,074		(11.4)
– International	7,606		7,708		(1.3)
Cargo and mail revenue	3,501		3,697		(5.3)
Other operating revenue	1,375	2.5%	1,205	2.2%	14.1
Mainly including: Commission income	317		281		12.8
Ground service income	250		241		3.7
Expired sales in advance of carriage	276		273		1.1
Total operating revenue	55,288	100.0%	54,401	100.0%	1.6
Less: fuel surcharge income	(8,197)		(5,359)		53.0
Total operating revenue excluding fuel surcharge	47,091		49,042		(4.0)

Traffic revenue composition

	2008		2007		Change in traffic revenue %
	Traffic revenue RMB million	Percentage %	Traffic revenue RMB million	Percentage %	
Passenger Revenue	50,412	93.5%	49,499	93.1%	1.8
Cargo and Mail Revenue	3,501	6.5%	3,697	6.9%	(5.3)
Traffic revenue	53,913	100.0%	53,196	100.0%	1.3

Passenger revenue composition

	2008		2007		Change in passenger revenue %
	Passenger revenue RMB million	Percentage %	Passenger revenue RMB million	Percentage %	
Domestic	41,854	83.0%	40,717	82.3%	2.8
Hong Kong, Macao and Taiwan	952	1.9%	1,074	2.1%	(11.4)
International	7,606	15.1%	7,708	15.6%	(1.3)
Passenger revenue	50,412	100.0%	49,499	100.0%	1.8

Substantially all of the Group's operating revenue is attributable to its air transport and related operations. Traffic revenue accounted for 97.5% and 97.8% of the total operating revenue in 2008 and 2007 respectively. Passenger revenue and, cargo and mail revenue accounted for 93.5% and 6.5% respectively of the total traffic revenue in 2008. The other operating revenue is mainly derived from commission income, income from general aviation operations, fees charged for ground services rendered to other Chinese airlines and income from expired sales in advance of carriage.

The increase in operating revenue was primarily due to a 1.8% rise in passenger revenue from RMB49,499 million in 2007 to RMB50,412 million in 2008 resulting from increase in fuel surcharge income. The total number of passengers carried increased by 2.3% to 58.24 million passengers in 2008. RPKs increased by 1.8% from 81,727 million in 2007 to 83,184 million in 2008, primarily as a result of the increase in number of passengers carried. Passenger yield per RPK was RMB0.61, which was unchanged from 2007.

The Group recorded an amount of fuel surcharge income in respect of passenger operation of RMB7,497 million (2007: RMB4,910 million). Excluding fuel surcharges, the passenger revenue of the Group decreased by 3.8%, from RMB44,589 million in 2007 to RMB42,915 million in 2008, and the passenger yield per RPK (excluding fuel surcharges) decreased from RMB0.55 in 2007 to RMB0.52 in 2008.

Domestic passenger revenue accounted for 83.0% of the total passenger revenue in 2008. Domestic passenger revenue increased by 2.8% from RMB40,717 million in 2007 to RMB41,854 million in 2008 (2007: increased by 19.6% from RMB34,037 million in 2006 to RMB40,717 million in 2007). The decrease in growth in domestic passenger revenue was mainly attributable to various unfavorable factors, including large-scale natural disasters occurred in China, such as the southern China snow storms in January 2008, the May 12 earthquake in Sichuan province, and the strict security measures and visa control for foreigners for the Beijing Olympic Games. Domestic passenger traffic in RPKs increased by 3.3%, mainly due to an increase in number of passengers carried. Domestic passenger yield per RPK decreased from RMB0.60 in 2007 to RMB0.59 in 2008.

Regional passenger revenue, which accounted for 1.9% of total passenger revenue, decreased by 11.4% from RMB1,074 million in 2007 to RMB952 million in 2008, as a result of strong competition from Cathay Pacific Airways and Dragonair for routes connecting Hong Kong and domestic cities of the PRC. For regional flights, passenger traffic in RPKs decreased by 3.5%, while passenger capacity in ASKs decreased by 4.8%, resulting in an increase in passenger load factor by 0.9 percentage point from 62.7% in 2007 to 63.6% in 2008. Passenger yield per RPK decreased from RMB0.91 in 2007 to RMB0.84 in 2008, mainly resulted from stronger competition in the region during the year.

International passenger revenue, which accounted for 15.1% of total passenger revenue, decreased by 1.3% from RMB7,708 million in 2007 to RMB7,606 million in 2008, as a result of the decreased market demand due to the visa restriction for foreigners during the Beijing Olympic Games period and the global financial crisis. For international flights, passenger traffic in RPKs decreased by 6.2%, while passenger capacity in ASKs decreased by 4.4%, resulting in a 1.3 percentage point decrease in passenger load factor from 2007. Passenger yield increased by 6.3% from RMB0.63 in 2007 to RMB0.67 in 2008, mainly due to the increase in fuel surcharge income.

Cargo and mail revenue, which accounted for 6.5% of the Group's total traffic revenue and 6.3% of total operating revenue, decreased by 5.3% from RMB3,697 million in 2007 to RMB3,501 million in 2008. The decrease was attributable to reduced cargo traffic demand under global financial crisis.

Other operating revenue increased by 14.1% from RMB1,205 million in 2007 to RMB1,375 million in 2008. The increase was primarily due to the general growth in income from various auxiliary operations.

Operating expenses

	2008		2007		Change in operating expenses %
	RMB million	Percentage	RMB million	Percentage	
Flight operations	34,982	56.6%	29,082	54.9%	20.3
Mainly including: Jet fuel costs	23,086		18,316		26.0
Operating lease charges	4,527		4,055		11.6
Flight personnel payroll and welfare	2,490		2,226		11.9
Maintenance	4,890	7.9%	4,643	8.8%	5.3
Aircraft and traffic servicing	8,476	13.7%	8,160	15.4%	3.9
Promotion and sales	3,491	5.7%	3,421	6.5%	2.0
General and administrative	2,041	3.3%	1,874	3.5%	8.9
Impairment on property, plant and equipment	1,884	3.1%	109	0.2%	>100
Depreciation and amortisation	5,746	9.3%	5,554	10.5%	3.5
Others	257	0.4%	113	0.2%	>100
Total operating expenses	61,767	100.0%	52,956	100.0%	16.6

Total operating expenses in 2008 amounted to RMB61,767 million, representing an increase of 16.6% or RMB8,811 million over 2007, primarily due to the total effect of increases in jet fuel costs, operating lease charges of aircraft, servicing expenses, maintenance expenses and impairment losses on property, plant and equipment. Total operating expenses as a percentage of total operating revenue increased from 97.3% in 2007 to 111.7% in 2008.

Flight operations expenses, which accounted for 56.6% of total operating expenses, increased by 20.3% from RMB29,082 million in 2007 to RMB34,982 million in 2008, primarily as a result of increases in jet fuel costs and operating lease charges of aircraft. Jet fuel costs, which accounted for 66.0% of flight operations expenses, increased by 26.0% from RMB18,316 million in 2007 to RMB23,086 million in 2008 mainly as a result of increased fuel prices. Operating lease charges of aircraft increased by 11.5% from RMB3,735 million in 2007 to RMB4,166 million in 2008 primarily due to the additional rental payments for new aircraft under operating leases.

Maintenance expenses, which accounted for 7.9% of total operating expenses, increased by 5.3% from RMB4,643 million in 2007 to RMB4,890 million in 2008. The increase was mainly due to fleet expansion in recent years.

Aircraft and traffic servicing expenses, which accounted for 13.7% of total operating expenses, increased by 3.9% from RMB8,160 million in 2007 to RMB8,476 million in 2008. The increase primarily resulted from a 1.7% rise in landing and navigation fees from RMB6,030 million in 2007 to RMB6,135 million in 2008, due to an increase in number of flights.

Promotional and sales expenses, which accounted for 5.7% of total operating expenses, increased by 2.0% from RMB3,421 million in 2007 to RMB3,491 million in 2008.

General and administrative expenses, which accounted for 3.3% of the total operating expenses, increased by 8.9% from RMB1,874 million in 2007 to RMB2,041 million in 2008.

Impairment on property, plant and equipment, which accounted for 3.1% of the total operating expenses, increased by RMB1,775 million from RMB109 million in 2007 to RMB1,884 million in 2008. The impairment losses recognised in 2008 mainly comprise the following:

- During the year, in view of the age and operating efficiency of the Group's fleet of Boeing 777-200A aircraft, Airbus 300 aircraft and McDonnell Douglas 90 aircraft, the Group determined to dispose of these aircraft. The Group has commenced its process of seeking buyers for these aircraft. As a result, the Group assessed the recoverable amounts of these aircraft. Based on this assessment, the carrying amount of the aircraft and the related fleet assets was written down by RMB1,590 million. The estimates of recoverable amounts were based on the aircraft's fair value less costs to sell, determined by reference to the recent observable market prices for the respective model of aircraft.
- There has been a decrease in demand of cargo transportation services as a result of the current economic conditions. In addition, the operating efficiency of the Group's cargo freighters Boeing 747 is not satisfactory due to lack of economy of scale for the existing small fleet of cargo freighters. As such, the Group assessed the recoverable amounts of its cargo freighters and the related fleet assets. Based on this assessment, the carrying amount of the cargo freighters was written down by RMB291 million. The estimates of recoverable amounts were based on the aircraft's fair value less costs to sell, determined by reference to the recent observable market prices for the cargo freighters.

Depreciation and amortisation, which accounted for 9.3% of total operating expenses, increased by 3.5% from RMB5,554 million in 2007 to RMB5,746 million in 2008, mainly resulting from the additional depreciation charge on aircraft delivered in 2007 and 2008.

Operating (loss)/profit

Operating loss of RMB5,646 million was recorded in 2008 as compared to an operating profit RMB1,881 million in 2007. This was mainly because operating revenue increased by RMB887 million or 1.6% in 2008 while operating expenses increased by RMB8,811 million or 16.6% in the same period.

Other income/(expenses)

Interest expense decreased by 13.3% from RMB2,291 million in 2007 to RMB1,987 million in 2008, mainly due to the decrease in average effective interest rate of bank and other loans and obligations under capital leases. Interest income increased by 41.1% from RMB73 million in 2007 to RMB103 million in 2008, mainly attributable to the increase in average bank deposits balances during 2008.

Net exchange gain decreased by 8.5% from RMB2,832 million in 2007 to RMB2,592 million in 2008. Such amount mainly represented an unrealised translation gain on retranslation of foreign currency denominated liabilities at the year end.

Taxation

Income tax expenses decreased by 92.7% from RMB847 million in 2007 to RMB62 million in 2008. This was mainly attributable to the net effect of the operating loss of the Group and the effect of certain deferred tax assets not recognised.

Liquidity and Capital Resources

Generally, the Group met 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.

In addition, the Company received approximately RMB3 billion proceeds from its non-public offerings of 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung in August 2009.

As of December 31, 2009, the Group had banking facilities with several PRC commercial banks for providing loan finance up to an approximate amount of RMB128,175 million to the Group. As of December 31, 2009, an approximate amount of RMB50,455 million was utilized. As of December 31, 2009 and 2008, the Group's cash and cash equivalents totaled RMB4,343 million and RMB4,649 million, respectively.

Net cash inflows from operating activities in 2009, 2008 and 2007 were RMB8,959 million, RMB1,155 million and RMB6,869 million, respectively. Operating cash inflows of the Group are primarily derived from the provision of air transportation and related service for customers. 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 2009, 2008 and 2007 was RMB14,478 million, RMB7,790 million and RMB4,844 million, respectively. Cash capital expenditures in 2009, 2008 and 2007 were RMB15,007 million, RMB8,364 million and RMB5,502 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 inflows/(outflows) of RMB5,213 million, RMB7,460 million and RMB(465) million in 2009, 2008 and 2007, respectively. Net cash inflow from new bank loans, short-term financing bills and repayments amounted to RMB3,750 million, RMB9,667 million and RMB2,324 million in 2009, 2008 and 2007, respectively. The additions of bank loan were used for capital expenditures and general working capital. Repayment of capital leases in 2009, 2008 and 2007 was RMB1,750 million, RMB2,335 million and RMB3,021 million, respectively, resulting from the aircraft acquisitions under capital leases.

As of December 31, 2009, 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 RMB47,633 million. In 2010, 2011, 2012, 2013 and thereafter, amounts payable under such loans and obligations will be RMB7,871 million, RMB9,718 million, RMB10,859 million, RMB3,046 and RMB16,139 million respectively. Such borrowings were denominated in United States dollars 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 payments generally exceed its foreign currency receipts. 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, 2009, the Group's short-term bank loans were RMB11,012 million. The Group's weighted average interest rate on short-term bank loans was 1.18% per annum as of December 31, 2009. 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, 2009, the Group had obligations under operating leases totaling RMB30,366 million, predominately for aircraft. Of such amount, RMB4,028 million, RMB4,103 million, RMB4,122 million, RMB3,596 million, RMB3,286 million, and RMB11,231 million respectively, is due in 2010, 2011, 2012, 2013, 2014 and thereafter.

As of December 31, 2009, the Group had a working capital deficit of RMB28,441 million, as compared to a working capital deficit of RMB32,290 million as of December 31, 2008. 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. The decrease in the Group's working capital deficit from 2008 to 2009 was mainly because the Group sought increased long-term bank loans to finance its aircraft acquisitions. In 2010 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. At December 31, 2009, the Group entered into loan financing agreements with several PRC banks to provide financing up to RMB128,175 million, of which approximately RMB50,455 million was utilized. The directors of the Company believe that the liquidity status of the Group in 2010 will be further enhanced upon completion of the non-public share subscriptions as discussed in Business Overview under Item 4. The directors of the Company believe that sufficient financing will be available to the Group.

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, 2009, the Group had capital commitments as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 and afterwards</u>	<u>Total</u>
	(RMB million)					
Acquisition of aircraft and related equipment	16,404	17,482	17,421	9,845	4,691	65,843
Others	1,068	601	192	-	-	1,861
Total capital commitments	17,472	18,083	17,613	9,845	4,691	67,704

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

As of December 31, 2009, the cash and cash equivalents of the Group totaled RMB4,343 million. Of such balance, 22% was denominated in US Dollars, Hong Kong Dollars, Australian Dollars, Japanese Yen and other foreign currencies.

In view of the unutilized bank facilities of RMB77,720 million, the anticipated non-public share subscription and cash generated from operations, the Group expects that it will have sufficient funding sources to meet its cash requirements in the foreseeable future.

Contractual Obligations and Commitments

The following table sets forth the Group's obligations and commitments to make future payments under contracts and under commitments as of December 31, 2009.

	<u>As of December 31, 2009</u>					<u>As of</u>
	<u>Payment due by period</u>					<u>December</u>
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>After 5 years</u>	<u>31, 2008</u>
Short-term bank loans (note 1)	11,094	11,094	-	-	-	18,757
Long-term bank and other loans (note 1)	36,014	7,047	18,248	2,853	7,866	23,300
Short-term financing bills	-	-	-	-	-	2,094
Bills payable	3,207	3,207	-	-	-	148
Obligations under capital leases	15,812	1,972	3,812	3,432	6,596	16,036
Operating lease commitments	30,366	4,028	8,225	6,882	11,231	34,330
Aircraft purchase commitments (Note 2)	65,843	16,404	34,903	12,491	2,045	75,639
Other capital commitments	1,861	1,068	793	-	-	884
Investing commitments	-	-	-	-	-	-
Total	164,197	44,820	65,981	25,658	27,738	171,188

Note 1 Interest on variable rate loans was estimated based on the current rate in effect at December 31, 2009.

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.

Directors, Senior Management and Employees

The following table sets forth certain information concerning directors, senior management and supervisors of the Company in 2009. There were certain changes in the Company's directors, senior management and supervisors subsequent to December 31, 2009, details of which are set forth below.

Name	Position	Gender	Age
Si Xian Min ⁽¹⁾	Chairman of the Board	Male	53
Li Wen Xin	Director	Male	60
Wang Quan Hua	Director	Male	56
Liu Bao Heng	Director	Male	60
Tan Wan Geng ⁽²⁾	Director, President	Male	46
Zhang Zi Fang ⁽³⁾	Director and Executive Vice President	Male	52
Xu Jie Bo	Director, Executive Vice President and Chief Financial Officer	Male	45
Chen Zhen You	Director	Male	58
Wang Zhi	Independent Non-executive Director	Male	68
Sui Guang Jun	Independent Non-executive Director	Male	49
Gong Hua Zhang	Independent Non-executive Director	Male	64
Lam Kwong Yu	Independent Non-executive Director	Male	66
Sun Xiao Yi	Chairman of the Supervisory Committee	Male	56
Yang Guang Hua ⁽⁴⁾	Former Supervisor	Male	57
Li Jia Shi ⁽⁵⁾	Supervisor	Male	49
Zhang Wei	Supervisor	Female	44
Yang Yi Hua	Supervisor	Female	50
Liang Zhong Gao	Supervisor	Male	54
Ren Ji Dong ⁽⁶⁾	Executive Vice President	Male	45
He Zong Kai	Executive Vice President	Male	59
Liu Qian	Executive Vice President	Male	46
Dong Su Guang	Executive Vice President	Male	56
Chen Gang ⁽⁷⁾	Executive Vice President	Male	44
Zhang Zheng Rong	Chief pilot	Male	48
Hu Chen Jie	Chief Information Officer	Male	41
Tang Bing ⁽⁸⁾	Former Chief Engineer	Male	43
Su Liang	Chief Economist	Male	48
Zhang He Ping ⁽⁸⁾	Current Chief Engineer	Male	57
Chen Wei Hua	Chief Legal Adviser	Male	44
Xie Bing	Company Secretary	Male	37

(1) On 12 January 2009, Mr Si Xian Min was appointed at the extraordinary board meeting as the Chairman of the Fifth Session of the Board and his resignation as the President of the Company was also approved at the meeting.

(2) On 13 January 2009, Mr Tan Wan Geng was appointed at the extraordinary board meeting as the President of the Company.

(3) On 30 June 2009, Mr Zhang Zi Fang was appointed at the 2008 annual general meeting as a director of the Fifth Session of the Board.

(4) On 30 June 2009, the resignation of Mr Yang Guang Hua as a supervisor of the Fifth Session of the Supervisory Committee was approved at the 2008 annual general meeting.

(5) On 30 June 2009, Mr Li Jia Shi was appointed at the 2008 annual general meeting as a supervisor of the Fifth Session of the Supervisory Committee.

(6) On May 7, 2009, the Board of the Company approved the appointment of Mr. Ren Ji Dong as an Executive Vice President of the Company.

(7) On August 26, 2009, the Board of the Company approved the appointment of Mr. Chen Gang as an Executive Vice President of the Company.

(8) On June 2, 2009, the Board of the Company approved the cessation of Mr. Tang Bing as the Chief Engineer of the Company, and the appointment of Mr. Zhang He Ping as the Chief Engineer of the Company.

Save as disclosed above, since January 1, 2010 through the date of this Annual Report, there has been no change to the Directors, Senior Management or Supervisors.

BOARD OF DIRECTORS

Mr. Si Xian Min is the Chairman of the Board. Mr. Si graduated with a master degree of Business Administration from School of Economics and Management of Tsinghua University, EMBA Major. Mr. Si is also an expert of political science. He began his career in civil aviation in 1975. He held positions as Director of the political division of China Southern Airlines Henan Branch, Party Secretary and Vice President of Guizhou Airlines, Deputy Party Secretary and the Secretary of the Disciplinary Committee of the Company and Party Secretary of China Northern Airlines and has been the President of the Company from October 2004 to January 2009. He has been the General Manager and Deputy Party Secretary of CSAHC and the Chairman of the Board of the Company since January 2009.

Mr. Li Wen Xin is a Director of the Company. Mr. Li was a graduate majoring in economic management. He is a senior expert of political science. Mr. Li joined the civil aviation industry in 1969. He was the Secretary to the Disciplinary Committee, Deputy Party Secretary and Vice General Manager of China General Aviation Corporation successively between 1991 and 1998. He was appointed as the Party Secretary and Vice General Manager of China Eastern Airlines Company Limited Shanxi branch in February 1998. He became the Deputy Party Secretary and Secretary to the Disciplinary Committee of China Eastern Air Holding Company in June 2000. From September 2002 to September 2006, he was appointed as the Party Secretary and Vice President of China Eastern Air Holding Company. Between June 2000 and September 2006, he was the Chairman of the Supervisory Committee of China Eastern Airlines Company Limited. He has been the Party Secretary and Executive Vice President of CSAHC since September 2006.

Mr. Wang Quan Hua is a Director of the Company. Mr. Wang graduated from the Economic Management Department of the Party School of the Central Committee of CPC, and is an economist. Mr. Wang began his career in civil aviation in 1972, and successively served as the Director of Planning Department of Guangzhou Civil Aviation Administration, the Office Director of China Southern Airlines Shenzhen Company., the Director of the Planning and Operation Division of the Company, General Manager of Strategy and Development Department of the Company, Assistant President and the Director of Planning Department of CSAHC. Since September 2009, Mr. Wang has been the Executive Vice President of CSAHC. Mr. Wang currently is also the chairman of SACM and the director of Nan Lung.

Mr. Liu Bao Heng is a Director of the Company. He graduated from the Central University of Finance and Economics majoring in accounting and is an auditor. Mr. Liu began his career in 1968. He held the post of deputy director and director of the No. 3 Division of Department of Public Finance Audit of National Audit Office of the People's Republic of China (CNAO). He was the assistant and deputy commissioner to CNAO's Xian Office. He became the deputy chief, the department chief and director of the General Office of CNAO. He has been the Chief Accountant of CSAHC since February 2006.

Mr. Tan Wan Geng is a Director and president of the Company. Mr. Tan is an engineer graduated from Economic Geography Department in Sun Yatsen University, with major in regional economy, with qualification of post graduate degree, and a master degree in economics. Mr. Tan has previously served as the Head of the Infrastructure Department and Director of Human Resources Department of the Beijing Aircraft Maintenance and Engineering Corporation from 1990 to 1996, the Deputy Director of Human Resources Division (Personnel and Education Division) of CAAC from 1996 to 2000, and has been the Director General and Party Secretary of CAAC Northeastern Branch from December 2000 to January 2006. He has been Party Secretary of Chinese Communist Party Committee and Executive Vice President of the Company from February 2006 to January 2009, and the President of the Company since January 2009.

Mr. Zhang Zi Fang is a Director, the Party Secretary and an Executive Vice President of the Company. Mr. Zhang graduated with a master degree of Business Administration from School of Economics and Management of Tsinghua University, EMBA Major. Mr. Zhang is a senior expert of political science. Mr. Zhang served as the Deputy Commissar and subsequently the Commissar of the Pilot Corps of China Northern Airlines Company, and later on the Party Secretary of the Jilin Branch. He served as General Manager of Dalian Branch of CSAHC Northern Airlines and Director of Political Department of CSAHC. He also served as the Deputy Party Secretary and Secretary of the Disciplinary Committee of the Company. He has been an Executive Vice President of the Company since December 2007 and has been the Party Secretary of the Company since February 2009. Mr. Zhang is also the Vice President of SACM.

Mr. Xu Jie Bo is a Director, Executive Vice President and Chief Financial Officer of the Company. He graduated from the management department of Tianjin University majoring in infrastructure management, and was subsequently awarded with a master degree in business administration from Hong Kong Baptist University and a master degree of Business Administration from School of Economics and Management of Tsinghua University, EMBA Major. He is also a qualified senior accountant. Mr. Xu started his career in 1986. He had ever taken up the posts of Deputy Director and Director of the Financial Department of Central and Southern China Civil Aviation Administration. He became General Manager of the Financial Department of the Company since July 1998 and Chief Financial Officer of the Company since 2001. He has been Executive Vice President and chief accountant of the Company since August 2003. Mr. Xu is also the Chairman of Guizhou Airlines, the Vice Chairman of Xiamen Airlines, and the Vice Chairman of Sichuan Airlines Corporation Limited ("Sichuan Airlines"), an associate of the Group.

Mr. Chen Zhen You is a Director and Chairman of the Labour Union of the Company. He graduated from Hua Zhong Normal University majoring in English. Mr. Chen, an economist, holds an MBA from Murdoch University in Australia. He worked as the Vice Director of the Office of International Affairs of Guangzhou Civil Aviation Administration, Vice Director of the Office of Overseas Business of the Company and General Manager of the Department of Foreign Affairs. He was the Office Director of CSAHC and the Director of the Planning and Investment Department of CSAHC. He has been the Chairman of the Labour Union of the Company since February 2005. Mr. Chen is also the Chairman of Zhuhai Airlines.

Mr. Wang Zhi has been an independent non-executive Director of the Company since May 2003. Mr. Wang graduated from the Aircraft Design Department of Harbin Institute of Technology. Mr. Wang began his career in 1965, and has successively served as the Director and Senior Engineer of Aeronautics Research Institute of China, the Vice Director of the First Research Institute of Civil Aviation, the Vice Director and Director of the Planning Bureau and the Director of the Planning Technology System Reform Department and the Planning Technology Department of CAAC. Mr. Wang is also a professor in several universities.

Mr. Sui Guang Jun has been an independent nonexecutive Director of the Company since May 2003. Mr. Sui graduated from the Economic Department of Jinan University and obtained a doctor degree in the Management of Organizations of Jinan University in 1996. He has successively served as the Vice Director of the Research Institute of Hong Kong and Macao Economies, the Dean of corporate administration department of Jinan University and the Chief of the Post-doc Committee of Applied Economics and the Dean of Management College in Jinan University. Mr. Sui is currently the Chancellor of Guangdong University of Foreign Studies.

Mr. Gong Hua Zhang has been an independent Non-Executive Director of the Company since June 2007, used to be the Chief Accountant, vice director and director of the financial bureau of China National Petroleum Corporation, the Chief Accountant of China National Petroleum Corporation and a Director of PetroChina Company Limited. Mr. Gong also acts as a part-time professor in Tsinghua University, Nankai University, Xiamen University and China University of Petroleum, and is a professor in National Accounting Institute (Beijing).

Mr. Lam Kwong Yu has been an independent nonexecutive Director of the Company since June 2007, is an expert in the field of civil aviation. Mr. Lam used to serve as the General Manager of the Hong Kong Airport, the Vice Director and Director of the Civil Aviation Department of Hong Kong, a Director of the Airport Authority Hong Kong and the Chairman of the Aviation Advisory Board of Hong Kong. Mr. Lam is currently a member of the Selection Committee for the Hong Kong Special Administrative Region.

SUPERVISORY COMMITTEE

As required by the Company Law of the PRC and the Articles of Association of the Company, the Company has 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 the Company's employees. The Supervisors serve terms of three years and may serve consecutive terms.

Mr. Sun Xiao Yi, the chairman of the Supervisory Committee of the Company, is head of Discipline Supervision Team of CSAHC. Mr. Sun graduated from the Civil Aviation University of China with a degree in Economics and Administration and is a postgraduate law student of the Party School of the Central Committee of CPC. Mr. Sun is a senior expert of political science and Economics. Mr. Sun has successively served as Vice Party Secretary of the Hubei branch of the Company, Party Secretary of the Flight Operations Department of the Company, and Vice Party Secretary of CSAHC. He has been head of Discipline Supervision Team of CSAHC since September 2002.

Mr. Li Jia Shi, a Supervisor of the Company. He graduated from the Guangdong Institute For Nationalities majoring in economic mathematics and an expert of political science. He started to work since August 1976. He served as the Head of the Organization Division of the Party Committee and the Deputy Secretary of the Disciplinary Committee of the Company from December 2003 to December 2007. He has served as the Secretary of the Disciplinary Committee of the Company since December 2007. Mr. Li currently is also the Chairman of Southern Airlines Ka Yuen (Guangzhou) Aviation Supply Company Limited and Guangzhou Nanland Air Catering Company Limited.

Ms. Zhang Wei, a Supervisor of the Company. She is the Director of the Audit Division of CSAHC. She graduated from Tianjin University majoring in investment skills & economics. She holds a master of science in chemical engineering. Ms. Zhang is a senior accountant. She served as Vice General Manager of the Finance Department of the Company, and the General Manager of Southern Airlines Group Finance Company Limited, the Vice Director of the Supervisory Bureau and the Director of the Audit Division of CSAHC. She has been the Director of the Audit Division of CSAHC since October 2008. Ms. Zhang currently is also the Chairman of the Supervisory Committee of SA Finance and SACM.

Ms. Yang Yi Hua, a Supervisor of the Company. Ms. Yang is the General Manager of the Audit Department of the Company and a Certified Internal Auditor. She has successively served as Deputy Manager of the Clearance and Settlement Office of the Financial Division of the Guangzhou Civil Aviation Administration, Manager of the Financial Office of the Company's Financial Division, and Deputy General Manager of the Company's Audit Department. Ms. Yang currently is also the Chairman of the Supervisory Committee of Xiamen Airlines, Guizhou Airlines, Guangzhou Baiyun International Logistic Company Limited ("Baiyun Logistic") and Nan Lung International Freight Limited and a supervisor of Chongqing Airlines, Beijing Ground Service and SA Finance.

Mr. Liang Zhong Gao, a Supervisor and the Director of the Disciplinary Supervision Department of the Company. He is an expert of political science with university qualification. Mr. Liang once served as the Party Secretary and Deputy General Manager of the Guangzhou Sales Office of the Company, Deputy Party Secretary and Secretary of the Disciplinary Committee of the Passenger Traffic Department of the Company, Party Secretary of the Passenger Traffic Department of the Company and General Manager of the Aviation Service Quality Control Department of the Company.

SENIOR MANAGEMENT

Mr. Ren Ji Dong is the Executive Vice President of the Company. He graduated from the School of Economics and Management of Tsinghua University with a master degree in Business Administration (EMBA), and he is a senior engineer. He 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 February 2005 to January 2007, and the President of the Xinjiang Branch of the Company from January 2007 to April 2009. He has served as the Executive Vice President of the Company since May 2009.

Mr. He Zong Kai is the Executive Vice President of the Company. Mr. He graduated from Beijing Foreign Language Institute majoring in French, and he is a senior economist. Mr. He served as the Deputy Manager of the Operation Department of the Company, Manager of Passenger Transportation Department, Head of Seats Arrangement Department, Vice General Manager of the Marketing Department and General Manager of the Ground Services Department. He assumed the offices of the President and Deputy Party Secretary of Hubei Branch. Mr. He has been an Executive Vice President of the Company since March 2005. Currently, Mr. He is also the Chairman of Chongqing Airlines.

Mr. Liu Qian is currently the Executive Vice President of the Company. Mr. Liu graduated from China Civil Aviation Flying College with majoring in aircraft piloting. 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 of the piloting standards department, the Deputy Head of the Piloting Standards Division of the Piloting Standards Department, and the Deputy Chief Pilot and Chief Pilot of the Company. He has been an Executive Vice President of the Company since August 2007. Mr. Liu served as the Chairman of Zhuhai Xiang Yi Aviation Technology Company Limited, a jointly-controlled entity of the Company.

Mr. Dong Su Guang is the Executive Vice president of the Company. He graduated from Northwestern Polytechnical University majoring in aircraft design, and he is an engineer. He is an Executive Vice President of the Company. Mr. Dong used to be a Deputy General Manager of Guangzhou Aircraft Maintaining and Engineering Co., Ltd., as well as Chief Engineer and the General Manager of Aircraft Engineering Department of the Company. He has been an Executive Vice President of the Company since December 2007. Mr. Dong is also the Chairman of Shantou Airlines and Guangzhou Aircraft Maintenance and Engineering Co., Ltd. ("GAMECO", a jointly-controlled entity of the Company).

Mr. Chen Gang, the Executive Vice President of the Company. He graduated from Zhongnan Finance and Economics University majoring in Industrial Enterprise Management and the School of Economics and Management of Tsinghua University with a master degree in Advanced Business Administration (EMBA). He began his career in 1987. He served as the Vice Director of the Enterprise Management Department, the Manager of the Planning Enterprise Management Department, the Manager of Operation Department of Henan Branch of the Company, the Vice General Manager of Henan Branch of the Company, the General Manager of Hubei Branch of the Company, and the Director and Vice Party Secretary of the Marketing Management Committee of the Company from November 2005 to August 2009. He served as the Vice General Manager of the Company since August 2009. Currently, Mr. Chen is also the Chairman of CSN – ETC E-commerce Limited and Baiyun Logistics.

Mr. Zhang Zheng Rong is the Chief Pilot of the Company. He graduated from China Civil Aviation Flying College majoring in aircraft piloting and the School of Economics and Management of Tsinghua University with a master degree in Advanced Business Administration (EMBA). Mr. Zhang used to serve as the Captain of the First Squadron of CAAC, the Deputy General Manager of the Flight Operations Division and the Captain of the First Squadron as well as the General Manager of the Aviation Safety Monitoring Division of the Company. He has been the General Manager and Deputy Party Secretary of the Guangzhou Flight Operations Division of the Company. He has been the Chief Pilot of the Company since August 2007.

Mr. Hu Chen Jie is the Chief Information Officer of the Company and graduated from Beijing University Aeronautics and Astronautics majoring in information management. Mr. Hu used to be a software engineer in the Computer Center of CAAC, a senior software engineer in Wei Hong International Technology Company (Singapore), Deputy Director of the Computer Center of the Company, a senior project manager of SITA INC. (US) and the General Manager of CSN-ETC e-Commerce Limited. He has been the Chief Information Officer of the Company since June 2007.

Mr. Su Liang is the Chief Economist of the Company, and graduated from the University of Cranfield, United Kingdom with a master degree in Air Transport Management Engineering. 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. Mr. Su was the Chairman of China Southern West Australian Flying College Pty Ltd (a subsidiary of the Company) and the Director of Sichuan Airlines (an associate of the Company).

Mr. Zhang He Ping is the Chief Engineer of the Company. Mr. Zhang is an engineer with university qualification. From January 2003 to May 2009, he served as the General Manager and Vice Party Secretary of the Hunan Branch of the Company. He has served as the Chief Engineer and the General Manager of the Aircraft Engineering Department of the Company since June 2009. Mr. Zhang was also the Director of GAMECO (a joint controlled entity of the Company) and the Chairman of Shenyang Northern Aircraft Maintenance Co., Ltd.

Mr. Chen Wei Hua is the Chief Legal Adviser. Mr. Chen graduated from the school of law of Peking University and the School of Economics and Management of Tsinghua University with a master degree in Advanced Business Administration (EMBA). He is a qualified solicitor in the PRC and a qualified corporate legal counsellor. Mr. Chen joined the Civil Aviation Administration of China in 1988. He then joined the CSAHC in January 1991. From 1997 to 2003, he served as Vice Director and Director of the Legal Affairs Office of the Company. Currently, he is the General Manager of the Legal Department of the Company. Mr. Chen has been the Chief Legal Adviser to the Company since January 2004. Currently, Mr. Chen is also a director of Xiamen Airlines.

Mr. Xie Bing, the Company Secretary of the Company. He graduated from Nanjing University of Aeronautics and Astronautics, majoring in civil aviation management. He subsequently received a master degree of business administration and a master degree of international finance from Jinan University and the University of Birmingham, Britain respectively. Mr. Xie used to work in the Planning and Development Department, Company Secretary Office of the Board of Director of the Company and Office of CSAHC. He has been the Secretary of the Board of Directors and the Company Secretary of the Company since November 2007.

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

Compensation

The aggregate compensation paid to all Directors, Supervisors and Senior Management for 2009 was RMB14,913,000. For the year ended December 31, 2009, the Company paid an aggregate of approximately RMB922,000 on behalf of its executive Directors, Supervisors and Senior Management pursuant to the SA Pension Scheme and the retirement plans operated by various municipal governments in which the Company participates.

Details of Directors' and Supervisors' emoluments for the year ended December 31, 2009 are set out below:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<i>Executive directors</i>					
Si Xian Min	-	698	-	40	738
Li Wen Xin	-	608	-	40	648
Wang Quan Hua	-	550	-	40	590
Liu Bao Heng	-	550	-	40	590
Tan Wan Geng	-	672	-	38	710
Xu Jie Bo	-	572	-	38	610
Chen Zhen You	-	572	-	38	610
Zhang Zi Fang	-	590	-	38	628
<i>Supervisors</i>					
Sun Xiao Yi	-	550	-	40	590
Yang Guang Hua	-	407	-	17	424
Zhang Wei	-	345	-	40	385
Yang Yi Hua	-	266	-	38	304
Liang Zhong Gao	-	269	-	38	307
Li Jia Shi	-	118	-	19	137
<i>Independent non-executive directors</i>					
Wang Zhi	50	-	-	-	50
Sui Guang Jun	100	-	-	-	100
Gong Hua Zhang	100	-	-	-	100
Lam Kwong Yu	88	-	-	-	88
Total	338	6,767	-	504	7,609

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 in accordance with his contract. The term of office of a Director is three years. The term of office of the current Directors will end in 2010. 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 Gong Hua Zhang, Wang Zhi and Sui Guang Jun. Gong Hua Zhang is the chairman of the audit committee. The term of office of each member will end in 2010. 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 ten meetings in 2009, 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 Sui Guang Jun with independent non-executive Director Gong Hua Zhang and executive Director Wang Quan Hua as members. The term of office of each member is three years. The term of office of the current members will end in 2010. A member may serve consecutive terms upon re-election. The Remuneration and Assessment Committee held one meeting in 2009, 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 2009.

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 at December 31, 2009, the Nomination Committee consists of three members, including Si Xian Min as chairman and Wang Zhi (Independent non-executive director) and Gong Hua Zhang (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 six meeting in 2009, which was attended by all members.

Employees

As of December 31, 2009, the Group had 50,412 employees, including 4,006 pilots, 7,521 flight attendants, 7,324 maintenance personnel, 6,257 sales and marketing personnel, 2,039 ground service personnel, 1,691 flight operation officers, 1,636 financial personnel and 9,860 administrative and 10,078 other personnel. All of the Group's 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. A representative of the Company labor union currently serves 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 receive limited health services, but not housing or 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.

(a) Retirement benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a defined contribution basic retirement scheme for the employees arranged by local Labor and Social Security Bureaus. The Group makes contributions to the retirement scheme at the applicable rates ranging from 10% to 25% (2008: 9% to 24%) as required by the government organization. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local Labor and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees.

In addition, the Group has established a supplementary defined contribution retirement scheme for the benefit of employees in accordance with relevant regulations in the PRC. Under such supplementary scheme, the Group is required to make contributions not exceeding one-twelfth of the prior year's total salaries.

(b) Housing fund and other social insurances

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the employees' salaries. The contributions are recognized as cost of assets or charged to profit or loss on an accrual basis.

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognized in profit or loss when both of the following conditions have been 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;

– 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.

Share Ownership

As of the date of this Annual Report, no Director, Senior Management or Supervisor of the Company is a beneficial owner of any shares of the Company's capital stock. As of the date of this Annual Report, no arrangement has been put in place involving issue or grant of options or shares or securities of the Company to any of the Director, Senior Management, Supervisor or employees of the Company.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

Major Shareholders

Share Capital Structure

As of May 7, 2010 the total share capital of the Company was divided into 8,003,567,000 shares, of which approximately 50.24% (4,021,150,000 A Shares) was directly held by CSAHC, approximately 18.74% (1,500,000,000 A Shares) was held by other domestic shareholders, and approximately 31.02% (2,482,417,000 H Shares) was held by Hong Kong and overseas shareholders (among which, approximately 29.27% (726,500,000 H Shares) was indirectly held by CSAHC). CSAHC owns, directly and indirectly, 59.32% of the total share capital of the Company, therefore it is entitled to exercise all the rights of a controlling shareholder, including the election of executive Directors.

Substantial Shareholders

As of May 7, 2010, the following shareholders had an interest of 5% or more in the Company's shares:

Name	Number of Shares	Approximate Percentage of the Total Number of Shares
CSAHC	4,021,150,000 A Shares ⁽¹⁾	50.24%
HKSCC Nominees Limited	1,744,633,398 H Shares ⁽²⁾	21.80%
Nan Lung	721,150,000 H Shares	9.01%

The table below sets forth, as of May 7, 2010, the following entities hold 5% or more of the total number of H Shares issued by the Company.

Name	Number of H Shares	Approximate Percentage of the Total Number of H Shares
HKSCC Nominees Limited	1,744,633,398 ⁽²⁾	70.27%
Nan Lung	721,150,000 ⁽²⁾	29.05%

A Shares and H Shares have identical voting rights.

(1) CSAHC has right to acquire not more than 132,510,000 A Shares and through Nan Lung Holding Limited (a wholly-owned subsidiary of CSAHC), to acquire not more than 312,500,000 H Shares, pursuant to the A Shares subscription agreement dated March 8, 2010 entered into between the Company and CSAHC and the H Shares subscription agreement dated March 8, 2010 entered into between the Company and Nan Lung, respectively. Both of the subscription agreements were approved by the shareholders of the Company. 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 and are pending approval from the relevant security regulatory authorities.

- (2) Among the 1,744,633,398 H Shares held by HKSCC Nominees Limited, CSAHC had an interest in an aggregate of 5,350,000 H Shares through Asia Travel Investment Company Limited, a wholly-owned subsidiary of CSAHC in Hong Kong (representing approximately 0.2% of the then total issued H Shares).

Related Party Transactions

The Company enters into transactions from time to time with CSAHC and its associates. For a description of such transactions, see Note 45 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 associates during the year ended December 31, 2009 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

Non-Public Subscriptions

On August 20, 2009 and August 21, 2009, the Company issued 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung for net cash considerations of RMB2,259 million and RMB721 million, respectively.

On March 8, 2010, the board of the Company approved (i) the placement of not more than 1,766,780,000 new A shares to not more than 10 specific investors (subject to the maximum number as permitted by PRC laws and regulations at the time of the issuance) including CSAHC, at the same subscription price of not less than RMB5.66 per A share; and (ii) the placement of not more than 312,500,000 new H shares to Nan Lung, at the subscription price of not less than HKD2.73 per H share.

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 HKD2.73 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 and are pending approval from the relevant security regulatory authorities.

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 royalty free license to use the kapok logo on a worldwide basis in connection with the Company's airline and airline-related businesses. As CSAHC did not give a written notice of termination three months before the expiration of the agreement, the agreement is automatically renewed for another ten year term. In May of 2007, the Trademark License Agreement has been renewed by the two parties for another ten-year term till 2017.

Leases

The Group as lessee and CSAHC as lessor have entered into the following lease agreements:

- (1) On December 19, 2006, the Company entered into a master lease agreement with CSAHC with a term valid from January 1, 2006 to December 31, 2008 ("Lease Agreement"). The Company renewed the Lease Agreement with CSAHC on December 29, 2008. Pursuant to the 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") and Nanyang as well as some additional locations in Beijing, Shanghai, Changsha, Shenyang, Dalian, Harbin and Changchun, etc.. The Lease Agreement is valid from January 1, 2009 to December 31, 2011 and the annual rents payable to CSAHC under the Lease Agreement for 2009, 2010 and 2011 are RMB37,148,660, RMB39,006,093 and RMB40,956,397.65 respectively.

For the year ended December 31, 2009, the rent incurred by the Group amounted to RMB37,148,660 pursuant to such 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 land and buildings.

- (3) Due to the expiration on December 31, 2007 of the Land Use Rights Lease Agreement between the Company and CSAHC, the Property Lease Agreement between the Company and CSAHC, and China Northern Airlines, as well as the Property Lease Agreement between the Company and CSAHC and Xinjiang Airlines on November 12, 2004, and in order to ensure normal operation of the Company, the Company, based on the actual leasing conditions of both parties, consolidate the three agreements into two agreements by the type of the leased properties, namely the Land Lease Agreement and the Property Lease Agreement. Those two agreements were entered into between the Company and CSAHC on January 10, 2008 and effective for a period from January 1, 2008 to December 31, 2010. As provided for in the Land Lease Agreement and the Property Lease Agreement, the lease areas of the related lands and properties were changed to 1,104,209.69 square meters and 197,010.37 square meters respectively, and their annual rentals were adjusted to RMB21,817,145.00 and RMB48,474,632.77, or an aggregate of RMB70,291,777.77 for each of the years from 2008 to 2010. The rentals were determined by reference to the market rents of the same district and on the basis that unit rental and payment terms remained unchanged.

For the year ended December 31, 2009, the rents for land lease and property lease incurred by the Group amounted to RMB21,817,145.00 and RMB48,474,632.77 respectively pursuant to such lease agreement.

Arrangements with CSAHC's Associates

Southern Airlines (Groups) Import and Export Trading Company ("SAIETC"), a wholly-owned subsidiary of CSAHC

On January 10, 2008, the Company entered into an Import and Export Agency Framework Agreement with SAIETC, pursuant to which the parties shall cooperate on the following business domains: import and export, customs clearance, customs declaration and inspection, tendering and agency, etc. The agreement is valid from January 1, 2008 to December 31, 2010, and the annual cap for the commission should not exceed RMB90,000,000.

For the year ended December 31, 2009, the agency fee incurred by the Group to SAIETC in respect of the import and export of above service was RMB67,936,000.

Southern Airlines Culture and Media Co., Ltd. ("SACM"), which is 50% owned by the Company and 50% owned by CSAHC

On April 12, 2007, the Company and SACM entered into an Advertising Agency Framework Agreement for a term of three years commencing from the date of the agreement. Under the agreement, SACM will produce advertisement script, graphic and music for the Company with the copyrights of such products belonging to the Company, subject to compliance with the relevant provisions of the Listing Rules. The parties have determined the various rates for providing advertising services after negotiations on a fair and equitable 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 business which were accepted by the Company. As set forth in the agreement, the transaction cap for 2007, 2008 and 2009 were RMB16,000,000, RMB20,500,000 and RMB25,500,000, respectively.

As the Advertising Agency Framework Agreement had expired and the transactions contemplated under the Advertising Agency Framework Agreement would continue to be entered into on a recurring basis with an expansion of scope between the parties, the Company has entered into the Media Services Framework Agreement on May 11, 2010 for a term of three years from January 1, 2010 to December 31, 2012. Pursuant to the agreement, SACM will provide the following services to the Group: (1) exclusive advertising agency services, including the design, production, broadcast and agency of international and domestic screen, print, outdoor and other forms of advertisement; (2) the plotting, purchase and production of in-flight TV and movie program agency services; (3) public relations services relating to recruitment of airhostess, including organising and implementation of the promotional recruitment activities, on-site recruitment activities, and production of promotional advertising program; and (4) services relating to the distribution of newspapers and magazines issued by SACM within places of the Company services. As set forth in the agreement, the revised transaction cap for 2010, 2011 and 2012 were RMB40,000,000, RMB48,000,000 and RMB58,000,000, respectively.

For the year ended December 31, 2009, the advertising fees incurred by the Group to SACM for the advertising services amounted to RMB20,868,000.

SA Finance which is 66% controlled by CSAHC, 21% owned by the Company and 13% owned in aggregate by four subsidiaries of the Company

On November 15, 2007, the Company renewed the Financial Services Framework Agreement with SA Finance for a term of three years starting from January 1, 2008 to December 31, 2010.

Under such agreement, SA Finance agrees to provide to the Group 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 it provided to CSAHC and its subsidiaries other than the Group should not exceed the aggregate of share capital, reserves and total deposits of 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 RMB2,600,000,000, 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, 2009, the Group's deposits placed with SA Finance amounted to RMB862,015,000.

Freight Agency Agreement

The Company has entered into Ticket Agency Agreements with several subsidiaries of CSAHC (the "Agents") for the sale of the Group's air tickets. The Agents charge 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. The Agents also act as the ticket sales agents of other airline companies in China, and charge commission at the same rates offered to the Group.

The Company and China Southern Airlines Group Passenger and Cargo Agent Company Limited ("PCACL"), a wholly-owned subsidiary of CSAHC have entered into the Framework Agreement on Expanded Businesses Including the Sale of Air Tickets, the Airfreight Forwarding Services, Chartered Flight and Pallets Agency Services, Delivery Services For the Outside Storage Area and the Relevant Internal Operation Services For the Inside Storage Area of China Southern Airlines Company Limited dated January 10, 2008 (the "Freight Agency Agreement"), which is valid from January 1, 2008 to December 31, 2010. Pursuant to the Freight Agency 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 agency services, internal operation services for the inside storage area, and delivery services for the outside storage area and chartered flight and pallets sales agency business. The annual transaction cap of the sales value shall not exceed RMB250,000,000.

For the year ended December 31, 2009, the amount of ticket and cargo sales of the Group conducted through the above Agents was RMB182,019,000.

Guangzhou China Southern Airlines Property Management Company Limited (the "GCSAPMC"), which is 100% owned by CSAHC

The Company and GCSAPMC entered into a Framework Agreement for the Engagement of Property Management ("Property Management Framework Agreement") dated January 1, 2006 to engage GCSAPMC to provide property management and improvement service for a term of three years. Pursuant to the agreement, the Company has appointed GCSAPMC to provide management and maintenance services for the Company's headquarters in Guangzhou and to provide maintenance and management services for the 110KV transformer substation to ensure the ideal working conditions of the Company's production and office facilities and physical environment, and the normal operation of equipment. The fee charging schedule (or charge standard) 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 Property Management Framework Agreement is set at RMB47,010,000. The Company renewed the Property Management Framework Agreement with GCSAPMC on December 29, 2008 for a term of three years from January 1, 2009 to December 31, 2011, and there is no change in the scope of services and the annual caps.

For the year ended December 31, 2009, the property management and maintenance fee incurred by the Group amounted to RMB19,471,000 pursuant to the Property Management Framework Agreement.

Disposal of Equity Interest

A resolution was passed at the board meeting of the Company on September 28, 2009, pursuant to which the Company was approved to transfer its 50% equity interests in MTU to CSAHC by way of agreement. The resolution also authorized the Executive Directors of the Company to execute the relevant equity interest transfer agreement. The Company entered into an equity interest transfer agreement with CSAHC on September 28, 2009. The transfer was considered and approved by the Independent Shareholders of the Company at the second extraordinary general meeting in 2009. Pursuant to the agreement, the Company transferred its 50% equity interests in MTU to CSAHC at a consideration of RMB1,607,850,000.

As at December 31, 2009, the sale was approved by the State Owned Assets Supervision and Administration Commission of the PRC and shareholders of the Company and was pending approval by the Ministry of Commerce of the PRC. The sale was subsequently approved by the Ministry of Commerce of the PRC in January 2010, and the Company received the acquisition consideration from CSAHC in full in February 2010.

Others

On May 7, 2009, the Company entered into the Airline Service Agreement with TravelSky Technology Limited ("TravelSky") for the period from January 1, 2009 to December 31, 2009. In December 2009, the Company and TravelSky agreed to extend the term of the Airline Service Agreement for the period from January 1, 2010 to December 31, 2010. Mr. Wang Quan Hua, a director of the Company also serves directorship in TravelSky, which is a provider of information technology solutions for aviation and travel industry. Pursuant to the agreement, TravelSky agrees to provide to the Company with flight control system services, electronic travel distribution system services, ticket-reservation system extended services and civil aviation and commercial data network services. In return, the Company pays service fees to TravelSky with reference to the standard rate set by CAAC. Such transaction has been approved by the Board of the Company and will be submitted for approval at the General Meeting of the Shareholders. The total service fee paid by the Company to TravelSky for 2009 was RMB357 million.

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

Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION.

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.

Significant Changes

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

Legal Proceedings

A writ of summons was issued on May 30, 2007 by the High People's Court of Guangdong Province relating to a claim that certain sales agents in Taiwan (the "plaintiffs") against the Company for the alleged breach of certain terms and conditions of a cooperative agreement (the "cooperative agreement"). The plaintiffs have made a claim against the Company for a total sum of approximately HKD107 million and an unspecified compensation for early termination of the cooperative agreement.

In May 2008, The High People's Court of Guangdong Province rejected the claims made by the plaintiffs, and the plaintiffs were ordered to bear all litigation expenses in respect of the first trial. The plaintiffs submitted an appeal to The Supreme People's Court of the People's Republic of China.

The directors considered that the claim was without merit and had no material adverse effect on the financial position of the Group, and accordingly no provision in respect of the claims was made in the financial statements.

In May 2009, the Company has received the civil judgment from the Supreme People's Court of the PRC, pursuant to which the plaintiffs were allowed to withdraw their appeal. Accordingly, the verdict brought in by the High People's Court of Guangdong Province became legally effective and such verdict is final and conclusive on the parties.

Dividend Information

No interim dividend was paid during the year ended December 31, 2009. The Board of Directors does not recommend the payment of a final dividend in respect of the year ended December 31, 2009.

ITEM 9. THE OFFER AND LISTING.

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, are evidenced by ADRs issued by the Bank of New York as the depository. The ADRs 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>						
<i>Fiscal Year ended December 31, 2005</i>	3.10	1.83	19.93	11.68	5.30	2.23
<i>Fiscal Year ended December 31, 2006</i>	3.42	1.60	22.43	10.51	4.09	2.24
<i>Fiscal Year ended December 31, 2007</i>	13.90	3.25	94.48	20.81	28.73	4.26
<i>Fiscal Year ended December 31, 2008</i>	10.44	0.83	65.31	5.56	28.68	2.72
<i>Fiscal Year ended December 31, 2009</i>	2.99	1.14	19.45	7.09	7.22	3.28
<i>Quarterly Market Prices</i>						
<i>Fiscal Year ended December 31, 2008</i>						
<i>First Quarter</i>	10.44	5.13	65.31	33.96	28.68	12.98
<i>Second Quarter</i>	6.16	3.10	41.48	19.79	16.61	6.79
<i>Third Quarter</i>	3.70	1.40	23.22	9.03	8.46	3.18
<i>Fourth Quarter</i>	1.64	0.83	10.06	5.56	4.03	2.72
<i>Fiscal Year ended December 31, 2009</i>						
<i>First Quarter</i>	1.57	1.14	10.18	7.09	5.61	3.28
<i>Second Quarter</i>	2.40	1.62	15.45	10.67	6.33	5.11
<i>Third Quarter</i>	2.99	2.02	19.45	12.75	7.22	4.96
<i>Fourth Quarter</i>	2.88	2.24	18.86	14.35	6.49	5.15
<i>Monthly Market Prices</i>						
November 2009	2.88	2.24	18.86	14.42	6.49	5.29
December 2009	2.78	2.36	18.05	15.36	6.21	5.62
January 2010	2.84	2.47	18.42	15.98	6.44	5.84
February 2010	2.98	2.58	18.14	16.36	6.62	6.10
March 2010	3.57	2.98	22.57	20.28	7.55	6.59
April 2010	4.09	3.48	26.38	22.58	9.20	7.53
May 2010 (up to May 7, 2010)	4.09	3.70	25.95	23.26	8.84	7.77

Plan of Distribution

Not applicable.

Markets

See "Offer and Listing Details" above.

Selling Shareholders

Not applicable.

Dilution

Not applicable.

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.

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 Purpose

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 244 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.

Pursuant to Article 174 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.

Pursuant to Article 252 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.

Pursuant to Article 162(6) of the Articles of Association, the Board of Directors has the power to formulate proposals for increases or reductions in the Company's registered capital and the issue of debentures of the Company; such resolutions must be passed by more than two-thirds of all the Directors.

There is no mandatory retirement age for the Directors of the Company. The Directors of the Company are not required to hold shares of the Company.

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.

Following the issuance of 721,150,000 new A Shares to CSAHC and 721,150,000 new H Shares to Nan Lung, which were completed on August 20, 2009 and August 21, 2009, respectively, the Company has issued a total of 8,003,567,000 ordinary shares, of which approximately 50.24% (4,021,150,000 A Shares) was directly held by CSAHC, approximately 18.74% (1,500,000,000 A Shares) was held by other domestic shareholders, and approximately 31.02% (2,482,417,000 H Shares) was held by Hong Kong and overseas shareholders (among which, approximately 29.27% (726,500,000 H Shares) was indirectly held by CSAHC).

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;
 - (a) all parts of the register of shareholders;

- (b) 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;
 - (c) state of the Company's share capital;
 - (d) 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;
 - (e) minutes of shareholders' general meetings; and
 - (f) 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.

Pursuant to Article 67 of the Articles of Association, the ordinary shareholders of the Company shall assume the following obligations:

- (1) to abide by these Articles of Association;
- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) no right to return shares to the Company unless laws and regulations provide otherwise; and
- (4) other obligations imposed by laws, administrative regulations and these 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.

Action necessary to change rights of shareholders

Pursuant to Article 152 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 153 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 155 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 156 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 157 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 158 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.

Pursuant to Article 160 of the Articles of Association, the special procedures for voting at any meeting of a class of shareholders shall not apply to the following circumstances:

- (1) where the Company issues, upon the approval by special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20 percent of each of its existing issued Domestic Shares and Overseas Listed Foreign Shares; and
- (2) where the Company's plan to issue Domestic Shares and Overseas Listed Foreign Shares at the time of its establishment is carried out within fifteen months from the date of approval of the competent securities authority of the State Council.

Meetings of shareholders

Shareholders' general meetings is the organ of authority of the Company and shall exercise its functions and powers, among other things, to decide on the Company's operational policies and investment plans, to elect and replace directors and decide on matters relating to the remuneration of directors, to examine and approve reports of the board of directors, etc.

There are two types of shareholders' general meetings: annual general meetings and extraordinary general meetings. Shareholders' general meetings are 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.

Under any of the following circumstances, the Board of Directors shall convene an extraordinary general meeting within two months:

- (1) when the number of Directors is less than the number of Directors required by the Company Law or two thirds of the number of Directors specified in the Articles of Association;
- (2) when the accumulated losses of the Company amount to one third of the total amount of its share capital;
- (3) when shareholder(s) holding 10 percent 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) when deemed necessary by the Board of Directors or as requested by the Supervisory Committee;
- (5) More than one half of the independent directors propose to convene the meeting.

When the Company convenes a shareholders' general meeting, written notice of the meeting is given 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 and the date and the place of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to the Company twenty days before the date of the meeting.

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 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.

Cash dividends policy

Pursuant to Article 268 of the Articles of Association, in the event of distribution of dividend by way of cash, the accumulated payment of dividend by way of cash for the last three years may not be less than 30% of the Company's average distributable profit for the last three years. Where the Company makes a payment of dividend satisfied by an allotment of new shares or completed conversion of capital common reserve fund into capital, the Company may not distribute dividend by way of cash in the same year.

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.

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

C. Material Contracts

The Company has not entered into any material contracts other than in the ordinary course of business and other than those described in this Item 10, Item 7, "Related Party Transactions", Item 4, "Information on the Company" or elsewhere in this Annual Report on Form 20-F.

- (a) Pursuant to the Aircraft General Terms Agreement dated January 20, 2010 between the Company and Airbus S.A.S. and A320 Family Aircraft Purchase Agreement dated January 20, 2010 between the Company and Airbus SNC, the Company agreed to purchase 20 Airbus A 320 series aircraft from Airbus SNC in accordance with the terms and conditions thereof. According to the information provided by Airbus SNC, the catalogue price of an Airbus A320 aircraft is US\$ 76.9 million. Such catalogue price includes price for airframe and engine. 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 2011 to 2013.
- (b) Pursuant to a Transfer Agreement dated September 28, 2009 and a Supplemental Transfer Agreement dated December 29, 2009 entered into between the Company and CSAHC, the Company agreed to sell and CSAHC agreed to acquire the 50% equity interest in MTU, a jointly controlled entity of the Company, at a consideration of US\$235.47 million. The sale was approved by the Company's shareholders in an extraordinary general meeting held on November 27, 2009. The sale was approved by the State Owned Assets Supervision and Administration Commission of the PRC and the Ministry of Commerce of the PRC subsequently, and the Company received the acquisition consideration from CSAHC in full in February 2010.
- (c) Pursuant to the Agreement entered into by and among the Company, CSAHC, MTU and MTU Aero Engines GmbH on September 28, 2009, the Company agreed to continue to perform certain existing obligations, in particular, the exclusive maintenance undertaking, under the JV Contract to ensure the continuity and stability of the business of MTU.

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 would be permitted to rise or fall by as much as 0.5%. 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%.

E. Taxation

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 currently 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 provides 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, including 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%. Currently, dividend income received by any foreign individual that holds overseas shares in any Chinese domestic enterprise is temporarily exempt from individual income tax. In the event that the exemption is discontinued, such payments will be subject to individual income tax at the 20% rate unless the holder is entitled to a tax waiver or a lower tax rate under 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;
- partnerships and other 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;
- U.S. Holders (as defined below) whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually 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 depository 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."

For U.S. federal income tax purposes, income earned through a foreign or domestic partnership or other flow-through entity is attributed to its owners. Accordingly, if a partnership or other flow-through entity holds ADRs, the tax treatment of the holder will generally depend on the status of the partner or other owner and the activities of the partnership or other flow-through entity.

U.S. Holders

Dividends on ADRs

Subject to the 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 (generally 15% for dividend distributions before January 1, 2009) as long as 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 on the Company's ADRs, if any, will generally be taxed to you as dividend distributions for U.S. tax purposes. 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.

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 will be 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 will be taxed at preferential rates. Your ability to deduct capital losses will be subject to various limitations.

Passive Foreign Investment Company

If the PFIC in any taxable year in which you hold the Company's ADRs, 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 percentage value of its gross assets during the taxable year that produce passive income or are held for the production of passive income is at least 50% of the value of its total gross assets (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 held for the production of passive income; and (2) the average value of the Company's gross 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 foreign corporation 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 include income and assets held by a 25% or more owned subsidiary in determining whether a foreign 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 nonpassive income of the related party, and 2) a foreign company that owns directly or indirectly 25% or more of the stock of another corporation 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 2009. However, there can be no assurance that the Company will not be a PFIC for the taxable year 2010 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 2009 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 or dispose of or are deemed to dispose of your ADRs. An excess distribution would be either (1) a distribution with respect to ADRs that is greater than 125% of the average of such distributions over the preceding three years, or (2) 100% of the gain from the disposition of shares/ADRs.

To compute the tax on "excess" distributions or any gain, (1) the "excess" distribution or the gain would be allocated ratably to each day in your holding period, (2) the amount allocated to the current year and any tax year before 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 taxes for any period described under (3) above would be imposed with respect to any portion of the "excess" distribution or gain 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 "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.

As described above, 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. 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.

Non-US Holders

If you beneficially own ADRs and are not a U.S. Holder for U.S. federal income tax purposes (a "Non-US 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 either (1) your gain is attributable to an office or other fixed place of business that you maintain in the United States or (2) you have a tax home in the United States.

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, 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>.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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 domestic 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 RMB1,639 million. The sensitivity analysis of jet fuel price risk is disclosed in Note 49 (e) to the Financial Statements.

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. No such contract was outstanding as of December 31, 2009. The sensitivity analysis of interest rate risk is disclosed in Note 49(b) to the Financial Statements.

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. As at December 31, 2009, the Group had two outstanding foreign exchange forward option contracts of notional amount ranging from US\$34 million to US\$68 million. The contracts are to buy US Dollars by selling Japanese Yen at certain specified rates on monthly settlement dates until the maturity of the contracts in 2011. At December 31, 2009, the fair value of these foreign exchange forward option contracts was liabilities of approximately RMB44 million. The sensitivity analysis of foreign currency risk is disclosed in Note 49(c) to the Financial Statements.

As of December 31, 2009, the Group operated a total of 203 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 50 to the Financial Statements, respectively.

The following table provides information regarding the Group's material interest rate sensitive financial instruments as of December 31, 2009 and 2008:

	As of December 31, 2009 Expected maturity date						As of December 31, 2008			
	2010	2011	2012	2013	2014	Thereafter	Total recorded amount	Fair value(2)	Total recorded amount	Fair value(2)
Fixed-rate bank and other loans in US\$	182	79	59	62	65	325	772	795	994	1,036
Average interest rate	4.81%	3.70%	3.70%	3.70%	3.70%	3.70%				
Variable-rate bank and other loans in US\$	15,355	4,450	8,842	1,591	875	7,286	38,399	38,399	25,352	25,352
Average interest rate	1.08%	1.18%	1.19%	1.14%	1.07%	1.16%				
Variable-rate bank and other loans in HKD	-	-	-	-	-	-	-	-	17	17
Average interest rate	-	-	-	-	-	-				
Fixed-rate bank and other loans in RMB	-	-	-	-	-	-	-	-	2,224	2,224
Average interest rate	-	-	-	-	-	-				
Variable-rate bank and other loans in RMB	1,915	3,694	524	20	-	-	6,153	6,153	11,020	11,020
Average interest rate	4.77%	4.88%	4.95%	5.00%	-%	-				
Fixed-rate short-term financing bills in RMB	-	-	-	-	-	-	-	-	2,000	2,000
Average interest rate	-	-	-	-	-	-				
Fixed-rate bills payable in RMB	3,202	-	-	-	-	-	3,202	3,202	148	148
Average interest rate	2.26%	-	-	-	-	-				

- (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, 2009 and 2008.

The following table provides information regarding the Group's material foreign currency sensitive financial instruments and capital commitments as of December 31, 2009 and 2008:

	As of December 31, 2009						As of December 31, 2008			
	Expected maturity date						Total recorded amount	Fair value(1)	Total recorded amount	Fair value(1)
2010	2011	2012	2013	2014	Thereafter					
Fixed-rate bank and other loans In US\$	182	79	59	62	65	325	772	795	994	1,036
Variable-rate bank and other loans In US\$	15,355	4,450	8,842	1,591	875	7,286	38,399	38,399	25,352	25,352
Variable-rate bank and other loans in HKD	-	-	-	-	-	-	-	-	17	17
Capital commitment in US\$	16,404	17,482	17,421	9,845	2,646	2,045	65,843	65,843	75,639	75,639

- (1) Fair value of debt instruments was estimated based on the floating interest rates applicable to similar debt instruments as of December 31, 2009 and 2008.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

A. DEBT SECURITIES

Not applicable.

B. AMERICAN DEPOSITARY SHARES

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:
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

For:

- 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

\$.02 (or less) per ADS

- Any cash distribution 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

- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders

\$.02 (or less) per ADSs per calendar year

- Depositary services

Registration or transfer fees

- 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

Expenses of the depositary

- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars

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

- As necessary

Any charges incurred by the depositary or its agents for servicing the deposited securities

- As necessary

Fees and Payments from the Depositary to Us

In 2009, the Company received from the depositary a reimbursement of US\$103,183.92, 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\$135,351.49 for the standard costs associated with the administration of the ADS program in 2009.

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.

(a) 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.

(b) 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 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, 2009.

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.

(c) Attestation of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of China Southern Airlines Company Limited (the "Company") as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible 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 Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, China Southern Airlines Company Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of The Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of China Southern Airlines Company Limited and its subsidiaries (collectively, the "Group") as of December 31, 2009 and 2008, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated cash flow statements for each of the years in the three-year period ended December 31, 2009, and our report dated April 12, 2010, except for Note 52(a), which is as of April 30, 2010, expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the Group's adoption of IFRS 8, *Operating segments*.

/s/ KPMG

Hong Kong, China
April 12, 2010

(d) *Changes in internal control over financial reporting*

During the year ended December 31, 2009, 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 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

The Board of Directors has determined that Mr. Gong Hua Zhang qualifies as an audit committee financial expert in accordance with the terms of Item 16A of Form 20-F. Mr. Gong Hua Zhang 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 US 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.

The Company has adopted a code of ethics that applies to the Company's 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, tax fees of the Company's principal accountants and all other fees billed for products and services provided by the Company's principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2008 and 2009:

	<u>Audit Fees</u>		<u>Audit-Related Fees</u>		<u>Tax Fees</u>		<u>Other Fees</u>	
2008	RMB	10.8 million	RMB	5.0 million	RMB	0.55 million		-
2009	RMB	11.2 million	RMB	5.0 million	RMB	0.25 million	RMB	0.3 million

Audit-related fees

Review of the Group's 2008 interim financial report prepared under IFRSs and 2009 interim financial report prepared under IFRSs.

Tax fees

Services provided primarily consist of tax compliance services.

Other fees

Provision of Sarbanes Oxley Act of 2002 advisory services.

Prior to our principal accountant being engaged by the Company or our subsidiaries to render the audit or non audit services, the engagements have been 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.

The Company and its associates have not purchased any issued common shares of the Company during 2009 and up to the date of this Annual Report.

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.

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.

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's governance practices

Director Independence

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.

Executive Sessions

No similar requirements.

Nominating/Corporate Governance Committee

The Company has established a nominating committee. As at December 31, 2009, the Nomination Committee consists of three members, Messrs Si Xian Min, Wang Zhi (Independent non-executive Director) and Gong Hua Zhang (Independent non-executive Director). Mr. Si Xian Min was appointed as the chairman of the Nomination Committee on March 11, 2009. 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

The Company has established a remuneration committee consisting of three members. The remuneration committee is chaired by independent non-executive Director Sui Guang Jun with independent non-executive Director Gong Hua Zhang and 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 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 committee is also responsible for assessing performance of executive director and approving the terms of executive directors' service contracts.

Audit Committee

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.

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.

Shareholder Approval of Equity Compensation Plans

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.

Corporate Governance Guidelines

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

Certification Requirements

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

PART III

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.

Reference is made to pages F-1 to F-88.

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 ⁽¹⁾
4.1	Form of Director's Service Agreement ⁽²⁾
4.2	Form of Non-Executive Director's Service Agreement ⁽³⁾
4.3	Aircraft General Terms Agreement entered into by and between Airbus S.A.S. and China Southern Airlines Company Limited on January 20, 2010 *
4.4	A320 Family Aircraft Purchase Agreement entered into by and between the Company and Airbus SNC on January 20, 2010 *
4.5	A Shares Subscription Agreement entered into by and between the Company and CSAHC on December 10, 2008 ⁽⁴⁾
4.6	H Shares Subscription Agreement entered into by and between the Company and Nan Lung Holding Limited on December 10, 2008 ⁽⁵⁾
4.7	A Shares Subscription Agreement entered into by and between the Company and CSAHC on March 8, 2010
4.8	H Shares Subscription Agreement entered into by and between the Company and Nan Lung Holding Limited on March 8, 2010
4.9	Transfer Agreement entered into by and among the Company, CSAHC, MTU and MTU Aero Engines GmbH on September 28, 2009
4.10	Transfer Agreement for the 50% Equity Interest in MTU between CSAHC and the Company on September 28, 2009
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 1.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

(2) 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

(3) 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

(4) Incorporated by reference to the Exhibit 4.8 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

(5) Incorporated by reference to the Exhibit 4.9 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

**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, 2009, 2008 and 2007	F-2
Consolidated Statements of Comprehensive Income for the years ended December 31, 2009, 2008 and 2007	F-4
Consolidated Balance Sheets at December 31, 2009 and 2008	F-5
Consolidated Statements of Changes in Equity for the years ended December 31, 2009, 2008 and 2007	F-7
Consolidated Cash Flow Statements for the years ended December 31, 2009, 2008 and 2007	F-9
Notes to Consolidated Financial Statements	F-11

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 balance sheets of China Southern Airlines Company Limited (the "Company") and its subsidiaries (collectively, the "Group") as of December 31, 2009 and 2008, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated cash flow statements for each of the years in the three-year period ended December 31, 2009. 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 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Southern Airlines Company Limited and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board.

As discussed in Note 3 to the consolidated financial statements, the Group has changed its presentation of segment information with retrospective effect due to the adoption of IFRS 8, *Operating segments*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 12, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG

Hong Kong, China
April 12, 2010, except for Note 52(a), which is as of April 30, 2010

Consolidated Income Statements for the years ended December 31, 2009, 2008 and 2007

(Prepared in accordance with International Financial Reporting Standards)
 (Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Operating revenue				
Traffic revenue	4	52,967	53,913	53,196
Other operating revenue	5	1,835	1,375	1,205
Total operating revenue		54,802	55,288	54,401
Operating expenses				
Flight operations	6	29,296	34,982	29,082
Maintenance	7	4,446	4,890	4,643
Aircraft and traffic servicing	8	9,169	8,476	8,160
Promotion and sales	9	4,170	3,491	3,421
General and administrative	10	1,844	2,041	1,874
Impairment on property, plant and equipment	20(g)	26	1,884	109
Depreciation and amortisation	11	5,971	5,746	5,554
Others		429	257	113
Total operating expenses		55,351	61,767	52,956
Other net income	15	1,989	833	436
Operating profit/(loss)		1,440	(5,646)	1,881
Interest income		68	103	73
Interest expense	13	(1,497)	(1,987)	(2,291)
Share of associates' results	22	69	(12)	57
Share of jointly controlled entities' results	23	214	170	123
Gain/(loss) on derivative financial instruments, net		45	(124)	90
Exchange gain, net		93	2,592	2,832
Gain on sale of other investments in equity securities		-	-	107
Gain on sale of a jointly controlled entity		-	143	-
Gain on sale of equity interest in subsidiaries		-	37	7
Profit/(loss) before taxation		432	(4,724)	2,879
Income tax credit/(expense)	16	95	(62)	(847)
Profit/(loss) for the year		527	(4,786)	2,032

Consolidated Income Statements for the years ended December 31, 2009, 2008 and 2007 (continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Attributable to:				
Equity shareholders of the Company		330	(4,823)	1,839
Minority interests		<u>197</u>	<u>37</u>	<u>193</u>
Profit/(loss) for the year		<u><u>527</u></u>	<u><u>(4,786)</u></u>	<u><u>2,032</u></u>
Earnings/(loss) per share				
Basic and diluted	19	<u>RMB 0.05</u>	<u>RMB (0.74)</u>	<u>RMB 0.28</u>

The notes on pages F-11 to F-88 form part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2009, 2008 and 2007

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Profit/(loss) for the year		527	(4,786)	2,032
Other comprehensive income for the year (after tax and reclassification adjustments):				
Available-for-sale securities: net movement in the fair value reserve	17	<u>30</u>	<u>(192)</u>	<u>218</u>
Total comprehensive income for the year		<u>557</u>	<u>(4,978)</u>	<u>2,250</u>
Attributable to:				
Equity shareholders of the Company		349	(4,988)	2,022
Minority interests		<u>208</u>	<u>10</u>	<u>228</u>
Total comprehensive income for the year		<u>557</u>	<u>(4,978)</u>	<u>2,250</u>

The notes on pages F-11 to F-88 form part of these financial statements.

Consolidated Balance Sheets at December 31, 2009 and 2008

(Prepared in accordance with International Financial Reporting Standards)
 (Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million
Non-current assets			
Property, plant and equipment, net	20	63,673	53,237
Construction in progress	21	18,059	17,321
Lease prepayments		516	531
Interest in associates	22	257	235
Interest in jointly controlled entities	23	728	1,048
Other investments in equity securities	24	166	166
Lease deposits		564	563
Available-for-sale equity securities	25	93	114
Deferred tax assets	26	479	167
Other assets	27	558	412
		<u>85,093</u>	<u>73,794</u>
Current assets			
Inventories	29	1,256	1,229
Trade receivables	30	1,359	1,317
Other receivables		1,408	1,371
Prepaid expenses and other current assets		711	620
Amounts due from related companies	38	51	11
Pledged bank deposits	33(j)	-	51
Cash and cash equivalents	31	4,343	4,649
		<u>9,128</u>	<u>9,248</u>
Asset classified as held for sale	32	529	-
		<u>9,657</u>	<u>9,248</u>
Current liabilities			
Financial liabilities	28	44	116
Bank and other loans	33	17,452	22,178
Short-term financing bills	34	-	2,000
Obligations under finance leases	35	1,431	1,781
Trade and bills payables	36	4,992	1,353
Sales in advance of carriage		2,196	2,244
Deferred revenue	37	316	261
Income tax payable		44	120
Amounts due to related companies	38	94	102
Accrued expenses	39	8,153	8,420
Other liabilities	40	3,376	2,963
		<u>38,098</u>	<u>41,538</u>
Net current liabilities	49	<u>(28,441)</u>	<u>(32,290)</u>
Total assets less current liabilities		<u>56,652</u>	<u>41,504</u>

Consolidated Balance Sheets as at December 31, 2009 and 2008 (continued)

(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million
Non-current liabilities and deferred items			
Bank and other loans	33	27,875	17,429
Obligations under finance leases	35	11,887	11,157
Deferred revenue	37	594	445
Provision for major overhauls	41	953	945
Provision for early retirement benefits	42	148	179
Deferred benefits and gains		1,080	1,109
Deferred tax liabilities	26	853	761
		<u>43,390</u>	<u>32,025</u>
Net assets		<u>13,262</u>	<u>9,479</u>
Capital and reserves			
Share capital	43	8,003	6,561
Reserves	44	<u>2,348</u>	<u>460</u>
Total equity attributable to equity shareholders of the Company		10,351	7,021
Minority interests		<u>2,911</u>	<u>2,458</u>
Total equity		<u>13,262</u>	<u>9,479</u>

The notes on pages F-11 to F-88 form part of these consolidated financial statements.

Consolidated Statements of Changes in Equity for the years ended December 31, 2009, 2008 and 2007

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB million	Share premium RMB million	Fair value reserves RMB million	Other reserves RMB million (Note (a))	(Accumulated losses)/ retained earnings RMB million	Total RMB million	Minority interests RMB million	Total equity RMB million
Balance at January 1, 2007	4,374	5,325	-	603	(465)	9,837	1,915	11,752
Changes in equity for 2007:								
Paid in capital from minority equity holders of a subsidiary	-	-	-	-	-	-	240	240
Acquisition of Nan Lung Freight and Air Catering (Note 48(b))	-	-	-	-	-	-	80	80
Disposal of equity interest in a subsidiary to minority shareholders (Note 48(c))	-	-	-	-	-	-	(8)	(8)
Distributions to minority shareholders	-	-	-	-	-	-	(8)	(8)
Share of an associate's reserves movement	-	-	-	4	-	4	-	4
Total comprehensive income for the year	-	-	183	-	1,839	2,022	228	2,250
Balance at December 31, 2007 and January 1, 2008	4,374	5,325	183	607	1,374	11,863	2,447	14,310
Changes in equity for 2008:								
Bonus share issue (Note 43(a))	2,187	(2,187)	-	-	-	-	-	-
Acquisition of China Southern West Australian Flying College Pty Limited (Note 45(c)(xv))	-	-	-	(5)	-	(5)	-	(5)
Disposal of partial equity interest in a subsidiary to minority shareholders	-	-	-	-	-	-	24	24
Distributions to minority shareholders	-	-	-	-	-	-	(28)	(28)
Government contributions (Note 44(d))	-	-	-	151	-	151	5	156
Total comprehensive income for the year	-	-	(165)	-	(4,823)	(4,988)	10	(4,978)
Balance at December 31, 2008 and January 1, 2009	6,561	3,138	18	753	(3,449)	7,021	2,458	9,479
Changes in equity for 2009:								
Issuance of shares (Note 43(a))	1,442	1,538	-	-	-	2,980	-	2,980
Paid in capital from minority equity holders of subsidiaries (Note (b))	-	-	-	-	-	-	261	261
Liquidation of subsidiaries	-	-	-	-	-	-	(6)	(6)
Distributions to minority shareholders	-	-	-	-	-	-	(10)	(10)
Government contributions (Note 44(d))	-	-	-	1	-	1	-	1
Total comprehensive income for the year	-	-	19	-	330	349	208	557
Balance at December 31, 2009	<u>8,003</u>	<u>4,676</u>	<u>37</u>	<u>754</u>	<u>(3,119)</u>	<u>10,351</u>	<u>2,911</u>	<u>13,262</u>

Consolidated Statements of Changes in Equity for the years ended December 31, 2009, 2008 and 2007 (continued)

*(Prepared in accordance with International Financial Reporting Standards)
(Expressed in Renminbi)*

Note (a): Other reserves represent statutory surplus reserve, discretionary surplus reserve and others. Details are set out in Note 44.

Note (b): In 2009, the minority equity holders of certain subsidiaries of the Company injected cash of RMB242 million and assets of RMB19 million in respect of their shares of the registered capital in these subsidiaries.

The notes on pages F-11 to F-88 form part of these consolidated financial statements.

Consolidated Cash Flow Statements for the years ended December 31, 2009, 2008 and 2007

(Prepared in accordance with International Financial Reporting Standards)
 (Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Operating activities				
Cash generated from operations	31(b)	11,232	4,256	9,698
Interest received		68	103	73
Interest paid		(2,131)	(2,805)	(2,814)
Income tax paid		(210)	(399)	(88)
Net cash generated from operating activities		8,959	1,155	6,869
Investing activities				
Proceeds from disposal of property, plant and equipment		320	312	288
Proceeds from sale of available-for-sale equity securities		138	-	-
Proceeds from sale of a jointly controlled entity		-	210	-
Proceeds from sale of equity interest in subsidiaries		-	61	-
Proceeds from sale of other investments in equity securities		-	-	127
Net cash settlement of derivative financial instruments		(27)	(11)	67
Dividends received from associates		47	-	-
Dividends received from jointly controlled entities		-	14	79
Dividends received from other investments		14	14	12
Payment of lease deposits		(10)	-	(86)
Refund of lease deposits		8	54	165
Capital expenditures		(15,007)	(8,364)	(5,502)
Decrease/(increase) in pledged bank deposits		51	(51)	-
Payment for the investment in an associate, jointly control entities, a subsidiary and other investments		(6)	(29)	(10)
Payment for acquisition of Nan Lung Freight and Air Catering	48(b)	-	-	(58)
Liquidation of subsidiaries		(6)	-	74
Net cash used in investing activities		(14,478)	(7,790)	(4,844)

Consolidated Cash Flow Statements for the years ended December 31, 2009, 2008 and 2007 (continued)

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Financing activities				
Proceeds from issue of shares	43(a)	2,980	-	-
Proceeds from bank and other loans		37,146	41,450	30,984
Repayment of bank and other loans		(31,396)	(33,783)	(28,660)
Proceeds from issue of short-term financing bills		-	2,000	-
Repayment of short-term financing bills		(2,000)	-	-
Repayment of principal under finance lease obligations		(1,750)	(2,335)	(3,021)
Capital contributions received from government	44(d)	1	156	-
Paid in capital from minority equity holders of subsidiaries		242	-	240
Dividends paid to minority shareholders		(10)	(28)	(8)
Net cash generated from/(used in) financing activities		5,213	7,460	(465)
Net (decrease)/increase in cash and cash equivalents		(306)	825	1,560
Cash and cash equivalents at January 1		4,649	3,824	2,264
Cash and cash equivalents at December 31		4,343	4,649	3,824

The notes on pages F-11 to F-88 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Prepared in accordance with International Financial Reporting Standards)

(Expressed in Renminbi)

1 Basis of presentation

China Southern Airlines Company Limited (the "Company") and its subsidiaries (the "Group") are principally engaged in the provision of domestic, Hong Kong, Macau and Taiwan and international passenger, cargo and mail airline services.

The Company was established in the People's Republic of China (the "PRC" or "China") on March 25, 1995 as a joint stock limited company as part of the reorganisation (the "Reorganisation") of the Company's holding company, China Southern Air Holding Company ("CSAHC"). CSAHC is a state-owned enterprise under the supervision of the PRC central government.

The Company's H Shares and American Depositary Receipts ("ADR") (each ADR representing 50 H Shares) have been listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively since July 1997. In July 2003, the Company issued 1,000,000,000 A Shares which are listed on the Shanghai Stock Exchange.

The 2007 bonus share issue of 2,187,089,000 shares, by the conversion of share premium to share capital, was implemented in August 2008.

On August 20, 2009 and August 21, 2009, the Company issued 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung Holdings Ltd. ("Nan Lung"), a wholly-owned subsidiary of CSAHC, respectively.

2 Principal accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by the International Accounting Standards Board (the "IASB").

Note 3 provides information on the impact of the new and revised IFRSs and interpretations that are first effective for the current accounting period and the changes in accounting policies for the current and prior accounting periods reflected in these consolidated financial statements.

(b) Basis of preparation of the consolidated financial statements

At December 31, 2009, the Group's current liabilities exceeded its current assets by RMB28,441 million, which includes bank and other loans repayable within one year of RMB17,452 million. In preparing the financial statements, the directors have considered the Group's sources of liquidity and believe that adequate funding is available to fulfil the Group's short-term obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern. Further details are set out in Note 49(a).

The consolidated financial statements for the year ended December 31, 2009 comprise the Company and its subsidiaries and the Group's interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Derivative financial instruments (Note 2(g)); and
- Available-for-sale equity securities (Note 2(f)).

2 Principal accounting policies (continued)

(b) Basis of preparation of the consolidated financial statements (continued)

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (Note 2(cc)).

The preparation of consolidated 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 and liabilities, income and expenses. The estimates and associated 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 underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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 54.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, 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. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statements and the consolidated statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Notes 2(o) or (p) depending on the nature of the liability.

2 Principal accounting policies (continued)

(d) Associates and jointly controlled entities

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

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activities of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (Note 2(cc)). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(l)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statements, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statements of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, 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 jointly controlled entity.

Unrealised profits and losses arising from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

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(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (Note 2(l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Principal accounting policies (continued)

(f) *Other investments in equity securities*

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, 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 each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in Note 2(v)(iv). When these investments are derecognised or impaired (Note 2(l)), 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. They do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Accordingly, they are recognised in the consolidated balance sheet at cost less impairment losses (Note 2(l)).

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

(g) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) *Property, plant and equipment*

(i) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (Note 2(j)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated balance sheet at cost, less accumulated depreciation and impairment losses (Note 2(l)). Depreciation is calculated to write off the cost of items of investment property, 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(v)(iii).

2 Principal accounting policies (continued)

(h) Property, plant and equipment (continued)

(ii) Other property, plant and equipment

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (Note 2(l)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, 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(y)).

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 recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	30 to 35 years
Owned and 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.

(i) Construction in progress

Construction in progress represents office buildings, various infrastructure projects under construction and equipment pending installation, and is stated at cost less impairment losses (Note 2(l)). Capitalisation 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.

(j) 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.

2 Principal accounting policies (continued)

(j) Leased assets (continued)

(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 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 Note 2(h)(ii). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(l). Finance charges implicit in the lease payments are charged to profit or loss 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 profit or loss 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 profit or loss in equal installments 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 recognised in profit or loss as an integral part of the aggregate net lease payments made.

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 ranged from 30 to 70 years.

2 Principal accounting policies (continued)

(j) Leased assets (continued)

(iv) Sale and leaseback transactions

Gains or losses on sale and leaseback transactions which result in finance leases are deferred and amortised over the terms of the related leases. Gains or losses on other aircraft sale and leaseback transactions which result in operating leases are recognised immediately if the transactions are established at fair value. Any difference between the sales price and the fair value is deferred and amortised over the period the assets are expected to be used.

(k) Deferred expenditure

Lump sum housing benefits payable to employees of the Group are deferred and amortised on a straight-line basis over a period of 10 years, which represents the benefit vesting period of the employees.

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

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries: see (Note 2(l)(ii)) and other 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 each balance sheet date 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 recognised as follows:

- For investments in associates and jointly controlled entities recognised using the equity method (Note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note 2(l)(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(l)(ii).
- 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.

2 Principal accounting policies (continued)

(l) Impairment of assets (continued)

(i) Impairment of investments in equity securities and other receivables (continued)

- 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 financial assets carried at amortised cost 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 recognised, 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 recognised in prior years.

- For available-for-sale equity securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss 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 recognised in profit or loss.

Impairment losses recognised in profit or loss 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 recognised directly in other comprehensive income.

Impairment losses are written off against the corresponding asset directly, except for impairment losses recognised 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 recognised in profit or loss.

2 Principal accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

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

- Property, plant and equipment;
- Construction in progress;
- Lease deposits;
- Lease prepayments;
- Deferred expenditure;
- Investments in subsidiaries; and
- Goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill, the recoverable amount 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 recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised 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.

2 Principal accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

- 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 recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Impairment losses recognised 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 recognised 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 recognised in other comprehensive income and not profit or loss.

(m) Inventories

Inventories, which consist primarily of expendable spare parts and supplies, are stated at cost less any applicable provision for obsolescence, and are charged to profit or loss when used in operations. Cost represents the average unit cost.

Inventories held for 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.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts (Note 2(l)), 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.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised 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 recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

2 Principal accounting policies (continued)

(p) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(r)(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.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions having been 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 statements.

(r) 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 recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(r)(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 recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised 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.

2 Principal accounting policies (continued)

(s) *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.

(t) *Deferred benefits and gains*

In connection with the acquisitions or operating 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 operating leases.

(u) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, 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 utilised, are recognised. 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 utilised.

The limited exception to the recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, 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.

2 Principal accounting policies (continued)

(u) Income tax (continued)

The amount of deferred tax recognised 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

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 realise 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 realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) 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 recognised in profit or loss as follows:

(i) Passenger, cargo and mail revenues

Passenger, cargo and mail revenues are recognised at the fair value of the consideration received when the transportation is provided. Ticket sales for transportation not yet provided are included in current liabilities as sales in advance of carriage. Revenues from airline-related business are recognised 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 Egrets Mileage Plus, which provide travel and other awards to members based on accumulated mileages.

Revenue 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 ultimately utilised.

Revenue received from third parties for the issue of mileages under the frequent flyer award programmes is also deferred as a liability, within deferred revenue.

2 Principal accounting policies (continued)

(v) Revenue recognition (continued)

(ii) Frequent flyer revenue (continued)

As members of the frequent flyer award programmes redeem mileages for an award, revenue is recorded in profit or loss. Revenue in relation to flight awards is recognised when the transportation is provided. Revenue is recognised at the point of redemption where non-flight rewards are selected.

The value attributed to mileages that are expected to expire is recognised as revenue, based on the number of mileages that have been redeemed relative to the total number expected to be redeemed.

(iii) Rental income receivable under operating leases is recognised in profit or loss 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 recognised in profit or loss as an integral part of the aggregate net lease payments receivables.

(iv) Dividend income is recognised when the shareholder's right to receive payment is established.

(v) Government grants are recognised in the 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 recognised as revenue in profit or loss 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 recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(vi) Interest income is recognised as it accrues using the effective interest method.

(w) Traffic commissions

Traffic commissions are expensed in profit or loss when the transportation is provided and the related revenue is recognised. Traffic commissions for transportation not yet provided are recorded on the balance sheet as a prepaid expense.

2 Principal accounting policies (continued)

(x) *Maintenance and overhaul costs*

Routine maintenance, repairs and overhauls are charged to profit or loss 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 recognised 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 derecognised and charged to profit or loss.

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 profit or loss 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 profit or loss in the period when the overhaul is performed.

(y) *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 or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation 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. Capitalisation 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.

(z) *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.

(aa) *Termination benefits*

Termination benefits are recognised 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.

(bb) *Translation of foreign currencies*

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 balance sheet date. Exchange gains and losses are recognised in profit or loss.

2 Principal accounting policies (continued)

(bb) Translation of foreign currencies (continued)

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.

(cc) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available-for-sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the consolidated financial statements of the Group are concerned are deferred tax assets, financial assets (other than investments in subsidiaries, associates and jointly controlled entities) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

(dd) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 Principal accounting policies (continued)

(ee) Segmental reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management 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 Changes in accounting policies

(a) Standards, amendment and interpretations effective in 2009

The IASB has issued certain new and revised IFRSs and interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, Operating segments
- IAS 1 (revised 2007), Presentation of financial statements
- Amendments to IFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- Improvements to IFRSs (2008)
- IAS 23, Borrowing costs
- IAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- IFRIC 13, Customer loyalty programmes

The amendments to Improvements to IFRSs (2008) and IAS 23 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related services and on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's chief operating decision maker. Corresponding amounts have been provided on a basis consistent with the revised segment information.
- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the year arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the year, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- As a result of the adoption of the amendments to IFRS 7, the consolidated financial statements include expanded disclosures in Note 49(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

3 Changes in accounting policies (continued)

(a) Standards, amendment and interpretations effective in 2009 (continued)

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from January 1, 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.
- During the year ended December 31, 2008, the Group early adopted IFRIC 13, Customer loyalty programmes, which is effective for accounting periods beginning on or after July 1, 2008. The impact of the adoption of IFRIC 13 on the 2008 consolidated financial statements was disclosed in Note 3 to the Group's financial statements for the year ended December 31, 2008. Further details of the accounting policy are set out in Note 2(v)(ii).

(b) Change in accounting policy for property, plant and equipment

Under IFRSs, the Group has the option to use the revaluation model or historical cost model to account for its property, plant and equipment ("PP&E"). Previously, the Group adopted the revaluation model in accordance with IAS 16. In 2009, the Group changed its IFRS accounting policy in respect of PP&E from the revaluation model to the historical cost model to increase the relevance of financial data to the users of the consolidated financial statements for the following factors:

- The alignment of the Group's accounting policy with industry peers - management considers that the historical cost model will improve comparability of certain financial performance data and results of operations of the Group with other airlines. The valuation model is not commonly used by leading global airlines and the valuation data is generally not relevant to the operation of airlines except upon disposal of aircraft or assessment of impairment of aircraft.
- Increased comparability between finance and operating leased aircraft – under the old policy the depreciation cost of a finance leased aircraft was based on the revalued amount whereas operating lease payments are based on cost as aircraft held under operating leases are not recognised as assets subject to valuation. Management therefore considers that the change to the cost model increases the level of consistency in accounting for aircraft which are not distinguished from an operational perspective.
- The high degree of subjectivity and risk of cyclical volatility associated with external valuation and second hand aircraft fair values – the market value of second hand aircraft can be volatile and is influenced by transactions in global markets that may have little relevance to the operating environment in China. Management does not believe that financial statements that reflect, often subjective, movements in second hand values provide meaningful information to investors.

3 Changes in accounting policies (continued)

(b) Change in accounting policy for property, plant and equipment (continued)

This change in accounting policy has been accounted for retrospectively, and the comparative financial information has also been restated. This change in accounting policy has no effect on reported profit or loss, total income and expenses or net assets for the years ended December 31, 2007, 2008 and 2009. The change in accounting policy only resulted in changes in the cost and accumulated depreciation of the PP&E of the same amount with no profit or loss effect as shown in Note 20. As the effect of change in accounting policy was not material to the consolidated financial statements, no comparative balance sheet as at January 1, 2008 is presented.

4 Traffic revenue

	2009 RMB million	2008 RMB million	2007 RMB million
Passenger	48,488	42,808	44,589
Cargo and mail	2,493	2,908	3,248
Fuel surcharge income	1,986	8,197	5,359
	<u>52,967</u>	<u>53,913</u>	<u>53,196</u>

Pursuant to various sales tax rules and regulations, the Group is required to pay sales tax (including business tax and other surcharges) to national and local tax authorities at the rate of approximately 3% of the traffic revenue in respect of domestic flights and international, Hong Kong, Macau and Taiwan flights. Pursuant to the "Notice of exemption of business tax on fuel surcharge for airline companies" issued jointly by the PRC Ministry of Finance and the State Administration of Taxation, the Group is exempted from business tax on fuel surcharge income received during the period from January 1, 2008 to December 31, 2010. Sales tax incurred by the Group during the year ended December 31, 2009, netted off against revenue, amounted to RMB1,532 million (2008: RMB1,337 million; 2007: RMB1,574 million). Traffic revenue is stated net of sales tax.

5 Other operating revenue

	2009 RMB million	2008 RMB million	2007 RMB million
Commission income	342	317	281
General aviation income	197	133	108
Ground services income	320	250	241
Air catering income	112	107	81
Rental income	116	120	119
Expired sales in advance of carriage	350	276	273
Aircraft lease income	83	-	-
Others	315	172	102
	<u>1,835</u>	<u>1,375</u>	<u>1,205</u>

6 Flight operations expenses

	2009 RMB million	2008 RMB million	2007 RMB million
Jet fuel costs	16,390	23,086	18,316
Operating lease charges			
- Aircraft and flight equipment	4,740	4,166	3,735
- Land and buildings	383	361	320
Air catering expenses	1,392	1,363	1,350
Aircraft insurance	188	174	207
Flight personnel payroll and welfare	2,622	2,490	2,226
Training expenses	556	577	517
Civil Aviation Administration of China ("CAAC") Infrastructure Development Fund contributions	1,418	1,289	1,250
Others	1,607	1,476	1,161
	<u>29,296</u>	<u>34,982</u>	<u>29,082</u>

7 Maintenance expenses

	2009 RMB million	2008 RMB million	2007 RMB million
Repair and maintenance charges	3,903	4,406	4,111
Maintenance materials	543	484	532
	<u>4,446</u>	<u>4,890</u>	<u>4,643</u>

8 Aircraft and traffic servicing expenses

	2009 RMB million	2008 RMB million	2007 RMB million
Landing and navigation fees	6,772	6,135	6,030
Ground service and other charges	2,397	2,341	2,130
	<u>9,169</u>	<u>8,476</u>	<u>8,160</u>

9 Promotion and sales expenses

	2009	2008	2007
	RMB million	RMB million	RMB million
Sales commissions	2,539	1,853	1,789
Ticket office expenses	1,055	1,055	1,016
Computer reservation services	327	331	385
Advertising and promotion	52	52	51
Others	197	200	180
	<u>4,170</u>	<u>3,491</u>	<u>3,421</u>

10 General and administrative expenses

	2009	2008	2007
	RMB million	RMB million	RMB million
General corporate expenses	1,760	1,973	1,811
Auditors' remuneration	16	16	16
Other taxes and levies	68	52	47
	<u>1,844</u>	<u>2,041</u>	<u>1,874</u>

11 Depreciation and amortisation

	2009	2008	2007
	RMB million	RMB million	RMB million
Depreciation			
- Owned assets	4,702	4,199	4,232
- Assets acquired under finance leases	1,260	1,560	1,365
Amortisation of deferred benefits and gains	(71)	(71)	(71)
Other amortisation	80	58	28
	<u>5,971</u>	<u>5,746</u>	<u>5,554</u>

12 Staff costs

	2009	2008	2007
	RMB million	RMB million	RMB million
Salaries, wages and welfare	5,887	5,591	5,130
Retirement scheme contributions	567	686	614
Early retirement benefits (Note 42)	6	10	12
	<u>6,460</u>	<u>6,287</u>	<u>5,756</u>

Staff costs relating to flight operations, maintenance, aircraft and traffic servicing, promotion and sales and general and administrative expenses are also included in the respective total amounts disclosed separately in Notes 6 to 10 above.

13 Interest expense

	2009 RMB million	2008 RMB million	2007 RMB million
Interest on bank and other loans wholly repayable within five years	1,333	1,934	1,986
Interest on other loans	120	30	105
Finance charges on obligations under finance leases	471	678	743
Other interest expense (Note 42)	14	19	15
Less: borrowing costs capitalised	(441)	(674)	(558)
	<u>1,497</u>	<u>1,987</u>	<u>2,291</u>

The borrowing costs have been capitalised at rates ranging from 1.55% to 3.30% per annum in 2009 (2008: 5.17% to 5.28% per annum; 2007: 5.30% to 5.84% per annum).

14 Emoluments of directors, supervisors and senior management

Details of directors' and supervisors' emoluments for the year ended December 31, 2009 are set out below:

Name	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Si Xian Min	-	698	-	40	738
Li Wen Xin	-	608	-	40	648
Wang Quan Hua	-	550	-	40	590
Liu Bao Heng	-	550	-	40	590
Tan Wan Geng	-	672	-	38	710
Xu Jie Bo	-	572	-	38	610
Chen Zhen You	-	572	-	38	610
Zhang Zi Fang (Note (ii))	-	590	-	38	628
Supervisors					
Sun Xiao Yi	-	550	-	40	590
Yang Guang Hua (Note (iii))	-	407	-	17	424
Zhang Wei	-	345	-	40	385
Yang Yi Hua	-	266	-	38	304
Liang Zhong Gao	-	269	-	38	307
Li Jia Shi (Note (iv))	-	118	-	19	137
Independent non-executive directors					
Wang Zhi	50	-	-	-	50
Sui Guang Jun	100	-	-	-	100
Gong Hua Zhang	100	-	-	-	100
Lam Kwong Yu	88	-	-	-	88
	<u>338</u>	<u>6,767</u>	<u>-</u>	<u>504</u>	<u>7,609</u>

14 Emoluments of directors, supervisors and senior management (continued)

Details of directors' and supervisors' emoluments for the year ended December 31, 2008 are set out below:

Name	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Si Xian Min	-	857	-	60	917
Li Wen Xin	-	596	-	80	676
Wang Quan Hua	-	535	-	61	596
Liu Bao Heng (Note (v))	-	-	-	-	-
Tan Wan Geng	-	854	-	59	913
Xu Jie Bo	-	711	-	57	768
Chen Zhen You	-	711	-	55	766
Liu Shao Yong (Notes (i) and (vi))	-	597	-	79	676
Zhao Liu An (Notes (i) and (vii))	-	442	-	61	503
Supervisors					
Sun Xiao Yi	-	535	-	61	596
Yang Guang Hua	-	712	-	28	740
Yang Yi Hua	-	292	-	53	345
Liang Zhong Gao	-	296	-	54	350
Zhang Wei (Note (viii))	-	282	-	61	343
Independent non-executive directors					
Wang Zhi	100	-	-	-	100
Sui Guang Jun	100	-	-	-	100
Gong Hua Zhang	100	-	-	-	100
Lam Kwong Yu	89	-	-	-	89
	<u>389</u>	<u>7,420</u>	<u>-</u>	<u>769</u>	<u>8,578</u>

14 Emoluments of directors, supervisors and senior management (continued)

Details of directors' and supervisors' emoluments for the year ended December 31, 2007 are set out below:

Name	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Si Xian Min	-	670	-	13	683
Li Wen Xin	-	329	-	14	343
Wang Quan Hua	-	597	-	14	611
Tan Wan Geng	-	542	-	13	555
Xu Jie Bo	-	529	-	13	542
Chen Zhen You	-	513	-	16	529
Liu Shao Yong (Notes (i) and (vi))	-	737	-	14	751
Zhao Liu An (Notes (i) and (vii))	-	576	-	14	590
Supervisors					
Sun Xiao Yi	-	597	-	14	611
Yang Guang Hua	-	565	-	8	573
Yang Yi Hua	-	209	-	16	225
Liang Zhong Gao (Note (xi))	-	232	-	12	244
Liu Biao (Note (ix) and (xi))	-	134	-	2	136
Independent non-executive directors					
Peter Lok (Note (x))	49	-	-	-	49
Wei Ming Hai (Note (x))	50	-	-	-	50
Gong Hua Zhang (Note (xi))	50	-	-	-	50
Wang Zhi	100	-	-	-	100
Sui Guang Jun	100	-	-	-	100
Lam Kwong Yu (Note (xi))	48	-	-	-	48
	<u>397</u>	<u>6,230</u>	<u>-</u>	<u>163</u>	<u>6,790</u>

Notes:

- (i) The above amounts included salaries paid to these directors as pilots of the Company.
- (ii) Appointed on June 30, 2009.
- (iii) Resigned on June 30, 2009.
- (iv) Appointed on June 30, 2009.
- (v) Appointed on December 29, 2008.
- (vi) Resigned on December 12, 2008.
- (vii) Resigned on September 19, 2008.
- (viii) Appointed on June 25, 2008.
- (ix) Resigned on January 18, 2008.
- (x) Retired on June 28, 2007.
- (xi) Appointed on June 28, 2007.

15 Other net income

	2009 RMB million	2008 RMB million	2007 RMB million
Refund of CAAC infrastructure development fund	1,328	-	-
Government subsidies	541	901	329
Gain on sale of available-for-sale equity securities (Note 17(b))	78	-	-
Gain/(loss) on sale of property, plant and equipment, net			
- Aircraft and spare engines	14	(20)	106
- Other property, plant and equipment	17	(39)	24
Others	11	(9)	(23)
	<u>1,989</u>	<u>833</u>	<u>436</u>

Pursuant to the "Notice of refund of CAAC infrastructure development fund" jointly issued by CAAC and the Ministry of Finance of the PRC in 2009, RMB1,328 million of CAAC infrastructure development fund paid for the period from July 1, 2008 to June 30, 2009 was refunded during the year.

16 Income tax (credit)/expense

(a) *Income tax (credit)/expense in the consolidated income statements*

	2009 RMB million	2008 RMB million	2007 RMB million
PRC income tax			
Provision for the year	90	25	408
Over-provision in prior year	-	(6)	(58)
	<u>90</u>	<u>19</u>	<u>350</u>
Deferred tax (Note 26)			
Origination and reversal of temporary differences	327	232	301
Utilisation of unused tax losses and deductible temporary differences not recognised in prior year (Note 16(b))	(512)	-	-
Effect on deferred tax balances resulting from a change in tax rate	-	(189)	196
	<u>(185)</u>	<u>43</u>	<u>497</u>
Income tax (credit)/expense	<u>(95)</u>	<u>62</u>	<u>847</u>

In respect of the Group's overseas airline activities, 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 these overseas jurisdictions. Accordingly, no provision for overseas tax has been made for both the current and prior years.

16 Income tax (credit)/expense (continued)

(a) Income tax expense in the consolidated income statements (continued)

The Corporate Income Tax Law of the PRC ("new tax law") took effect on January 1, 2008 and the statutory 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 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.

(b) Reconciliation between actual tax (credit)/expense and calculated tax based on accounting profit/(loss) at applicable tax rates

	2009 RMB million	2008 RMB million	2007 RMB million
Profit/(loss) before taxation	<u>432</u>	<u>(4,724)</u>	<u>2,879</u>
Notional tax on profit/(loss) before taxation, calculated at the rates applicable to profit/(loss) in the tax jurisdictions concerned (Note (i))	87	(913)	474
Adjustments for tax effect of:			
Non-deductible expenses	63	64	250
Non-taxable income			
- Share of results of associates and jointly controlled entities	(76)	(38)	(36)
- Others	(20)	-	-
Recognition of taxable temporary difference on asset classified as held for sale	67	-	-
Unused tax losses not recognised	216	566	28
Deductible temporary differences not recognised	-	577	-
Utilisation of unused tax losses and deductible temporary differences not recognised in prior year (Note 16(a)/Note (ii))	(512)	-	-
Difference in tax rates (Note (ii))	81	-	-
Effect of change in tax rate (Note (iii))	-	(189)	196
Over provision in prior years	-	(6)	(58)
Others	(1)	1	(7)
Actual tax (credit)/expense	<u>(95)</u>	<u>62</u>	<u>847</u>

Notes:

- (i) The headquarters of the Company and its branches are taxed at rates ranging from 20% to 25% (2008: 18% to 25%; 2007: 15% to 33%). The subsidiaries of the Group are taxed at rates ranging from 15% to 25% (2008: 15% to 25%; 2007: 7.5% to 33%).

16 Income tax (credit)/expense (continued)

(b) Reconciliation between actual tax (credit)/expense and calculated tax based on accounting profit/(loss) at applicable tax rates (continued)

- (ii) The Company increased its retained earnings under PRC Accounting Standards for Business Enterprises (“PRC GAAP”) as a result of changes in accounting policies in 2003 and 2007. As at December 31, 2008, the Company recognised deferred tax liabilities of RMB498 million and an income tax payable of RMB112 million in respect of the increase in retained earnings of RMB3,320 million in 2003 and RMB627 million in 2007, respectively in the financial statements prepared under IFRSs. In 2009, the Company agreed with the local tax authority that the above deferred tax liabilities and income tax payable would be settled from 2009 to 2011.
- (iii) The deferred tax assets and liabilities as at December 31, 2008 and 2007 have been remeasured for the change in applicable tax rates as a result of enactment of regulations governing administration of income tax among headquarters and branches in 2008, and the new tax law and certain detailed implementation rules in 2007, respectively.

17 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2009			2008			2007		
	Before-tax amount RMB million	Tax expense RMB million	Net-of-tax amount RMB million	Before-tax amount RMB million	Tax benefit RMB million	Net-of-tax amount RMB million	Before-tax amount RMB million	Tax expense RMB million	Net-of-tax amount RMB million
Available-for-sales securities:									
net movement in fair value reserve	39	(9)	30	(248)	56	(192)	282	(64)	218

(b) Reclassification adjustments relating to components of other comprehensive income

	2009 RMB million	2008 RMB million	2007 RMB million
Available-for-sale securities:			
Changes in fair value recognised during the year	117	(248)	282
Reclassification adjustment for amount transferred to profit or loss:			
- gain on disposal (Note 15)	(78)	-	
Net deferred tax (debited)/credited to other comprehensive income (Note 26(a))	(9)	56	(64)
Net movement in the fair value reserve during the year recognised in other comprehensive income	30	(192)	218

18 Dividends

The board of directors of the Company does not recommend the payment of a dividend in respect of the year ended December 31, 2009.

No dividend was paid in respect of the year ended December 31, 2008 and 2007.

19 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the year ended December 31, 2009 is based on the profit attributable to equity shareholders of the Company of RMB330 million (2008 loss of RMB4,823 million; 2007 profit of RMB1,839 million) and the weighted average number of 7,084,842,000 shares in issue during the year (2008 and 2007: 6,561,267,000 shares).

	2009 Million shares	2008 Million shares	2007 Million shares
Issued ordinary shares at January 1	6,561	4,374	4,374
Effect of bonus share issue (Note 43)	-	2,187	2,187
Effect of issuance of A shares (Note 43)	263	-	-
Effect of issuance of H shares (Note 43)	261	-	-
Weighted average number of ordinary shares at December 31	<u>7,085</u>	<u>6,561</u>	<u>6,561</u>

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 both the current and prior years.

20 Property, plant and equipment, net

	<i>Investment properties</i>	<i>Buildings</i>	<i>Aircraft</i>	<i>Other flight equipment, including rotables</i>	<i>Machinery, equipment and vehicles</i>	<i>Total</i>
	RMB million	RMB million	Owned RMB million	Acquired under finance leases RMB million	RMB million	RMB million
Cost:						
At January 1, 2008						
-as previously reported	266	6,792	37,389	25,783	10,689	84,367
-prior period adjustment	-	(223)	1,243	-	-	1,020
-as restated (Note 3(b))	266	6,569	38,632	25,783	10,689	85,387
Additions	-	36	683	288	739	2,053
Transfer from construction in progress (Note 21)	-	180	56	101	152	511
Reclassification on exercise of purchase options	-	-	4,784	(4,784)	-	-
Reclassification in respect of sale and lease back (finance lease)	-	-	(640)	640	-	-
Reclassification from lease prepayments	98	-	-	-	-	98
Disposals	-	(45)	(828)	(96)	(271)	(1,433)
Other reclassifications	412	(555)	-	190	(190)	-
At December 31, 2008 (Restated, Note 3(b))	776	6,185	42,687	22,122	11,119	86,616
At January 1, 2009 (Restated, Note 3(b))						
	776	6,185	42,687	22,122	11,119	86,616
Additions	-	67	4,490	2,326	1,067	8,352
Transfer from construction in progress (Note 21)	-	356	7,603	102	150	8,315
Reclassification on exercise of purchase options	-	-	2,586	(2,586)	-	-
Reclassification to lease prepayments	(12)	-	-	-	-	(12)
Disposals	-	(36)	(1,209)	(37)	(480)	(1,871)
Other reclassifications	(181)	179	(77)	-	77	-
At December 31, 2009	583	6,751	56,080	21,927	11,933	101,400

20 Property, plant and equipment, net (continued)

	<i>Investment properties</i>	<i>Buildings</i>	<i>Aircraft</i>	<i>Other flight equipment, including rotables</i>	<i>Machinery, equipment and vehicles</i>	<i>Total</i>
	RMB million	RMB million	Owned RMB million	<i>Acquired under finance leases</i> RMB million	RMB million	RMB million
Accumulated depreciation and impairment losses:						
At January 1, 2008						
-as previously reported	69	1,257	11,567	4,509	6,289	25,926
-prior period adjustment	-	(223)	1,243	-	-	1,020
-as restated (Note 3(b))	69	1,034	12,810	4,509	6,289	26,946
Charge for the year	14	232	2,752	1,560	835	5,759
Reclassification on exercise of purchase options	-	-	2,050	(2,050)	-	-
Reclassification in respect of sale and lease back (finance lease)	-	-	(15)	15	-	-
Reclassification from lease prepayments	6	-	-	-	-	6
Disposals	-	(14)	(732)	(65)	(240)	(1,216)
Other reclassifications	47	(62)	-	50	(50)	15
Impairment losses (Note (g))	-	3	1,741	50	90	1,884
At December 31, 2008 (Restated, Note 3(b))	<u>136</u>	<u>1,193</u>	<u>18,606</u>	<u>4,069</u>	<u>6,924</u>	<u>33,379</u>
At January 1, 2009 (Restated, Note 3(b))						
Charge for the year	19	234	3,260	1,260	844	5,962
Reclassification on exercise of purchase options	-	-	1,354	(1,354)	-	-
Reclassification to lease prepayments	(1)	-	-	-	-	(1)
Disposals	-	(11)	(970)	(37)	(428)	(1,539)
Other reclassifications	(32)	31	(66)	-	66	1
Impairment losses (Note (g))	-	-	-	-	26	26
Impairment written off on disposal	-	-	(97)	-	(3)	(100)
At December 31, 2009	<u>122</u>	<u>1,447</u>	<u>22,087</u>	<u>3,938</u>	<u>7,429</u>	<u>37,727</u>
Net book value:						
At December 31, 2009	<u>461</u>	<u>5,304</u>	<u>33,993</u>	<u>17,989</u>	<u>4,504</u>	<u>63,673</u>
At December 31, 2008	<u>640</u>	<u>4,992</u>	<u>24,081</u>	<u>18,053</u>	<u>4,195</u>	<u>53,237</u>

(a) Most of the Group's buildings are located in the PRC. The Group was formally granted the rights to use the thirty-two parcels of land in Guangzhou, Shenzhen, Zhuhai, Beihai, Changsha, Shantou, Haikou, Zhengzhou, Jilin, Guiyang and Wuhan, etc. by the relevant PRC authorities for periods of 30 to 70 years, which expire between 2020 and 2073. For other land in the PRC on which the Group's buildings are erected, the Group was formally granted the rights to use such land for periods of one to three years pursuant to various lease agreements between the Company and CSAHC. In this connection, rental payments in respect of land use rights totalling RMB22 million were paid to CSAHC during 2009 (2008 and 2007: RMB22 million) in respect of these leases.

20 Property, plant and equipment, net (continued)

(b) As at December 31, 2009, certain aircraft, land use rights and investment properties of the Group with an aggregate carrying value of approximately RMB34,384 million (2008: RMB29,321 million) were mortgaged under certain loan and lease agreements (Notes 33 and 35).

(c) The Group leased out investment properties and certain flight training facilities under operating leases. The leases typically run for an initial period of five to fifteen years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In this connection, rental income totalling RMB62 million (2008: RMB54 million; 2007: RMB49 million) was received by the Group during the year in respect of the leases.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2009 RMB million	2008 RMB million
Within 1 year	56	64
After 1 year but within 5 years	182	203
After 5 years	111	154
	<u>349</u>	<u>421</u>

As at December 31, 2009, the net book value of the aircraft and flight training facilities leased out by the Group under operating leases amounted to RMB52 (2008: RMB63 million).

(d) The investment properties are located in the PRC, where comparable market transactions are infrequent. In the absence of the current or recent prices in an active market and alternative reliable estimates of fair value (for example, discounted cash flow projection) are not available, the Group could not reliably determine the fair value of the investment properties.

(e) The Company entered into two separate arrangements (the "Arrangements") with certain independent third parties during each of 2002 and 2003. Under each of the Arrangements, the Company sold an aircraft and then immediately leased back the aircraft for an agreed period. The Company has an option to purchase the aircraft at a pre-determined date. In the event that the lease agreement is early terminated by the Company, the Company is liable to pay a pre-determined penalty to the lessor. Provided that the Company complies with the lease agreements, the Company is entitled to the continued possession and operation of the aircraft. Since the Company retains substantially all risks and rewards incidental to ownership of the aircraft and enjoys substantially the same rights to their use as before the Arrangements, no adjustment has been made to the property, plant and equipment.

(f) As at December 31, 2009 and up to the date of approval of these financial statements, the Group is 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, Hainan, Jilin, Dalian, Hunan, Xinjiang, Henan and Shenzhen, in which the Group has interests and for which such certificates have not been granted. As at December 31, 2009, carrying value of such properties of the Group amounted to RMB2,638 million (2008: RMB2,331 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 land use right certificates and property title certificates.

20 Property, plant and equipment, net (continued)

(g) During the year, in view of the age of the Group's fleet of ATR72 aircraft, the Group determined to dispose of these aircraft and commenced its process of seeking buyers for these aircraft. As a result, the Group assessed the recoverable amounts of these aircraft and related fleet assets. The carrying amount of the related fleet assets was written down by RMB26 million. The estimates of recoverable amounts were based on the assets' fair value less costs to sell, determined by reference to the recent observable market prices for the aircraft fleet and related fleet assets.

In 2008, in view of the age and operating efficiency of the Group's fleet of Boeing 777-200A aircraft, Airbus 300 aircraft and McDonnell Douglas 90 aircraft, the Group determined to dispose and commenced its process of seeking buyers for these aircraft. As a result, the Group assessed the recoverable amounts of these aircraft and the related fleet assets. The carrying amount of the aircraft and the related fleet assets was written down by RMB1,590 million. The estimates of recoverable amounts were based on the aircraft's fair value less costs to sell, determined by reference to observable market prices for the respective model of aircraft. In addition, in 2008, there had been a decrease in demand of cargo transportation services as a result of the economic conditions, and that the operating efficiency of the Group's cargo freighters Boeing 747 was not satisfactory due to lack of economy of scale for the existing small fleet of cargo freighters. The Group assessed the recoverable amounts of its cargo freighters and the related fleet assets, the carrying amount of the cargo freighters was written down by RMB291 million. The estimates of recoverable amounts were based on the aircraft's fair value less costs to sell, determined by reference to the observable market prices for the cargo freighters.

In 2007, in view of the age of the Group's fleet of MD82 aircraft, the Group disposed of 11 MD82 aircraft and assessed the recoverable amounts of the remaining 12 MD82 aircraft. Based on this assessment, the carrying amount of the aircraft was written down by RMB109 million and recognised as an impairment loss during the year ended December 31, 2007. The estimates of recoverable amount were based on the aircraft's fair value less costs to sell, determined by reference to observable market prices for MD82 aircraft.

21 Construction in progress

	2009 RMB million	2008 RMB million
At January 1	17,321	11,385
Additions	9,070	10,711
Transferred to property, plant and equipment (Note 20)	(8,315)	(511)
Transferred to other assets upon completion of development	(17)	(112)
Transferred out in respect of sales and lease back of aircraft	-	(4,135)
Other decrease	-	(17)
At December 31	<u>18,059</u>	<u>17,321</u>

21 Construction in progress (continued)

The construction in progress as at December 31, 2009 mainly related to advance payments for acquisition of aircraft and flight equipment and progress payments for other construction projects at the Guangzhou, Hainan, Shenzhen and Fuzhou airports, Shanghai Pudong Airport Base, Shanghai Hongqiao Airport Base and Beijing Branch.

As at December 31, 2009, advance payments for acquisition of aircraft of the Group of approximately RMB7,601million (2008: RMB6,337 million) were mortgaged under certain loan agreements (Note 33).

In 2008, the Company entered into agreements with certain third party lessors to sell 14 aircraft to the lessors prior to the deliveries of these aircraft and then lease back the aircraft from the lessors in the form of operating leases. Upon delivery of aircraft, the advance payments paid to aircraft manufacturers and the related interest costs capitalised in respect of the aircraft included in construction in progress were transferred out to calculate the gain or loss on sales and lease back.

22 Interest in associates

	2009 RMB million	2008 RMB million
Share of net assets	<u>257</u>	<u>235</u>

The details of the Group's principal associates are set out in Note 58, all of which are unlisted corporate entities.

Summary of financial information on associates:

	<i>100 Percent</i>			<i>Group's effective interest</i>		
	<i>2009</i> <i>RMB</i> <i>million</i>	<i>2008</i> <i>RMB</i> <i>million</i>	<i>2007</i> <i>RMB</i> <i>million</i>	<i>2009</i> <i>RMB</i> <i>million</i>	<i>2008</i> <i>RMB</i> <i>million</i>	<i>2007</i> <i>RMB</i> <i>million</i>
Non-current assets	11,190	9,587		4,210	3,546	
Current assets	3,597	5,524		986	1,158	
Non-current liabilities	(7,347)	(6,314)		(2,861)	(2,460)	
Current liabilities	(6,837)	(8,213)		(2,229)	(2,135)	
Net assets	<u>603</u>	<u>584</u>		<u>106</u>	<u>109</u>	
Net liabilities not shared by the Group				151	126	
				<u>257</u>	<u>235</u>	
Revenue	7,123	5,761	5,635	2,750	2,234	2,184
Expenses	(7,009)	(6,071)	(5,471)	(2,715)	(2,312)	(2,127)
Profit/(loss) for the year	<u>114</u>	<u>(310)</u>	<u>164</u>	<u>35</u>	<u>(78)</u>	<u>57</u>
Net loss not shared by the Group				34	66	-
The Group's share of associates' results				<u>69</u>	<u>(12)</u>	<u>57</u>

During the year, an associate of the Group was in a net liability position. The Group only shared its losses up to the Group's investment cost in the associate.

23 Interest in jointly controlled entities

	2009 RMB million	2008 RMB million
Share of net assets	<u>728</u>	<u>1,048</u>

The details of the Group's principal jointly controlled entities are set out in Note 58, all of which are unlisted corporate entities. Major changes in investments in jointly controlled entities during the year are summarised below:

- During the year, the Company acquired 50% equity interest in a jointly controlled entity of the Company, Beijing Southern Airlines Ground Services Company Limited ("Beijing Ground Services") from the other venturer, which has become a wholly-owned subsidiary of the Company. The carrying amount of Beijing Ground Services was RMB18 million as at December 31, 2009.
- During the year, the Company entered into an agreement with CSAHC to dispose of its entire equity interest in MTU Maintenance Zhuhai Co., Ltd. ("MTU") with carrying amount of RMB529 million to CSAHC. As at December 31, 2009, the investment in MTU was classified as asset held for sale. Please refer to Note 32 for more details

Summary of financial information on jointly controlled entities:

	<i>Group's effective interest</i>		
	2009 RMB million	2008 RMB million	2007 RMB million
Non-current assets	812	986	
Current assets	547	1,226	
Non-current liabilities	(231)	(291)	
Current liabilities	(400)	(873)	
Net assets	<u>728</u>	<u>1,048</u>	
Revenue	1,973	2,382	1,885
Expenses	(1,759)	(2,212)	(1,762)
Profit for the year	<u>214</u>	<u>170</u>	<u>123</u>

24 Other investments in equity securities

	2009 RMB million	2008 RMB million
Unlisted equity securities, at cost	<u>166</u>	<u>166</u>

Dividend income from unlisted securities of the Group amounted to RMB10 million during the year ended December 31, 2009 (2008: RMB13 million; 2007: RMB10 million).

25 Available-for-sale equity securities

	2009	2008
	RMB million	RMB million
Available-for-sale securities		
- Listed in the PRC	<u>93</u>	<u>114</u>
Market value of listed securities	<u>93</u>	<u>114</u>

During the year, the Group disposed of certain equity securities with carrying amount of RMB138 million and recorded a gain on disposal of RMB78 million.

Dividend income from listed securities of the Group amounted to RMB2 million during the year ended December 31, 2009 (2008: RMB1 million; 2007: RMB2 million).

26 Deferred tax assets/(liabilities)

(a) *Movements of net deferred tax assets/(liabilities) are as follows:*

	2009	2008
	RMB million	RMB million
At January 1	(594)	(607)
Credited/(charged) to profit or loss (Note (16(a)))	185	(43)
(Charged)/credited to other comprehensive income (Note (17(b)))	(9)	56
Transfer to income tax payable	44	-
At December 31	<u>(374)</u>	<u>(594)</u>

26 Deferred tax assets/(liabilities) (continued)

(b) *The components of deferred tax assets/(liabilities) recognised are analysed as follows:*

	2009	2008
	RMB million	RMB million
Deferred tax assets:		
Accrued expenses	599	574
Deferred revenue	118	136
Others	52	53
Total deferred tax assets	<u>769</u>	<u>763</u>
Deferred tax liabilities:		
Accrued expenses	(334)	(278)
Depreciation allowances in excess of the related depreciation	(672)	(1,071)
Change in fair value of available-for-sale equity securities	(17)	(8)
Asset classified as held for sale	(67)	-
Others	(53)	-
Total deferred tax liabilities	<u>(1,143)</u>	<u>(1,357)</u>
Net deferred tax liabilities	<u>(374)</u>	<u>(594)</u>
	2009	2008
	RMB million	RMB million
Net deferred tax asset recognised on the consolidated balance sheet	479	167
Net deferred tax liability recognised on the consolidated balance sheet	<u>(853)</u>	<u>(761)</u>
	<u>(374)</u>	<u>(594)</u>

26 Deferred tax assets/(liabilities) (continued)

(c) *Deferred tax assets not recognised*

At December 31, 2009, deferred tax assets were not recognised in relation to certain unused tax losses and other deductible temporary differences. The unrecognised unused tax losses and deductible temporary differences are analysed as follows:

	2009 RMB million	2008 RMB million
Tax losses	<u>1,720</u>	<u>3,251</u>
Other deductible temporary differences:		
- Accrued expenses	499	637
- Provision for impairment losses	1,916	1,990
	<u>2,415</u>	<u>2,627</u>
	<u>4,135</u>	<u>5,878</u>

At December 31, 2009, the Group's deductible temporary differences amounting to RMB2,415 million (2008: RMB2,627 million) have not been recognised 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 carry forward to set off future assessable incomes for a maximum period of five years. The Group's unused tax losses of RMB1,720 million (2008: RMB3,251 million) have not been recognised 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 utilised will be available before they expire. The expiry dates of unrecognised unused tax losses are analysed as follows:

	2009 RMB million	2008 RMB million
Expiring in:		
2011	309	309
2012	92	92
2013	373	2,850
2014	946	-
	<u>1,720</u>	<u>3,251</u>

27 Other assets

Other assets of the Group mainly include lump sum housing benefits (Note 46(b)(ii)), computer software used for airline operation and prepayment for exclusive use right of an airport terminal.

Movements of lump sum housing benefits, computer software and prepayment for exclusive use of right of an airport terminal are as follows:

	<i>Lump sum housing benefits</i> RMB million	<i>Computer software</i> RMB million	<i>Prepayment for exclusive use right of an airport terminal</i> RMB million
At January 1, 2008	119	149	150
Additions	-	1	-
Amortisation for the year	(26)	(41)	-
At December 31, 2008	<u>93</u>	<u>109</u>	<u>150</u>
At January 1, 2009	93	109	150
Additions	-	32	150
Amortisation for the year	(26)	(45)	-
At December 31, 2009	<u>67</u>	<u>96</u>	<u>300</u>

28 Financial liabilities

	2009 RMB million	2008 RMB million
Foreign exchange forward option	<u>44</u>	<u>116</u>

Further disclosure of the financial derivative instruments are set out in Note 49(c) and (f).

29 Inventories

	2009 RMB million	2008 RMB million
Expendable spare parts and maintenance materials	1,112	1,094
Other supplies	144	135
	<u>1,256</u>	<u>1,229</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2009 RMB million	2008 RMB million	2007 RMB million
Consumption	887	828	836
Write-down of inventories	30	189	101
	<u>917</u>	<u>1,017</u>	<u>937</u>

Inventories have been written down as a result of fleet adjustments during the current and prior years.

30 Trade receivables

	2009 RMB million	2008 RMB million
Trade receivables	1,389	1,348
Allowance for doubtful debts	(30)	(31)
	<u>1,359</u>	<u>1,317</u>

(a) Ageing analysis

Credit terms granted by the Group to sales agents and other customers generally range from one to three months. An ageing analysis of trade receivables, net of allowance for doubtful debts, is set out below:

	2009 RMB million	2008 RMB million
Within 1 month	1,191	1,123
More than 1 month but less than 3 months	147	182
More than 3 months but less than 12 months	21	11
More than 12 months	-	1
	<u>1,359</u>	<u>1,317</u>

All of the trade receivables are expected to be recovered within one year.

(b) Impairment of trade receivables

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.

The movements in the allowance for doubtful debts during the year are as follows:

	2009 RMB million	2008 RMB million
At January 1	31	33
Impairment loss recognised	14	-
Impairment loss written back	(13)	-
Uncollectible amounts written off	(2)	(2)
At December 31	<u>30</u>	<u>31</u>

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that is neither individually nor collectively considered to be impaired is as follows:

	2009 RMB million	2008 RMB million
Neither past due nor impaired	<u>1,338</u>	<u>1,305</u>

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

31 Cash and cash equivalents

(a) *Cash and cash equivalents comprise:*

	2009 RMB million	2008 RMB million
Deposits with banks	1,116	1,998
Cash at bank and in hand	3,227	2,651
Cash and cash equivalents in the consolidated balance sheet	<u>4,343</u>	<u>4,649</u>

Southern Airlines Group Finance Company Limited ("SA Finance") is a PRC authorised financial institution controlled by CSAHC and is an associate of the Group. In accordance with the financial agreement dated May 22, 1997, as revised subsequently on December 31, 2004 and November 15, 2007 between the Company and SA Finance, all of the Group's deposits accepted by SA Finance would be simultaneously placed with several designated major PRC banks by SA Finance. As at December 31, 2009, the Group's deposits with SA Finance amounted to RMB862 million (2008: RMB1,139 million) (Note 45(d)).

31 Cash and cash equivalents (continued)

(b) Reconciliation of profit/(loss) before taxation to cash generated from operations:

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Profit/(loss) before taxation		432	(4,724)	2,879
Depreciation of property, plant and equipment	20	5,962	5,759	5,597
Other amortisation	11	80	58	28
Amortisation of deferred benefits and gains	11	(71)	(71)	(71)
Impairment loss on property, plant and equipment		26	1,884	109
Share of associates' results	22	(69)	12	(57)
Share of jointly controlled entities' results	23	(214)	(170)	(123)
(Gain)/loss on sale of property, plant and equipment, net	15	(31)	59	(130)
Gain on sale of available-for-sale equity securities	15	(78)	-	-
Gain on sale of other investment in equity securities		-	-	(107)
Gain on sale of a jointly controlled entity		-	(143)	-
Gain on sale of equity interest in subsidiaries		-	(37)	(7)
Interest income		(68)	(103)	(73)
Interest expense	13	1,497	1,987	2,291
(Gain)/Loss on derivative financial instruments, net		(45)	124	(90)
Dividend income from other investments in equity securities		(14)	(14)	(12)
Unrealised exchange gain, net		(70)	(2,649)	(2,832)
(Increase)/decrease in inventories		(27)	(16)	108
(Increase)/decrease in trade receivables		(42)	649	(349)
(Increase)/decrease in other receivables		(15)	203	156
Increase in prepaid expenses and other current assets		(91)	(28)	(8)
(Decrease)/increase in net amounts due to related companies		(48)	15	(50)
Increase/(decrease) in trade and bills payables		3,639	(491)	(95)
(Decrease) /increase in sales in advance of carriage		(48)	353	451
(Decrease)/increase in accrued expenses		(49)	1,274	1,790
Increase/(decrease) in other liabilities		353	(36)	245
Increase in deferred revenue		204	116	98
Increase/(decrease) in provision for major overhauls		8	262	(122)
Decrease in provision for early retirement benefits		(31)	(51)	(76)
Increase in deferred benefits and gains		42	34	148
Cash generated from operations		<u>11,232</u>	<u>4,256</u>	<u>9,698</u>

32 Asset classified as held for sale

	2009 RMB million	2008 RMB million
Share of net assets	<u>529</u>	<u>-</u>

In accordance with a Transfer Agreement dated September 28, 2009 and a Supplemental Transfer Agreement dated December 29, 2009, entered into between the Company and CSAHC, the Company agreed to sell and CSAHC agreed to acquire the 50% equity interest in MTU, a jointly controlled entity of the Company. As at December 31, 2009, the sale was approved by the State Owned Assets Supervision and Administration Commission of the PRC and shareholders of Company and was pending approval by the Ministry of Commerce of the PRC. The sales was subsequently approved by the Ministry of Commerce of the PRC in January 2010, and the Company received the acquisition consideration from CSAHC in full in February 2010.

33 Bank and other loans

(a) *At December 31, 2009, bank and other loans were repayable as follows:*

	2009 RMB million	2008 RMB million
Within 1 year or on demand	<u>17,452</u>	<u>22,178</u>
After 1 year but within 2 years	8,223	6,104
After 2 years but within 5 years	12,038	10,343
After 5 years	<u>7,614</u>	<u>982</u>
	<u>27,875</u>	<u>17,429</u>
	<u>45,327</u>	<u>39,607</u>

(b) *At December 31, 2009, bank and other loans are analysed as follows:*

	2009 RMB million	2008 RMB million
Short-term bank loans	11,012	18,232
Long-term bank and other loans due within one year (classified as current liabilities)	<u>6,440</u>	<u>3,946</u>
	<u>17,452</u>	<u>22,178</u>
Long-term bank and other loans due after one year (classified as non-current liabilities)	<u>27,875</u>	<u>17,429</u>
	<u>45,327</u>	<u>39,607</u>
Representing:		
Bank loans	45,324	39,604
Other loans	<u>3</u>	<u>3</u>
	<u>45,327</u>	<u>39,607</u>

33 Bank and other loans (continued)

(c) As at December 31, 2009, the Group's weighted average interest rates on short-term borrowings were 1.18% per annum (2008: 4.48% per annum).

(d) *Details of bank and other loans with original maturity over one year are as follows:*

	2009 RMB million	2008 RMB million
Renminbi denominated loans		
Non-interest bearing loan from a municipal government authority	3	3
Floating interest rates ranging from 90% to 91% of benchmark interest rate (stipulated by PBOC) as at December 31, 2009, with maturities through 2013	5,660	7,647
United States Dollars denominated loans		
Fixed interest rates ranging from 3.26% to 7.20% per annum as at December 31, 2009, with maturities through 2015	772	994
Floating interest rates ranging from 1-month LIBOR + 0.50% to 1.20% per annum as at December 31, 2009, with maturities through 2019	4,681	-
Floating interest rates ranging from 3-month LIBOR + 0.45% to 1.20% per annum as at December 31, 2009, with maturities through 2019	13,937	1,343
Floating interest rates ranging from 6-month LIBOR + 0.30% to 2.30% per annum as at December 31, 2009, with maturities through 2019	9,262	11,388
	<u>34,315</u>	<u>21,375</u>
Less: loans due within one year classified as current liabilities	<u>(6,440)</u>	<u>(3,946)</u>
	<u>27,875</u>	<u>17,429</u>

33 Bank and other loans (continued)

(e) The remaining contractual maturities at the balance sheet date of the Group's bank and other loans, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay, are as follows:

	2009 RMB million	2008 RMB million
Contractual undiscounted cash flows		
Within 1 year	18,141	23,478
After 1 year but within 2 years	8,640	6,752
After 2 years but within 5 years	12,461	10,792
After 5 years	7,866	1,035
	<u>47,108</u>	<u>42,057</u>
Consolidated balance sheet carrying amounts	<u>45,327</u>	<u>39,607</u>

(f) As at December 31, 2009, bank and other loans of the Group totalling RMB17,677 million (2008: RMB9,188 million) were secured by mortgages over certain of the Group's aircraft, advance payments for aircraft, lease prepayments of land use right and investment properties with aggregate carrying amount of RMB23,996 million (2008: RMB17,652million).

(g) As at December 31, 2009, certain bank and other loans were guaranteed by the following parties:

	2009 RMB million	2008 RMB million
Guarantors		
Industrial and Commercial Bank of China Ltd.	-	15
Export-Import Bank of the United States	149	304
CSAHC (Note 45(e))	512	783
Shenzhen Yingshun Investment & Development Co., Ltd.	-	22
SA Finance (Note 45(e))	-	1
Bank of Communications Co., Ltd.	-	438
China Minsheng Banking Corp., Ltd.	-	629
	<u>661</u>	<u>2,192</u>

(h) As at December 31, 2009, loans to the Group from SA Finance amounted to RMB819 million (2008: RMB2,539 million) (Note 45(d)).

(i) The Group has significant bank and other loans balances as well as obligations under finance leases (Note 35) which are denominated in US dollars as at December 31, 2009. The net exchange gain of RMB93 million (2008: RMB2,592 million; 2007: RMB2,832 million) recorded by the Group was mainly attributable to the exchange gain arising from retranslation and settlement of bank and other loans balances and finance lease obligations denominated in US dollars and Japanese Yen. The foreign currency risk is further discussed in Note 49(c).

(j) As at December 31, 2008, short-term bank loans of the Group amounting to RMB37 million were secured by pledged bank deposits of RMB51 million.

33 Bank and other loans (continued)

(k) As at December 31, 2009, a long-term loan of RMB10 million (2008: RMB10 million) was granted by SA Finance to a subsidiary of the Company. The loan was secured by the trade receivables of the subsidiary due from the Company during the loan period. As at December 31, 2009, the balance of the trade receivables of the subsidiary due from the Company amounted to RMB21 million (2008: RMB8 million).

34 Short-term financing bills

	2009 RMB million	2008 RMB million
Short-term financing bills	-	2,000

In October 2008, the Group issued short-term financing bills with total value of RMB2,000 million, bearing coupon interest rate at 4.7%, with a maturity period of one year for funding of the business activities of the Company. The short-term financing bills were fully repaid in October 2009.

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 2011 to 2019. As at December 31, 2009, future payments under these finance leases are as follows:

	2009			2008		
	<i>Present value of the minimum lease payments</i> RMB million	<i>Total minimum lease payments</i> RMB million	<i>Interest</i> RMB million	<i>Present value of the minimum lease payments</i> RMB million	<i>Total minimum lease payments</i> RMB million	<i>Interest</i> RMB million
Within 1 year	1,431	1,972	541	1,781	2,390	609
After 1 year but within 2 years	1,495	1,970	475	1,215	1,752	537
After 2 years but within 5 years	4,240	5,274	1,034	3,654	4,845	1,191
After 5 years	6,152	6,596	444	6,288	7,049	761
	13,318	15,812	2,494	12,938	16,036	3,098
Less: balance due within one year classified as current liabilities	(1,431)			(1,781)		
	11,887			11,157		

35 Obligations under finance leases (continued)

Details of obligations under finance leases are as follows:

	2009 RMB million	2008 RMB million
United States Dollars denominated obligations		
Fixed interest rates ranging from 4.24% to 6.01% per annum as at December 31, 2009	7,035	7,949
Floating interest rates 3 month LIBOR + 1% per annum as at December 31, 2009	2,172	-
Floating interest rates ranging 6 month LIBOR + 0.03% to 1.05% per annum as at December 31, 2009	4,111	4,515
Japanese Yen denominated obligations		
Fixed interest rates ranging from 2.20% to 3.51% per annum as at December 31, 2008	-	474
	<u>13,318</u>	<u>12,938</u>

Under the terms of the leases, the Group has an option to purchase, at or near the end of the lease term, certain aircraft and related equipment at either fair market value or a percentage of the respective lessor's defined cost.

Security, including charges over the assets concerned and relevant insurance policies, is provided to the lessors. As at December 31, 2009, certain of the Group's aircraft with carrying amount of RMB17,989 million (2008: RMB18,054 million) were mortgaged to secure finance lease obligations totalling RMB13,318 million (2008: RMB12,938 million).

36 Trade and bills payables

	2009 RMB million	2008 RMB million
Bills payable	3,207	148
Trade payables	<u>1,785</u>	<u>1,205</u>
	<u>4,992</u>	<u>1,353</u>

36 Trade and bills payables (continued)

The following is the ageing analysis of trade and bills payables:

	2009 RMB million	2008 RMB million
Within 1 month	1,873	809
More than 1 month but less than 3 months	1,545	302
More than 3 months but less than 6 months	1,566	239
More than 6 months but less than 1 year	8	3
	<u>4,992</u>	<u>1,353</u>

All of the trade and bills payables are expected to be settled within one year.

37 Deferred revenue

	2009 RMB million	2008 RMB million
Current portion	316	261
Non-current portion	594	445
	<u>910</u>	<u>706</u>

Deferred revenue represents the unredeemed frequent flyer revenue.

38 Amounts due from/to related companies

(a) Amounts due from related companies

	2009 RMB million	2008 RMB million
CSAHC and its affiliates	6	1
An associate	14	1
Jointly controlled entities	31	9
	<u>51</u>	<u>11</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.

(b) Amounts due to related companies

	2009 RMB million	2008 RMB million
CSAHC and its affiliates	43	64
Jointly controlled entities	51	38
	<u>94</u>	<u>102</u>

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

	2009 RMB million	2008 RMB million
Jet fuel costs	1,368	1,320
Air catering expenses	115	161
Salaries and welfare	1,545	1,452
Repairs and maintenance	1,827	1,853
Provision for major overhauls (Note 41)	503	409
Provision for early retirement benefits (Note 42)	57	68
Landing and navigation fees	1,899	2,097
Computer reservation services	518	539
Interest expenses	146	339
Others	175	182
	<u>8,153</u>	<u>8,420</u>

40 Other liabilities

	2009 RMB million	2008 RMB million
CAAC Infrastructure Development Fund, airport construction surcharge and airport tax payable	1,052	899
Construction cost payable	154	106
Advance payments on chartered flights	71	58
Sales agent deposits	224	222
Other taxes payable	611	591
Others	1,264	1,087
	<u>3,376</u>	<u>2,963</u>

41 Provision for major overhauls

Details of provision for major overhauls in respect of aircraft held under operating leases are as follows:

	2009 RMB million	2008 RMB million
At January 1	1,354	1,133
Provision for the year	398	462
Provision utilised during the year	(296)	(241)
At December 31	1,456	1,354
Less: current portion included in accrued expenses (Note 39)	(503)	(409)
	<u>953</u>	<u>945</u>

42 Provision for early retirement benefits

Details of provision for early retirement benefits in respect of obligations to early retired employees are as follows:

	2009 RMB million	2008 RMB million
At January 1	247	307
Provision for the year (Note 12)	6	10
Financial costs (Note 13)	14	19
Payments made during the year	(80)	(108)
Effect of changes in discount rate	18	19
At December 31	205	247
Less: current portion included in accrued expenses (Note 39)	(57)	(68)
	<u>148</u>	<u>179</u>

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 services 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 recognised as provision for early retirement benefits.

43 Share capital and capital management

(a) Share capital

	2009 RMB million	2008 RMB million
Registered, issued and paid up capital:		
4,021,150,000 domestic state-owned shares with selling restrictions of RMB1.00 each (2008: 3,300,000,000 shares of RMB1.00 each)	4,021	3,300
2,482,417,000 H shares of RMB1.00 each (2008: 1,761,267,000 shares of RMB1.00 each)	2,482	1,761
1,500,000,000 A shares of RMB1.00 each (2008: 1,500,000,000 shares of RMB1.00 each)	1,500	1,500
	<u>8,003</u>	<u>6,561</u>

A bonus share issue of 1,100,000,000 domestic state-owned shares, 587,089,000 H shares and 500,000,000 A shares, totalling 2,187,089,000 shares, by the conversion of share premium in the amount of RMB2,187,089,000 to share capital of the same amount, was approved by shareholders and relevant government authorities and took effect in November 2008.

On August 20, 2009 and August 21, 2009, the Company issued 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung, a wholly-owned subsidiary of CSAHC, for net cash considerations of RMB2,259 million and RMB721 million, respectively.

The 721,150,000 A shares and 721,150,000 H shares issued on August 20, 2009 and August 21, 2009 are subject to a lock-up period to August 20, 2012 and August 21, 2010, respectively. The remaining 3,300,000,000 domestic state-owned shares would become listed and tradable in August 2010.

All the domestic state-owned, H and A shares rank pari passu in all material respects.

43 Share capital and capital management (continued)

(b) Capital management

The Group's primary objectives in managing capital are to safeguard its 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 managing its debt portfolio in conjunction with projected financing requirements. The Group monitors capital on the basis of the debt to equity ratio, which is calculated on net debt as a percentage of the total equity where net debt is represented by the aggregate of bank and other loans, short-term financing bills, obligations under finance leases, trade and bills payables, sales in advance of carriage, amounts due to related companies, accrued expenses and other liabilities less cash and cash equivalents.

There was no change in the Group's approach to capital management during 2009 as compared with previous years. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements. The Group's debt to equity ratio remains high at 551% at December 31, 2009 (2008: 685%) because of the acquisitions of aircraft during the current and prior years.

44 Reserves

	2009	2008
	RMB million	RMB million
Share premium		
At January 1	3,138	5,325
Bonus Share Issue (Note 43)	-	(2,187)
Issue of shares (Note 43)	1,538	-
At December 31	<u>4,676</u>	<u>3,138</u>
Fair value reserve		
At January 1	18	183
Change in fair value of available-for-sale equity securities	19	(165)
At December 31	<u>37</u>	<u>18</u>
Statutory surplus reserve (Note (a))		
At January 1 and at December 31	<u>526</u>	<u>526</u>
Discretionary surplus reserve		
At January 1 and at December 31	<u>77</u>	<u>77</u>
Other reserve		
At January 1	150	4
Acquisition of equity interest in a subsidiary (Note (c))	-	(5)
Government contributions (Note (d))	1	151
At December 31	<u>151</u>	<u>150</u>
Retained earnings/(accumulated losses)		
At January 1	(3,449)	1,374
Profit/(loss) for the year	330	(4,823)
At December 31	<u>(3,119)</u>	<u>(3,449)</u>
Total	<u>2,348</u>	<u>460</u>

44 Reserves (continued)

(a) 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 a dividend to shareholders and when there are retained earnings at the financial year end.

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.

(b) Dividend distributions may be proposed at the discretion of the Company's board of directors, after consideration of the transfers of reserves referred to above and making up cumulative prior years' losses. Pursuant to the Articles of Association of the Company, the net profit of the Company for the purpose of profit distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations, and (ii) the net profit determined in accordance with IFRSs. As at December 31, 2009, the Company did not have any distributable reserves (2008: Nil).

(c) The Company acquired certain equity interest in a subsidiary from CSAHC in 2008 (Note 45(c)(xv)). The balance represents the difference of the consideration paid and the share of net assets of the subsidiary.

(d) Pursuant to the "Notice of approval for funds to be used specifically for the purchase of snow handling equipment" issued by the CAAC, national fund amounting to RMB1 million was contributed during the year ended December 31, 2009 by the PRC government to the Company. Such fund is to be used specifically for the maintenance of safety condition of airports located at Zhengzhou, Luoyang and Nanyang.

During the year ended December 31, 2008, national funds amounting to RMB121 million and RMB35 million were contributed by the PRC government. Such funds are to be used specifically for the reconstruction after the snowstorm disaster and the maintenance of Urumqi airport parking apron and other projects.

Pursuant to the requirements of the relevant notice, the national funds were designated as capital contribution and vested solely by the PRC government. They can be converted to share capital of the entities receiving the funds upon approval by their shareholders and completion of other procedures.

45 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 and certain of the highest paid employees as disclosed in Note 14, is as follows:

	2009 RMB'000	2008 RMB'000	2007 RMB'000
Short-term employees benefits	13,991	14,117	12,226
Post-employment benefits	922	1,268	275
	<u>14,913</u>	<u>15,385</u>	<u>12,501</u>
	2009 RMB'000	2008 RMB'000	2007 RMB'000
Directors and supervisors (Note 14)	7,609	8,578	6,790
Senior management	7,304	6,807	5,711
	<u>14,913</u>	<u>15,385</u>	<u>12,501</u>

Total remuneration is included in "staff costs" (Note 12).

(b) Contributions to post-employment benefit plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. Details of the Group's employee benefits plan are disclosed in Note 46.

45 Material related party transactions (continued)

(c) *Transactions with CSAHC and its affiliates (the "CSAHC Group"), and the associates and jointly controlled entities of the Group*

The Group obtained various operational services provided by the CSAHC Group and the associates and jointly controlled entities of the Group during the normal course of its business.

Details of the significant transactions carried out by the Group are as follows:

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Expenses paid to the CSAHC Group				
Handling charges	(i)	68	50	46
Air catering supplies	(ii)	-	60	157
Commission expense	(iii)	6	4	7
Sundry aviation supplies	(iv)	-	-	72
Lease charges for land and buildings	(v)	107	100	101
Property management fee	(vi)	19	31	31
Expenses paid to jointly controlled entities and an associate				
Ground service expenses	(vii)	36	64	37
Repairing charges	(viii)	1,344	1,129	1,047
Flight simulation service charges	(ix)	172	150	120
Advertising expenses	(x)	21	20	9
Income received from a jointly controlled entity				
Rental income	(ix)	47	33	31
Issuance of A shares to CSAHC				
	(xi)	2,279	-	-
Issuance of H shares to Nan Lung				
	(xi)	721	-	-
Acquisition of assets from CSAHC Group				
	(xii)	-	-	270
Disposal of GZ Aviation Hotel to CSAHC Group				
	(xiii)	-	-	75
Transfer of exclusive right to use certain advertising resources to Southern Airlines Culture and Media Co., Ltd.				
	(xiv)	-	35	-
Acquisition of 26% equity interest in West Australian Flying College from CSAHC Group				
	(xv)	-	5	-
Disposal of certain buildings to Southern Airlines Culture and Media Co., Ltd.				
	(xvi)	<u>-</u>	<u>2</u>	<u>-</u>

45 Material related party transactions (continued)

(c) *Transactions with CSAHC and its affiliates (the "CSAHC Group"), and the associates and jointly controlled entities of the Group (continued)*

- (i) The Group acquires aircraft, flight equipment and other airline-related facilities through Southern Airlines (Group) Import and Export Trading Company ("SAIETC"), a wholly-owned subsidiary of CSAHC and pays handling charges to SAIETC.
- (ii) The Group purchases certain in flight meals and related services from Shenzhen Air Catering Company Limited ("SZ Catering"), which was an associate of the CSAHC. SZ Catering ceased to be a related party of the Company in November 2008.
- (iii) Commission is earned by certain subsidiaries of CSAHC 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.
- (iv) Certain sundry aviation supplies were purchased from Southern Airlines (Group) Economic Development Company ("SAGEDC"), a subsidiary of CSAHC in 2007. No sundry aviation supplies were purchased from SAGEDC during the year and 2008.
- (v) The Group leases certain land and buildings in the PRC from CSAHC. Rental payments for land and buildings were paid or payable to CSAHC.
- (vi) Guangzhou China Southern Airlines Property Management Co., Ltd, a subsidiary of CSAHC, provides property management services to the Group.
- (vii) Beijing Ground Services, a former jointly controlled entity of the Group, provides airport ground service to the Group. In June 2009, the Company acquired 50% equity interests in Beijing Ground Services from the other venture of Beijing Ground Services and it became a wholly-owned subsidiary of the Company.
- (viii) Guangzhou Aircraft Maintenance Engineering Company Limited ("GAMECO") and MTU, both are jointly controlled entities of the Group, provide comprehensive maintenance services to the Group.
- (ix) Zhuhai Xiang Yi Aviation Technology Company Limited ("Zhuhai Xiang Yi"), a jointly controlled entity of the Group, provides flight simulation services to the Group. In addition, the Group entered into operating lease agreements to lease certain flight training facilities and buildings to Zhuhai Xiang Yi.
- (x) Southern Airlines Culture and Media Co., Ltd. an associate of the Group, provides advertising services to the Group.
- (xi) On August 20, 2009 and August 21, 2009, the Company issued 721,150,000 A shares to CSAHC and 721,150,000 H shares to Nan Lung, a wholly-owned subsidiary of CSAHC, for cash considerations of RMB2,279 million and RMB721 million, respectively.
- (xii) On August 14, 2007, the Company signed an agreement to acquire (1) the entire equity interest in Air Catering; (2) certain assets of Guangzhou Bi Hua Yuan Training Centre including certain properties and office facilities; and (3) certain assets of Nan Lung Travel & Express (Hong Kong) Limited, including certain properties and office facilities and the 51% equity interest in Nan Lung International Freight Limited ("Nan Lung Freight"), from CSAHC for a total consideration of RMB270 million (Note 48(b)).
- (xiii) On August 14, 2007, the Company signed an agreement to dispose of its equity interest in GZ Aviation Hotel Co., Ltd. to CSAHC at a consideration of RMB75 million.

45 Material related party transactions (continued)

(c) *Transactions with CSAHC and its affiliates (the "CSAHC Group"), and the associates and jointly controlled entities of the Group (continued)*

- (xiv) On November 11, 2008, the Company signed an agreement to transfer the exclusive right to use certain advertising space on the aircraft fleet for a period of 18 years to Southern Airlines Culture and Media Co., Ltd. an associate of the Group, for a total consideration of RMB35 million.
- (xv) On December 30, 2008, the Company signed an agreement to acquire 26% equity interest in West Australian Flying College from CSAHC at a consideration of RMB5 million .
- (xvi) On November 11, 2008, the Company signed an agreement to transfer certain buildings to Southern Airlines Culture and Media Co., Ltd. an associate of the Group at a consideration of RMB2 million.

In addition to the above, certain subsidiaries of CSAHC also provided hotel and other services to the Group during the year. The total amount involved is not material to the results of the Group for the current and prior years.

Details of amounts due from/to the CSAHC Group, and the associates and jointly controlled entities of the Group:

	2009 RMB million	2008 RMB million
Receivables:		
The CSAHC Group	6	1
Associates	14	1
Jointly controlled entities	31	9
	<u>51</u>	<u>11</u>
Payables:		
The CSAHC Group	43	64
Jointly controlled entities	51	38
	<u>94</u>	<u>102</u>

The amounts due from/to the CSAHC Group, the associates and jointly controlled entities of the Group are unsecured, interest free and have no fixed terms of repayment.

45 Material related party transactions (continued)

(d) Loans from and deposits placed with SA Finance

(i) Loans from SA Finance

At December 31, 2009, loans from SA Finance to the Group amounted to RMB819 million (2008: RMB2,539 million).

The loans were repayable and secured as follows:

	2009 RMB million	2008 RMB million
Within 1 year	400	2,100
After 2 years but within 5 years	419	439
	<u>819</u>	<u>2,539</u>
Unsecured	<u>819</u>	<u>2,539</u>

Interest expense paid on such loans amounted to RMB71 million (2008: RMB38 million; 2007: RMB17 million) and the interest rates ranged from 1.25% to 7.56% per annum during the year ended December 31, 2009 (2008: 4.75% to 7.56% per annum; 2007: 5.10% to 6.16% per annum).

(ii) Deposits placed with SA Finance

At December 31, 2009, the Group's deposits with SA Finance amounted to RMB862 million (2008: RMB1,139 million). The applicable interest rates are determined in accordance with the rates published by the PBOC.

Interest income received on such deposits amounted to RMB11 million (2008: RMB22 million; 2007: RMB20 million) during the year ended December 31, 2009.

(e) Guarantees from CSAHC and SA Finance

Certain bank loans of the Group were guaranteed by the following related parties:

	2009 RMB million	2008 RMB million
CSAHC	512	783
SA Finance	-	1
	<u>512</u>	<u>784</u>

45 Material related party transactions (continued)

(f) Transactions with other state-controlled entities

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those transactions with the CSAHC Group, and the associates and jointly controlled entities of the Group as disclosed in Notes 45(c), (d), and (e) above, the Group conducts transactions with other state-controlled entities which include but are not limited to the following:

- Transportation services;
- Leasing arrangements;
- Purchase of equipment;
- Purchase of ancillary materials and spare parts;
- Ancillary and social services; and
- Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) The Group's transactions with other state-controlled entities, including state-controlled banks in the PRC

	2009	2008	2007
	RMB million	RMB million	RMB million
Jet fuel cost	15,260	21,042	14,814
Interest income	56	77	47
Interest expense	<u>1,249</u>	<u>1,719</u>	<u>1,751</u>

(ii) The Group's balances with other state-controlled entities, including state-controlled banks in the PRC

	2009	2008
	RMB million	RMB million
Cash and deposits at bank	3,174	3,354
Short-term bank loans and current portion of long-term bank loans	16,068	18,675
Long-term bank loans, less current portion	<u>26,646</u>	<u>14,773</u>

45 Material related party transactions (continued)

(f) Transactions with other state-controlled entities (continued)

(iii) Guarantees from other state-controlled entities, including state-controlled banks in the PRC

	2009	2008
	RMB million	RMB million

Guarantees on certain bank loans of the Group	-	1,082
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(iv) In 2008, the issuance of the short-term financing bills of RMB2,000 million was underwritten by certain state-controlled banks in the PRC. No issuance of short-term financing bills was made during the year.

46 Retirement and housing benefits

(a) Retirement benefits

Employees of the Group participate in several defined contribution retirement schemes organised separately by the PRC municipal governments in regions where the major operations of the Group are located. The Group is required to contribute to these schemes at the rates ranging from 10% to 25% (2008 and 2007: 9% to 24%) 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.

In addition, the Group has established a supplementary defined contribution retirement scheme for the benefit of employees in accordance with relevant regulations in the PRC. In this connection, employees of the Group participate in a supplementary defined contribution retirement scheme whereby the Group is required to make contributions not exceeding one-twelfth of the prior year's total salaries.

(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, for subsidising their purchases of houses. An employee who quits 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 selling the house in the event of default in repayment. Any shortfall in repayment would be charged to profit or loss.

(ii) The Group also pays cash housing subsidies on a monthly basis to eligible employees. The monthly cash housing subsidies are charged to profit or loss.

47 Segmental reporting

The Group's network passenger and cargo operations are managed as a single business unit. The Group's chief operating decision maker 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 business".

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of business segments of aviation repair services, aviation training services, ground services, air catering and other miscellaneous services. These other operating segments are combined and reported as "all 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 chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment based on financial results prepared under PRC GAAP. As such, the amount of each material reconciling item from the Group's reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies are set out in Note 47 (c).

47 Segmental reporting (continued)

(a) Business segments

Information regarding the Group's reportable segments as provided to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance for each of the years in the three-year period ended December 31, 2009 is set out below.

	Airline business			All other segments			Elimination			Unallocated*			Total		
	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million	2009 RMB million	2008 RMB million	2007 RMB million
Revenue from external customers	55,708	56,150	55,522	335	277	250	-	-	-	-	-	-	56,043	56,427	55,772
Inter-segment sales	-	4	-	674	506	484	(674)	(510)	(484)	-	-	-	-	-	-
Reportable segment revenue	55,708	56,154	55,522	1,009	783	734	(674)	(510)	(484)	-	-	-	56,043	56,427	55,772
Reportable segment profit/(loss) before taxation	27	(5,031)	2,532	56	(68)	11	-	-	-	374	351	306	457	(4,748)	2,849
Reportable segment assets	91,322	79,841		1,776	1,705		(159)	(131)		1,797	1,588		94,736	83,003	
Addition to non-current segment assets during the year	17,558	12,801		66	47		-	-		13	29		17,637	12,877	
Reportable segment liabilities	80,435	72,519		1,202	1,167		(159)	(131)		-	-		81,478	73,555	
Other segment information															
Interest income	65	99	68	3	4	5	-	-	-	-	-	-	68	103	73
Interest expenses	1,446	1,923	2,286	51	64	46	-	-	-	-	-	-	1,497	1,987	2,332
Depreciation and amortisation for the year	5,954	5,724	5,501	85	94	94	-	-	-	-	-	-	6,039	5,818	5,595
Impairment losses (including impact on PP&E, allowance for doubtful debts and provision for inventories)	57	2,073	212	-	-	-	-	-	-	-	-	-	57	2,073	212

*Unallocated assets primarily include investments in associates and jointly controlled entities, available-for-sale securities and other investments. Unallocated results primarily include the share of results of associates and jointly controlled entities and gain on sale of available-for-sale securities.

47 Segmental reporting (continued)

(b) Geographic information

	2009 RMB million	2008 RMB million	2007 RMB million
Domestic	47,645	45,972	44,785
Hong Kong, Macau and Taiwan	1,067	1,051	1,188
International *	7,331	9,404	9,799
	<u>56,043</u>	<u>56,427</u>	<u>55,772</u>

* Asian market accounted for approximately 74% (2008: 72%; 2007: 68%) of the Group's total international traffic revenue for the year ended December 31, 2009. The remaining portion was mainly derived from the Group's flights to/from European, North American and Australian regions.

The major revenue earning assets of the Group are its aircraft fleet which is registered in the PRC and is employed across its worldwide route network. The chief operating decision maker 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) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Revenue				
Reportable segment revenue		56,717	56,937	56,256
Elimination of intersegment revenues		(674)	(510)	(484)
Reclassification of expired sales in advance of carriage	(i)	350	276	273
Reclassification of business tax	(ii)	(1,591)	(1,415)	(1,644)
Consolidated revenue		<u>54,802</u>	<u>55,288</u>	<u>54,401</u>

47 Segmental reporting (continued)

(c) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies (continued)

	Note	2009 RMB million	2008 RMB million	2007 RMB million
Profit				
Reportable segment profit/ (loss) before taxation		83	(5,099)	2,543
Unallocated amounts		374	351	306
Losses on lump sum housing benefits	(iii)	(26)	(26)	(26)
Revaluation of land use rights	(iv)	4	4	4
Adjustments arising from business combinations under common control	(v)	(7)	(7)	(6)
Capitalisation of exchange difference of specific loans	(vi)	3	51	57
Government grants	(vii)	1	2	1
Consolidated profit/(loss) before taxation		<u>432</u>	<u>(4,724)</u>	<u>2,879</u>
	Note	2009 RMB million	2008 RMB million	
Assets				
Reportable segment assets		93,098	81,546	
Elimination of intersegment balances		(159)	(131)	
Other unallocated amounts		1,797	1,588	
Losses on lump sum housing benefits	(iii)	66	92	
Revaluation of land use rights	(iv)	(142)	(146)	
Adjustments arising from business combinations under common control	(v)	1	8	
Capitalisation of exchange difference of specific loans	(vi)	111	108	
Government grants	(vii)	(39)	(40)	
Effect of the above adjustments on taxation		17	17	
Consolidated total assets		<u>94,750</u>	<u>83,042</u>	
		2009 RMB million	2008 RMB million	
Liabilities				
Reportable segment liabilities		81,637	73,686	
Elimination of intersegment balances		(159)	(131)	
Effect of the above adjustments on taxation		10	8	
Consolidated total liabilities		<u>81,488</u>	<u>73,563</u>	

47 Segmental information (continued)

(c) *Reconciliations of reportable segment revenue, profit or loss, assets and liabilities arising from different accounting policies (continued)*

Notes:

- (i) In accordance with the PRC GAAP, expired sales in advance of carriage is recorded under non-operating income. Under IFRSs, such income is recognised as other net income.
- (ii) In accordance with the PRC GAAP, business tax and surcharge is separately disclosed rather than deducted from revenue under IFRSs.
- (iii) In accordance with the PRC GAAP, losses on the lump sum housing benefits executed by CSAHC are charged to retained profits as of January 1, 2001 pursuant to the relevant regulations. Under IFRSs, losses on lump sum housing benefits are charged to the consolidated statements of operations, which are spread over the vesting benefit periods stipulated by the relevant contracts.
- (iv) In accordance with the PRC GAAP, land use rights are carried at revalued amounts. Under IFRSs, land use rights are carried at cost with effect from January 1, 2002, and accordingly, the unamortised surplus on revaluation of land use rights was reversed against shareholders' equity.
- (v) In accordance with the PRC GAAP, business combinations under common control should be accounted for by applying the pooling-of-interest method. The carrying amount of the assets and liabilities in the books of subsidiaries acquired were used for consolidation. Under IFRSs, purchase accounting is adopted. The assets and liabilities of the subsidiaries are recorded at fair value.
- (vi) In accordance with the PRC GAAP, exchange difference arising on translation of specific loans and related interest denominated in a foreign currency is capitalised as part of the cost of qualifying assets. Under IFRSs, such exchange difference should be recognised in profit or loss unless the exchange difference represents an adjustment to interest.
- (vii) In accordance with the PRC GAAP, special funds such as investment grants allocated by the government, if clearly defined in official documents as part of "capital reserve", are credited to capital reserve, and amortised over the respective useful lives of corresponding assets. Under IFRSs, government grants relating to purchase of fixed assets are deducted from the cost of the related fixed assets.

48 Supplementary information to the consolidated cash flow statements

(a) *Non cash transactions - acquisition of aircraft*

During the year ended December 31, 2009, aircraft acquired under finance leases amounted to RMB2,171 million (2008: RMB281 million; 2007: RMB4,330 million).

48 Supplementary information to the consolidated cash flow statements (continued)

(b) Effect of the acquisition of Nan Lung Freight and Air Catering

The Group acquired a 51% equity interest in Nan Lung Freight and a 100% equity interest in Air Catering on August 31, 2007. Details are as follows:
RMB million

Assets acquired:	
Property, plant and equipment, net	77
Inventories	6
Trade receivables	106
Other receivables	7
Cash and cash equivalents	54
	<u>250</u>
Liabilities assumed:	
Trade payables	30
Accrued expenses	10
Other liabilities	18
	<u>58</u>
Net identifiable assets before minority interests	<u>192</u>
Less: Minority interest	<u>(80)</u>
Net identifiable assets after minority interest	<u>112</u>
Satisfied by:	
Cash	<u>112</u>
Analysis of the net outflow of cash and cash equivalents in respect of the acquisition:	
Cash consideration paid	(112)
Cash and cash equivalents acquired	54
Net outflow of cash and cash equivalents in respect of the acquisition	<u>(58)</u>

In the four months to December 31, 2007, these subsidiaries contributed profit of RMB3 million.

48 Supplementary information to the consolidated cash flow statements (continued)

(c) Effect of the disposal of GZ Aviation Hotel

The Group disposed of its 90% equity interest in GZ Aviation Hotel to CSAHC on August 31, 2007. Details are as follows:

	RMB million
Assets disposed of:	
Property, plant and equipment, net	72
Trade receivables	1
Other receivables	6
Cash and cash equivalents	1
	<u>80</u>
Liabilities disposed of:	
Other liabilities	4
Minority interest	8
	<u>8</u>
Net identifiable assets and liabilities	68
Gain on disposal	7
	<u>75</u>
Satisfied by:	
Cash	75
	<u>75</u>
Analysis of the net inflow of cash and cash equivalents in respect of the disposal:	
Cash consideration received	75
Cash and cash equivalents disposed of	(1)
Net inflow of cash and cash equivalents in respect of the disposal	<u>74</u>

49 Financial risk management and fair values

Exposure to liquidity, interest rate, currency, jet fuel price risk and credit risks arises in the normal course of the Group's business. 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, 2009, the Group's current liabilities exceeded its current assets by RMB28,441 million. For the year ended December 31, 2009, the Group recorded a net cash inflow from operating activities of RMB8,959 million, a net cash outflow from investing activities of RMB14,478 million and a net cash inflow from financing activities of RMB5,213 million, and resulted in a net decrease in cash and cash equivalents of RMB306 million.

In 2010 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. As at December 31, 2009, the Group had banking facilities with several PRC commercial banks for providing loan finance up to approximately RMB128,175 million (2008: RMB125,265 million), of which approximately RMB50,455 million (2008: RMB47,125 million) was utilised. The directors of the Company believe that sufficient financing will be available to the Group.

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, 2010. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements 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 loan finance which may impact the operations of the Group during the next twelve-month period. The directors 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 realised.

As at December 31, 2009, the Group's recognised financial liabilities, bank and other loans, short-term financing bills, finance lease obligations, trade and bills payables and amounts due to related companies as disclosed in Notes 28, 33, 34, 35, 36 and 38 respectively, are not materially different from the amount determined based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date). During the year ended December 31, 2009, the Group had derivatives settled gross in respect of the foreign exchange forward option contracts, of which the outflow amounted to RMB426 million (2008: RMB79 million) and inflow amounted to RMB399 million (2008: RMB25 million).

(b) Interest rate risk

The interest rates and maturity information of the Group's bank and other loans, short-term financing bills and finance lease obligations are disclosed in Notes 33, 34 and 35 respectively.

At December 31, 2009, 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 would have increased/decreased the Group's accumulated losses by approximately RMB238 million (2008: would have increased/decreased the Group's loss after tax and accumulated losses by approximately RMB186 million). Other components of consolidated equity would not be affected (2008: Nil) by the changes in interest rates.

49 Financial risk management and fair values (continued)

(b) Interest rate risk (continued)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and accumulated losses) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date 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 balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and accumulated losses) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2008.

(c) Foreign currency risk

The 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) and bank and other loans (Note 33) are denominated in foreign currencies, principally US dollars. Depreciation or appreciation of the Renminbi against foreign currencies affects the Group's results significantly because the Group's foreign currency payments generally exceed its foreign currency receipts. 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 State Administration of Foreign Exchange, or subject to certain restrictive conditions, entering into forward foreign exchange contracts with authorised banks.

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. As at December 31, 2009, the Group had two outstanding foreign exchange forward option contracts of notional amount ranging from USD34 million to USD68 million (2008: USD64 million to USD128 million). The contracts are to buy USD1 million and USD1.5 million respectively (or USD2 million and USD3 million respectively if the spot exchange rate at settlement date is below certain specified strike rates) by selling Japanese Yen at certain specified rates on monthly settlement dates until the maturity of the contracts in 2011. Both contracts have a knock-out clause where the contracts early terminate upon the exchange rate of Japanese Yen to US dollar reaching a certain knock-out level. For the year ended December 31, 2009, a net gain of approximately RMB72 million (2008: a loss of RMB111 million) arising from changes in the fair value of these foreign exchange forward option contracts has been recognised in profit or loss. At December 31, 2009, the fair value of these foreign exchange forward option contracts was financial liabilities of approximately RMB44 million (2008: RMB116 million).

49 Financial risk management and fair values (continued)

(c) Foreign currency risk (continued)

As at December 31, 2009, it is estimated that if an appreciation/depreciation of 3.4% in exchange rate of US dollar against Japanese Yen, with all other variables held constant, would have increased/decreased the Group's profit after tax and decreased/increased the Group's accumulated losses by approximately RMB15 million/RMB16 million, respectively.

The exchange rate of Renminbi to US dollar was set by the PBOC and had fluctuated within a narrow band prior to July 21, 2005. Since then, a managed floating exchange rate regime based on market supply and demand with reference to a basket of foreign currencies has been used and the US dollar exchange rate has gradually declined against the Renminbi.

The following table indicates the instantaneous change in Group's profit or loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

	2009		2008	
	<i>Appreciation / (depreciation) of Renminbi against foreign currency</i>	<i>Decrease/(increase) on profit after tax and increase/(decrease) on accumulated losses RMB million</i>	<i>Appreciation/ (depreciation) of Renminbi against foreign currency</i>	<i>Increase/(decrease) on loss after tax and accumulated losses RMB million</i>
United States Dollars	2%	(764)	2%	(606)
	(2)%	764	(2)%	606

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit or loss after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, 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 2008.

(d) Credit risk

The Group's credit risk is primarily attributable to cash and cash equivalents and trade receivables.

Substantially all of the Group's cash and cash equivalents are deposited with 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 which has insignificant credit risk to the Group. As at December 31, 2009, the balance due from BSP agents amounted to RMB631 million (2008: RMB641 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 30.

49 Financial risk management and fair values (continued)

(e) **Jet fuel price risk**

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% (2008: 40%) in jet fuel price, with volume of fuel consumed and all other variables held constant, would have increased/decreased the fuel costs by approximately RMB1,639 million (2008: RMB9,232 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 balance sheet date.

(f) **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 balance sheet date 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

2009

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale equity securities:				
- Listed	93	-	-	93
Liabilities				
Derivative financial instruments:				
- Forward option contracts	-	44	-	44

During the year there were no significant transfers between instruments in Level 1 and Level 2.

Fair value of available-for-sale securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The fair value of forward option contracts is estimated by using Black Scholes Pricing Model, taking into account the terms and conditions of the forward option contracts. The major inputs used in estimation process include implied volatility, benchmark interest rates and foreign exchange spot and forward rates, which can be obtained from observable markets.

(ii) The economic characteristics of the Group's finance leases vary from lease to lease. It is impractical to compare such leases with those prevailing in the market within the constraints of timeliness and cost for the purpose of estimating the fair value of such leases.

49 Financial risk management and fair values (continued)

(f) *Fair value (continued)*

- (iii) Other non-current investments 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.
- (iv) 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.
- (v) Loans, trade and other payables, bills payable and short-term financing bills are carried at amounts not materially different from their fair values as at December 31, 2009 and December 31, 2008.

50 Commitments

(a) *Capital commitments*

Capital commitments outstanding at December 31, 2009 not provided for in the financial statements were as follows:

	2009 RMB million	2008 RMB million
Commitments in respect of aircraft and flight equipment		
- authorised and contracted for	57,890	75,639
- authorised but not contracted for	7,953	-
	<u>65,843</u>	<u>75,639</u>
Other commitments		
- authorised and contracted for	462	884
- authorised but not contracted for	1,399	1,958
	<u>1,861</u>	<u>2,842</u>
	<u><u>67,704</u></u>	<u><u>78,481</u></u>

As at December 31, 2009, the Group had on order 199 aircraft and certain flight equipment, scheduled for deliveries in 2010 to 2015, and deposits of RMB14,792 million have been made towards the purchase of these aircraft and related equipment. As at December 31, 2009, the approximate total future payments, including estimated amounts for price escalation through anticipated delivery dates for these aircraft and flight equipment are as follows:

	2009 RMB million	2008 RMB million
2009	-	15,777
2010	16,404	19,167
2011	17,482	15,142
2012	17,421	13,893
2013	9,845	7,170
2014 and afterwards	4,691	4,490
	<u>65,843</u>	<u>75,639</u>

50 Commitments (continued)

(a) Capital commitments (continued)

As at December 31, 2009, the Group's attributable share of the capital commitments of jointly controlled entities was as follows:

	2009 RMB million	2008 RMB million
Authorised and contracted for	2	1
Authorised but not contracted for	40	26
	<u>42</u>	<u>27</u>

(b) Operating lease commitments

As at December 31, 2009, the total future minimum lease payments under non-cancellable operating leases in respect of properties, aircraft and flight equipment were payable as follows:

	2009 RMB million	2008 RMB million
Payments due		
Within 1 year	4,028	4,186
After 1 year but within 5 years	15,107	15,689
After 5 years	11,231	14,455
	<u>30,366</u>	<u>34,330</u>

51 Contingent liabilities

(a) The Group leased certain properties and buildings from CSAHC which located in Guangzhou, Wuhan and Haikou, etc. However, such properties and buildings lack adequate documentation evidencing CSAHC's rights thereto.

Pursuant to an 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 the certain properties and buildings.

(b) The Company entered into agreements with its pilot trainees and certain banks to provide guarantees on personal bank loans amounting to RMB292,586,000 (2008: RMB90,858,000) to be granted to its pilot trainees to finance their respective flight training expenses. As at December 31, 2009, an aggregate of personal bank loans of RMB60 million (2008: RMB13million), under these guarantees, were drawn down from the banks.

52 Non-adjusting post balance sheet events

- (a) On March 8, 2010, the board of the Company approved (i) the placement of not more than 1,766,780,000 new A shares to not more than 10 specific investors (subject to the maximum number as permitted by PRC laws and regulations at the time of the issuance) including CSAHC, at the same subscription price of not less than RMB5.66 per A share; and (ii) the placement of not more than 312,500,000 new H shares to Nan Lung, at the subscription price of not less than HKD2.73 per H share.

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 HKD2.73 per H share.

The above placement and subscription agreements were approved in the Extraordinary General Meeting and the respective Meetings of shareholders of A and H shares on April 30, 2010 and are pending approval from the relevant security regulatory authorities.

- (b) On January 20, 2010, the Company entered into an agreement with Airbus SNC to purchase 20 Airbus 320 series aircraft, which were scheduled for delivery from 2011 to 2013. According to the information provided by Airbus SNC, the catalogue price of an Airbus 320 aircraft is around USD77 million. Such catalogue price includes price for airframe and engines.
- (c) In accordance with a Transfer Agreement dated September 28, 2009 and a Supplemental Transfer Agreement dated December 29, 2009 entered into between the Company and CSAHC, the Company agreed to sell and CSAHC agreed to acquire the 50% equity interest in MTU, a jointly controlled entity of the Company. As at December 31, 2009, the sale was approved by the State Owned Assets Supervision and Administration Commission of the PRC and shareholders of Company and was pending approval by the Ministry of Commerce of the PRC. The sales was subsequently approved by the Ministry of Commerce of the PRC in January 2010, and the Company received the acquisition consideration from CSAHC in full in February 2010.

53 Immediate and ultimate controlling party

As at December 31, 2009, 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.

54 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 on-going 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. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

(a) *Impairment of long-lived assets*

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36, 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 judgements 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.

(b) *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 regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

55 Comparative figures

As a result of the application of IAS1 (revised 2007), Presentation of financial statements, and IFRS 8, Operating segments and the change in accounting policy for property, plant and equipment, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in Note 3.

56 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended December 31, 2009

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended December 31, 2009 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

*Effective for accounting periods
beginning on or after*

IAS 24 (Revised), Related party disclosures
IFRS 9, Financial instruments

January 1, 2011
January 1, 2013

57 Subsidiaries

The particulars of the Group's principal subsidiaries as of December 31, 2009 are as follows:

<i>Name of company</i>	<i>Place of establishment/ operation</i>	<i>Registered capital</i>		<i>Proportion of ownership interest held by the Company</i>	<i>Principal activities</i>
Southern Airlines Shantou Airlines Company Limited (a)	PRC	RMB	280,000,000	60%	Airline
Chongqing Airlines Company Limited (a)	PRC	RMB	1,200,000,000	60%	Airline
Zhuhai Airlines Company Limited (a)	PRC	RMB	250,000,000	60%	Airline
Xiamen Airlines Company Limited (a)	PRC	RMB	1,200,000,000	60%	Airline
Guizhou Airlines Company Limited (a)	PRC	RMB	80,000,000	60%	Airline
Nan Lung International Freight Limited	HK	HKD	3,270,000	51%	Freight services
Guangzhou Baiyun International Logistic Company Limited (a)	PRC	RMB	50,000,000	61%	Logistics operations
China Southern Airlines Group Air Catering Company Limited (a)	PRC	RMB	10,200,000	100%	Air catering
Guangzhou Nanland Air Catering Company Limited ("Nanland") (b)	PRC	RMB	120,000,000	55%	Air catering
China Southern West Australian Flying College Pty Limited	Australia	AUD	100,000	91%	Pilot training services
Xinjiang Civil Aviation Property Management Limited (a)	PRC	RMB	251,332,832	51.8%	Property management
Beijing Southern Airlines Ground Services Company Limited (a)	PRC	RMB	18,000,000	100%	Provision of airport ground services

- (a) These subsidiaries are PRC limited liability companies.
- (b) This subsidiary is Sino-foreign equity joint venture company established in the PRC.
- (c) Certain of the Group's subsidiaries are PRC joint ventures which have limited lives pursuant to the PRC law.

58 Associates and jointly controlled entities

The particulars of the Group's principal associates and jointly controlled entities as of December 31, 2009 are as follows:

Name of company	Place of establishment/ operation	Proportion of ownership interest held by			Principal activities
		Group's effective interest	The Company	Subsidiaries	
Guangzhou Aircraft Maintenance Engineering Company Limited (a)	PRC	50%	50%	-	Provision of aircraft repair and maintenance services
Southern Airlines Group Finance Company Limited	PRC	34%	21.1%	12.9%	Provision of financial services
Sichuan Airlines Corporation Limited	PRC	39%	39%	-	Airline
MTU Maintenance Zhuhai Co., Limited (a)	PRC	50%	50%	-	Provision of engine repair and maintenance services
Zhuhai Xiang Yi Aviation Technology Company Limited (a)	PRC	51%	51%	-	Provision of flight simulation services
Guangzhou China Southern Zhongmian Dutyfree Store Co., Limited (a)	PRC	50%	50%	-	Sales of duty free goods in flight

(a) These are jointly controlled entities.

(b) Certain of the Group's jointly controlled entities are PRC joint ventures which have limited lives pursuant to the PRC law.

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: May 28, 2010

Index to Exhibits

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
1.1	Restated and Amended Articles of Association of China Southern Airlines Company Limited ⁽¹⁾
4.1	Form of Director's Service Agreement ⁽²⁾
4.2	Form of Non-Executive Director's Service Agreement ⁽³⁾
4.3	Aircraft General Terms Agreement entered into by and between Airbus S.A.S. and China Southern Airlines Company Limited on January 20, 2010 *
4.4	A320 Family Aircraft Purchase Agreement entered into by and between the Company and Airbus SNC on January 20, 2010 *
4.5	A Shares Subscription Agreement entered into by and between the Company and CSAHC on December 10, 2008 ⁽⁴⁾
4.6	H Shares Subscription Agreement entered into by and between the Company and Nan Lung Holding Limited on December 10, 2008 ⁽⁵⁾
4.7	A Shares Subscription Agreement entered into by and between the Company and CSAHC on March 8, 2010
4.8	H Shares Subscription Agreement entered into by and between the Company and Nan Lung Holding Limited on March 8, 2010
4.9	Transfer Agreement entered into by and among the Company, CSAHC, MTU and MTU Aero Engines GmbH on September 28, 2009
4.10	Transfer Agreement for the 50% Equity Interest in MTU between CSAHC and the Company on September 28, 2009
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 1.1 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

(2) 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

(3) 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

(4) Incorporated by reference to the Exhibit 4.8 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

(5) Incorporated by reference to the Exhibit 4.9 to our Form 20-F (File No. 001-14660) for the year ended December 31, 2008 filed with the Securities and Exchange Commission on June 25, 2009

AIRCRAFT GENERAL TERMS AGREEMENT

BETWEEN

AIRBUS S.A.S.

as Seller

A N D

CHINA SOUTHERN AIRLINES COMPANY LIMITED

as Buyer

AND

CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD.

As Consenting Party

Buyer's reference: 09SIES1033FR

Seller's reference: CT0803291

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CONTENTS

<u>CLAUSES</u>	<u>TITLES</u>
0	DEFINITIONS AND INTERPRETATION
1	SCOPE
2	SPECIFICATION
3	PRICES
4	PRICE REVISION
5	PAYMENTS
6	MANUFACTURE PROCEDURE - INSPECTION
7	CERTIFICATION
8	BUYER'S 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 REPRESENTATIVE 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

<u>EXHIBITS</u>	<u>TITLES</u>
Exhibit A	SPECIFICATION (included via the relevant Purchase Agreement)
Exhibit B	FORM OF SPECIFICATION CHANGE NOTICE
Exhibit C	AIRFRAME PRICE REVISION FORMULA (included via the relevant Purchase Agreement)
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.

AIRCRAFT GENERAL TERMS AGREEMENT

This aircraft general terms agreement (the "AGTA") is made as of _____, 2010.

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**"),

and

CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD., formerly known as CHINA SOUTHERN AIRLINES (GROUP) IMPORT AND EXPORT TRADING CORPORATION, having its principal office at Bai Yun Airport, Guangzhou 510405, People's Republic of China (the "**Consenting Party**").

The Seller, the Buyer and the Consenting Party referred together as the "Parties" and each a "Party".

WHEREAS the Seller and the Buyer, with the consent of the Consenting Party, wish to agree on the general terms and conditions which shall govern certain Purchase Agreements for Aircraft (as defined in Clause 0) between them on or after the date hereof.

NOW THEREFORE IT IS AGREED AS FOLLOWS:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

AGTA CSN 2009
CT0803291

Foreword - Page 4/4
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0 **DEFINITIONS AND INTERPRETATION**

0.1 In addition to words and terms elsewhere defined in this AGTA, the initially capitalised words and terms used in this AGTA 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.
AirbusSpares	has the meaning set forth in Part 3 of Exhibit I.
AirbusWorld	has the meaning set forth in Part 2 of Exhibit I.
Aircraft	means an Airbus A320 family, A330 family or A340 family model aircraft including the Airframe, the Propulsion Systems, and any part, component, furnishing or equipment installed on the Aircraft on Delivery under the terms and conditions of the relevant Purchase Agreement.
Aircraft Base Price	has the meaning set out in Clause 3.2
Aircraft Price Revision Formula	is set out in the relevant Purchase Agreement.
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 the relevant Purchase Agreement.
Airframe	means the Aircraft excluding the Propulsion Systems.
Airframe Base Price	has the meaning set out in Clause 3.1.1
Airframe Price Revision Formula	is set out in the relevant Purchase Agreement.
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.
Balance of Final Price	has the meaning set out in Clause 5.4.1.
Base Price	means (i) the sum of the Airframe Base Price and the Propulsion Systems Base Price or (ii) the Aircraft Base Price as the case may be.
Bill of Sale	has the meaning set out in Clause 9.2.2.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

Business Day	means a day, other than a Saturday or a Sunday, on which business of the kind contemplated by the relevant Purchase Agreement is carried on in France, in Germany and in the Buyer's country 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 Buyer's country and in New York, as appropriate.
Buyer Furnished Equipment	has the meaning set out in Clause 18.1.1.
Certificate of Acceptance	has the meaning set out in Clause 8.3.
Chinese Delivery Location	means the Seller's facility 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
DDU	Delivered Duty Unpaid, according to the International Commercial Terms (Incoterms), published by International Chamber of Commerce
Default Rate	means the rate of Default Interest as defined in Clause 5.7.
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 the final assembly of the Aircraft currently in Blagnac, 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 3.1.3 or 3.2.2 as appropriate
General Terms and Conditions or GTC	means the General Terms and Conditions of Access to and Use of AirbusWorld set forth in Part 4 to Exhibit I.

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Goods and Services	means any goods and services that may be purchased by the Buyer from the Seller as listed in the Seller's relevant customer services catalogue, excluding all aircraft models.
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 the relevant Purchase Agreement, and which are not Aircraft Training Services.
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.
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.
Propulsion Systems	has the meaning set out in Clause 2.3.
Propulsion Systems Base Price	means the price of a set of Propulsion Systems as set out in Clause 3.1.2.
Propulsion Systems Reference Price	means the reference price of a set of Propulsion Systems as set out in the relevant Purchase Agreement.
Propulsion Systems Manufacturer	means the manufacturer of the Propulsion Systems as set out in the relevant Purchase Agreement.
Propulsion Systems Price Revision Formula	is set out as an attachment to the relevant Purchase Agreement.
Purchase Agreement	means a purchase agreement for Aircraft between the Buyer and the Seller which incorporates the terms and conditions of this AGTA.
Ready for Delivery	means the time when (i) the Technical Acceptance Process has been successfully completed and (ii) the Export Airworthiness Certificate has been issued.
Scheduled Delivery Month	has the meaning set out in Clause 9.1 and in the relevant Purchase Agreement.

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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.
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.
Spare Parts	means the items of equipment and material which 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 and MSCNs.
Standard Specification	means the Seller's standard specification document relating to the Aircraft purchased and sold as specified in the relevant Purchase Agreement, a copy of which is annexed as an attachment to the relevant Purchase Agreement.
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.
Technical Data	has the meaning set out in Clause 14.1.
Total Loss	has the meaning set out in Clause 10.4.
Type Certificate	has the meaning set out in Clause 7.1.
Warranted Part	has the meaning set out in Clause 12.1.1.

0.2 Clause headings and the index in this AGTA are inserted for convenience of reference only and shall be ignored in the interpretation of this AGTA.

0.3 In this AGTA unless the context otherwise requires:

- (a) references to Clauses, Schedules, Appendices and Exhibits are to be construed as references to the Clauses, Schedules, Appendices, and Exhibits to this AGTA and references to this AGTA include its Clauses, Schedules, Exhibits and Appendices;

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- (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.

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1 SCOPE

The Buyer and the Seller have agreed, in this AGTA, to establish the contractual framework which will apply to Aircraft contracted for purchase and sale under certain, separate Purchase Agreements executed on or after the date of this AGTA. This AGTA is designed to produce full effect only when supplemented by such Purchase Agreements. The relevant Purchase Agreements shall specifically incorporate the terms of this AGTA and shall in particular identify the relevant model, the quantity and the Scheduled Delivery Months of the Aircraft that the Seller shall sell and deliver and the Buyer shall buy and take delivery of at the Delivery Location upon the terms and conditions contained in this AGTA and in the relevant Purchase Agreement.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

AGTA CSN 2008
CT0803291

Clause 1 - Page 1/1
Private & Confidential

2 **SPECIFICATION**

2.1 **Aircraft Specification**

The Aircraft shall be manufactured in accordance with the Standard Specification, as amended or varied prior to and in effect on the date of the relevant Purchase Agreement by the Specification Change Notices listed in an attachment to the relevant Purchase Agreement.

2.2 **Specification Amendment**

The Parties understand and agree that the Specification may be amended following signature of the relevant Purchase Agreement as set 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. A SCN may result in an adjustment of the Base Price, which adjustment, if any, shall be specified in the SCN.

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 the AGTA and/or the relevant Purchase Agreement ("**Development Changes**"), as set forth in this Clause 2.

2.2.2.1 **Manufacturer Specification Changes Notices**

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 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, Base Price, Delivery Date of the Aircraft affected thereby and interchangeability or replaceability requirements under the Specification.

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.

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In such cases, the Seller shall provide to the Buyer the details of all changes in an adapted format and on a regular basis.

2.3 **Propulsion Systems**

The Airframe shall be equipped with a set of engines (including nacelles and thrust reverser when appropriate), the manufacturer, type and quantity per Aircraft of which will be specified in the relevant Purchase Agreement, (the "**Propulsion Systems**").

2.4 **Milestones**

2.4.1 **Customisation Milestones Chart**

Within a reasonable period following signature of the relevant Purchase Agreement, the Seller shall provide the Buyer with a customisation milestones chart setting out the minimum lead times prior to the Scheduled Delivery Month of the Aircraft, when an SCN must be executed in order to integrate into the Specification, any items requested by the Buyer from the catalogues of Specification change options (the "**Options Catalogues**") made available by the Seller (the "**Customization Milestones Chart**").

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**".

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3 PRICES

Depending on the Aircraft model, Clause 3.1 or Clause 3.2 shall apply.

3.1 Airframe Base Price and Propulsion Systems Base Price

3.1.1 Airframe Base Price

The base price of the Airframe (the "Airframe Base Price") is as specified in the relevant Purchase Agreement.

3.1.2 Propulsion Systems Base Price

The base price of a set of the Propulsion Systems (the "Propulsion Systems Base Price") is as specified in the relevant Purchase Agreement.

3.1.3 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 4.1.1; plus
- (ii) the aggregate of all increases or decreases to the Airframe Base Price as agreed in any Specification Change Notice or MSCN or any part thereof applicable to the Airframe subsequent to the date of the relevant Purchase Agreement as revised as of the Delivery Date in accordance with Clause 4.1.1; plus
- (iii) the Propulsion Systems Reference Price as revised as of the Delivery Date in accordance with Clause 4.1.2; plus
- (iv) the aggregate of all increases or decreases to the Propulsion Systems Reference Price as agreed in any Specification Change Notice or MSCN or part thereof applicable to the Propulsion Systems subsequent to the date of the relevant Purchase Agreement as revised as of the Delivery Date in accordance with Clause 4.1.2; plus
- (v) any other amount due by the Buyer to the Seller pursuant to this AGTA, the relevant Purchase Agreement and/or any other written agreement between the Buyer and the Seller with respect to the Aircraft.

3.2 Aircraft Base Price

3.2.1 The Aircraft Base Price is as specified in the relevant Purchase Agreement.

3.2.2 The Final Price of each Aircraft shall be the sum of:

- (i) the Aircraft Base Price as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (ii) the aggregate of all increases or decreases to the Aircraft Base Price as agreed in any Specification Change Notice or MSCN or any part thereof applicable to the Aircraft subsequent to the date of the relevant Purchase Agreement as revised as of the Delivery Date in accordance with Clause 4.2; plus
- (iii) any other amount due by the Buyer to the Seller pursuant to this AGTA, the relevant Purchase Agreement and/or any other written agreement between the Buyer and the Seller with respect to the Aircraft.

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4. PRICE REVISION

Depending on the Aircraft model, Clause 4.1 or Clause 4.2 shall apply.

4.1 Revision of the Airframe Base Price and the Propulsion Systems Reference Price

4.1.1 Revision of Airframe Base Price

The Airframe Base Price is subject to revision up to and including the Delivery Date in accordance with the Airframe Price Revision Formula as set forth in the relevant Purchase Agreement.

4.1.2 Revision of Propulsion Systems Reference Price

4.1.2.1 The Propulsion Systems Reference Price is subject to revision up to and including the Delivery Date in accordance with the Propulsion Systems Price Revision Formula as set forth in the relevant Purchase Agreement.

4.1.2.2 Modification of Propulsion Systems Reference Price and Propulsion Systems Price Revision Formula

The Propulsion Systems Reference Price, the prices of any equipment related to the Propulsion Systems 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 AGTA and the relevant Purchase Agreement and the Propulsion Systems Reference Price, the prices of the related equipment and 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.

4.2 Revision of Aircraft Base Price

The Aircraft Base Price is subject to revision up to and including the Delivery Date in accordance with the Aircraft Price Revision Formula as set forth in the relevant Purchase Agreement.

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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:

Beneficiary Name: AIRBUS

Account identification: ***

with :

or to such other account as may be designated by the Seller.

5.2 Commitment Fee

In the event that the Buyer has already paid a commitment fee for the Aircraft prior to the date of the relevant Purchase Agreement (the "**Commitment Fee**"), then an amount equal to the Commitment Fee specified in US Dollars shall be deducted from the Predelivery Payment due upon signature of the relevant Purchase Agreement.

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 shall be as set forth in the relevant Purchase Agreement.

5.3.2 Such Predelivery Payments shall be made in accordance with the schedule as set forth in the relevant Purchase Agreement

5.3.3 Any Predelivery Payment received by the Seller shall constitute an instalment in respect of the Final Price of the 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 of such Aircraft when calculating the Balance of Final Price or (ii) the obligation to pay to the Buyer an amount equal to the Predelivery Payments pursuant to any other provision of this AGTA and/or the relevant Purchase Agreement.

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5.3.4 If any Predelivery Payment is not received within ten (10) calendar days of the relevant due date specified in Clause 5.3.2 then in addition to any other rights and remedies available to Seller, the Seller shall have no obligation to deliver any or all of the Aircraft remaining to be delivered under the relevant Purchase Agreement within their respective Scheduled Delivery Month(s). Upon receipt of the full amount of all delayed Predelivery Payments, together with Default Interest 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.

5.3.5 Specification Change Notice Predelivery Payments

The Seller shall be entitled to request Predelivery Payments for each SCN executed after signature of the relevant Purchase Agreement in amounts and at dates set forth in such Purchase Agreement.

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**

If not expressly stipulated otherwise any other charges due under this AGTA and/or the relevant Purchase 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 ten (10) Business Days after the invoice date.

5.6 **Method of Payment**

5.6.1 All payments provided for in this AGTA and/or the relevant Purchase Agreement shall be made in United States Dollars (USD) in immediately available funds.

5.6.2 All payments due to the Seller under this AGTA and/or the relevant Purchase Agreement 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 hereunder shall be equal to the full amounts expressed to be due to the Seller under this AGTA and/or the relevant Purchase Agreement, 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.

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5.7 **Default Interest**

If any payment due to the Seller under this AGTA and/or the relevant Purchase Agreement including but not limited to any Predelivery Payment, Commitment Fee, for the Aircraft as well as any payment for any spare parts, data, documents, training and services due to the Seller, is not received on the due date, without prejudice to the Seller's other rights under this AGTA, the relevant Purchase Agreement and at law, the Seller shall be entitled to interest for late payment calculated on the amount due from and including the due date of payment up to and including the date when the payment is received by the Seller at a rate equal to the *** (the "Default Interest").

All such interest shall be compounded monthly and calculated on the basis of the actual number of days elapsed in the month assuming a ***.

5.8 **Taxes**

5.8.1 The amounts stated in this AGTA and/or the relevant Purchase Agreement to be payable by the Buyer are exclusive of value added tax ("VAT") chargeable under the laws of the Delivery Location.

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 AGTA and/or the relevant Purchase Agreement of any of the Aircraft, services, instructions and data delivered or furnished under this AGTA and/or the relevant Purchase Agreement 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 under this AGTA and/or the relevant Purchase Agreement.

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For the purposes of this Clause 5.8.3, "Buyer's country" means the country or the countries where (i) the headquarters of the Buyer are located, or (ii) the paying entity of the Buyer is located, being understood that such entity can be a branch depending on the Buyer, or (iii) the Aircraft is imported by the Buyer, or (iv) the Aircraft is registered by the Buyer.

5.9 **Proprietary Interest**

The Buyer shall not, by virtue of anything contained in this AGTA and/or the relevant Purchase Agreement (including, without limitation, any Predelivery Payments under this AGTA and/or the relevant Purchase Agreement or any designation or identification by the Seller of a particular aircraft as an Aircraft to which any of the provisions of this AGTA and/or the relevant Purchase 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 AGTA and/or the relevant Purchase 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 payment 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 AGTA and/or the relevant Purchase Agreement, in the event that the Buyer or any of its Affiliates should fail to make any material payment owing under this AGTA and/or under any Purchase Agreement and/or under any other agreement between the Buyer and the Seller and/or any of their respective Affiliates (the "**Other Agreement**"), the Seller may, unless otherwise mutually agreed upon by the Seller and the Buyer:

- (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 AGTA, any Purchase Agreement and/or any Other Agreement, including Predelivery Payments, unless or until the default under this AGTA, the relevant Purchase Agreement or the Other Agreement is cured or remedied; and
- (ii) apply any amount of any Predelivery Payment it then holds under this AGTA and/or any Purchase 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 AGTA, the relevant Purchase 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.

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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 AGTA, any Purchase Agreement or any Other Agreement, including the right of set-off.

5.11.2 In the event that the Seller applies any amount of any Predelivery Payment it then holds under this AGTA and/or any Purchase 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 AGTA, the relevant Purchase Agreement or any Other Agreement, then the Seller shall notify the Buyer to that effect. Within seven (7) calendar 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 eighth (8th) calendar day 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 and/or the terms of the Purchase Agreement .

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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 and documents 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 AGTA and/or the relevant Purchase 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 the relevant Purchase Agreement until the Delivery Date, the Seller shall furnish without additional charge suitable space and office equipment (including telephone, fax line and shared copy machine) 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 eight).

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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 and its acceptance by the Buyer's Aviation Authorities ("CAAC").

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 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 SCNs 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 execution of the relevant Purchase Agreement;
- (ii) shared equally between the Seller and the Buyer if the Change in Law became effective after the date of execution of the relevant Purchase 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 and in particular to engine accessories, quick engine change units or thrust reversers, the costs shall be borne in accordance with such arrangements as may be made separately between the Buyer and the Propulsion Systems Manufacturer.

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.

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8 BUYER'S TECHNICAL ACCEPTANCE

8.1 Technical Acceptance Process

8.1.1

Prior to Delivery, each 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 The Technical Acceptance Process shall:

- (i) commence on a date notified by the Seller to the Buyer by no less than ***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 ***.

8.2 Buyer's Attendance

8.2.1 The Buyer shall be entitled to elect to attend the Technical Acceptance Process.

8.2.2 If the Buyer elects to attend the Technical Acceptance Process, the Buyer;

- (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 for the A320 family model aircraft and within *** after its commencement for the A330 and A340 family model aircraft;
- (ii) may have a *** 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 and/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.

8.3 Certificate of Acceptance

Upon successful completion of the Technical Acceptance Process, the Buyer shall, on or before the Delivery Date, 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**").

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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 more than *** for any other purpose without the specific agreement of the Buyer.

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9 DELIVERY

9.1 Delivery Schedule

9.1.1 Subject to Clauses 2, 7, 8, 10 and 18, the Seller shall have the Aircraft Ready for Delivery at the Delivery Location according to the delivery schedule defined in the relevant Purchase Agreement.

The "**Scheduled Delivery Month**" for each Aircraft shall be defined in the relevant Purchase Agreement.

9.1.2 The Seller shall give the Buyer at least *** 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 dates necessitated by the conditions of manufacture or flight.

9.2 Delivery

9.2.1 The Buyer shall send its representatives to the Delivery Location to take Delivery of, and collect, the Aircraft within *** after the date on which the Aircraft is Ready for Delivery and shall pay the Balance of the Final Price on or before the Delivery Date.

9.2.2 The Seller shall deliver and transfer good and marketable title to the Aircraft free and clear of all liens and 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 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 Should the Buyer fail to

- (i) deliver the signed Certificate of Acceptance to the Seller within the delivery period as defined in Clause 9.2.1; or
- (ii) pay the Balance of the Final Price for the Aircraft to the Seller within the above defined period

then the Buyer shall be deemed to have rejected delivery of the Aircraft without warrant when duly tendered to it hereunder. In addition to Clause 5.7 and the Seller's other rights under this AGTA and/or the relevant Purchase Agreement, the Seller shall retain title to the Aircraft but the Buyer shall thereafter 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 to store, park, insure, or otherwise protect the Aircraft.

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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.

10 EXCUSABLE DELAY

10.1 The Buyer acknowledges that the Aircraft are to be manufactured by Seller in performance of this AGTA and the relevant Purchase Agreement and that the Scheduled Delivery Months specifically set forth in the relevant Purchase Agreement 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 under this AGTA and/or under the relevant Purchase Agreement 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 under this AGTA and/or the relevant Purchase Agreement 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 AGTA and/or the relevant Purchase 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 *** after the last day of the Scheduled Delivery Month then either Party may terminate the relevant Purchase Agreement and the AGTA with respect to the Aircraft so affected by giving written notice to the other Party within *** after the expiry of such *** provided that the Buyer shall not be entitled to terminate the relevant Purchase Agreement and the AGTA 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 *** 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 the relevant Purchase Agreement and the AGTA with respect to such Aircraft by giving written notice to the other Party within *** after receipt by the Buyer of the notice of anticipated delay.

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10.3.3 If the relevant Purchase Agreement and the AGTA shall not have been terminated with respect to the delayed Aircraft during the *** 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 a new 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 *** after the last day of the original Scheduled Delivery Month then the relevant Purchase Agreement and the AGTA 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 the relevant Purchase 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 the relevant Purchase Agreement and the AGTA 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 with respect to such affected Aircraft and undelivered material, services, data or other items applicable thereto 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 thirty (30) days after the last day of the Scheduled Delivery Month (as varied by virtue of Clauses 2, 7 and 10) (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 ***

The amount of such *** 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 and the relevant Purchase Agreement 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 Delivery Date pursuant to Clause 11.2, either Party shall have the right exercisable by written notice to the other Party, given not less than *** nor more than *** after expiration of such *** to terminate the relevant Purchase Agreement and the AGTA in respect of the affected Aircraft and neither Party shall have any claim against the other in respect of such nondelivery except that the Seller shall pay to the Buyer an amount equal to the Predelivery Payments received from the Buyer under the relevant Purchase Agreement in respect of such affected Aircraft and shall pay to the Buyer any amounts due pursuant to Clause 11.1. and the relevant Purchase Agreement.

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 and the relevant Purchase Agreement shall be considered to be liquidated damages and has 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 and the relevant Purchase Agreement.

*** 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 AGTA and/or the relevant Purchase 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 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 manufacturer, 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).

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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 a certain period after the Delivery of the affected Aircraft (the “**Warranty Period**”). Such Warranty Period is as specified in the relevant Purchase Agreement.

For the avoidance of doubt, any Airworthiness Directive published during the Warranty Period as a result of a defect in the Aircraft as defined in clause 12.1.1 shall be covered under the standard Warranty.

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 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 AGTA or of the relevant Purchase 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 spent 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.

The above commitment is subject to the following conditions:

- (i) such inspections are recommended by a Seller Service Bulletin to be performed within the Warranty Period;

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- (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,
- (iii) the labor rate for the reimbursement shall be 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 60 days of discovering the defect;
- (iii) the Buyer having submitted to the Seller proof 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**

Warranty Claim determination by the Seller shall be reasonably based upon the claim details, reports from the Seller Representatives, historical data logs, inspection, 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.

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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

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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 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 only:

- provided the Buyer notifies the Seller Representatives 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 US ***. 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;
- provided adequate facilities and qualified personnel are available to the Buyer;
- provided repairs are performed in accordance with the Seller's Technical Data or written instructions; and

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- 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.

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 same period set forth in Clause 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 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.

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The Inhouse Warranty Labor Rate is subject to annual adjustment *** defined in the Seller's Price Revision Formula set forth in Exhibit C to this AGTA.

- (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.

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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 repair or *** after submission of a claim for Inhouse Warranty credit relating thereto, whichever is longer. Such parts shall be returned to the Seller within *** 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 twelve (12) months, 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.

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.

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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.

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12.2 Seller Service Life Policy

12.2.1 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.

For the purposes of this Clause 12.2:

- (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 Periods and Seller's Undertakings

The Seller agrees that if a Failure occurs in an Item before the Aircraft in which such Item was originally installed has completed a certain amount of flight hours or flight cycles or within a period as specified in the relevant Purchase Agreement, 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:

12.2.2.1 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

12.2.2.2 replace such Item.

12.2.3 Seller's Participation in the Costs

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 therefor, less the Seller's financial participation determined in accordance with the following formula:

12.2.4 General Conditions and Limitations

12.2.4.1 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.

12.2.4.2 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:

- (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;

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- (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 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 *** 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.

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12.3 Supplier Warranties and Service Life Policies

Prior to the Delivery of the first Aircraft to be delivered under the relevant Purchase Agreement, the Seller shall provide the Buyer with such warranties and service life policies that the Seller has obtained 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. However, the 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 Agreement”** means an agreement between the Seller and a Supplier 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.

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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.

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.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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 AGTA and the relevant Purchase 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 AGTA AND THE RELEVANT PURCHASE 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 AGTA AND THE RELEVANT PURCHASE 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 AGTA AND THE RELEVANT PURCHASE 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, ITS AFFILIATES AND ANY OF ITS SUPPLIERS AND SUBCONTRACTORS AND ITS 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, including a Purchase Agreement, or by other Clauses of this AGTA.

12.7 Reserved

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

Notwithstanding the provisions of Clause 12.1.8 hereof and without prejudice to Clause 21.1, the Buyer's rights under this Clause 12 shall not be assigned, sold, leased, transferred, novated or otherwise alienated by operation of law or otherwise, without the Seller's prior written consent thereto, which shall not be unreasonably withheld.

Any unauthorized assignment, sale, lease, transfer, novation or other alienation of the Buyer's rights under this Clause 12 shall as to the particular Aircraft involved, immediately void this Clause 12 in its entirety.

*** 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 the relevant Purchase 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 under this AGTA and/or the relevant Purchase Agreement 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, form, type, format, quantity and delivery schedule of the Technical Data to be provided under this AGTA are outlined in Exhibit G.

14.2 Aircraft Identification for Technical Data

14.2.1 For those Technical Data that are customized to the Buyer’s 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 the relevant Purchase Agreement within *** after execution of such relevant Purchase Agreement. 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 AGTA and the relevant Purchase 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.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

14.3.2 **Buyer Furnished Equipment**

14.3.2.1 The Seller shall introduce data related to Buyer Furnished Equipment, for 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 for the initial issue of the Technical Data provided at first Aircraft Delivery under the relevant Purchase Agreement, provided such BFE Data is provided in accordance with the conditions set forth in Clauses 14.3.2.2 through 14.3.2.6.

14.3.2.2 The Buyer shall supply the BFE Data to the Seller at least six (6) months prior to the Scheduled Delivery Month of the first Aircraft to be delivered under the relevant Purchase Agreement.

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 Buyer and the Seller shall agree on the requirements for the provision to the Seller of BFE Data for “on-aircraft maintenance”, such as but not limited to timeframe, media and format in which the BFE Data shall be supplied to the Seller, in order to manage the BFE Data integration process in an efficient, expeditious and economic manner.

14.3.2.5 The BFE Data shall be delivered in digital format (SGML) and/or in Portable Document Format (PDF), as agreed between the Buyer and the Seller.

14.3.2.6 ***

14.4 Supply

14.4.1 Technical Data shall be supplied on-line and/or off-line, as set forth in Exhibit G.

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 DDU conditions. The term Delivery Duty Unpaid (DDU) is defined by publication n° 560 of the International Chamber of Commerce, published in January 2000.

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 AGTA and the relevant Purchase Agreement, revision service for the Technical Data shall be provided on a *** for a period specified in the relevant Purchase Agreement (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. The split effectivity for the corresponding Service Bulletin shall remain in the Technical Data until notification from the Buyer that embodiment has been completed on all of the Buyer’s Aircraft. The foregoing is applicable for Technical Data relating to maintenance only. For operational Technical Data either the pre or post Service Bulletin status shall be shown.

14.7 Technical Data Familiarization

The Seller shall provide Technical Data familiarization training at the Seller’s or the Buyer’s facilities as set forth in the relevant Purchase Agreement. The basic familiarization course is tailored for maintenance and engineering personnel.

14.8 ***

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 Further details on the Technical Data included in such products are set forth in Exhibit “G”.

14.9.4 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 AGTA, “**End-User License Agreement for Airbus Software**”.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

14.9.5 The revision service and the license to use AirN@v Family products shall be granted free of charge for the duration 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 defined in Exhibit "G" as being provided on-line shall be made available to the Buyer through the Airbus customer portal AirbusWorld ("AirbusWorld"), as further described in Part 2 of Exhibit I to the AGTA.

14.10.2 Such provision shall be at no cost for the duration of the corresponding Revision Service Period.

14.10.3 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 4 of Exhibit I to this AGTA.

14.10.4 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.

14.10.5 Access to AirbusWorld shall be *** of the Buyer's users (including ***) for the Technical Data related to the Aircraft which shall be operated by the Buyer.

14.10.6 For the sake of clarification, it is hereby specified that Technical Data accessed through AirbusWorld - which access shall be covered by the terms and conditions set forth in the GTC - 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 AGTA.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

14.11 Waiver, Release and Renunciation

14.11.1 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 AGTA AND THE RELEVANT PURCHASE 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 AGTA AND THE RELEVANT PURCHASE 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 AGTA AND THE RELEVANT PURCHASE 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.

14.12 Proprietary Rights

14.12.1 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.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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.

14.12.2 Whenever this AGTA and the relevant Purchase 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.

14.13 Performance Engineer's Program

14.13.1 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 the relevant Purchase 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 AGTA "End-User License Agreement for Airbus Software".

14.13.2 Use of the PEP shall be limited to *** 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.

14.13.3 The license to use the PEP and the revision service shall be provided on a free of charge basis for the duration of a period specified in the relevant Purchase Agreement (the "PEP Revision Service Period").

14.13.4 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.

14.14 Future Developments

The Seller continuously monitors technological developments and applies them to Technical Data, document and information systems' functionalities, production and methods of transmission.

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.

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.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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 AGTA and the relevant Purchase 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 *** 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 *** the services of Seller customer support representative(s), as defined in the relevant Purchase Agreement (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 the relevant Purchase Agreement. 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 the relevant Purchase Agreement, the Buyer shall have non-exclusive access to:

- a) AIRTAC (Airbus Technical AOG Center);
- b) 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 the relevant Purchase Agreement, 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 *** 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). *** upon receipt by the Seller of all relevant justifications, ***.

*** 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 *** 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 the relevant Purchase Agreement.
- 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.

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 AGTA and the relevant Purchase 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 under the relevant Purchase Agreement.

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 ***

16.3.2 The following terms and conditions shall apply to training performed by the Seller:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- (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 ***. 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 ***

It is understood that the above shall apply to the extent that training allowances granted under Appendix A ***.

All requests *** shall be submitted by the Buyer with a ***. 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.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

16.3.5.3 If the notification occurs *** 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.

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 sixty (60) calendar days 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

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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 *** current at the time of the corresponding training or support.

Such *** 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 **Air Travel**

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.

16.5.2.4 **Buyer's Indemnity**

Except in case of gross negligence or willful misconduct 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.

16.5.3 **Training Material and Equipment Availability - Training at External Location**

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.

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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.

16.6 Flight Operations Training

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.

16.6.1 Flight Crew Training Course

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).

16.6.2 Base Flight Training

16.6.2.1 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**").

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 under the relevant Purchase Agreement, 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.

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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 to be delivered under the relevant Purchase Agreement.

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.

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**").

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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 3.3.4 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 AGTA, the relevant Purchase 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.

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APPENDIX "A" TO CLAUSE 16

TRAINING ALLOWANCE

For the avoidance of doubt, all quantities indicated below are the total quantities granted for the whole of the Buyer's fleet of Aircraft firmly ordered through the relevant Purchase Agreement, unless otherwise specified.

The contractual training courses defined in this Appendix A shall be provided for a period of time as set forth in the relevant Purchase Agreement.

Any deviation to said training delivery schedule shall be mutually agreed between the Buyer and the Seller.

1. FLIGHT OPERATIONS TRAINING

1.1 Flight Crew Training (standard transition course or Cross crew qualification (CCQ) as applicable)

Flight Crew Training allowances are specified in the relevant Purchase Agreement.

1.2 Extended Range For Twin Engine Aircraft Operations (ETOPS) Training

ETOPS training allowances are specified in the relevant Purchase Agreement.

1.3 Low Visibility Operations Training

Low Visibility Operations Training allowances are specified in the relevant Purchase Agreement.

1.4 Flight Crew Line Initial Operating Experience

Flight Crew Line Operating Experience allowances are specified in the relevant Purchase Agreement.

Unless otherwise agreed during the Training Conference, in order to follow the Aircraft Delivery schedule, the maximum number of pilot Instructors present at any one time shall be limited to *** pilot Instructors.

1.5 Type Specific Cabin Crew Training Course

Type Specific Crew Training Course allowances are specified in the relevant Purchase Agreement.

1.6 Airbus Pilot Instructor Course (APIC)

Airbus Pilot Instructor Course allowances are specified in the relevant Purchase Agreement. APIC courses shall be performed in groups of ***.

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2. PERFORMANCE / OPERATIONS COURSE(S)

2.1 Performance / Operation Course(s) allowances are specified in the relevant Purchase Agreement.

2.2 The above trainee days shall be used solely for the performance/operations training courses as defined in the Seller's applicable Training Course Catalog.

3. MAINTENANCE TRAINING

3.1 Maintenance Training Courses allowances are specified in the relevant Purchase Agreement.

3.2 Engine Run-up courses allowances are specified in the relevant Purchase Agreement.

4. TRAINEE DAYS ACCOUNTING

Trainee days are counted as follows:

4.1 For instruction at the Seller's Training Centers: *** of instruction for *** trainee equals ***. The number of trainees originally registered at the beginning of the course shall be counted as the number of trainees to have taken the course.

4.2 For instruction outside of the Seller's Training Centers: *** of instruction by *** Seller Instructor equals the actual number of trainees attending the course or a ***,.

4.3 For structure maintenance training courses outside the Seller's Training Center(s), *** of instruction by *** Seller Instructor equals the actual number of trainees attending the course or ***.

4.4 For practical training, whether on training devices or on aircraft, *** of instruction by *** Seller Instructor equals the actual number of trainees attending the course or a ***.

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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 Seller Furnished Equipment listed in the Specification, the benefit of which is accepted by the Buyer when entering into a Purchase Agreement. 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" and include Supplier commitments as contained in the "**Supplier Product Support Agreements**" 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 software data, 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 logistic service including routine and expedited 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.

17.1.3 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 4 of Exhibit I to this AGTA.

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.

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18 **BUYER FURNISHED EQUIPMENT**

18.1 **Administration**

18.1.1.1 Without additional charge and in accordance with the Specification, the Seller shall provide for the installation of 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 supplier being considered is 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 (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. 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, 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.

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The Buyer shall also provide, when requested by the Seller, at AIRBUS FRANCE S.A.S. works in TOULOUSE (FRANCE) and/or at AIRBUS DEUTSCHLAND GmbH, Division Hamburger Flugzeugbau Works in HAMBURG (FEDERAL REPUBLIC OF 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:
 - Preliminary Design Review ("**PDR**"),
 - 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.

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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 FEDERAL REPUBLIC OF 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" or "Inward Processing") without application of any French or German or Chinese tax or customs duty, and shall be delivered DDU to the following shipping addresses:

AIRBUS FRANCE S.A.S.
316 Route de Bayonne
31300 TOULOUSE
FRANCE

or

AIRBUS DEUTSCHLAND GmbH
Kreetslag 10
21129 HAMBURG
FEDERAL REPUBLIC OF 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, 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
- 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

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- be approved by the Aviation Authority delivering 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 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.

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 ***, 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.

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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 the period starting upon delivery of the BFE to the Seller's facilities until the Aircraft is delivered to the Buyer and 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 AGTA 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.

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 five (5) Business Days 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's facility within thirty (30) days 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.

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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 AGTA 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 AGTA.

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 AGTA and/or Ground Training Services.

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:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- (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.

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 insured 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

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- (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 seven (7) Business Days 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) calendar days (but seven (7) calendar 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 AGTA and/or the relevant Purchase 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 ***; or
- (f) is divested of a substantial part of its assets for a period of at ***,

then the other Party may, to the full extent permitted by law, by written notice, terminate all or part of any Purchase Agreement.

20.2 **Termination for Non-Payment of Predelivery Payments**

If for any Aircraft the Buyer fails to make any Predelivery Payment at the time, in the manner and in the amount specified in Clause 5.3 as supplemented by the relevant Purchase Agreement, the Seller may, by written notice, terminate all or part of such Purchase 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 ***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 the relevant Purchase 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 9.2.3) and the date of such termination 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 this AGTA, any Purchase Agreement and/or 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 ***after the Seller has given notice thereof to the Buyer, then the Seller may, by written notice, terminate all or part of any Purchase Agreement.

20.5 **General**

20.5.1 To the full extent permitted by law, the termination of all or part of a Purchase 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 a Purchase Agreement shall be without prejudice to any other rights and remedies available to such Party to seek termination of all or part of such Purchase Agreement before any court or arbitral panel having jurisdiction pursuant to any failure by the other Party to perform its obligations under such Purchase Agreement.

20.5.3 If the Party taking the initiative of terminating a Purchase Agreement decides to terminate part of it only, the notice sent to the other Party shall specify those provisions of such Purchase Agreement which shall be terminated.

20.5.4 In the event of termination of a Purchase 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 AGTA, such Purchase Agreement or by law, shall retain an amount equal to all Predelivery Payments, deposits, option fees and any other monies paid by the Buyer to the Seller under such Purchase Agreement and/or this AGTA and corresponding to the Aircraft, services, data and other items covered by such termination.

20.5.5 The termination of all or part of a Purchase Agreement pursuant to Clauses 20.1, 20.2, 20.3 and 20.4 shall be deemed to include the termination of this AGTA insofar as it relates 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**

The Buyer may not sell, assign, novate or transfer its rights and obligations under this AGTA and/or any Purchase Agreement to any person without the prior written consent of the Seller.

21.2 **Assignments by Seller**

The Seller may at any time sell, assign, novate or transfer its rights and obligations under this AGTA and any Purchase 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 the Buyer's rights and obligations under this AGTA and/or any such Purchase 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 AGTA and/or any Purchase 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 AGTA and/or any such Purchase Agreement by operation of law, which is valid under the law pursuant to which that succession occurs, shall be binding upon the Buyer.

21.2.2 **Designations by the Seller**

The Seller may at any time by notice to the Buyer designate facilities or personnel of any Affiliate of the Seller at which or by whom the services to be performed under this AGTA and/or any Purchase Agreement shall be performed. Notwithstanding such designation, the Seller shall remain ultimately responsible for fulfillment of all obligations undertaken by the Seller in this AGTA and/or any such Purchase Agreement.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

22 **MISCELLANEOUS PROVISIONS**

22.1 **Data Retrieval**

The Buyer shall provide the Seller, as the Seller may reasonably request, 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 efficient and coordinated survey of all reliability, maintainability, operational and cost data with a view to improving the safety, availability and operational costs of the Aircraft.

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.

Seller's address for notices is:

AIRBUS, S.A.S.
Attention to V. P. Contracts
1 Rond-Point Maurice Bellonte
31707 Blagnac Cedex
France

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 AGTA and/or of any Purchase Agreement, or to exercise any right therein provided, or to require at any time performance by the other Party of any of the provisions thereof, 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 AGTA and/or of any such Purchase 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 AGTA and/or of any Purchase 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 AGTA and any Purchase Agreement incorporating the terms of this AGTA shall be governed by and construed in accordance with the laws of England.

22.4.2 Any dispute, controversy or claim arising out of or in connection with this AGTA and/or any Purchase Agreement, including any question regarding their existence, validity or termination ("**Dispute**") shall be referred to and finally resolved in accordance with the following procedure.

The parties shall first attempt in good faith to resolve the Dispute by negotiation, in which case, one party shall give notice to the other of the Dispute ("**Notice of Dispute**"). Such Notice of Dispute shall include a summary of the subject of the Dispute and the arguments upon which that party relies.

Any Dispute not resolved by negotiation within thirty (30) calendar days following receipt of the Notice of Dispute by the other party shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce ("**ICC**") (the "**Rules**"), which Rules are deemed to be incorporated by reference into this AGTA and any Purchase Agreement.

Arbitration shall be in the English language and be administered by the International Court of Arbitration of the ICC pursuant to the Rules. The number of arbitrators shall be three. The place of arbitration shall be London, United Kingdom. The decision of the arbitral tribunal shall be final and binding on the Parties.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

22.5 **Contracts (Rights of Third Parties) Act 1999**

The Parties do not intend that any term of this AGTA and/or of any Purchase 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 AGTA and such Purchase Agreement.

The Parties may rescind, vary, waive, release, assign, novate or otherwise dispose of all or any of their respective rights or obligations under this AGTA and/or of any Purchase Agreement without the consent of any person who is not a party to this AGTA and such Purchase Agreement.

22.6 **International Supply Contract**

The Buyer and the Seller recognise that this AGTA is an international 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 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.

The Buyer and the Seller hereby also agree that the United Nations Convention on Contracts for the International Sale of Goods will not apply to this AGTA and any relevant Purchase Agreement.

22.7 **Severability**

In the event that any provision of this AGTA and/or of a Purchase Agreement should for any reason be held ineffective, the remainder of this AGTA and of such Purchase 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 AGTA and/or of a Purchase Agreement prohibited or unenforceable in any respect.

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22.8 **Alterations to Contract**

This AGTA and/or any Purchase 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 AGTA and/or any Purchase Agreement shall be in English.

22.10 **Counterparts**

This AGTA has been executed in three (3) original copies which are in English.

Notwithstanding the above, this AGTA 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 AGTA.

22.11 **Inconsistencies**

22.11.1 In the event of any inconsistency between the terms of this AGTA and/or the relevant Purchase Agreement on one part and the terms contained on the other part, in either (i) the Specification, or (ii) any other Exhibit, in each such case the terms of this AGTA and/or the relevant Purchase Agreement shall prevail over the terms of the Specification or any other Exhibit. For the purpose of this Clause 22.11.1, the term AGTA shall not include the Specification or any other Exhibit hereto.

22.11.2 If there is any inconsistency between the AGTA and any Purchase Agreement, the latter shall prevail to the extent of such inconsistency.

22.12 **Confidentiality**

This AGTA and any Purchase Agreement, including any Exhibits or other documents related thereto or other data exchanged between the Buyer and the Seller for the fulfilment of their respective obligations under this AGTA and/or any Purchase 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.

In particular, both Parties agree:

- not to make any press release concerning the whole or any part of the contents and/or subject matter of this AGTA and/or of any Purchase Agreement without the prior written consent of the other Party hereto.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

- that any and all terms and conditions of the transaction contemplated in this AGTA and/or any Purchase 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 prejudice to the foregoing, any disclosure of Personal Information to a Receiving Party shall be subject to written agreement between the Buyer and the Seller, including in particular, but not limited to:

- (i) the contact details of the Receiving Party,
- (ii) the extent of the Personal Information subject to disclosure,
- (iii) the Aircraft pricing to be provided to the Receiving Party.

Furthermore, the Buyer shall use its best efforts to limit the disclosure of the contents of this AGTA and/or any Purchase Agreement to the extent legally permissible in any filing required to be made by the Buyer with any governmental or regulatory agency. The Buyer agrees that prior to any such disclosure or filing, the Seller and the Buyer shall jointly review and agree on the terms and conditions of the document to be filed or disclosed.

The provisions of this Clause 22.12 shall survive any termination of this AGTA and/or any Purchase Agreement for a period of five (5) years after the date of Delivery of the last Aircraft to be delivered under any Purchase Agreement.

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IN WITNESS WHEREOF this AGTA was entered into the day and year first above written.

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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.

AGTA CSN 2008
CT0803291

Clause 22 - Page 6/6
Private & Confidential

EXHIBIT A

EXHIBIT A

SPECIFICATION

The Aircraft Standard Specification is defined in the relevant Purchase Agreement.

This Exhibit A is intentionally deleted.

AGTA CSN 2009
CT0803291

Exhibit A

Page 1/1
Private & Confidential

EXHIBIT B

EXHIBIT B

**FORM OF
SPECIFICATION CHANGE NOTICE**

AGTA CSN 2009
CT0803291

Exhibit B

Page 1/1
Private & Confidential

EXHIBIT C

EXHIBIT C

AIRFRAME PRICE REVISION FORMULA

The Airframe Price Revision Formula is defined in the relevant Purchase Agreement.

This Exhibit C is intentionally deleted.

CERTIFICATE OF ACCEPTANCE

In accordance with the terms of [clause [•]] of the AGTA 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 “**AGTA**”), the technical acceptance tests relating to one Airbus A3 [•]-[•] aircraft, bearing manufacturer’s serial number [•], and registration mark [•](the “**Aircraft**”) have taken place in [Blagnac/Hamburg/Tianjin].

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 AGTA and the relevant Purchase Agreement and accepts the Aircraft for delivery in accordance with the provisions of the AGTA and the relevant 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 [Blagnac/Hamburg].

CUSTOMER [as agent of **OWNER**]

Name:
Title:
Signature:

AGTA CSN 2009
CT0803291

Exhibit D

Page 1/1
Private & Confidential

EXHIBIT E

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 [engines/propulsion systems] as specified (the “[**Engines/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: [•]

REGISTRATION MARK: [•]

[ENGINES/PROPULSION SYSTEMS]:

[Insert name of engine or propulsion system manufacturer] Model [•]

ENGINE SERIAL NUMBERS:

LH: [•]

RH: [•]

[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, [Engines/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:

CHINA SOUTHERN AIRLINES COMPANY LIMITED
Bai Yun Airport, Guangzhou 510405, People's Republic of China,
(the “**Buyer**”)

The Seller hereby warrants to the Buyer, its successors and assigns that it had [(i)] 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 [Blagnac/Hamburg/Tianjing].

AIRBUS S.A.S.

Name:

Title:

Signature:

AGTA CSN 2009
CT0803291

Exhibit E

Page 1/1
Private & Confidential

EXHIBIT F

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.

AGTA CSN 2009
CT0803291

Exhibit F

Page 1/3
Private & Confidential

EXHIBIT F

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 ***

2.2 ***

2.3 ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT F

2.4 ***

3 ***

4 ***

5 ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

AGTA CSN 2009
CT0803291

Exhibit F

Page 3/3
Private & Confidential

EXHIBIT G

EXHIBIT G

TECHNICAL DATA INDEX

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AGTA CSN 2009
CT0803291

Exhibit G

Page 1/15
Private & Confidential

TECHNICAL DATA INDEX

Where applicable data will be established in general compliance with ATA 100 Information Standards for Aviation Maintenance, and the applicable provisions for digital standard of ATA Specification 2200 (iSpec2200).

The following index identifies the Technical Data provided in support of the Aircraft.

The explanation of the table is as follows:

<u>NOMENCLATURE</u>	Self-explanatory.
<u>ABBREVIATED DESIGNATION (Abbr)</u>	Self-explanatory.
<u>AVAILABILITY (Avail)</u>	

Technical Data can be made available :

- ON-LINE (ON) through the relevant service on AirbusWorld, and / or
- OFF-LINE (OFF) through the most suitable means applicable to the size of the concerned document (e.g CD or DVD).

FORMAT (Form)

Following Technical Data formats may be used:

- SGML - Standard Generalized Mark-up Language, which allows further data processing by the Buyer.
- XML – Extensible Mark-up Language, evolution of the SGML text format to cope with WEB technology requirements.

XML is used for data processing. Processed data shall be consulted through the e-doc Viewer FOCT – Flight Operations Consultation Tool.

XML data may be customized using Airbus customization tools (Flight Operations Documentation Manager , ADOC) or the Buyer's own XML based editing tools.

- CGM – Computer Graphics Metafile, format of the interactive graphics associated with the XML and /or SGML text file delivery.
- PDF (PDF) - Portable Document Format allowing data consultation.

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EXHIBIT G

- Advanced Consultation Tool - refers to Technical Data consultation application that offers advanced consultation & navigation functionality compared to PDF. Both browser software & Technical Data are packaged together.
- P1 / P2 - refers to manuals printed on one side or both sides of the sheet.
- CD-P - refers to CD-Rom including Portable Document Format (PDF) Data.
- CD-XML – Refers to CD-Rom including XML data

TYPE C CUSTOMIZED. Refers to manuals that are applicable to an individual Airbus customer/operator fleet or aircraft.
 G GENERIC. Refers to manuals that are applicable for all Airbus aircraft types/models/series.
 E ENVELOPE. Refers to manuals that are applicable to a whole group of Airbus customers for a specific aircraft type/model/series.

QUANTITY (Qty) Self-explanatory for physical media.

DELIVERY (Deliv) Delivery refers to scheduled delivery dates and is expressed in either the number of corresponding days prior to first Aircraft delivery, or nil (0) referring to the Delivery Date of corresponding Aircraft.

The number of days indicated shall be rounded up to the next regular revision release date.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
OPERATIONAL MANUALS AND DATA							
Flight Crew Operating Manual	FCOM	ON	XML	C	***	***	
		OFF	CD-XML	C	***	***	
Flight Crew Training Manual	FCTM	ON	XML	C	***	***	FCTM is a supplement to FCOM, a "Pilot's guide" for use in training and in operations
		OFF	CD-XML	C	***	***	
Cabin Crew Operating Manual	CCOM	ON	XML	C	***	***	LR Aircraft: Basic for A340-500/-600 aircraft A330-200/A340-300 : only for aircraft equipped with enhanced cabin (Mod 48819) SA Aircraft: Basic for A318 and for all A319/A320/A321 equipped with new CIDS /FAP CCOM not available for aircraft with old CIDS re-installed (A319 Mod 34898, A320 Mod 34856, A321 Mod 34997)
		OFF	CD-XML	C	***	***	
Flight Manual	FM	ON	XML	C	***	***	
		OFF	CD-XML	C	***	***	
		OFF	PDF	C	***	***	*PDF secure format integrated in the FOCT viewer, used for loading on board aircraft EFB, in agreement with Airworthiness Authorities.

SA = Single Aisle: A318/A319/A320/A321 / LR = Long Range: A330/A340

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
OPERATIONAL MANUALS AND DATA							
Master Minimum Equipment List	MMEL	ON	XML	C	***	***	
		OFF	CD-XML	C	***	***	
Quick Reference Handbook	QRH	ON	XML	C	***	***	
		OFF	CD-XML	C	***	***	
Trim Sheet	TS	OFF	Electronic format	C	***	***	Transferred to the Buyer by electronic mail (MS Word or PDF or TIFF). Note: additional document provided by the Seller : IATA Airport Handling Manual / AHM sections 515, 516, 560.
Weight and Balance Manual	WBM	ON	XML	C	***	***	
		OFF	CD-XML	C	***	***	
Performance Engineer's Programs	PEP	ON	Performance Computation Tool	C	***	***	A collection of aircraft performance software tools in a common interface.
		OFF	Performance Computation Tool on CD	C	***	***	
Performance Programs Manual	PPM	OFF	CD-P	C	***	***	Explains how to use the PEP & contains specific data for engineers, which are not contained in the FCOM

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
MAINTENANCE AND ASSOCIATED MANUALS							
AirN@v / Maintenance , including : Aircraft Maintenance Manual - AMM Illustrated Parts Catalog (Airframe)- IPC Illustrated Parts Catalog (Powerplant)- PIPC* Trouble Shooting Manual - TSM Aircraft Schematics Manual - ASM Aircraft Wiring Lists - AWL Aircraft Wiring Manual- AWM Electrical Standard Practices Manual-ESPM	AirN@v / Maintenance	ON	Advanced Consultation Tool	C	***	***	
		OFF	Advanced Consultation Tool on DVD	C	***	***	Recommended basic delivery quantity *PIPC is integrated in the SA aircraft IPC for IAE V2500 A1/A3 Engines and in the LR A340-500/-600 aircraft IPC for RR Trent 500 Engines. For other aircraft and engine types, to be supplied by Propulsion Systems Manufacturer concurrently with the Airframe IPC.
AirN@v / Associated Data Consumable Material List – CML Standards Manual - SM Electrical Standard Practices Manual - ESPM Tool and Equipment Manual – TEM (*)	AirN@v / Associated Data	ON	Advanced Consultation Tool	G	***	***	* including Tool and Equipment Manual / Index & Support Equipment Summary data
		OFF	Advanced Consultation Tool on DVD	G	***	***	
Technical Follow-up	TFU	ON	PDF	E	***	***	TFU for trouble shooting & maintenance, to be used with AirN@v
Aircraft Maintenance Manual	AMM	ON	PDF	C	***	***	* PDF will be discontinued in 2010 after implementation of the AirN@v / Maintenance Technical Data upgrade programme
		OFF	CD-P	C	***	***	
		ON	SGML	C	***	***	Available from the Technical Data Download Service on AirbusWorld (Graphics in CGM, compliant with iSpec 2200)
		OFF	SGML	C	***	***	Effective CD delivery will only take place at the time of explicit request from the Buyer

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
MAINTENANCE AND ASSOCIATED MANUALS (Cont'd)							
Aircraft Schematics Manual	ASM	ON	PDF	C	***	***	* PDF will be discontinued in 2010 after implementation of the AirN@v / Maintenance Technical Data upgrade programme
		OFF	CD-P	C	***	***	
		ON	SGML	C	***	***	Available from the Technical Data Download Service on AirbusWorld (Graphics in CGM, compliant with <i>iSpec</i> 2200)
		OFF	SGML	C	***	***	Effective CD delivery will only take place at the time of explicit request from the Buyer
Aircraft Wiring List	AWL	ON	PDF	C	***	***	* PDF will be discontinued in 2010 after implementation of the AirN@v / Maintenance Technical Data upgrade programme.
		OFF	CD-P	C	***	***	
		ON	SGML	C	***	***	Available from the Technical Data Download Service on AirbusWorld (Graphics in CGM, compliant with <i>iSpec</i> 2200)
		OFF	SGML	C	***	***	Effective CD delivery will only take place at the time of explicit request from the Buyer
Aircraft Wiring Manual	AWM	ON	PDF	C	***	***	* PDF will be discontinued in 2010 after implementation of the AirN@v / Maintenance Technical Data upgrade programme
		OFF	CD-P	C	***	***	
		ON	SGML	C	***	***	Available from the Technical Data Download Service on AirbusWorld (Graphics in CGM, compliant with <i>iSpec</i> 2200)
		OFF	SGML	C	***	***	Effective CD delivery will only take place at the time of explicit request from the Buyer
Consumable Material List	CML	OFF	SGML	G	***	***	Effective delivery will only take place at the time of explicit request from the Buyer
Ecam System Logic Data	ESLD	ON	PDF	E	***	***	Used for in-depth aircraft trouble shooting.
		OFF	CD-P	E	***	***	Ref to SIL 31-033 for details.

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
MAINTENANCE AND ASSOCIATED MANUALS (Cont'd)							
Electrical Load Analysis	ELA	OFF	PDF/MS Word Excel	C	***	***	One ELA supplied for each Aircraft, delivered one month after first Aircraft Delivery PDF File + Office automation format RTF & Excel file delivered on one single CD for ELA updating by the Buyer
Electrical Standard Practices Manual	ESPM	OFF	SGML	G	***	***	*Effective CD delivery will only take place at the time of explicit request from the Buyer
Electrical Standard Practices booklet	ESP	OFF	P2*	G	***	***	* Pocke size format booklet, which provides maintenance personnel with quick and easy access for the identification of electrical equipment and the required tooling.
Flight Data Recording Parameter Library	FDRPL	OFF	Advanced Consultation Tool on CD	E	***	***	
Illustrated Parts Catalog (Airframe)	IPC	ON	PDF	C	***	***	* PDF will be discontinued in 2010 after implementation of the AirN@v / Maintenance Technical Data upgrade programme.
		OFF	CD-P	C	***	***	
		ON	SGML	C	***	***	Available from the Technical Data Download Service on AirbusWorld (Graphics in CGM, compliant with <i>iSpec</i> 2200)
		OFF	SGML	C	***	***	Effective CD delivery will only take place at the time of explicit request from the Buyer
Illustrated Parts Catalog (Powerplant)	PIPC	ON	PDF	C	***	***	Integrated in the SA aircraft IPC for IAE V2500 A1/A3 Engines . Integrated in the LR A340-500/-600 aircraft IPC for RR Trent 500 Engines.
		OFF	CD-P	C	***	***	*For other aircraft and engine types, supplied by Propulsion Systems Manufacturer concurrently with the Airframe IPC.
AirN@v / Planning , including Maintenance Planning Document – MPD	AirN@v/ Planning	ON	Advanced Consultation Tool	E	***	***	In addition to MPD in AirN@v consultable format, AirN@v / Planning includes additional MPD files in the following downloadable formats: - PDF format - MS XLS (Excel) format - TSDF / Text Structured Data File format (specific ASCII for MIS and Database upload) - SGML format for further processing
		OFF	Advanced Consultation Tool on DVD	E	***	***	Life Limited Parts information is included in the Airworthiness Limitation Section (ALS)

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
MAINTENANCE AND ASSOCIATED MANUALS (Cont'd)							
Maintenance Review Board Report – MRBR Airworthiness Limitation Section – ALS	MRBR ALS	ON	PDF	E	***	***	The latest revisions of individual MRB Report and ALS documents are available shortly after approval on AirbusWorld Maintenance & Engineering site, under “ Prepare Maintenance Programme”, "Demonstrate compliance with airworthiness limitations" tab, with aircraft operators being informed through a dedicated OIT.
Tool & Equipment Bulletins	TEB	ON	PDF	E	***	***	
Tool and Equipment Drawings	TED	ON	Advanced Consultation Tool	E	***	***	These drawings include the Seller’s and Suppliers’ equipment drawings, except for the Seller’s and Suppliers’ proprietary items
AirN@v / Engineering , including: Airworthiness Directives - AD European Airworthiness Directives - EUAD (incl. French DGAC AD's) All Operator Telex - AOT Operator Information Telex - OIT Flight Operator Telex - FOT Modification - MOD Modification Proposal - MP Service Bulletin - SB Service Information Letter - SIL Technical Follow-Up - TFU Vendor Service Bulletin - VSB	AirN@v/ Engineering	ON	Advanced Consultation Tool	C	***	***	AirN@v Engineering is an electronic index used for identification of the references and links between the Seller’s and Suppliers’ engineering documents
		OFF	Advanced Consultation Tool on DVD	C	***	***	
Trouble Shooting Manual	TSM	ON	PDF	C	***	***	* PDF will be discontinued in 2010 after implementation of the AirN@v / Maintenance Technical Data upgrade programme
		OFF	CD-P	C	***	***	
		ON	SGML	C	***	***	Available from the Technical Data Download Service on AirbusWorld (Graphics in CGM, compliant with iSpec 2200)
		OFF	SGML	C	***	***	Effective CD delivery will only take place upon the Buyer’s express request.

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
STRUCTURAL MANUALS							
AirN@v / Repair , including: Structural Repair Manual (*) - SRM Non Destructive Testing Manual - NTM	AirN@v / Repair	ON	Advanced Consultation Tool	E	***	***	AirN@v / Repair includes: <ul style="list-style-type: none"> For SA aircraft, one specific SRM for each A318, A319, A320, A321, one SA aircraft common NTM, For LR aircraft, one SRM and NTM for A340-200/-300, one SRM and NTM for A340-500/-600. *Nacelle repair data are integrated in the Airframe SRM for A318 PW6000 and A340-500/-600 RR Trent aircraft. For all other SA and LR aircraft and engine types, the Nacelle SRM shall be supplied by the relevant Propulsion System Supplier.
		OFF	Advanced Consultation Tool on DVD	E	***	***	
Structural Repair Manual	SRM	ON	SGML	E	***	***	*Upon request only.
		OFF	SGML	E	***	***	
Non Destructive Testing Manual	NTM	ON	SGML	E	***	***	*Upon request only.
		OFF	SGML	E	***	***	

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
OVERHAUL DATA							
AirN@v / Workshop, including: Component Maintenance Manual Manufacturer - CMMM Duct Fuel Pipe Repair Manual - DFPRM	AirN@v / Workshop	ON	Advanced Consultation Tool	E	***	***	DFPRM first issue in AirN@v / Workshop planned 2 nd half 2009
		OFF	Advanced Consultation Tool on DVD	E	***	***	
Component Maintenance Manual Manufacturer CMMM	CMMM	ON OFF	SGML SGML	E E	*** ***	*** ***	*Upon request only. Fallback solution to AirN@v / Workshop
Component Maintenance Manual Vendor	CMMV	OFF	CD-P	E	***	***	* Vendor Supply in digital PDF format .
		ON	PDF	E	***	***	Available from the "Supplier Technical Documentation On-Line Service" in AirbusWorld
Component Documentation Status	CDS	OFF	CD	C	***	***	Revised until 180 days after first Aircraft Delivery
Component Evolution List	CEL	ON	PDF	G	***	***	
		OFF	CD-P	G	***	***	Delivered as follow-on to CDS.

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
ENGINEERING DOCUMENTS							
Mechanical Drawings, including the Drawing Picture, Parts List / Parts Usage	MD	ON	Advanced Consultation Tool	C	***	***	Seller Installation, Assembly and Detailed part Drawings for Structure & System installations, fitted on the Buyer's fleet or Aircraft . They cover the Aircraft "as designed", ie in its original configuration at first Aircraft Delivery. Repair drawings are supplied upon specific Buyer request. Buyer's queries shall be issued in connection with an approved document: SB, SRM or RAS (Repair Assessment Sheet) Mechanical Drawings include: 2D Drawing sheets Parts List / Parts Usage (in PDF).
Standards Manual	SM	ON	SGML	G	***	***	Effective delivery will only take place at the time of explicit request from the Buyer.
		OFF	SGML	G	***	***	
Process and Material Specification	PMS	ON	PDF	G	***	***	
		OFF	CD-P	G	***	***	

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
MISCELLANEOUS PUBLICATIONS							
Airplane Characteristics for Airport Planning - AC Maintenance Facility Planning - MFP	AC/MFP	ON	PDF	E	***	***	Available On-Line in AirbusWorld
		OFF	CD-P	E	***	***	Grouped on one single CD Fallback solution to the on-line AC / MFP
ATA 100 Index	ATI	ON	PDF	E	***	***	6 Digits ATA 100 Index
C@DETS /Technical Data Training Courseware and Software	C@DETS	ON	Advanced Consultation Tool on CD	G	***	***	Technical Data self-tutorial training which provides basic familiarization tailored for Maintenance and Engineering personnel.
		OFF	Advanced Consultation Tool	G	***	***	It is AirN@v Services oriented and available on AirbusWorld for downloading by module as required.
Aircraft Recovery Manual	ARM	ON	PDF	E	***	***	
		OFF	CD-P	E	***	***	
Aircraft Rescue & Firefighting Chart	ARFC	ON	PDF	E	***	***	Chart can be downloaded from AirbusWorld either in TIFF or PDF format
		OFF	P1	E	***	***	Full size charts, which are available in poster format (530 x 640 mm)
Cargo Loading System Manual	CLS	ON	PDF	E	***	***	
		OFF	CD-P	E	***	***	One CLS per delivered Aircraft
List of Effective Technical Data	LETD	ON	PDF	C	***	***	The LETD provides, for each Technical Data, information about: - Applicable issue and revision date, - Shipping information with search functions by manual or delivery address criteria, - Tracking of shipments through the Carrier Website.
List of Radioactive and Hazardous Elements	LRE	ON	PDF	G	***	***	
		OFF	CD-P	G	***	***	

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EXHIBIT G

NOMENCLATURE	Abbr	Avail	Form	Type	Qty	Deliv	Comments
MISCELLANEOUS PUBLICATIONS							
Live Animal Transportation Calculation Tool	LATC	ON	Advanced Calculation Tool	E	***	***	Available for A340-500/-600 aircraft . Electronic format, which includes a software tool to calculate the loads of various live animals which can be transported in cargo compartments under known environmental conditions
Live Animal Transportation Calculation Tool	LATC	OFF	Advanced Calculation Tool on CD	E	***	***	Remark : LTM (Live Stock Transportation Manual) replaced by LATC, migration for LR aircraft :Jul 09, for SA aircraft : Oct 09
Service Bulletins	SB	ON	Advanced Consultation Tool	C	***	***	Full SB content and SB search functions are available from AirN@v / Engineering on AirbusWorld
		OFF	CD-P	C	***	***	CD available for simplified SBs only
Supplier Product Support Agreements 2000	SPSA	ON	PDF	G	***	***	Contains all SSC's Supplier Support Conditions and current GCP 2000 Issue 04 Agreements ratified by Airbus Suppliers . It specifies : - Airbus Support Standards - The individual Suppliers' contractual Support commitments
Transportability Manual	TM	OFF	CD-P	G	***	***	
Vendor Information Manual + Aircraft On Ground & Repair Guide	VIM + AOG & RG	ON	Advanced Consultation Tool	G	***	***	Combined Vendor Information Manual and Aircraft On Ground & Repair Guide. It supplies information on Supplier Support locations, Repair Stations, stock locations and distributors around the world for Airbus Customers.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

EXHIBIT "H"

MATERIAL

SUPPLY AND SERVICES

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

AGTA CSN 2009
CT0803291

Exhibit H

Page 1/19
Private & Confidential

1. GENERAL

1.1 Scope of Material Support

1.1.1 This Exhibit "H" defines the terms and conditions for the support services that may be offered by the Seller to the Buyer in the following areas:

- Initial provisioning data and Material,
- Replenishment of Material,
- Lease of certain Seller Parts,
- Loan of Ground Support Equipment and Specific (To Type) Tools,
- Repair of certain Seller Parts.

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 AGTA 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").

1.2 Material Categories

1.2.1 Material covered by this Exhibit "H" is classified into the following categories (hereinafter individually and collectively referred to as "Material"):

- (i) Seller Parts (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 (in accordance with SPEC 2000);
- (iii) Supplier Parts classified as Expendable Line Maintenance Parts (in accordance with SPEC 2000);
- (iv) Ground Support Equipment and Specific (To Type) Tools;
- (v) Hardware and standard material, when provided as a package;
- (vi) Consumables and raw material, when provided as a package.

Material covered under Articles 1.2.1 (v) and 1.2.1 (vi) is available only when supplied as a package as part of the initial provisioning of Material.

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.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

1.3 Term

During a period *******(the "**Term**"), the Seller shall maintain, or cause to be maintained, a stock of Seller Parts as defined in 1.2.1 (i) as the Seller deems reasonable and shall furnish at ******* prices Seller Parts adequate to meet the Buyer's needs for maintenance of the Aircraft.

The Seller shall use its ******* efforts to obtain a similar service from all Suppliers of Supplier Parts as set forth under Articles 1.2.1 (ii) and (iii) that were originally installed on the Aircraft at Delivery.

1.4 Airbus Spares Support and Services

1.4.1 The Seller has established its spares headquarters in Hamburg, Germany (the "**Airbus Spares Center**") and shall, during the Term, maintain, or have maintained on its behalf, a central store of Seller Parts.

1.4.2 The Airbus Spares Center is operated twenty-four (24) hours per day, seven (7) days per week.

1.4.3 For efficient and rapid deliveries, the Seller and its Affiliates operate a global network of regional satellite stores ("**Regional Satellite Stores**"), a list of which may be communicated to the Buyer upon request.

The Seller reserves the right to effect deliveries from the Airbus Spares Center, from any of the Regional Satellite Stores or from any other production or Suppliers' facilities.

1.5 Customer Order Desk

The Seller has set up a dedicated "**Customer Order Desk**", the main functions of which are:

- Management of order entries for all priorities, including AOG;
- Management of order changes and cancellations;
- Administration of Buyer's routing and shipping instructions;
- Administration of Material returns;
- Clarification of delivery discrepancies;
- Issuance of credit and debit Notes.

The Buyer may communicate with the Customer Order Desk by means of telephone, fax, SITA message, SPEC 2000, e-mail or via the Internet.

1.6 Customer Spares Support Representative

The Seller shall assign ******* customer spares support representative based at the Airbus Spares Center to assist with, and coordinate, spares support matters between the Seller and the Buyer after signature of the relevant Purchase Agreement for as long as one Aircraft covered under the relevant Purchase Agreement is operated by the Buyer.

******* This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

1.7 Agreements of the Buyer

1.7.1 The Buyer agrees to purchase from the Seller or its licensee(s) (“**Licensees**”) the Seller Parts required for the Buyer's own needs during the Term, provided that the provisions of this Article 1.7 shall not in any way prevent the Buyer from resorting to the Seller Parts stocks of other operators of the same aircraft type or model or from purchasing Seller Parts from said operators or from distributors, provided said Seller Parts have been originally designed by the Seller and manufactured by the Seller or its Licensee(s).

1.7.2 The Buyer may manufacture, or have manufactured, for its own use and without paying any license fee to the Seller, parts equivalent to Seller Parts only:

1.7.2.1 after expiration of the Term, if at such time the Seller Parts are out of stock,

1.7.2.2 at any time, to the extent that Seller Parts are needed to perform confirmed aircraft on ground (“**AOG**”) repairs upon any Aircraft delivered under the relevant Purchase Agreement and are not available from the Seller, its Licensees or other approved sources within a lead time shorter than or equal to the time in which the Buyer can procure such Seller Parts, and provided the Buyer shall not sell such Seller Parts,

1.7.2.3 in those instances when a Seller Part is identified as "Local Manufacture" in the Illustrated Parts Catalog (IPC).

1.7.3.1 The rights granted to the Buyer in Article 1.7.2 shall not in any way be construed as a license, nor shall they in any way obligate the Buyer to the payment of any license fee or royalty, nor shall they in any way be construed to affect the rights of third parties.

1.7.3.2 Furthermore, in the event of the Buyer manufacturing or having manufactured any parts, subject to the conditions of Article 1.7.2, such manufacturing and any use made of the manufactured parts shall be under the sole liability of the Buyer and the consent given by the Seller shall not be construed as express or implicit approval howsoever either of the Buyer or of the manufactured parts.

It shall further be the Buyer's sole responsibility to ensure that such manufacturing is performed in accordance with the relevant procedures and Aviation Authority requirements.

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 MANUFACTURING OF ANY PART UNDERTAKEN BY THE BUYER, OR CAUSED TO BE UNDERTAKEN BY THE BUYER, UNDER ARTICLE 1.7.2 OR ANY OTHER ACTIONS UNDERTAKEN BY THE BUYER UNDER THIS EXHIBIT “H”, 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.

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EXHIBIT H

1.7.4 The Buyer shall allocate, or cause to be allocated, its own partnumber to any part manufactured, or caused to be manufactured, in accordance with Article 1.7.2 above. The Buyer shall under no circumstances be allowed to use, or cause to be used, the Airbus partnumber of the Seller Part to which such manufactured part is equivalent.

1.7.5 Notwithstanding any right provided to the Buyer under Article 1.7.2, the Buyer shall not be entitled to sell or loan any part manufactured under the provisions of Article 1.7.2 to any third party.

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2. INITIAL PROVISIONING AND REPLENISHMENT

2.1 Initial Provisioning

2.1.1 Period

The **Initial Provisioning Period** is defined ***.

2.1.2 Pre-Provisioning Meeting

2.1.2.1 The Seller shall organize a pre-provisioning meeting ("**Pre-Provisioning Meeting**") at the Airbus Spares Center, or any other location as may be mutually agreed, for the purpose of defining an acceptable schedule and working procedure to accomplish the initial provisioning (hereinafter "**Initial Provisioning**") of Material (the "**Initial Provisioning Material**").

During the Pre-Provisioning Meeting, the Seller shall familiarize the Buyer with the provisioning process, methods and formulae of calculation and documentation.

2.1.2.2 The date of the meeting shall be mutually agreed upon, allowing a minimum preparation time of eight (8) weeks for the Initial Provisioning Conference referred to in Article 2.1.3 below.

2.1.3 Initial Provisioning Conference

The Seller shall organize an Initial Provisioning conference ("**Initial Provisioning Conference**") at the Airbus Spares Center.

At the request of the Buyer, the Seller shall invite major Suppliers, as mutually agreed upon during the Pre-Provisioning Meeting, to participate in the conference.

Such conference shall take place at the earliest *** after Manufacturer Serial Number allocation, Buyer Furnished Equipment selection or Contractual Definition Freeze, whichever occurs last.

2.1.4 Initial Provisioning Data

2.1.4.1 Initial Provisioning data elements generally in accordance with SPEC 2000, Chapter 1, ("**Initial Provisioning Data**") for Material defined in Articles 1.2.1 (i) through 1.2.1 (iii) shall be supplied by the Seller to the Buyer in English language, in a form, format and timeframe to be mutually agreed upon during the Pre-Provisioning Meeting.

The Seller shall have obtained from Suppliers agreements to prepare and issue for their own products such Initial Provisioning Data as provided above.

2.1.4.1.1 The Initial Provisioning Data shall be revised ***, up to the end of the Initial Provisioning Period.

2.1.4.1.2 The Seller shall ensure that Initial Provisioning Data is provided to the Buyer in due time to give the Buyer sufficient time to perform any necessary evaluation and allow the on-time delivery of any ordered Material.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

2.1.4.1.3 Initial Provisioning Data generated by the Seller and supplied to the Buyer shall comply with the configuration of the Aircraft as documented *** before the date of issue.

This provision shall not cover:

- Buyer modifications not known to the Seller,
- other modifications not approved by the Seller's Aviation Authority.

2.1.4.2 Supplier-Supplied Data

Initial Provisioning Data corresponding to Supplier Parts (both initial issue and revisions) shall be transmitted to the Buyer through the Seller and/or the corresponding Supplier, it is however agreed and understood by the Buyer that the Seller shall not be responsible for the substance, accuracy and quality of such data.

2.1.4.3 Supplementary Data

The Seller shall provide the Buyer with supplementary data to the Initial Provisioning Data. This shall include Local Manufacture Tables (X-File), Ground Support Equipment, Specific-to-type Tools (W-File) and a Pool Item Candidate List (Y-File).

2.1.5 Commercial Offer

Upon the Buyer's request, the Seller shall submit a commercial offer for Material as defined in Articles 1.2.1 (i) through 1.2.1 (vi) mutually agreed as being Initial Provisioning Material.

2.1.6 Delivery of Initial Provisioning Material

2.1.6.1 During the Initial Provisioning Period, Initial Provisioning Material shall conform to the latest known configuration standard of the Aircraft for which such Initial Provisioning Material is intended and to the Initial Provisioning Data transmitted by the Seller.

2.1.6.2 Provided such orders are received by the Seller in accordance with the leadtime published in the Seller's Spare Parts Price Catalog, the Seller shall use its reasonable efforts to deliver Initial Provisioning Material as per Article 1.2.1 (i) of this Exhibit "H" against the Buyer's orders and according to the following schedule:

- (a) at least *** of the ordered quantity of each item for which the Buyer has placed Initial Provisioning orders for Material defined in Article 1.2.1 (i) above, *** before Delivery of the first Aircraft;
- (b) at least *** of the ordered quantity of each item for which the Buyer has placed Initial Provisioning orders for Material defined in Article 1.2.1 (i) above, *** before Delivery of the first Aircraft;

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EXHIBIT H

(c) ***of the ordered quantity of each item for which the Buyer has placed Initial Provisioning orders for Material, as defined in Article 1.2.1 (i) above, *** after Delivery of the first Aircraft. If said *** cannot be accomplished, the Seller shall endeavor to have such items available at its facilities for immediate supply, in case of an AOG.

2.1.6.3 The Buyer may, subject to the Seller's agreement, cancel or modify Initial Provisioning orders placed with the Seller, with no cancellation charge, provided such modification or cancellation occurs no later than the published lead-time before the scheduled delivery of said Material.

2.1.6.4 The delivery of Material described in Articles 1.2.1 (ii) through (vi) shall take place as set forth in Article 2.2 hereof.

2.1.7 Initial Provisioning Data for ***

If the Seller has granted the Buyer ***

2.1.8 Buy-Back

2.1.8.1 Buy-Back of Obsolete Parts

The Seller agrees to buy back unused Seller Parts as per Article 1.2.1 (i) ("**Buy Back**") which become obsolete before Delivery of the first Aircraft to the Buyer as a result of mandatory modifications required by the Seller's Aviation Authorities, subject to the following:

- a) The Seller Parts involved shall be those, which the Buyer is directed by the Seller to scrap or dispose of and which cannot be reworked, modified or repaired to satisfy the revised standard;
- b) The Seller shall credit to the Buyer the purchase price paid by the Buyer for any such obsolete parts, provided that the Seller's liability in this respect does not extend to quantities in excess of the Seller's Initial Provisioning recommendation;
- c) The Seller shall use its reasonable efforts to obtain for the Buyer the same protection from Suppliers for Supplier Parts.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

2.1.8.2 Buy-Back Period and Buy-Back of Initial Provisioning Surplus Material

- a) The Buy-Back Period is defined as the period starting *** Delivery of the first Aircraft to the Buyer.
- b) At any time during the Buy-Back Period, the Buyer shall have the right to return to the Seller any Seller Parts as per Article 1.2.1 (i) or Supplier Parts as per Article 1.2.1 (ii), subject to the conditions defined hereunder.
- c) A part as set forth in Article b) above shall be eligible for Buy-Back if:
 - i) The part is unused and undamaged and is accompanied by the Seller's original documentation (tag, certificates);
 - ii) The Seller originally provided the Buyer with a positive Initial Provisioning recommendation for the part at the time of purchase based upon a maximum protection level of *** and a maximum transit time of ***;
 - iii) The part was purchased for Initial Provisioning purposes by the Buyer directly from the Seller;
 - iv) The part is not shelf life limited, nor does it contain any shelf life limited components with less than *** shelf life remaining when returned;
 - v) The parts are returned to the Seller by the Buyer so the parts have effectively been received and accepted by the Seller before the end of the Buy-Back Period.
- d) If a part is accepted for Buy-Back, the Seller shall credit the Buyer as follows:
 - For Seller Parts as per Article 1.2.1 (i) the Seller shall credit the Buyer *** of the price originally paid;
 - For Supplier Parts as per Article 1.2.1 (ii) the Seller shall credit the Buyer *** of the original Supplier list price valid at the time of order placement.
- e) In the event of the Buyer electing to procure Material in excess of the Seller's recommendation, the Buyer shall notify the Seller thereof in writing, with due reference to the present Article. The Seller's acknowledgement and agreement in writing shall be necessary before any Material in excess of the Seller's Initial Provisioning recommendation shall be considered for Buy-Back.
- f) It is expressly understood and agreed that all credits described in Article 2.1.8.2 (d) shall be provided by the Seller to the Buyer exclusively by means of credit notes to the Buyer's spares account with the Seller.
- g) Transportation costs for the agreed return of Material under this Article 2.1.8.2 shall be borne by the Seller, provided that the Buyer has used its reasonable efforts to reduce the cost of transportation.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

2.2 REPLENISHMENT AND DELIVERY

2.2.1 General

For the purpose of clarification, it is expressly stated that the provisions of Article 2.2.2 do not apply to Initial Provisioning Data and Material as described in Article 2.1. Delivery conditions shall be as set forth in Article 4.1.1.

2.2.2 Lead times

In general, lead times shall be in accordance with the provisions of the latest edition of the "World Airlines and Suppliers' Guide".

2.2.2.1 Seller Parts as per Article 1.2.1 (i) listed in the Seller's Spare Parts Price Catalog or on AirbusSpares can be dispatched within the lead times published in the Seller's Spare Parts Price Catalog.

Lead times for Seller Parts as per Article 1.2.1 (i), which are not published in the Seller's Spare Parts Price Catalog or on AirbusSpares, shall be quoted upon request.

2.2.2.2 Material defined in Articles 1.2.1 (ii) through 1.2.1 (vi) can be dispatched within the Supplier's lead time augmented by the Seller's own order and delivery administration time.

2.2.2.3 Expedite Service

The Seller shall provide a twenty-four (24) hours a day / seven (7) days a week expedite service to provide for the supply of critically required parts (the "**Expedite Service**").

2.2.2.3.1 The Expedite Service is operated in accordance with the "World Airlines and Suppliers Guide" and the Seller shall notify the Buyer of the action taken to satisfy an expedite order received from the Buyer within:

- four (4) hours after receipt of an AOG (Aircraft On Ground) Order,
- twenty-four (24) hours after receipt of a Critical Order (imminent AOG or work stoppage),
- *** after receipt of an Expedite Order (urgent stock replenishment).

2.2.2.3.2 The Seller shall deliver Material requested by the Buyer by telephone on an AOG basis only if such request is confirmed by a subsequent purchase order from the Buyer by the end of the next Business Day.

2.2.3 Delivery Status

The Seller shall make available to the Buyer on the AirbusSpares a "Delivery Status Report".

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

2.2.4 Shortages, Overshipments, Non-Conformity in Orders

2.2.4.1 The Buyer shall, *** pursuant to a purchase order, advise the Seller:

- a) of any alleged shortages or overshipments,
- b) of any non-conformities of delivered Material.

In the event of the Buyer not having advised the Seller of any such alleged shortages, overshipments or non-conformity within the above-defined period, the Buyer shall be deemed to have accepted the delivery.

2.2.4.2 In the event of the Buyer reporting overshipments or non-conformity to the specifications within the period defined in Article 2.2.4.1 the Seller shall, if the Seller recognizes such overshipment or non-conformity, either replace the concerned Material or credit the Buyer for the returned Material, if the Buyer chooses to return the Material subject of an overshipment or non-conformity. ***

2.2.5 Packaging

All Material shall be packaged in accordance with ATA 300 Specification.

2.2.6 Cessation of Deliveries

The Seller reserves the right to restrict, stop or otherwise suspend deliveries if the Buyer fails to meet its obligations defined in Articles 4.2 through 4.4.

2.2.7 Material Consumption Data

The Buyer undertakes to provide periodically to the Seller a quantitative list of the Material used for maintenance and overhaul of the Aircraft. Such list shall cover Material used for both scheduled and unscheduled maintenance. The format and frequency of this list shall be as mutually agreed between the Seller and the Buyer during the Initial Provisioning Conference.

2.3 Warranties

2.3.1 Seller Parts

Subject to the limitations and conditions as hereinafter provided, the Seller warrants to the Buyer that all Seller Parts as per Article 1.2.1 (i) shall at delivery to the Buyer:

- (i) be free from defects in material,
- (ii) be free from defects in workmanship, including without limitation processes of manufacture,
- (iii) be free from defects arising from failure to conform to the applicable specification for such part.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

2.3.2 Warranty Period

2.3.2.1 The warranty period for Seller Parts is *** for new Seller Parts and *** for used Seller Parts from delivery of such parts to the Buyer.

2.3.2.2 Whenever any Seller Part, which contains a defect for which the Seller is liable under Clause 2.3, has been corrected, replaced or repaired pursuant to the terms of this Clause 2.3, the period of the Seller's warranty with respect to such corrected, repaired or replacement Seller Part, whichever the case may be, shall be the remaining portion of the original warranty or ***.

2.3.3 Buyer's Remedy and Seller's Obligation

The Buyer's remedy and Seller's obligation and liability under this Article 2.3 are limited to the repair, replacement or correction, at the Seller's expense and option, of any Seller Part that is defective.

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 Seller Part.

The provisions of Clauses 12.1.5 through 12.1.11 of the AGTA shall apply to this Article 2.3 of this Exhibit "H".

2.3.4 Supplier Parts

With respect to Supplier Parts to be delivered to the Buyer under this Exhibit H, the Seller agrees to transfer to the Buyer any warranties which the Seller may have obtained from the corresponding Suppliers.

2.3.5 Waiver, Release and Renunciation

THE WARRANTIES, OBLIGATIONS AND LIABILITIES OF THE SELLER (AS DEFINED HEREIN FOR THE PURPOSES OF THIS EXHIBIT H) AND REMEDIES OF THE BUYER SET FORTH IN THIS ARTICLE 2.3 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 MATERIAL AND/OR SERVICES DELIVERED UNDER THIS AGTA AND/OR THE RELEVANT PURCHASE 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;

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

- 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, MATERIAL, LEASED PART, SOFTWARE, DATA OR SERVICES DELIVERED UNDER THIS AGTA AND/OR THE RELEVANT PURCHASE 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 AGTA AND OF THE RELEVANT PURCHASE AGREEMENT SHALL REMAIN IN FULL FORCE AND EFFECT.

FOR THE PURPOSES OF THIS ARTICLE 2.3.5, 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.

3. OTHER MATERIAL SUPPORT

3.1 Seller Parts Leasing

3.1.1 General

The Seller offers the Buyer the option to lease Seller Parts as listed in Appendix A to this Exhibit "H" (hereinafter collectively "**Leased Parts**" or individually a "**Leased Part**").

For the purposes of this Article 3.1, the term "**Lessor**" refers to the Seller and the term "**Lessee**" refers to the Buyer.

3.1.1.1 The terms and conditions of the lease of Leased Parts as set forth in this Article 3.1 shall be supplemented by the conditions as published annually by the Lessor in the "**Airbus Spare Parts Price Catalogue and Repair Guide**".

3.1.1.2 The Lessor shall provide the Lessee with copies of the current version of such Airbus Proprietary Parts Repair Guide on an annual basis.

3.1.1.3 The terms and conditions set out in said document shall prevail over all other terms and conditions appearing on any order form or other document pertaining to Leased Parts, with the exception of this Article 3.1, which, for the avoidance of doubt, shall prevail in the event of any inconsistency between this Article and the Airbus Proprietary Parts Repair Guide.

3.1.1.4 Additional Seller Parts not listed in Appendix A to this Exhibit "H" may be available for lease by the Lessor to the Lessee under terms and conditions as described in the latest version of the Airbus Proprietary Parts Repair Guide.

3.1.1.5 Capitalized terms used in this Article 3.1 and not otherwise defined in this Exhibit "H" shall have the meanings assigned thereto in the Airbus Proprietary Parts Repair Guide.

3.1.2 Title

Title to each Leased Part shall remain with the Lessor at all times unless the Lessee exercises its option to purchase, in which case title shall pass to the Lessee upon receipt by the Lessor of the payment for the purchased Leased Part. The terms and conditions of the purchasing of said Leased Parts shall be as published by the Lessor in the then current version of the Airbus Proprietary Parts Repair Guide.

3.1.3 Warranties

3.1.3.1 The Lessor warrants that each Leased Part shall at the time of delivery be free from defects in material and workmanship that could materially impair the utility of the Leased Part.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

3.1.3.2 Warranty and Notice Periods

The Lessee's remedy and the Lessor's obligation and liability under this Article 3.1.3, with respect to each defect, are conditional upon:

- (i) the defect having become apparent to the Lessee within the Lease Period; and
- (ii) the Lessee returning as soon as practicable to the return location specified in the applicable Lease, or such other place as may be mutually agreed upon, the Leased Part claimed to be defective; and
- (iii) the Lessor having received written notice of the defect from the Lessee within thirty (30) days after the defect became apparent to the Lessee, with reasonable proof that the claimed defect is due to a matter embraced within the Lessor's warranty under this Article 3.1.3 and that such defect did not result from any act or omission of the Lessee, including but not limited to any failure to operate or maintain the Leased Part claimed to be defective or the Aircraft in which it was installed in accordance with applicable Aviation Authority requirements and the Lessor's applicable written instructions.

3.1.3.3 Lessee's Remedy and Lessor's Obligation

The Lessee's remedy and the Lessor's obligation and liability under this Article 3.1.3 are limited to the repair or correction of any Leased Part in which a defect appears, or, as may be mutually agreed, the replacement of such Leased Part with a similar part free from defect.

Any replacement part furnished under this Article 3.1.3.3 shall be deemed to be the Leased Part so replaced.

3.1.3.4 Suspension and Transportation Costs

3.1.3.4.1 If a Leased Part covered by this Article 3.1.3 is found to be defective, the Lease period as defined under the Airbus Proprietary Parts Repair Guide (the "**Lease Period**") and the Lessee's obligation to pay rental charges shall be suspended from the date upon which the Lessee notifies the Lessor of such defect until the date upon which the Lessor has repaired, corrected or replaced the defective Leased Part, provided however that the Lessee has, promptly after giving such notice to the Lessor, withdrawn such defective Leased Part from use. If the defective Leased Part is replaced, such replaced part shall be deemed to no longer be a Leased Part under the Lease as of the date upon which such part was received by the Lessor at the return location specified in the applicable Lease.

3.1.3.4.2 All transportation and insurance costs of returning the defective Leased Part and returning the repaired, corrected or replacement part to the Lessee shall be borne by the Lessor.

3.1.3.5 Wear and Tear

Normal wear and tear and the need for regular maintenance and overhaul shall not constitute a defect or non-conformity under this Article 3.1.3.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

3.1.3.6 Waiver, Release and Renunciation

It is agreed that Article 2.3.5 hereof "Waiver, Release and Renunciation" shall apply to the Material support to be provided under the present Article 3.1.

3.2 Tools and Ground Support Equipment

The Seller shall provide the Buyer with a range of Ground Support Equipment and Tools, as defined in 1.2.1 (iv), support services including:

- Sale of single tools;
- Sale of tool packages;
- Loan of tooling for Airbus Aircraft.

The terms and conditions applicable to such services shall be as published by the Seller on an annual basis in its "Tools for Loan Catalog". The Seller shall provide the Buyer with copies of this publication on an annual basis.

3.3 Seller Parts Repair

The Seller may offer the Buyer a service whereby the Seller shall manage the repair of Seller Parts as defined in Article 1.2.1 (i) above.

The full terms, conditions and guarantees for the repair of said Seller Parts shall be as published annually by the Seller in its "Airbus Spare Parts Price Catalogue and Repair Guide".

4. COMMERCIAL CONDITIONS

4.1 Price

4.1.1 All quoted Material prices shall be:

- Free Carrier (FCA) Airbus Spares Center;
- Free Carrier (FCA) Seller's Regional Satellite Stores;
- Ex Works (EXW) Seller's or Supplier's facility for deliveries from any other Seller or Supplier facilities.

At the request of the Buyer, the Seller can arrange and manage the delivery of Material to the Buyer's facilities on a Delivered Duty Unpaid (DDU) basis. The terms and conditions of such a service shall be subject to a separate agreement to be made between the Buyer and Seller.

The terms Free Carrier (FCA), Ex Works (EXW) and Delivered Duty Unpaid (DDU) are as defined by publication n° 560 of the International Chamber of Commerce, published in January 2000.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

4.1.2 Notwithstanding the provisions of Article 2.1.5 above for Initial Provisioning, all prices shall be the Seller's sales prices valid on the date of receipt of the order (subject to reasonable quantities and delivery time) and shall be expressed in US Dollars. Invoices for freight charges and other delivery services shall be in Euros.

4.1.3 The prices of Seller Parts shall be as set forth in the then current Seller's Spare Parts Price Catalog and shall be firm for each calendar year. The Seller however reserves the right to revise the prices of said Seller Parts during the course of the calendar year in case of any of the following:

- significant revision in the manufacturing costs and purchase price of materials,
- significant variation of exchange rates,
- significant error in the estimation or expression of any price.

4.1.4 The Seller's prices for all other Material shall be the Supplier's list prices valid on the date of receipt of the order, supplemented by the Seller's handling charge. The percentage of such handling charge shall vary with the Material's value and shall be determined on a per item basis.

4.2 Payment Procedures and Conditions

All payment under this Exhibit "H" shall be made in accordance with the terms and conditions set forth in the then current Seller Parts Price Catalog and Repair Guide.

4.3 Credit Assurance

The Seller and the Buyer agree that the Seller has the right to request and the Buyer shall upon such request provide the Seller with sufficient financial means in due time in order to assure the Seller of full payment of the Buyer's current and/or expected payment obligations.

4.4 Title

With the exception of Material to be supplied under Article 3 above, title to any Material purchased under this Exhibit "H" shall remain with the Seller until full payment of the invoices and interest thereon, if any, has been received by the Seller.

The Buyer hereby undertakes that Material, title to which has not passed to the Buyer, shall be kept free from any debenture or mortgage or any similar charge or claim in favour of any third party.

5. EXCUSABLE DELAY

Clause 10.1 of the AGTA shall apply to all Material support provided under this Exhibit "H".

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

EXHIBIT H

6. TERMINATION OF SPARES PROCUREMENT COMMITMENTS

6.1 In the event of the AGTA and/or the relevant Purchase Agreement being terminated with respect to any Aircraft due to causes provided for in Clauses 10, 11 or 20 of the AGTA, such termination may also affect the terms of this Exhibit "H" to the extent set forth in Article 6.2 below.

6.2 Any termination under Clauses 10, 11 or 20 of the AGTA shall discharge the parties of all obligations and liabilities hereunder with respect to undelivered spare parts, services, data or other items to be purchased hereunder and which are applicable to those Aircraft for which the AGTA and/or the relevant Purchase Agreement has been terminated. Unused Material in excess of the Buyer's requirements due to such Aircraft cancellation may be repurchased by the Seller at the Seller's option as provided for in Article 2.1.8.2.

7. INCONSISTENCY

In the event of any inconsistency between this Exhibit "H" and the "Spare Parts Price Catalog" or the "Airbus Proprietary Parts Repair Guide" or the "Tools for Loan 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 H

APPENDIX "A" TO ARTICLE 3.1 OF EXHIBIT "H"

SELLER PARTS AVAILABLE FOR LEASING

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

AGTA CSN 2009
CT0803291

Exhibit H

Page 19/19
Private & Confidential

EXHIBIT I

EXHIBIT I

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

AGTA CSN 2009
CT0803291

Exhibit I

Page 1/1
Private & Confidential

LETTER AGREEMENT 1

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : Miscellaneous

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement ("AGTA") 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.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA.

Both Parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said AGTA 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 AGTA 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.

AGTA CSN 2009
CT0803191

LA 1

Page 1/7
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LETTER AGREEMENT 1

1 Clause 5: PAYMENTS

1.1 In Clause 5.1 of the AGTA, the Parties agree to replace:

QUOTE
or to such other account as may be designated by the Seller
UNQUOTE

with

QUOTE

UNQUOTE

1.2 The Parties agree to delete Clause 5.5 of the AGTA in its entirety and replace it with the following:

QUOTE
5.5 ***
UNQUOTE

1.3 The Parties agree to delete Clause 5.7 of the AGTA in its entirety and replace it with the following:

QUOTE
5.7 ***
UNQUOTE

1.4 The Parties agree to delete Clause 5.10 of the AGTA in its entirety and replace it with the following:

QUOTE
5.10 ***
UNQUOTE

1.5 The Parties agree to delete Clause 5.11 of the AGTA in its entirety and replace it with the following:

QUOTE
5.11 ***

5.11.2 ***
UNQUOTE

2 Clause 6: MANUFACTURE PROCEDURE – INSPECTION

The Parties agree to add the following sentence to Clause 6.3 of the AGTA:

QUOTE

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 1

UNQUOTE

3 Clause 7: CERTIFICATION

The Parties agree to delete Clause 7.3.1 of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

4 Clause 8: BUYER'S TECHNICAL ACCEPTANCE

4.1 The Parties agree to delete Clause 8.1.2 of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

4.2 The Parties agree to add the following Clause to the AGTA:

QUOTE
8.1.3 ***
UNQUOTE

4.3 The Parties agree to delete Clause 8.2.2 (ii) of the AGTA in its entirety and replace it with the following

QUOTE

UNQUOTE

4.4 The Parties agree to delete Clause 8.4 of the AGTA in its entirety and replace it with the following:

QUOTE
8.4 ***
UNQUOTE

5 Clause 9: DELIVERY

5.1 The Parties agree to delete Clause 9.1.2 of the AGTA in its entirety and replace it with the following:

9.1.2 QUOTE

UNQUOTE

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 1

5.2 The Parties agree to delete Clause 9.3.2 of the AGTA in its entirety and replace it with the following:

QUOTE
9.3.2 ***
UNQUOTE

6 Clause 10: EXCUSABLE DELAY

The Parties agree to delete Clauses 10.3, 10.4 of the AGTA in their entirety and replace them with the following:

QUOTE
10.3 ***

10.3.1 ***

10.3.2 ***

10.3.3 ***

10.4 ***
UNQUOTE

7 Clause 11: NON-EXCUSABLE DELAY

7.1 The Parties agree to delete Clauses 11.1 of the AGTA in its entirety and replace it with the following:

QUOTE
11.1 ***
UNQUOTE

7.2 The Parties agree to delete Clauses 11.3 of the AGTA in its entirety and replace it with the following:

QUOTE`
11.3 ***
UNQUOTE

8 Clause 18: BUYER FURNISHED EQUIPMENT

8.1 The Parties agree to delete Clauses 18.5 of the AGTA in its entirety and replace it with the following:

QUOTE
18.5 ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 1

18.5.1 ***

18.5.2 ***

18.5.3 ***

UNQUOTE

8.2 The Parties agree to add the following Clause to the AGTA:

QUOTE

18.6 ***

UNQUOTE

9 Clause 20 : TERMINATION

9.1 The Parties agree to add the following sentence at the end of Clause 20.1 of the AGTA:

QUOTE

UNQUOTE

9.2 The Parties agree to delete Clause 20.2 of the AGTA in its entirety and replace it with the following:

QUOTE

20.2 ***

UNQUOTE

9.3 The Parties agree to delete the first paragraph of Clause 20.3 of the AGTA and replace it with the following:

QUOTE

UNQUOTE

9.4 The Parties agree to delete Clause 20.4 of the AGTA in its entirety and replace it with the following

QUOTE

20.4 ***

UNQUOTE

10 Clause 21: ASSIGNMENTS AND TRANSFERS

The Parties agree to delete sub-clause 21.1 of the AGTA in its entirety and replace it with the following

QUOTE

21.1 ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 1

21.1.1 ***

21.1.2 ***
UNQUOTE

11 Clause 22 : MISCELLANEOUS PROVISIONS

In Clause 22.12 of the AGTA, the Parties agree to replace:

QUOTE

UNQUOTE

With:

QUOTE

UNQUOTE

12 Assignment

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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.

13 Confidentiality

This Letter Agreement (and its existence) or any data exchanged between the Buyer and the Seller for the fulfilment 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 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.

Name :

Name :

Title :

Title :

Witnessed and acknowledged,

For and on behalf of

**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.

LETTER AGREEMENT 2

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : Customer Support

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement ("**AGTA**") 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.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA.

Both Parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said AGTA 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 AGTA and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

LETTER AGREEMENT 2

1 Clause 12 : WARRANTIES AND SERVICE LIFE POLICY

1.1 The Parties agree to delete the first paragraph of clause 12.1.4.3 of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

1.2 The Parties agree to delete clause 12.1.5 (ii) of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

1.3 The Parties agree to delete clause 12.1.6.2 of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

1.4 The Parties agree to delete clause 12.1.6.3 of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

1.5 The Parties agree to delete clause 12.1.6.4 of the AGTA in its entirety and replace it with the following:

QUOTE

UNQUOTE

1.6 The Parties agree to add the following sentence to Clause 12.1.6.6 of the AGTA:

QUOTE

UNQUOTE

1.7 In clause 12.1.7.2 of the AGTA, the Parties agree to replace:

QUOTE

UNQUOTE

With:

QUOTE

UNQUOTE

LETTER AGREEMENT 2

1.8 The Parties agree to add the following sentence to clause 12.1.7.6 of the AGTA:

QUOTE

UNQUOTE

1.9 The Parties agree to add the following sentence to clause 12.3.1.3 of the AGTA:

QUOTE

UNQUOTE

1.10 The Parties agree to add the following sentence to clause 12.4.1 of the AGTA:

QUOTE

UNQUOTE

3 Clause 15 : SELLER REPRESENTATIVES SERVICES

4 Clause 16 : TRAINING AND TRAINING AIDS

4.1 The Parties agree to delete clause 16.3.5.1 of the AGTA in its entirety and replace them with the following:

QUOTE

UNQUOTE

4.2 The Parties agree to delete clause 16.3.5.2 of the AGTA in its entirety and replace them with the following:

QUOTE

UNQUOTE

4.3 The Parties agree to delete clause 16.3.5.3 of the AGTA in its entirety and replace them with the following:

QUOTE

UNQUOTE

4.4 The Parties agree to delete clauses 16.4.4.3 of the AGTA in its entirety and replace them with the following:

QUOTE

UNQUOTE

LETTER AGREEMENT 2

4.5 The Parties agree to delete clause 16.5.2.2 of the AGTA in its entirety and replace them with the following:

QUOTE

UNQUOTE

4.6 ***

5 EXHIBIT H : MATERIAL SUPPLY AND SERVICES

5.1 The parties agree to delete the second paragraph of clause 3.3 and replace it with the following:

QUOTE

UNQUOTE

6 Assignment

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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.

7 Confidentiality

This Letter Agreement (and its existence) or any data exchanged between the Buyer and the Seller for the fulfilment 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.

LETTER AGREEMENT 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.

Name :

Name :

Title :

Title :

Witnessed and acknowledged,

For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Name :

Title :

AGTA CSN 2009
CT0803191

LA 2

Page 5/5

**A320 FAMILY AIRCRAFT
PURCHASE AGREEMENT**

BETWEEN

AIRBUS SAS

(the "Seller")

AND

CHINA SOUTHERN AIRLINES COMPANY LIMITED

(the "Buyer")

AND

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

(the "Consenting Party")

Buyer's reference: 09SIES1034FR

Seller's reference: CT0803292

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 1/30
Private & Confidential

CONTENTS

Cluses

0	SUPPLEMENTARY DEFINITIONS
1	QUANTITY, MODEL AND DESCRIPTION
2	AIRCRAFT DEFINITION
3	BASE PRICES
4	DELIVERY SCHEDULE
5	PAYMENTS
6	LIQUIDATED DAMAGES
7	WARRANTIES AND SERVICE LIFE POLICY
8	TECHNICAL DATA
9	SELLER REPRESENTATIVE SERVICES
10	NEGOTIATED AGREEMENT
11	APPLICABILITY
12	CONFIDENTIALITY
13	CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999
14	LAW AND JURIDICTION
15	COUNTERPARTS

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

CONTENTS

Appendices

- A STANDARD SPECIFICATIONS FOR A320 FAMILY AIRCRAFT
- B AIFRAME PRICE REVISION FORMULA
- C-1 CFM PRICE REVISION FORMULA
- C-2 IAE PRICE REVISION FORMULA

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 3/30
Private & Confidential

PURCHASE AGREEMENT

This A320 family aircraft purchase agreement (the "**Agreement**") is made as of _____, 2010

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**"),

and

CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD., formerly known as CHINA SOUTHERN AIRLINES (GROUP) IMPORT AND EXPORT TRADING CORPORATION, having its principal office at Bai Yun Airport, Guangzhou 510405, People's Republic of China (the "**Consenting Party**").

The Seller and the Buyer and the Consenting Party referred together as the "**Parties**" and each a "**Party**".

WHEREAS

- A. The Seller and the Buyer, with the consent of the Consenting Party, have signed an aircraft general terms agreement reference CT0803291 dated as of even date herewith (the "**AGTA**") which constitutes an integral part of this Agreement.
- B. Subject to the terms and conditions of this Agreement and of the AGTA, 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.

PA A320 CSN 2009
CT0803292

Page 4/30
Private & Confidential

0. SUPPLEMENTARY DEFINITIONS

0.1 In addition to the words and the terms elsewhere defined in this Agreement, the initially capitalised words and terms used in this Agreement shall have the meaning set out below.

0.2 Capitalised words and terms used in this Agreement which are not defined herein shall have the meaning assigned thereto in the AGTA

- | | |
|---------------------------|--|
| A319 Airframe | means the A319 Aircraft excluding the A319 Propulsion Systems. |
| A320 Airframe | means the A320 Aircraft excluding the A320 Propulsion Systems. |
| A321 Airframe | means the A321 Aircraft excluding the A321 Propulsion Systems |
| A319 Aircraft | means an Airbus A319-100 model aircraft including the A319 Airframe, the applicable Propulsion Systems, and any part, component, furnishing or equipment installed on the A319 Aircraft on Delivery under the terms and conditions of this Agreement and the AGTA. |
| A320 Aircraft | means an Airbus A320-200 model aircraft including the A320 Airframe, the applicable Propulsion Systems, and any part, component, furnishing or equipment installed on the A320 Aircraft on Delivery under the terms and conditions of this Agreement and the AGTA. |
| A321 Aircraft | means an Airbus A321-200 model aircraft including the A321 Airframe, the applicable Propulsion Systems, and any part, component, furnishing or equipment installed on the A321 Aircraft on Delivery under the terms and conditions of this Agreement and the AGTA. |
| A319 Specification | means either (a) the A319 Standard Specification if no SCNs are applicable or (b) if SCNs are issued, the A319 Standard Specification as amended by all applicable SCNs and MSCNs. |
| A320 Specification | means either (a) the A320 Standard Specification if no SCNs are applicable or (b) if SCNs are issued, the A320 Standard Specification as amended by all applicable SCNs and MSCNs. |
| A321 Specification | means either (a) the A321 Standard Specification if no SCNs are applicable or (b) if SCNs are issued, the A321 Standard Specification as amended by all applicable SCNs and MSCNs. |

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

A319 Standard Specification

means the A319-100 standard specification document number J.000.01000 Issue 6, dated March 1, 2007 a copy of which has been annexed hereto as Appendix A-1, with the following design weights:

MTOW: 64.0 tonnes
MLW: 61.0 tonnes and
MZFW: 57.0 tonnes

A320 Standard Specification

means the A320-200 standard specification document number D.000.02000 Issue 7, dated March 1, 2007 a copy of which has been annexed hereto as Appendix A-2, with the following design weights:

MTOW: 73.5 tonnes
MLW: 64.5 tonnes and
MZFW: 61.0 tonnes

A321 Standard Specification

means the A321-200 standard specification document number E.000.02000 Issue 4, dated March 1, 2007 a copy of which has been annexed hereto as Appendix A-2, with the following design weights:

MTOW: 89 tonnes
MLW: 75.5 tonnes and
MZFW: 71.5 tonnes

Airframe Base Price

means, (i) with respect to the A319 Airframe, the A319 Airframe Base Price set forth in Clause 3.1.1 ; (ii) with respect to the A320 Airframe, the A320 Airframe Base Price set forth in Clause 3.1.2; (iii) with respect to the A321 Airframe, the A321 Airframe Base Price set forth in Clause 3.1.3; and with respect to the Aircraft means any or all of the A319 Airframe Base Price, A320 Airframe Base Price and A321 Airframe Base Price.

Aircraft

means any or all of the A319 Aircraft, A320 Aircraft and A321 Aircraft.

Base Delivery Condition Year

Base Price

means (i) the sum of the applicable Airframe Base Price and the applicable Propulsion Systems Base Price or (ii) the Aircraft Base Price

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

Daily Liquidated Damages Amount	as specified in Clause 6
First Quarter	means the months of January, February, March
Fourth Quarter	means the months of October, November, December
PEP Revision Service Period	as specified in Clause 8
Propulsion Systems Base Price	as specified in Clause 3.2
Propulsion Systems Manufacturer	means the manufacturer of the Propulsion Systems
Propulsion Systems Reference Price	as specified in Clause 3.2
Quarter	means any or all of the First Quarter, Second Quarter, Third Quarter and Fourth Quarter
Revision Service Period	as specified in Clause 8
Second Quarter	means the months of April, May, June
Third Quarter	means the months of July, August, September

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

0.3 Clause headings and the index are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement

0.4 In this Agreement unless the context otherwise requires:

- (a) references to Clauses, Schedules, Appendices, and Exhibits are to be construed as references to the Clauses, Schedules, Appendices, and Exhibits to this Agreement and references to this Agreement include its Clauses, 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. QUANTITY

On December 18, 2007, the Seller and the China Aviation Suppliers Import and Export Corporation ("CASC") have entered into a general terms agreement for the sale and purchase of one hundred ten (110) A320 family aircraft. Twenty (20) of these aircraft have been allocated by CASC to the Buyer (the "**GTA Allocation**"), and the Buyer agrees to purchase these twenty (20) aircraft (the "**Aircraft**").

Unless otherwise agreed in writing by the Parties pursuant to the terms and conditions of this Agreement, such twenty (20) Aircraft shall be twenty (20) A320 Aircraft.

Pursuant to the terms of the Agreement and of the AGTA, the Seller shall sell and deliver to the Buyer and the Buyer shall buy and take Delivery of the Aircraft.

2. AIRCRAFT DEFINITION

2.1 Aircraft Standard Specification Definition

2.1.1 Standard Specification for A319 Aircraft

The A319 Aircraft shall be manufactured in accordance with the A319 Specification.

2.1.2 Standard Specification for the A320 Aircraft

The A320 Aircraft shall be manufactured in accordance with the A320 Specification.

2.1.3 Standard Specification for the A321 Aircraft

The A321 Aircraft shall be manufactured in accordance with the A321 Specification.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

2.2 Propulsion Systems

2.2.1 The A319 Airframe will be equipped with a set of two (2):

- (i) CFM International CFM 56-5B5/3 engines, or
- (ii) International Aero Engines IAE V2522-A5 engines

(each, upon selection by the Buyer, being referred to as the “**A319 Propulsion Systems**”).

2.2.2 The A320 Airframe will be equipped with a set of two (2):

- (i) CFM International CFM 56-5B4/3 engines, or
- (ii) International Aero Engines IAE V2527-A5 engines

(each, upon selection by the Buyer, being referred to as the “**A320 Propulsion Systems**”).

2.2.3 The A321 Airframe will be equipped with a set of two (2):

- (i) CFM International CFM 56-5B3/3 engines, or
- (ii) International Aero Engines IAE V2533-A5 engines

(each, upon selection by the Buyer, being referred to as the “**A321 Propulsion Systems**”).

The A319 Propulsion Systems, the A320 Propulsion Systems and the A321 Propulsion Systems being referred to herein collectively as the “**Propulsion Systems**”.

2.2.4 The Buyer shall notify the Seller in writing of its selection of Propulsion Systems type for the Aircraft by no later than *** prior to the Scheduled Delivery Month of the first Aircraft based on the Aircraft delivery schedule set forth in Clause 4 herein. Such selection shall be incorporated in the applicable Aircraft Specification by signature of a Specification Change Notice. If the Buyer does not select its Propulsion Systems type as agreed herein, in addition to its other rights, the Seller will have the right to defer the Scheduled Delivery Months of any or all of the Aircraft.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

3. BASE PRICES

With respect to the Aircraft, Clause 3.1 and Clause 4.1 of the AGTA shall apply.

3.1 Airframe Base Price

3.1.1 A319 Airframe Base Price

The **A319 Airframe Base Price** is the sum of:

- (i) the base price of the standard A319 Airframe as defined in the A319 Standard Specification excluding Buyer Furnished Equipment and including for the avoidance of doubt engine accessories, nacelles and thrust reversers, which is:

*** and

- (ii) the budgetary sum of the base prices of the A319 Specification Change Notices (SCNs), which is:

3.1.2 A320 Airframe Base Price

The **A320 Airframe Base Price** is the sum of:

- (i) the base price of the standard A320 Airframe as defined in the A320 Standard Specification excluding Buyer Furnished Equipment and including for the avoidance of doubt engine accessories, nacelles and thrust reversers, which is:

***, and

- (ii) the budgetary sum of the base prices of the A320 Specification Change Notices (SCNs) , which is:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

3.1.3 A321 Airframe Base Price

The A321 Airframe Base Price is the sum of:

- (i) the base price of the standard A321 Airframe as defined in the A321 Standard Specification excluding Buyer Furnished Equipment and including for the avoidance of doubt engine accessories, nacelles and thrust reversers, which is:

***, and

- (ii) the budgetary sum of the base prices of the A321 Specification Change Notices (SCNs) , which is:

3.1.4 The Airframe Base Price is expressed in United States Dollars (USD) at ***delivery conditions. It is subject to adjustment up to the Aircraft Delivery Date in accordance with the Airframe Price Revision Formula set out in Appendix B.

3.2 Propulsion Systems Base Price

3.2.1 CFM International

The Propulsion Systems Base Price of a set of two (2) CFM INTERNATIONAL Propulsion Systems is:

3.2.1.1 CFM56-5B5/3 for the A319 Aircraft

3.2.1.2 CFM56-5B4/3 for the A320 Aircraft

3.2.1.3 CFM56-5B3/3 for the A321 Aircraft

Such CFM International Propulsion Systems Base Prices have been established in accordance with the delivery conditions for a theoretical delivery in *** and have been calculated from the CFM International Propulsion Systems Reference Prices of the:

CFM56-5B5/3 : ***;

CFM56-5B4/3 : ***;

CFM56-5B3/3 : ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

The CFM International Propulsion Systems Reference Prices have been established in accordance with the economic conditions prevailing for a theoretical delivery in *** at the Reference Composite Price Index of *** and shall be subject to revision up to the Aircraft Delivery Date in accordance with the CFM INTERNATIONAL Price Revision Formula set out in Appendix C-1 hereto (the "CFM Price Revision Formula").

3.2.2 IAE

The IAE Propulsion Systems Base Price of a set of two (2) INTERNATIONAL AERO ENGINES IAE Propulsion Systems (excluding specifically engine accessories, nacelles and thrust reversers) is:

3.2.2.1 IAE V2522-A5 for the A319 Aircraft

3.2.1.2 IAE V2527-A5 for the A320 Aircraft

3.2.1.3 IAE V2533-A5 for the A321 Aircraft

Such IAE Propulsion Systems Base Prices have been established in accordance with the delivery conditions for a theoretical delivery in *** and have been calculated from the IAE Propulsion Systems Reference Prices for the:

IAE V2522-A5: ***

IAE V2527-A5: ***

IAE V2533-A5: ***

The IAE Propulsions Systems Reference Prices have been established in accordance with the economic conditions prevailing for a theoretical delivery in *** and shall be subject to revision up to the Aircraft delivery date in accordance with the IAE INTERNATIONAL Price Revision Formula set forth in Appendix C-2 hereto (the "IAE Price Revision Formula").

3.3 Base Price of the Aircraft

The Base Price of the Aircraft is the sum of the Airframe Base Price and the CFM International Propulsion Systems Base Price until the Buyer notifies the Seller of its Propulsion Systems selection. After such notification, The Aircraft Base Price shall be the sum of the Airframe Base Price and the selected Propulsion Systems Base Price.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

4. **DELIVERY SCHEDULE**

Subject to Clauses 2,7,8,10 and 18 of the AGTA, the Seller shall have the Aircraft Ready for Delivery at the Delivery Location within the following delivery months:

Aircraft N°1	*** 2011
Aircraft N°2	*** 2011
Aircraft N°3	*** 2011
Aircraft N°4	*** 2011
Aircraft N°5	***
Aircraft N°6	***
Aircraft N°7	***
Aircraft N°8	***
Aircraft N°9	***
Aircraft N°10	***
Aircraft N°11	***
Aircraft N°12	***
Aircraft N°13	*** 2013
Aircraft N°14	*** 2013
Aircraft N°15	*** 2013
Aircraft N°16	*** 2013
Aircraft N°17	*** 2013
Aircraft N°18	*** 2013
Aircraft N°19	*** 2013
Aircraft N°20	*** 2013

Each such calendar month shall be, with respect to the corresponding Aircraft, the “**Scheduled Delivery Month**”.

5. **PAYMENTS**

5.1 With respect to Clause 5.3.1 of the AGTA, the predelivery payment reference price is determined by the following formula:

5.2 With respect to Clause 5.3.2 of the AGTA, The 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 this Agreement, such Predelivery Payments shall be made upon signature of this Agreement.

5.3 With respect to Clause 5.3.5 of the AGTA, the Seller shall be entitled to request Predelivery Payments for each SCN executed after signature of this Agreement:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

6. LIQUIDATED DAMAGES

In the event of a Non-Excusable Delay as defined in Clause 11 of the AGTA, ***

The amount of such liquidated damages shall *** in respect of any one Aircraft.

The Buyer and the Seller agree that payment by the Seller of the amounts due pursuant to this clause 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 and in clause 11 of the AGTA.

7. WARRANTIES AND SERVICE LIFE POLICY

7.1 With respect to Clause 12.1.3 of the AGTA, the Warranty Period shall be ***.

7.2 With respect to Clause 12.2.2 of the AGTA, if a Failure occurs in an Item before the Aircraft in which such Item has been originally installed has completed *** to the Buyer, ***, then the Seller shall comply with the undertakings defined in such Clause 12.2.2.

7.3 With respect to Clause 12.2.3 of the AGTA, ***.

7.4 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 CLAUSE 12 AND CLAUSE 14 OF THE AGTA 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

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

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, THE "SELLER" SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ITS AFFILIATES AND ANY OF ITS SUPPLIERS AND SUBCONTRACTORS.

8. **TECHNICAL DATA**

8.1 Pursuant to Clause 14 of the AGTA, Technical Data shall be supplied in accordance with Exhibit G of the AGTA *** (the "**Revision Service Period**").

8.2 Pursuant to Clause 14.13.3 of the AGTA, the license to use the Performance Engineer Program (the "**PEP**") and the revision service shall be provided on a *** (the "**PEP Revision Service Period**").

8.3 With respect to Clause 14.7 of the AGTA, 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.

If such training is conducted at the Buyer's facilities, the Seller will bear the costs for all travel and living expenses of the representatives of the Seller conducting such training.

9. **SELLER REPRESENTATIVE SERVICES**

Pursuant to Clause 15 of the AGTA, the Seller Representative allocation provided to the Buyer is defined hereunder.

9.1 The Seller shall provide to the Buyer a total of *** of Seller Representative Services per Aircraft at the Buyer's main base or at other locations to be mutually agreed, limited to a total of *** for the fleet.

9.2 For the sake of clarification, such Seller Representatives' services shall include initial Aircraft Entry Into Service assistance, sustaining support services and spares representatives.

9.3 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.

10. NEGOTIATED AGREEMENT

The Buyer and the Seller specifically recognize that this Agreement incorporating the terms of the AGTA 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 Buyer and the Seller, and that the Specification and price of the Aircraft specified in this Agreement and the other mutual agreements of the Buyer and the Seller set forth herein and in the AGTA were agreed upon after careful consideration by the Buyer using its judgment as a professional operator and by the Seller using its judgment as an aircraft manufacturer and arrived at in consideration of, inter alia, all the provisions hereof specifically including all waivers, releases and renunciations by the Buyer set out herein and in the AGTA.

The Buyer and the Seller hereby also agree that the United Nations Convention on Contracts for the International Sale of Goods will not apply to this transaction.

11. APPLICABILITY

This Agreement incorporates the terms and conditions of the AGTA.

This Agreement and the AGTA, contains the entire agreement between the Buyer and the Seller with respect to the subject matter hereof and supersedes all previous proposals, understandings, commitments or representations whatsoever, oral or written, and may be changed only by mutual agreement in writing signed by authorized representatives of the Buyer and the Seller.

With respect to the Aircraft, the AGTA shall be deemed amended and supplemented to the extent herein provided and as so amended and supplemented shall remain in full force and effect.

If there is any inconsistency between the AGTA and this Agreement, the latter shall prevail to the extent of such inconsistency.

12. CONFIDENTIALITY

The Parties agree that the terms and conditions of Clause 22.12 of the AGTA shall apply mutatis mutandis to this Agreement.

13. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

The parties do not intend that any term of the AGTA and 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 the AGTA and the Agreement.

The parties may rescind, vary, waive, release, assign, novate or otherwise dispose of all or any of their respective rights or obligations under the AGTA or the Agreement without the consent of any person who is not a party to the AGTA and the Agreement.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

14. LAW AND JURISDICTION

14.1 This Agreement and the AGTA shall be governed by and construed in accordance with the laws of England.

14.2 Any dispute, controversy or claim arising out of or in connection with this Agreement and/or the AGTA, including any question regarding their existence, validity or termination ("Dispute") shall be referred to and finally resolved in accordance with the following procedure.

The parties shall first attempt in good faith to resolve the Dispute by negotiation, in which case, one party shall give notice to the other of the Dispute ("Notice of Dispute"). Such Notice of Dispute shall include a summary of the subject of the Dispute and the arguments upon which that party relies.

Any Dispute not resolved by negotiation within thirty (30) calendar days following receipt of the Notice of Dispute by the other party shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce ("ICC") (the "Rules"), which Rules are deemed to be incorporated by reference into this Agreement and the AGTA.

Arbitration shall be in the English language and be administered by the International Court of Arbitration of the ICC pursuant to the Rules. The number of arbitrators shall be three. The place of arbitration shall be London, United Kingdom. The decision of the arbitral tribunal shall be final and binding on the Parties.

15. COUNTERPARTS

This Agreement has been executed in three (3) original copies which are in English and may be executed in 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.

*** 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 above written.

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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.

APPENDIX A

AIRCRAFT STANDARD SPECIFICATIONS

The Standard Specifications for the A320 Family are attached in a different folder.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 20/30
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APPENDIX B

AIRFRAME PRICE REVISION FORMULA

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 21/30
Private & Confidential

Appendix B to the A320 Family Purchase Agreement

1 Base Prices

The Airframe Base Prices defined in sub-Clause 3.1 of this Agreement are subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions hereof.

2 Base Period

The Base Prices have been established in accordance ***
values indicated hereof shall not be subject to any revision.

3 Indexes

Labor Index: ***
Material Index: ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

Appendix B to the A320 Family Purchase Agreemen

4 Revision Formula

5 General Provisions

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 23/30
Private & Confidential

Appendix C-1 to the A320 Family Purchase Agreemen

APPENDIX C-1

CFM INTERNATIONAL PRICE REVISION FORMULA

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 24/30
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Appendix C-1 to the A320 Family Purchase Agreement

1 Reference Price of the Propulsion Systems

The Propulsion Systems Reference Price of a set of two (2) CFM INTERNATIONAL Engines and additional standard equipment is:

For the A319 Aircraft CFM-5B5/3 engines: ***

For the A320 Aircraft CFM-5B4/3 engines: ***

For the A321 Aircraft CFM-5B3/3 engines: ***

This Propulsion Systems Reference Prices are subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics and in accordance with the provisions of sub-Clauses 1.4 and 1.5 hereof.

2 Reference Period

The above Reference Prices have been established in accordance with the *** as defined by CFM INTERNATIONAL by the ***

3 Indexes

Labor Index: ***

Material Index : ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

Appendix C-1 to the A320 Family Purchase Agreement

4 **Revision Formula**

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 26/30
Private & Confidential

Appendix C-1 to the A320 Family Purchase Agreemen

5 **General Provisions**

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 27/30
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Appendix C-2 to the A320 Family Purchase Agreemen

APPENDIX C-2

INTERNATIONAL AERO PROPULSION SYSTEMS PRICE REVISION FORMULA

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

Page 28/30
Private & Confidential

Appendix C-2 to the A320 Family Purchase Agreement

1 Reference Price

The Propulsion Systems Reference Price for a set of two (2) INTERNATIONAL AERO ENGINES V2500 series Engines is:

For the A319 Aircraft IAE V2522-A5 engines: ***

For the A320 Aircraft IAE V2527-A5 engines: ***

For the A321 Aircraft IAE V2533-A5 engines: ***

This Reference Prices are subject to adjustment for changes in economic conditions as measured by data obtained from the US Department of Labor, Bureau of Labor Statistics, and in accordance with the provisions hereof.

2 Reference Period

The above Propulsion Sytems Reference Prices have been established in accordance ***, as defined, according to INTERNATIONAL AERO ENGINES by the ECIB and ICb, index values indicated in Clause 3.4. hereof.

3 Indexes

Labor Index: ***

Material Index: ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

Appendix C-2 to the A320 Family Purchase Agreement

4 Revision Formula

5 General Provisions

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 1

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

PA A320 CSN 2009
CT0803292

LA1

Page 1/3
Private & Confidential

LETTER AGREEMENT 1

PA A320 CSN 2009
CT0803292

LA1

Page 2/3
Private & Confidential

LETTER AGREEMENT 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Name: _____

Title: _____

PA A320 CSN 2009
CT0803292

LA1

Page 3/3
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LETTER AGREEMENT 2

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

PA A320 CSN 2009
CT0803292

LA2

Page 1/3
Private & Confidential

LETTER AGREEMENT 2

PA A320 CSN 2009
CT0803292

LA2

Page 2/3
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LETTER AGREEMENT 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Name: _____

Title: _____

PA A320 CSN 2009
CT0803292

LA2

Page 3/3
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LETTER AGREEMENT 3

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

PA A320 CSN 2009
CT0803292

LA3

Page 1/3
Private & Confidential

LETTER AGREEMENT 3

PA A320 CSN 2009
CT0803292

LA3

Page 2/3
Private & Confidential

LETTER AGREEMENT 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

Agreed and Accepted

For and on behalf of:

For and on behalf of:

**CHINA SOUTHERN AIRLINES
COMPANY LIMITED**

AIRBUS S.A.S.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Name: _____

Title: _____

PA A320 CSN 2009
CT0803292

LA3

Page 3/3
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LETTER AGREEMENT 4

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

PA A320 CSN 2009
CT0803292

LA4

Page 1/3
Private & Confidential

LETTER AGREEMENT 4

PA A320 CSN 2009
CT0803292

LA4

Page 2/3
Private & Confidential

LETTER AGREEMENT 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 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Name: _____

Title: _____

PA A320 CSN 2009
CT0803292

LA4

LETTER AGREEMENT 5A

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject: A319-100 PERFORMANCE GUARANTEES

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase 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.

PA A320 CSN 2009
CT0803292

LA5A

Page 1/6
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LETTER AGREEMENT 5A

1 AIRCRAFT CONFIGURATION

The guarantees defined below (the "Guarantees") are applicable to the A319-100 Aircraft as described in the Standard Specification ***equipped with

- a) CFM56-5B5/3 propulsion system
- b) IAE V2522-A5 propulsion system

for deliveries from 2009 onwards without taking into account any further changes thereto as provided in the Agreement (the "Specification" for the purposes of this Letter Agreement).

2 GUARANTEED PERFORMANCE

2.1 Take-off Field Length

The JAR take-off field length at an Aircraft gross weight of *** at the start of Take-Off Distance Available (TODA) at Sea Level pressure altitude in ISA+15°C conditions shall not be more than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

2.2 Second Segment Climb

The Aircraft shall meet JAR 25 regulations for one engine inoperative climb after take-off, undercarriage retracted, at a weight corresponding to the stated weight at the start of Take-Off Distance Available (TODA), at the altitude and temperature, and in the configuration of flap angle and safety speed required to comply with the performance guaranteed in paragraph 2.1 above.

2.3 Landing Field Length

JAR certified dry landing field length at an Aircraft gross weight of *** at Sea Level pressure altitude shall be not more than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

2.4 Cruise Specific Air Range

The average nautical miles per kilogram of fuel (average SAR) at a true Mach number of *** conditions under the Weight and Altitude conditions given below:

Gross Weight (kg) Pressure Altitude (ft)

shall be not less than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5A

3 MANUFACTURER'S WEIGHT EMPTY

The Seller guarantees a Manufacturer's Weights Empty as below:

A319-100 CFM56-5B5/3 ***

A319-100 V2522-A5 ***

These are the Manufacturer's Weights Empty of the Aircraft as defined in Section 13-10.00.00 of the Standard Specifications amended by the SCN's defined in paragraph 1 of this Letter Agreement and are subject to adjustment as defined in paragraph 6.2.

4 GUARANTEE CONDITIONS

4.1 The performance certification requirements for the Aircraft, except where otherwise noted, will be as stated in Section 02 of the Standard Specification.

4.2 For the determination of JAR take-off and landing performance a hard dry level runway surface with no runway strength limitations, no line-up allowances, no obstacles, zero wind, atmosphere according to ISA, except as otherwise noted, and the use of speed brakes, flaps, landing gear and engines in the conditions liable to provide the best results will be assumed.

4.2.1 When establishing take-off and second segment performance no air will be bled from the engines for cabin air conditioning or anti-icing.

4.3 Climb, cruise and descent performance associated with the Guarantees will include allowances for normal electrical load and for normal engine air bleed and power extraction associated with maximum cabin differential pressure as defined in Section 21-30.31 of the Specification. Cabin air conditioning management during performance demonstration as described in Subparagraph 5.3 below may be such as to optimize the Aircraft performance while meeting the minimum air conditioning requirements defined above. Unless otherwise stated no air will be bled from the engines for anti-icing.

4.4 The engines will be operated using not more than the engine manufacturer's maximum recommended outputs for take-off, maximum go-round, maximum continuous, maximum climb and cruise for normal operation.

4.5 Where applicable the Guarantees assume the use of an approved fuel having a density of *** and a lower heating value of ***. Cruise performance assume a centre of gravity position of ***.

5 GUARANTEE COMPLIANCE

5.1 Compliance with the Guarantees shall be demonstrated using operating procedures and limitations in accordance with those defined by the certifying Airworthiness Authority and by the Seller unless otherwise stated.

5.2 Compliance with the take-off, second segment and landing elements of the Guarantees will be demonstrated with reference to the JAA approved Flight Manual.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5A

- 5.3 Compliance with those parts of the Guarantees defined in paragraph 2 above not covered by the requirements of the certifying Airworthiness Authority shall be demonstrated by calculation based on data obtained during flight tests conducted on one (or more, at the Seller's discretion) A319-100 aircraft of the same aerodynamic configuration as the Aircraft purchased by the Buyer and incorporated in the In-Flight Performance Program and data bases ("the IFP") appropriate to the Aircraft.
- 5.4 Compliance with the Manufacturer's Weight Empty guarantees defined in Paragraph 3 shall be demonstrated with reference to a Weight Compliance Report.
- 5.5 Data derived from tests will be adjusted as required using conventional methods of correction, interpolation or extrapolation in accordance with established aeronautical practices to show compliance with the Guarantees.
- 5.6 Compliance with the Guarantees is not contingent on engine performance defined in the engine manufacturer's specification.
- 5.7 The Seller undertakes to furnish the Buyer with a report or reports demonstrating compliance with the Guarantees at, or as soon as possible after, the delivery of each of the Buyer's Aircraft.

6 ADJUSTMENT OF GUARANTEES

- 6.1 In the event of any change to any law, governmental regulation or requirement or interpretation thereof ("Rule Change") by any governmental agency made subsequent to the date of the Agreement and such rule change affects the Aircraft configuration or performance or both required to obtain certification the Guarantees shall be appropriately modified to reflect the effect of any such change.
- 6.2 The Guarantees apply to the Aircraft as described in paragraph 1 of this Letter Agreement and may be adjusted in the event of:
- (i) Any further configuration change which is the subject of a SCN
 - (ii) Variation in actual weights of items defined in Section 13-10 of the Standard Specification
 - (iii) Changes required to obtain certification that cause modifications to the performance or weight of the Aircraft

7 EXCLUSIVE GUARANTEES

The Guarantees are exclusive and are provided in lieu of any and all other performance and weight guarantees of any nature which may be stated, referenced or incorporated in the Standard Specification or any other document.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5A

8 ***

9. **ASSIGNMENT**

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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.

10. **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 5A

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

AIRBUS S.A.S.

COMPANY LIMITED

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

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.

LETTER AGREEMENT 5B

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject: A320-200 PERFORMANCE GUARANTEES

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase 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.

PA A320 CSN 2009
CT0803292

LA5B

Page 1/6
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LETTER AGREEMENT 5B

1 AIRCRAFT CONFIGURATION

The guarantees defined below (the "Guarantees") are applicable to the A320-200 Aircraft as described in the Standard Specification *** equipped with:

- a) CFM56-5B4/3 propulsion system
- b) IAE V2527-A5 propulsion system

for deliveries from 2009 onwards without taking into account any further changes thereto as provided in the Agreement (the "Specification" for the purposes of this Letter Agreement).

2 GUARANTEED PERFORMANCE

2.1 Take-off Field Length

The JAR take-off field length at an Aircraft gross weight of *** at the start of Take-Off Distance Available (TODA) at Sea Level pressure altitude in ISA+15°C conditions shall not be more than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

2.2 Second Segment Climb

The Aircraft shall meet JAR 25 regulations for one engine inoperative climb after take-off, undercarriage retracted, at a weight corresponding to the stated weight at the start of Take-Off Distance Available (TODA), at the altitude and temperature, and in the configuration of flap angle and safety speed required to comply with the performance guaranteed in paragraph 2.1 above.

2.3 Landing Field Length

JAR certified dry landing field length at an Aircraft gross weight of *** at Sea Level pressure altitude shall be not more than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

2.4 Cruise Specific Air Range

The average nautical miles per kilogram of fuel (average SAR) at a true Mach number of *** under the Weight and Altitude conditions given below:
Gross Weight (kg) Pressure Altitude (ft)

shall be not less than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5B

3 MANUFACTURER'S WEIGHT EMPTY

The Seller guarantees a Manufacturer's Weights Empty as below:

A320-200 CFM56-5B4/3 ***

A320-200 V2527-A5 ***

These are the Manufacturer's Weights Empty of the Aircraft as defined in Section 13-10.00.00 of the Standard Specifications amended by the SCN's defined in paragraph 1 of this Letter Agreement and are subject to adjustment as defined in paragraph 6.2.

4 GUARANTEE CONDITIONS

4.1 The performance certification requirements for the Aircraft, except where otherwise noted, will be as stated in Section 02 of the Standard Specification.

4.2 For the determination of JAR take-off and landing performance a hard dry level runway surface with no runway strength limitations, no line-up allowances, no obstacles, zero wind, atmosphere according to ISA, except as otherwise noted, and the use of speed brakes, flaps, landing gear and engines in the conditions liable to provide the best results will be assumed.

4.2.1 When establishing take-off and second segment performance no air will be bled from the engines for cabin air conditioning or anti-icing.

4.3 Climb, cruise and descent performance associated with the Guarantees will include allowances for normal electrical load and for normal engine air bleed and power extraction associated with maximum cabin differential pressure as defined in Section 21-30.31 of the Specification. Cabin air conditioning management during performance demonstration as described in Subparagraph 5.3 below may be such as to optimize the Aircraft performance while meeting the minimum air conditioning requirements defined above. Unless otherwise stated no air will be bled from the engines for anti-icing.

4.4 The engines will be operated using not more than the engine manufacturer's maximum recommended outputs for take-off, maximum go-round, maximum continuous, maximum climb and cruise for normal operation.

4.5 Where applicable the Guarantees assume the use of an approved fuel having a density of *** and a lower heating value of ***. Cruise performance assume a centre of gravity position of ***.

5 GUARANTEE COMPLIANCE

5.1 Compliance with the Guarantees shall be demonstrated using operating procedures and limitations in accordance with those defined by the certifying Airworthiness Authority and by the Seller unless otherwise stated.

5.2 Compliance with the take-off, second segment and landing elements of the Guarantees will be demonstrated with reference to the JAA approved Flight Manual.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5B

- 5.3 Compliance with those parts of the Guarantees defined in paragraph 2 above not covered by the requirements of the certifying Airworthiness Authority shall be demonstrated by calculation based on data obtained during flight tests conducted on one (or more, at the Seller's discretion) A320-200 aircraft of the same aerodynamic configuration as the Aircraft purchased by the Buyer and incorporated in the In-Flight Performance Program and data bases ("the IFP") appropriate to the Aircraft.
- 5.4 Compliance with the Manufacturer's Weight Empty guarantees defined in Paragraph 3 shall be demonstrated with reference to a Weight Compliance Report.
- 5.5 Data derived from tests will be adjusted as required using conventional methods of correction, interpolation or extrapolation in accordance with established aeronautical practices to show compliance with the Guarantees.
- 5.6 Compliance with the Guarantees is not contingent on engine performance defined in the engine manufacturer's specification.
- 5.7 The Seller undertakes to furnish the Buyer with a report or reports demonstrating compliance with the Guarantees at, or as soon as possible after, the delivery of each of the Buyer's Aircraft.

6 ADJUSTMENT OF GUARANTEES

- 6.1 In the event of any change to any law, governmental regulation or requirement or interpretation thereof ("Rule Change") by any governmental agency made subsequent to the date of the Agreement and such rule change affects the Aircraft configuration or performance or both required to obtain certification the Guarantees shall be appropriately modified to reflect the effect of any such change.
- 6.2 The Guarantees apply to the Aircraft as described in paragraph 1 of this Letter Agreement and may be adjusted in the event of:
- (i) Any further configuration change which is the subject of a SCN
 - (ii) Variation in actual weights of items defined in Section 13-10 of the Standard Specification
 - (iii) Changes required to obtain certification that cause modifications to the performance or weight of the Aircraft

7 EXCLUSIVE GUARANTEES

The Guarantees are exclusive and are provided in lieu of any and all other performance and weight guarantees of any nature which may be stated, referenced or incorporated in the Standard Specification or any other document.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5B

8 ***

9. **ASSIGNMENT**

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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.

10. **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 5B

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

AIRBUS S.A.S.

COMPANY LIMITED

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

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.

LETTER AGREEMENT 5C

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject: A321-200 PERFORMANCE GUARANTEES

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase 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.

PA A320 CSN 2009
CT0803292

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Page 1/6
Private & Confidential

LETTER AGREEMENT 5C

1 AIRCRAFT CONFIGURATION

The guarantees defined below (the "Guarantees") are applicable to the A321-200 Aircraft as described in the Standard Specification ***equipped with:

- a) CFM56-5B3/3 propulsion system
- b) IAE V2533-A5 propulsion system

for deliveries from *** onwards without taking into account any further changes thereto as provided in the Agreement (the "Specification" for the purposes of this Letter Agreement).

2 GUARANTEED PERFORMANCE

2.1 Take-off Field Length

The JAR take-off field length at an Aircraft gross weight of *** at the start of Take-Off Distance Available (TODA) at Sea Level pressure altitude in ISA+15°C conditions shall not be more than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

2.2 Second Segment Climb

The Aircraft shall meet JAR 25 regulations for one engine inoperative climb after take-off, undercarriage retracted, at a weight corresponding to the stated weight at the start of Take-Off Distance Available (TODA), at the altitude and temperature, and in the configuration of flap angle and safety speed required to comply with the performance guaranteed in paragraph 2.1 above.

2.3 Landing Field Length

JAR certified dry landing field length at an Aircraft gross weight of *** at Sea Level pressure altitude shall be not more than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

2.4 Cruise Specific Air Range

The average nautical miles per kilogram of fuel (average SAR) at a true Mach number of *** under the Weight and Altitude conditions given below:

Gross Weight (kg) Pressure Altitude (ft)

shall be not less than a guaranteed value of:

- a) for CFM: ***
- b) for IAE: ***

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5C

3 MANUFACTURER'S WEIGHT EMPTY

The Seller guarantees a Manufacturer's Weights Empty as below:

A321-200 CFM56-5B3/3 ***

A321-200 V2533-A5 ***

These are the Manufacturer's Weights Empty of the Aircraft as defined in Section 13-10.00.00 of the Standard Specifications amended by the SCN's defined in paragraph 1 of this Letter Agreement and are subject to adjustment as defined in paragraph 6.2.

4 GUARANTEE CONDITIONS

- 4.1 The performance certification requirements for the Aircraft, except where otherwise noted, will be as stated in Section 02 of the Standard Specification.
- 4.2 For the determination of JAR take-off and landing performance a hard dry level runway surface with no runway strength limitations, no line-up allowances, no obstacles, zero wind, atmosphere according to ISA, except as otherwise noted, and the use of speed brakes, flaps, landing gear and engines in the conditions liable to provide the best results will be assumed.
- 4.2.1 When establishing take-off and second segment performance no air will be bled from the engines for cabin air conditioning or anti-icing.
- 4.3 Climb, cruise and descent performance associated with the Guarantees will include allowances for normal electrical load and for normal engine air bleed and power extraction associated with maximum cabin differential pressure as defined in Section 21-30.31 of the Specification. Cabin air conditioning management during performance demonstration as described in Subparagraph 5.3 below may be such as to optimize the Aircraft performance while meeting the minimum air conditioning requirements defined above. Unless otherwise stated no air will be bled from the engines for anti-icing.
- 4.4 The engines will be operated using not more than the engine manufacturer's maximum recommended outputs for take-off, maximum go-round, maximum continuous, maximum climb and cruise for normal operation.
- 4.5 Where applicable the Guarantees assume the use of an approved fuel having a density of *** and a lower heating value of ***. Cruise performance assume a centre of gravity position of ***.

5 GUARANTEE COMPLIANCE

- 5.1 Compliance with the Guarantees shall be demonstrated using operating procedures and limitations in accordance with those defined by the certifying Airworthiness Authority and by the Seller unless otherwise stated.
- 5.2 Compliance with the take-off, second segment and landing elements of the Guarantees will be demonstrated with reference to the JAA approved Flight Manual.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5C

- 5.3 Compliance with those parts of the Guarantees defined in paragraph 2 above not covered by the requirements of the certifying Airworthiness Authority shall be demonstrated by calculation based on data obtained during flight tests conducted on one (or more, at the Seller's discretion) A321-200 aircraft of the same aerodynamic configuration as the Aircraft purchased by the Buyer and incorporated in the In-Flight Performance Program and data bases ("the IFP") appropriate to the Aircraft.
- 5.4 Compliance with the Manufacturer's Weight Empty guarantees defined in Paragraph 3 shall be demonstrated with reference to a Weight Compliance Report.
- 5.5 Data derived from tests will be adjusted as required using conventional methods of correction, interpolation or extrapolation in accordance with established aeronautical practices to show compliance with the Guarantees.
- 5.6 Compliance with the Guarantees is not contingent on engine performance defined in the engine manufacturer's specification.
- 5.7 The Seller undertakes to furnish the Buyer with a report or reports demonstrating compliance with the Guarantees at, or as soon as possible after, the delivery of each of the Buyer's Aircraft.

6 ADJUSTMENT OF GUARANTEES

- 6.1 In the event of any change to any law, governmental regulation or requirement or interpretation thereof ("Rule Change") by any governmental agency made subsequent to the date of the Agreement and such rule change affects the Aircraft configuration or performance or both required to obtain certification the Guarantees shall be appropriately modified to reflect the effect of any such change.
- 6.2 The Guarantees apply to the Aircraft as described in paragraph 1 of this Letter Agreement and may be adjusted in the event of:
- (i) Any further configuration change which is the subject of a SCN
 - (ii) Variation in actual weights of items defined in Section 13-10 of the Standard Specification
 - (iii) Changes required to obtain certification that cause modifications to the performance or weight of the Aircraft

7 EXCLUSIVE GUARANTEES

The Guarantees are exclusive and are provided in lieu of any and all other performance and weight guarantees of any nature which may be stated, referenced or incorporated in the Standard Specification or any other document.

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 5C

8 ***

9. **ASSIGNMENT**

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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.

10. **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 5C

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

AIRBUS S.A.S.

COMPANY LIMITED

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

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.

LETTER AGREEMENT 6

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : Miscellaneous

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase 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.

PA A320 CSN 2009
CT0803292

LA6

Page 1/4
Private & Confidential

LETTER AGREEMENT 6

1. Clause 5 of the AGTA

With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to delete Clause 5.3.4 of the AGTA in its entirety and replace it with the following:

QUOTE
5.3.4 ***
UNQUOTE

2. Clause 7 of the AGTA

With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to add the following Clause 7.4.3 to the AGTA:

QUOTE
7.4.3 ***
UNQUOTE

3. Clause 10 of the AGTA

With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to delete Clause 10.5 of the AGTA in its entirety and replace it with the following:

QUOTE
10.5 ***
UNQUOTE

4. Clause 18 of the AGTA

With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to delete Clause 18.3.2 of the AGTA in its entirety and replace it with the following:

QUOTE
18.3.2 ***
UNQUOTE

5. Clause 6 of the Purchase Agreement

The Parties agree to delete Clause 6 of the Purchase Agreement in its entirety and replace it with the following:

QUOTE

UNQUOTE

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 6

6. Assignment

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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.

7. Confidentiality

This Letter Agreement (and its existence) or any data exchanged between the Buyer and the Seller 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 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.

LETTER AGREEMENT 7

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject : Customer Support

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "Buyer"), AIRBUS S.A.S. (the "Seller") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "Consenting Party") have entered into an aircraft general terms agreement (the "AGTA") and an A320 family purchase agreement dated as of even date herewith (the "Purchase Agreement") which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase 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.

PA A320 CSN 2009
CT0803292

LA7

Page 1/4
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LETTER AGREEMENT 7

1. Clause 14 of the AGTA

1.1 With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree that clause 14.4.3.1 of the AGTA shall be deleted in its entirety and replaced by the following:

QUOTE
14.4.3.1 ***
UNQUOTE

1.2 With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree that clause 14.6 of the AGTA shall be deleted in its entirety and replaced by the following:

QUOTE
14.6 ***
UNQUOTE

1.3 With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to add the following paragraph at to clause 14.9.3 of the AGTA:

QUOTE

UNQUOTE

2. Exhibit H of the AGTA

2.1 With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to add the following clauses to Exhibit H of the AGTA:

QUOTE
3.1.4 ***

3.1.4.1 ***

3.1.4.2 ***
UNQUOTE

2.2 With respect only to the Aircraft purchased under the Purchase Agreement, the Parties agree to add the following clause 4.2.2 to Exhibit H of the AGTA:

QUOTE
4.2.2 ***
UNQUOTE

3. Operational visit

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

LETTER AGREEMENT 7

4. Flight Operations Review

5. CBT Revision service

The Airbus Advanced Computer Based Training (“**Airbus Advanced CBT**”) in use at the Seller’s Training Centers are revised on a regular basis and such revision shall be provided to the Buyer ***

6. Training Allowance

Pursuant to Clause 2 and 3 of Appendix A to Clause 16 of the AGTA, ***

Such trainee-days shall be used solely for the above courses, as defined in the Seller's applicable Training Courses Catalogue.

Within such trainee-day allowance, the number of Engine Run-up courses shall be limited to ***.

7. Assignment

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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) or any data exchanged between the Buyer and the Seller 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 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.

LETTER AGREEMENT 8

_____, 2010

CHINA SOUTHERN AIRLINES COMPANY LIMITED

Bai Yun Airport,
Guangzhou 510405
People's Republic of China

Subject: ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "**Buyer**"), AIRBUS S.A.S. (the "**Seller**") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "**Consenting Party**") have entered into an aircraft general terms agreement (the "**AGTA**") and an A320 family aircraft purchase agreement (the "**Purchase Agreement**") dated as of even date herewith which cover the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement shall have the meanings assigned thereto in the AGTA or in the Purchase Agreement.

Both parties agree that this Letter Agreement, upon execution thereof, shall constitute an integral, nonseverable part of said Purchase 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 Purchase Agreement and this Letter Agreement, the latter shall prevail to the extent of such inconsistency.

PA A320 CSN 2009
CT0803292

LA8

Page 1/3
Private & Confidential

LETTER AGREEMENT 8

Now, with respect to the Aircraft and notwithstanding Clause 5.3.2 of the AGTA, and Clause 5.2 of the Purchase Agreement, the Buyer and the Seller agree the following:

2. Assignment

Notwithstanding any other provision of this Letter Agreement, the AGTA or the Purchase 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

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.

LETTER AGREEMENT 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**CHINA SOUTHERN AIRLINES GROUP
IMPORT AND EXPORT TRADING CORP., LTD.**

Name: _____

Title: _____

PA A320 CSN 2009
CT0803292

LA8

SIDE LETTER 1

**CHINA SOUTHERN AIRLINES COMPANY LIMITED
& CHINA SOUTHERN AIRLINES GROUP IMPORT
AND EXPORT TRADING CORP., LTD.**

Bai Yun Airport
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "Buyer"), AIRBUS S.A.S. (the "Seller") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "Consenting Party") have entered into an aircraft general terms agreement (the "AGTA") and an A320 family aircraft purchase agreement dated as of even date herewith (the "Purchase Agreement") which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Now, with respect to the Aircraft, the Buyer and the Seller agree the following:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

SL1

Page 1/2
Private & Confidential



SIDE LETTER 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.



SIDE LETTER 2

**CHINA SOUTHERN AIRLINES COMPANY LIMITED
& CHINA SOUTHERN AIRLINES GROUP IMPORT
AND EXPORT TRADING CORP., LTD.**

Bai Yun Airport
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "Buyer"), AIRBUS S.A.S. (the "Seller") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "Consenting Party") have entered into an aircraft general terms agreement (the "AGTA") and an A320 family aircraft purchase agreement dated as of even date herewith (the "Purchase Agreement") which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Now, with respect to the Aircraft, the Buyer and the Seller agree the following:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

SL2

Page 1/2
Private & Confidential



SIDE LETTER 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.



SIDE LETTER 3

**CHINA SOUTHERN AIRLINES COMPANY LIMITED
& CHINA SOUTHERN AIRLINES GROUP IMPORT
AND EXPORT TRADING CORP., LTD.**

Bai Yun Airport
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "Buyer"), AIRBUS S.A.S. (the "Seller") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "Consenting Party") have entered into an aircraft general terms agreement (the "AGTA") and an A320 family aircraft purchase agreement dated as of even date herewith (the "Purchase Agreement") which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Now, with respect to the Aircraft, the Buyer and the Seller agree the following:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

SL3

Page 1/2
Private & Confidential



SIDE LETTER 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.



SIDE LETTER 4

**CHINA SOUTHERN AIRLINES COMPANY LIMITED
& CHINA SOUTHERN AIRLINES GROUP IMPORT
AND EXPORT TRADING CORP., LTD.**

Bai Yun Airport
Guangzhou 510405
People's Republic of China

Subject : ***

CHINA SOUTHERN AIRLINES COMPANY LIMITED (the "Buyer"), AIRBUS S.A.S. (the "Seller") and CHINA SOUTHERN AIRLINES GROUP IMPORT AND EXPORT TRADING CORP., LTD. (the "Consenting Party") have entered into an aircraft general terms agreement (the "AGTA") and an A320 family aircraft purchase agreement dated as of even date herewith (the "Purchase Agreement") which covers the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft.

Now, with respect to the Aircraft, the Buyer and the Seller agree the following:

*** This information is subject to confidential treatment and has been omitted and filed separately with the Commission.

PA A320 CSN 2009
CT0803292

SL4

Page 1/2
Private & Confidential



SIDE LETTER 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.

Name: _____

Name: _____

Title: _____

Title: _____

Witnessed and acknowledged,

For and on behalf of

**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.



This English version is a translation of the original Chinese version of the agreement. The English translation shall have no legal effect.

**AGREEMENT ON SUBSCRIPTION OF A SHARES TO BE ISSUED BY
CHINA SOUTHERN AIRLINES COMPANY LIMITED BY WAY OF
NON-PUBLIC ISSUE**

Dated: March 8, 2010

This subscription agreement (hereinafter referred to as the “**Agreement**”) is entered into by and between the following parties in Guangzhou, Guangdong province, the PRC on March 8, 2010:

Party A: China Southern Airlines Company Limited

Address: Guangzhou Economic & Technology Development Zone, Guangdong Province, the PRC

Legal representative: Si Xianmin

Party B: China Southern Air Holding Company

Address: Guangzhou Baiyun International Airport, Guangdong province

Legal representative: Si Xianmin

(Both parties are hereinafter referred to as the “**Parties**” collectively, or the “**Party**” respectively)

Whereas:

1. Party A is a joint stock limited company duly organized and validly existing under the laws of the PRC with a registered capital of RMB 8,003,567,000. Its shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited. Its total share capital comprises 8,003,567,000 shares, among which 4,021,150,000 A shares are held by the promoter, 1,500,000,000 A shares are held by domestic public investors and 2,482,417,000 H shares are held by overseas investors.
2. Party B is a state-owned enterprise duly organized and validly existing under the laws of the PRC, which is also the promoter and controlling shareholder of Party A, legitimately directly holding 50.24% equity interest in the total issued share capital of Party A;

3. Party A intends to increase its registered capital by way of a non-public issue of A shares, while Party B intends to subscribe for part of the A shares to be issued by Party A by way of a non-public issue in order to increase the proportion of its shareholding in Party A.
4. Party A intends to increase its registered capital by way of a non-public issue of H shares to Nan Lung Holding Limited (a wholly-owned subsidiary of Party B, hereinafter referred to as "Nan Lung").

The Agreement is entered into between the Parties after friendly negotiation to specify the rights and obligations of both Parties in the subscription of A shares to be issued by way of a non-public issue.

1. Definitions and Interpretation

1.1 In the Agreement, unless otherwise agreed, the following terms shall have the following meanings:

- 1.1.1. "**Agreement**" refers to the Agreement dated March 8, 2010 on subscription of A Shares to be issued by China Southern Airlines Company Limited by way of non-public issue.
- 1.1.2. "**Non-public Issued A Shares**" refers to the part of new A shares (no more than 132,510,000) to be issued to Party B by way of non-public issue in accordance with the Agreement. Pursuant to the requirements of the Agreement, the par value of each Share is RMB 1.00.
- 1.1.3. "**Non-public Issue of H shares**" refers to new H Shares to be issued by Party A to Nan Lung by way of non-public issue .
- 1.1.4. "**Non-public Issue of A shares**" refers to new A Shares to be issued to not more than 10 specific qualified investors by Party A by way of non-public issue .
- 1.1.5. "**Completion of the Non-public Issue**" refers to the date on which the A shares to be issued under the Non-public Issue are registered under the name of Party B in the Securities Depository and Clearing Corporation.

1.1.6. “CSRC” refers to China Securities Regulatory Committee.

1.1.7. “SHSE” refers to the Shanghai Stock Exchange.

1.1.8. “Securities Depository and Clearing Corporation” refers to China Securities Depository and Clearing Corporation Limited, Shanghai Branch.

1.1.9. “Public Disclosure” refers to the disclosure on the media of information disclosure designated by CSRC .

1.2 Interpretation

1.2.1. Headings used herein are for easy reference purpose only, and shall not be used to construe the Agreement.

1.2.2. Any reference to an article, a clause, a paragraph, an annex or an appendix shall mean the article, clause, paragraph, annex or appendix in the Agreement.

1.2.3. Any reference to “including” herein, whether or not followed by “but not limited to”, shall mean “including but not limited to”.

2. Consideration

2.1 Both Parties agree that the price determination date for the Non-public Issued A Shares shall be the announcement date of the resolution passed at the Board meeting of Party A held on March 9, 2010; the par value per share shall be RMB1.00; and the issue price shall not less than RMB5.66, which is not less than 90% of the average trading price of the A shares for the 20 trading days immediately prior to the price determination date of this non-public issue of A shares. Party B will not attend the price sounding-out process and will accept the final issue price determined according to the results of the price sounding-out process.

2.2 Based on the issue price specified in Article 2.1 above, Party A shall issue not more than 132,510,000 A shares to Party B by way of a Non-public Issue. Party B agrees to subscribe for the aforesaid number of shares in cash. In the event of ex-rights or ex-dividend of Shares of Party A during the period between the price determination date and the issue date, the number of Shares to be issued and the issue price shall be adjusted accordingly.

- 2.3 Party B agree that as soon as the “Conditions Precedent” as set out in Article 3 are all satisfied, Party B shall subscribe the Non-public Issued A Shares according to the notification of Party A and this agreement and make one lump-sum payment of the consideration for the Non-public Issued A Shares in cash to the bank account designated by Party A in writing.
- 2.4 Both Parties confirm that after Completion of A share non-public issue, Party B shall enjoy corresponding rights (including the rights over the retained profit) and undertake corresponding obligations proportionate to its shareholding percentage in Party A.

3. Conditions precedent

3.1 The Agreement shall become effective upon fulfillment of all the conditions set out below:

- 3.1.1. The implementation of the Non-public Issue of A shares under the Agreement and the Non-public Issue of H shares to Nan Lung Holding Limited being approved at the board meeting, shareholders’ general meeting and class meeting of Party A;
- 3.1.2. The subscription of the Non-public Issued A Shares of Party A under the Agreement being approved at the General Manager Meetings of Party B;
- 3.1.3. The receipt of all the licenses, authorizations, permits, consents and approvals from the relevant approval authorities and other relevant approvals for the implementation of the Non-public Issue of A shares under the Agreement and the Non-public Issue of H shares to Nan Lung Holding Limited by Party A.

3.2 Party A and Party B shall do or procure to be done with their best efforts all such acts and things necessary to fulfill the above-mentioned conditions precedent and for the implementation of the Non-public Issue of A shares pursuant to the applicable laws and regulations.

3.3 If the above-mentioned conditions precedent cannot be fulfilled within twelve months from the date of approval of the Agreement by shareholders of Party A in a general meeting, the Agreement shall cease to be effective, and neither Party A nor Party B shall lodge any claim against the other party (except for any claim against any previous breach of the Agreement).

4. Completion of the Non-public Issue

The completion of the Non-public Issue under the Agreement will take place upon the Securities Depository and Clearing Corporation confirms that all subscriptions related to the Non-public Issue are finished.

5. Undertakings and guarantees given by Party A

5.1 Party A guarantees to Party B that:

5.1.1. Party A is a corporate legal person duly incorporated and existing under the PRC laws;

5.1.2. Party A will enter into and execute the Agreement:

5.1.2.1. The requirements of its Articles of Association have been met;

5.1.2.2. It has taken or will take necessary corporate actions to obtain all necessary authorisation and approvals;

5.1.2.3. It will not breach any restrictions imposed by laws or contracts which are binding or have effect on Party A.

5.2 Party A guarantees that in the process of bargaining and negotiation for the signing of the Agreement, all the information provided by Party A to Party B is true, accurate and complete.

5.3 Party A undertakes that it will comply with all the terms of the Agreement.

5.4 Party A undertakes that it will assume economic obligation and legal obligation for breach of any of these guarantees and undertakings mentioned above, and compensate Party B for the actual loss and expenses so incurred.

6. Undertakings and guarantees given by Party B

6.1 Party B guarantees to Party A that:

6.1.1. Party B is a corporate legal person duly incorporated and existing under the PRC laws;

6.1.2. Party B will enter into and execute the Agreement:

6.1.2.1. The requirements of its Articles of Association have been met;

6.1.2.2. It has taken or will take necessary corporate actions to obtain all necessary authorisation and approvals;

6.1.2.3. It will not breach any restrictions imposed by laws or contracts which are binding or have effect on Party B.

6.2 Party B guarantees that in the process of bargaining and negotiating for the signing of the Agreement, all the information provided by Party B to Party A is true, accurate and complete.

6.3 Party B undertakes that it will comply with all the terms of the Agreement.

6.4 Party B undertakes that it will assume economic obligation and legal obligation for breach of any of these guarantees and undertakings mentioned above, and compensate Party A for the actual loss and expenses so incurred.

6.5 Party B undertakes that it will not transfer any of the said shares it obtains in a period of 36 months from the date of registration of the Non-public Issued A Shares under its name.

7. Liability for breach of the Agreement

A party under the Agreement is deemed to be a party in default if it breaches any obligation, undertaking, statement and guarantee stipulated in the Agreement. The party in default shall assume the relevant compensation liability if its breach lead to the failure in fulfilling the Agreement in full, in part or on a timely basis, which in turn results in losses to the other party.

8. Alterations, Amendments and Assignment of the Agreement

8.1 Alterations or amendments of the Agreement shall be subject to negotiation between the Parties and made in writing.

8.2 Alterations and amendments of the Agreement form an integral part of the Agreement.

8.3 Neither Party shall have the right to assign in whole or in part their rights or obligations under the Agreement without the written consent of the other party.

9. The Entire Agreement

9.1 The Agreement shall constitute the entire agreement in connection with the subject matter of the Agreement between the Parties hereto and shall supersede any and all previous oral and written proposals, statements, guarantees, commitments, letters of intention, Memorandums of understanding, agreements and contracts between the Parties. The Parties shall not and have no right to rely on those proposals, statements, guarantees, commitments, letters of intention, Memorandums of understanding, agreements and contracts.

10. Sharing of Taxes and Expenses

10.1 Save as otherwise agreed between the Parties, taxes and expenses incurred in connection with the Non-public Issue of A shares shall be shared by the Parties in accordance with the relevant regulations of the state.

11. Notice

11.1 Relevant notices under or relating to the Agreement from either Party shall be dispatched in written form. A notice shall be deemed effectively received if delivered by hand or registered post to the Parties at the following addresses, or other addresses as instructed by the recipients in ten days prior written notice:

Party A: China Southern Airlines Company Limited
Address: 278 Ji Chang Road, Guangzhou
Post code: 510406
Recipient: Qin Haifeng

Party B: China Southern Airlines Group Corporation
Address: 27 Hang Yun Nan Jie, Ji Chang Road, Guangzhou
Post code: 510405
Recipient: Shi Chaomin

11.2A notice if delivered by hand shall be deemed effectively received upon the recipient's signature. A notice, when delivered by registered post, shall be deemed received seven days after the dispatch of the same at the address of the recipient.

12. Termination of the Agreement

12.1 The Agreement may be terminated upon the occurrence of one or more of the circumstances as follows:

12.1.1. Both Parties to the Agreement have unanimously agreed through consultation;

12.1.2. Should the Agreement fail to meet the conditions precedent prescribed in Article 3 or cannot be performed under the laws, orders, government bans or judicial rulings, either party shall be entitled to terminate the Agreement unilaterally by a written notice.

12.2 Should any circumstance mentioned above occur owing to the fault of either party or both Parties, each party shall assume its respective liability for breach of the Agreement as prescribed in Article 7 hereof.

13. Settlement of Disputes

13.1 The Agreement is subject to the laws of the People's Republic of China.

13.2 All disputes arising from the implementation of the Agreement shall be settled through friendly negotiation between the two Parties. Where negotiation is not successful, any party may refer the dispute to the people's court with competent jurisdiction in Guangzhou for legal proceedings.

13.3 Except for the disputes submitted for legal proceedings, each party shall continue to perform other provisions of the Agreement.

14. Confidentiality

14.1 After the signing of the Agreement, unless prior written consent of the other party has been obtained, each party shall, regardless whether the Non-public Issue of A shares under the Agreement is completed or not, or whether the Agreement is terminated, rescinded, revoked, deemed to be void, or fulfilled, undertake the following obligations of confidentiality:

14.1.1. The Parties shall not disclose to any third party the Agreement and the transaction contemplated hereunder and any other documents related to the transaction (hereinafter referred to as "**Confidential Documents**");

14.1.2. The Parties shall use the Confidential Documents and their contents only for the purpose of the transaction contemplated hereunder, but not for any other purpose.

14.2 The Parties to the Agreement shall not be subject to the restrictions of Article 14.1 if they disclose the Confidential Documents for the following reasons:

14.2.1. Disclosure to the Parties to the Agreement and any of the intermediaries including the sponsor of the non-public issue of A shares, the financial advisors of the non-public issue of H shares, accountants, lawyers, and underwriters engaged by such Party;

14.2.2. Disclosure made according to the mandatory requirements of laws and regulations;

14.2.3. Disclosure made according to the mandatory requirements of the competent government authorities.

15. Other Provisions

15.1 The Agreement shall be formed from the date of signing by the legal representatives of the Parties or their duly authorized representatives, and shall come into force pursuant to the provisions of Article 3 of the Agreement.

15.2 The Parties can, through negotiation, sign a separate written supplementary agreement on any matter not covered by the Agreement. The supplementary agreement shall have the same legal effect as the Agreement.

15.3 The Agreement shall be signed in 12 copies. Party A and Party B shall hold one copy each, and the other 10 copies shall be filed with the relevant authorities.

(This page does not carry any text, and is designated for signing and sealing of the Agreement)

China Southern Airlines Company Limited

By: /s/ Si Xianmin (Company Seal)

Name: Si Xianmin

Title: Legal representative

China Southern Air Holding Company

By: /s/ Wang Quanhua (Company Seal)

Name: Wang Quanhua

Title: Authorized representative

This English version is a translation of the original Chinese version of the agreement. The English translation shall have no legal effect.

**AGREEMENT ON SUBSCRIPTION OF H SHARES TO BE ISSUED BY
CHINA SOUTHERN AIRLINES COMPANY LIMITED BY WAY OF
NON-PUBLIC ISSUE**

Dated: March 8, 2010

This subscription agreement (hereinafter referred to as the “**Agreement**”) is entered into by and between the following parties in Guangzhou, Guangdong province, the PRC on March 8, 2010:

Party A: China Southern Airlines Company Limited
Address: Guangzhou Economic & Technology Development Zone, Gangdong Province, the PRC
Legal representative: Si Xianmin

Party B: Nan lung Holding Limited
Address: Unit 1106-7, K.Wah Centre, 191 Java Road, North Point, HK
Directors: Wang Quanhua, Tang Yong, Wu Yingxiang, Jin Gongbin

(Both parties are hereinafter referred to as the “**Parties**” collectively, or the “**Party**” respectively.)

Whereas:

1. Party A is a joint stock limited company duly organized and validly existing under the laws of the PRC with a registered capital of RMB8,003,567,000. Its shares are listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited. Its total share capital comprises 8,003,567,000 shares, among which 4,021,150,000 A shares are held by the promoter, 1,500,000,000 A shares are held by domestic public investors and 2,482,417,000 H shares are held by overseas investors.
2. Party B is a limited liability company duly organized and validly existing under the laws of Hong Kong holding 9.01% of the issued capital of Party A;
3. Party A intends to increase its registered capital by way of a non-public issue of H shares, while Party B intends to subscribe for all the H shares to be issued by Party A by way of a non-public issue in order to increase the registered capital of Party A.

4. Party A intends to increase its registered capital by way of a non-public issue of A shares, while China Southern Air Holding Company intends to subscribe for part of A shares to be issued by Party A by way of a non-public issue.

The Agreement is entered into between the Parties after friendly negotiation to specify the rights and obligations of both Parties in the subscription of H shares to be issued by way of a non-public issue.

1. Definitions and Interpretation

1.1 In the Agreement, unless the context requires otherwise, the following expressions shall have the following meanings:

- 1.1.1. “**Agreement**” refers to the Agreement dated March 8, 2010 on subscription of H Shares to be issued by China Southern Airlines Company Limited by way of non-public issue.
- 1.1.2. “**Non-public Issued H Shares**” refers to no more than 312,500,000 new H Shares to be issued by Party A to Party B by way of non-public issue in accordance with the Agreement. Pursuant to the requirements of the Agreement, the par value of each non-public issued H Share is RMB 1.00.
- 1.1.3. “**Non-public Issue of A shares**” refers to new A Shares to be issued to not more than 10 specific qualified investors by Party A by way of non-public issue .
- 1.1.4. “**Non-public Issue of H Shares**” refers to new H Shares to be issued by Party A to Party B by way of non-public issue .
- 1.1.5. “**Completion of the Non-public Issue**” refers to the date on which the shares to be issued under the Non-public Issue are registered under the name of Party B in the Securities Depository and Clearing Corporation.
- 1.1.6. “**CSRC**” refers to China Securities Regulatory Committee.

- 1.1.7. “SHSE” refers to the Shanghai Stock Exchange.
- 1.1.8. “Securities Depository and Clearing Corporation” refers to Hong Kong Registrars Limited., the registrar of H Shares of Party A in Hong Kong.
- 1.1.9. “SEHK” refers to Stock Exchange of Hong Kong Limited.
- 1.1.10. “Public Disclosure” refers to the disclosure on the media of information disclosure designated by SEHK or CSRC .

1.2 Interpretation

- 1.2.1. Headings used herein are for easy reference purpose only, and shall not be used to construe the Agreement.
- 1.2.2. Any reference to an article, a clause, a paragraph, an annex or an appendix shall mean the article, clause, paragraph, annex or appendix in the Agreement.
- 1.2.3. Any reference to “including” herein, whether or not followed by “but not limited to”, shall mean “including but not limited to”.

2. Consideration

- 2.1 Both Parties agree that the price of the Non-public Issued H Shares shall be not less than HK\$2.73 per share , the average trading price for the twenty trading days immediately prior to the pricing ex-date.
- 2.2 Based on the issue price specified in Article 2.1 above, Party A shall issue not more than 312,500,000 H Shares to Party B by way of a Non-public Issue. Party B agrees to subscribe for the aforesaid number of Non-public Issued H Shares in cash. In the event of ex-rights or ex-dividend of the Shares of Party A during the period between the pricing ex-date and the issue date, the number of H Shares to be issued and the issue price shall be adjusted accordingly.
- 2.3 Both Parties agree that as soon as the “Conditions Precedent” as set out in Article 3 are all satisfied, Party B shall subscribe the Non-public Issued H Shares according to the notification of Party A and this agreement and make one lump-sum payment of the consideration for the Non-public Issued H Shares in cash to the bank account designated by Party A in writing.

2.4 Both Parties confirm that after Completion of H share non-public issue, Party B shall enjoy corresponding rights (including the rights over the retained profit) and undertake corresponding obligations proportionate to its shareholding percentage in Party A.

3. Conditions Precedent

3.1 The Agreement shall become effective upon fulfillment of all the conditions set out below:

- 3.1.1. The implementation of the Non-public Issue of H shares under the Agreement and the Non-public Issue of A shares being approved at the board meeting, shareholders' general meeting and class meeting of Party A;
- 3.1.2. The subscription of the Non-public Issued H Shares of Party A under the Agreement being approved at the board of Party B; and the subscription of the Non-public Issued A shares of Party A being approved at the General Manager office meeting of China Southern Air Holding Company;
- 3.1.3. The receipt of all the licenses, authorizations, permits, consents and approvals from the relevant approval authorities and other relevant approvals for the implementation of the Non-public Issue of H shares under the Agreement by Party A and the Non-public Issue of A shares to China Southern Air Holding Company and other investors; and
- 3.1.4. The approval of the Listing Committee of SEHK for the listing and trading of Non-public Issued Shares.

3.2 Party A and Party B shall do or procure to be done with their best efforts all such acts and things necessary to fulfill the above-mentioned conditions precedent and for the implementation of the Non-public Issue pursuant to the applicable laws and regulations.

3.3 If the above-mentioned conditions precedent cannot be fulfilled within twelve months from the date of approval of the Agreement by shareholders of Party A in a general meeting, the Agreement shall cease to be effective, and neither Party A nor Party B shall lodge any claim against the other party (except for any claim against any previous breach of the Agreement).

4. Change Registration for the Non-public Issue

After the Completion of the Non-public Issue, both Party A and Party B shall register relevant changes with registration authority on a timely basis.

5. Undertakings and Guarantees Given by Party A

5.1 Party A guarantees to Party B that:

5.1.1. Party A is a corporate legal person duly incorporated and existing under the PRC laws;

5.1.2. Party A will enter into and execute the Agreement:

5.1.2.1. The requirements of its Articles of Association have been met;

5.1.2.2. It has taken or will take necessary corporate actions to obtain all necessary authorisation and approvals;

5.1.2.3. It will not breach any restrictions imposed by laws or contracts which are binding or have effect on Party A.

5.2 Party A guarantees that in the process of bargaining and negotiation for the signing of the Agreement, all the information provided by Party A to Party B is true, accurate and complete.

5.3 Party A undertakes that it will comply with all the terms of the Agreement.

5.4 Party A undertakes that it will assume economic obligation and legal obligation for breach of any of these guarantees and undertakings mentioned above, and compensate Party B for the actual loss and expenses so incurred.

6. Undertakings and Guarantees Given by Party B

6.1 Party B guarantees to Party A that:

6.1.1. Party B is a limited liability company duly organized and validly existing under the laws of Hong Kong;

6.1.2. Party B will enter into and execute the Agreement:

6.1.2.1. The requirements of its Articles of Association have been met;

6.1.2.2. It has taken or will take necessary corporate actions to obtain all necessary authorisation and approvals;

6.1.2.3. It will not breach any restrictions imposed by laws or contracts which are binding or have effect on Party B.

6.1.2.4. Party B will comply with the regulations promulgated by PRC and Hong Kong in connection with the prohibition of insider trading and market misconduct;

6.2 Party B guarantees that in the process of bargaining and negotiating for the signing of the Agreement, all the information provided by Party B to Party A is true, accurate and complete.

6.3 Party B undertakes that it will comply with all the terms of the Agreement.

6.4 Party B undertakes that it will assume economic obligation and legal obligation for breach of any of these guarantees and undertakings mentioned above, and compensate Party A for the actual loss and expenses so incurred.

7. Liability for Breach of the Agreement

A party under the Agreement is deemed to be a party in default if it breaches any obligation, undertaking, statement and guarantee stipulated in the Agreement. The party in default shall assume the relevant compensation liability if its breach lead to the failure in fulfilling the Agreement in full, in part or on a timely basis, which in turn results in losses to the other party.

8. Alterations, Amendments and Assignment of the Agreement

8.1 Alterations or amendments of the Agreement shall be subject to negotiation between the Parties and made in writing.

8.2 Alterations and amendments of the Agreement form an integral part of the Agreement.

8.3 Neither Party shall have the right to assign in whole or in part their rights or obligations under the Agreement without the written consent of the other party.

9. The Entire Agreement

9.1 The Agreement shall constitute the entire agreement in connection with the subject matter of the Agreement between the Parties hereto and shall supersede any and all previous oral and written proposals, statements, guarantees, commitments, letters of intention, Memorandums of understanding, agreements and contracts between the Parties. The Parties shall not and have no right to rely on those proposals, statements, guarantees, commitments, letters of intention, Memorandums of understanding, agreements and contracts.

10. Sharing of Taxes and Expenses

10.1 Save as otherwise agreed between the Parties, taxes and Expenses incurred in connection with the Non-public Issue of H shares shall be shared by the Parties in accordance with the relevant regulations of the state.

11. Notice

11.1 Relevant notices under or relating to the Agreement from either Party shall be dispatched in written form. A notice shall be deemed effectively received if delivered by hand or registered post to the Parties at the following addresses, or other addresses as instructed by the recipients in ten days prior to the written notice:

Party A: China Southern Airlines Company Limited
Address: 278 Ji Chang Road, Guangzhou
Post code: 510406
Recipient: Qin Haifeng

Party B: Nan Lung Holding Company Limited
Address: Unit 1106-7, K.Wah Centre, 191 Java Road, North Point, HK
Recipient: Wang Xiaohui

11.2A notice if delivered by hand shall be deemed effectively received upon the recipient's signature. A notice, when delivered by registered post, shall be deemed received seven days after the dispatch of the same at the address of the recipient.

12. Termination of the Agreement

12.1 The Agreement may be terminated upon the occurrence of one or more of the circumstances as follows:

- 12.1.1. Both Parties to the Agreement have unanimously agreed through consultation;
- 12.1.2. Should the Agreement fail to meet the conditions precedent prescribed in Article 3 or cannot be performed under the laws, orders, government bans or judicial rulings, either party shall be entitled to discharge the Agreement unilaterally by a written notice.

12.2 Should any circumstance mentioned above occur owing to the fault of either party or both Parties, each party shall assume its respective liability for breach of the Agreement as prescribed in Article 7 hereof.

13. Settlement of Disputes

13.1 The Agreement is subject to the laws of the People's Republic of China.

13.2 All disputes arising from the implementation of the Agreement shall be settled through friendly negotiation between the Parties. Where negotiation is not successful, any Party may refer the dispute to the people's court with competent jurisdiction in Guangzhou for legal proceedings.

13.3 Except for the disputes submitted for legal proceedings, each Party shall continue to perform other provisions of the Agreement.

14. Confidentiality

14.1 After the signing of the Agreement, unless prior written consent of the other party has been obtained, each party shall, regardless whether the Non-public Issue of H shares under the Agreement is completed or not, or whether the Agreement is terminated, rescinded, revoked, deemed to be void, or fulfilled, undertake the following obligations of confidentiality:

14.1.1. The Parties shall not disclose to any third party the Agreement and the transaction contemplated hereunder and any other documents related to the transaction (hereinafter referred to as "Confidential Documents");

14.1.2. The Parties shall use the Confidential Documents and their contents only for the purpose of the transaction contemplated hereunder, but not for any other purpose.

14.2 The Parties to the Agreement shall not be subject to the restrictions of Article 14.1 if they disclose the Confidential Documents for the following reasons:

14.2.1. Disclosure to the Parties to the Agreement and any of the intermediaries including sponsors of the A shares, the financial advisors of the non-public issue of H shares, accountants, and lawyers engaged by such Party;

14.2.2. Disclosure made according to the mandatory requirements of laws and regulations;

14.2.3. Disclosure made according to the mandatory requirements of the competent government authorities.

15. Other Provisions

15.1 The Agreement shall be formed from the date of signing by the legal representatives of the Parties or their duly authorized representatives, and shall come into force pursuant to the provisions of Article 3 of the Agreement.

15.2 The Parties can, through negotiation, sign a separate written supplementary agreement on any matter not covered by the Agreement. The supplementary agreement shall have the same legal effect as the Agreement.

15.3 The Agreement shall be signed in 12 copies, with each Party holding one copy, and the other 10 copies shall be filed with the relevant authorities.

(This page does not carry any text, and is designated for signing and sealing of the Agreement)

China Southern Airlines Company Limited

By: /s/ Si Xianmin (Company Seal)

Name: Si Xianmin

Title: Legal representative

Nan lung Holding Limited

By: /s/ Wang Quanhua (Company Seal)

Name: Wang Quanhua

Title: Authorized representative

Dated AS OF THIS DAY 28 OF September, 2009

CHINA SOUTHERN AIRLINES CO. LTD.

CHINA SOUTHERN AIR HOLDING COMPANY

MTU AERO ENGINES GMBH

MTU MAINTENANCE ZHUHAI CO. LTD.

AGREEMENT

THIS AGREEMENT is dated as of this ____ day of _____ 2009

PARTIES

- (1) **CHINA SOUTHERN AIRLINES CO. LTD.**, a legal person duly organised and existing under the laws of the People's Republic of China ("**PRC**") and having its legal address at Guangzhou Economic and Technological Development Zone, Guangdong Province, PRC ("**Transferor**");
- (2) **CHINA SOUTHERN AIR HOLDING COMPANY**, a legal person duly organised and existing under the laws of the PRC and having its legal address at Baiyun International Airport, Guangzhou, Guangdong Province, PRC ("**Transferee**");
- (3) **MTU AERO ENGINES GMBH**, a company duly incorporated and existing under the laws of the Federal Republic of Germany and having its registered address at Dachauer Str. 665, 80995 Munich, Germany ("**MTU**"); and
- (4) **MTU MAINTENANCE ZHUHAI CO. LTD.**, a company duly incorporated and existing under the laws of the PRC and having its registered address at Zhuhai Free Trade Zone, Guangdong Province, PRC ("**JV Company**").

(Each of the parties may hereinafter be referred to individually as a "**Party**" and collectively as the "**Parties**".)

WHEREAS

- (A) The Transferor and MTU established the JV Company in 2001 and entered into an Equity Joint Venture Contract for establishment of the JV Company on March 12, 2001 ("**JV Contract**"). Under the JV Contract, each of the Transferor and MTU owes certain obligations to each other and the JV Company.
- (B) The Transferor intends to transfer its entire equity interest in the JV Company to the Transferee, the parent company of the Transferor, pursuant to Article 15.2 of the JV Contract ("**Proposed Transfer**").
- (C) The Parties intend to enter into this Agreement to comply with the provisions of Article 15.2 of the JV Contract and set out the Parties' rights and obligations after the Proposed Transfer is completed.

AGREED TERMS

1. Unless otherwise defined herein or the context expressly requires otherwise, words and expressions used in this Agreement shall have the meanings given to them in the JV Contract. The JV Contract and the Articles of Association of the JV Company referred to in this Agreement shall mean the amended and restated JV Contract and the amended and restated Articles of Association of the JV Company when referring to any period after the completion of the Proposed Transfer.
2. The Transferor hereby undertakes to each of MTU and the JV Company (and the Transferee shall procure the Transferor to duly comply with its undertakings to MTU and the JV Company hereunder) that upon this Agreement becoming effective:

- 2.1. it shall continue to perform its obligations, and comply with the provisions, under Articles 17.1.3, 17.1.8, 17.2 and 17.3 of the JV Contract ; and
- 2.2. the Proposed Transfer shall not in any way affect the performance by the Transferor of its obligations under each of the CFM56 Maintenance Agreement, the V2500 Maintenance Agreement and any other agreements entered into between the Transferor and the JV Company for the term of the JV Contract. For the avoidance of doubt, the Transferor hereby confirms that the CFM56 Maintenance Agreement includes the exclusive repair, overhaul and maintenance by the JV Company of CFM56-5 and CFM56-7 engines operated by the Transferor, subject to the JV Company being internationally competitive as defined through the "Net Most Favoured Contract Terms" specified in the Maintenance Agreements.

For the avoidance of doubt, the Transferor undertakes and warrants to each of MTU and the JV Company that, from the date of this Agreement and until the expiry of the term of the JV Contract, regardless of any change to the shareholding of the JV Company, the Transferor will continue to perform and comply with the above obligations. Without prejudice to the Transferee's undertaking and warranty under Section 3, as from the Effective Date (defined below), the due performance of the above specified obligations by the Transferor shall be deemed to fulfil the Transferee's obligations to perform the Transferee's corresponding obligations under the JV Contract and the Articles of Association of the JV Company and the Transferor will not be obliged to perform other obligations under the JV Contract and the Articles of Association of the JV Company.

3. Subject to this Agreement becoming effective in accordance with Section 4, the Transferee undertakes and warrants to MTU and the JV Company that, during the remaining term of the JV Contract:
 - 3.1 The Transferee will continue to be a controlling shareholder of the Transferor and the Transferee shall not sell or otherwise dispose of a controlling stake in the Transferor;
 - 3.2 The Transferee shall take all actions and perform all acts necessary, or shall procure that all actions are taken and all acts necessary are performed, to ensure that the Transferor will not act in any manner that will (i) result in any breach of the Transferee's obligations under the JV Contract and/or the Articles of Association of the JV Company, or (ii) otherwise contravene the Transferee's obligations under the JV Contract and/or the Articles of Association;and
 - 3.3 The Transferee shall procure that the Transferor will duly perform its obligations, and comply with this Agreement and the provisions under Articles 17.1.3, 17.1.8, 17.2 and 17.3 of the JV Contract ; and
4. Upon the obtaining of the approval by the Transferor's shareholders and the PRC government authorities' approval of this Agreement (if necessary), the Transferee and MTU will enter into amended and restated JV Contract and Articles of Association of the JV Company to reflect the Proposed Transfer and submit the same to the approval authorities for approval. The Proposed Transfer will become effective on the date on which the approval by the Transferor's shareholders and the PRC government authorities' approval of the Proposed Transfer are given ("**Effective Date**"). If this Agreement does not become effective on or before 31 December 2009, it will lapse and be of no further force and effect, and the Parties shall have no claims whatsoever against each other.

5. Nothing in this Agreement shall release the Transferor from any liability in respect of any obligations under the JV Contract due to be performed prior to the Effective Date.
6. If any provision, or any portion thereof, of this Agreement shall be held invalid, illegal or unenforceable under the laws of the PRC, the validity, legality and enforceability of the remaining provisions herein shall not in any way be affected or impaired thereby. The Parties shall consult with each other in good faith to reach an agreement on provisions acceptable to each Party to replace to such provisions.
7. The validity, interpretation and implementation of this Agreement and the resolution of disputes concerning the validity, interpretation and implementation of this Agreement shall be governed by relevant and published laws of the PRC.
8. This Agreement is made in Chinese and English. Both language versions shall have the same validity. Each Party acknowledges and confirms that it has reviewed both language versions and that no material differences between the two language versions of this Agreement in terms of substance.

This Agreement has been executed and delivered on the date(s) indicated below.

**CHINA SOUTHERN AIRLINES CO.
LTD.**

Name: Tan Wangeng
Title:
Date:
Company seal:

**CHINA SOUTHERN AIR HOLDING
COMPANY**

Name: Si Xianmin
Title:
Date:
Company seal:

MTU AERO ENGINES GMBH

Name: WEINGARTNER/ R.Winkler
Title: CEO Commercial Maintenance /CFO
Date:

**MTU MAINTENANCE ZHUHAI CO.
LTD.**

Name: Holger Sindemann
Title: President & CEO
Date:
Company seal:

Transfer Agreement for the 50% Equity Interest

in

MTU Maintenance Zhuhai Co., Ltd. of Zhuhai Bonded Area

between

China Southern Air Holding Company

and

China Southern Airlines Company Limited

This Agreement was entered into on 28 September 2009 in Guangzhou, China between:

Party A: China Southern Air Holding Company

Legal address: Baiyun International Airport, Guangzhou, Guangdong Province

Legal representative: Si Xian Min

Position: General Manager

and

Party B: China Southern Airlines Company Limited

Legal address: Economic and Technological Development Zone, Guangzhou, Guangdong Province

Legal representative: Si Xian Min

Position: Chairman

Whereas:

1. MTU Maintenance Zhuhai Co., Ltd. of Zhuhai Bonded Area is a sino-foreign equity joint-venture enterprise jointly established by Party B and MTU Aero Engines GmbH, in which each holds 50% equity interest;
2. Party A is a state-owned group company established and existing under the laws of the PRC. It is authorized to manage the state-owned assets of the group company and all its subsidiaries and therefore, entitled to take the subject equity interest under the Agreement pursuant to the legal procedures;

3. Party B is a listed company established and existing under the laws of the PRC with qualification of independent legal entity, and is entitled to dispose of the subject equity interest it holds provided that the relevant procedures as provided in applicable laws are duly carried out.

The following agreement on the subject equity interest was entered into between both parties after arm's length negotiation:

I. Definitions

Both parties: collectively Party A and Party B.

Each party, a party or the other party: Party A or Party B

Party A, CSAHC or Transferee: China Southern Air Holding Company

Party B, Company or Transferor: China Southern Airlines Company Limited

JV Company or MTU Co.: MTU Maintenance Zhuhai Co., Ltd. of Zhuhai Bonded Area, a sino-foreign equity joint-venture enterprise jointly established by Party B and MTU Aero Engines GmbH, the legal address of which is at Zhuhai Bonded Area.

Germany MTU or the foreign shareholder of the JV Company: MTU Aero Engines GmbH

Subject equity interest: the 50% equity interest in MTU Co. held by Party B (including an investment of US\$31,550,000 and the proportionate interest);

JV Contract: the joint venture contract between China Southern Airlines Company Limited and MTU Aero Engines GmbH entered into between China Southern Airlines Company Limited and MTU Aero Engines GmbH on 12 March 2001;

MTU Articles: the articles of association of MTU Maintenance Zhuhai Co., Ltd. of Zhuhai Bonded Area;

Taxes and levies: any of the taxes, charges, fees and surcharges, including but not limited to income tax, value-added tax and business tax calculated and levied by the State or any governmental authorities or any of its branches at provincial, municipal or county level in an individual, combined, separate or united way or otherwise, which include the relevant interests, late fees, additional charges and penalties.

Transition Period: the period between 30 June 2009, the reference date of valuation of the transfer and the date on which all the approvals are obtained and the procedure of changes on industrial and commercial registration is concluded.

Force majeure: the unpredictable, inevitable and insuperable objective happenings, including but not limited to wars, pandemic diseases, strikes, earthquakes and floods.

SASC: the PRC State-owned Assets Supervision and Administration Commission of the State Council.

MOC: Ministry of Commerce of the People's Republic of China

II. Representations and warranties by the two parties

1. Representations and warranties by Party A

- (1) Party A warrants that it is a state-owned enterprise established and validly existing under the laws of the PRC with due qualification as an entity to sign and execute the Agreement and has obtained all necessary internal authorization and approvals for taking the subject equity interest;
- (2) Signing and execution of the Agreement will not: 1) lead to breach of relevant laws and regulations; 2) cause conflicts with its articles or similar documents of such nature; 3) lead to or constitute default under the other agreement or document to which it is a party or bond by it;
- (3) Party A undertakes to pay Party B as scheduled and in full the consideration for the transfer of subject equity interest under the Agreement as set forth therein;

- (4) Party A has taken all appropriate and necessary actions to authorize signing and delivery of the Agreement and all the other agreements and documents as mentioned therein to which it is a party, and authorize execution and compliance with the terms and conditions of the Agreement and such agreements and documents.

2. Representations and warranties by Party B

- (1) Party B warrants that it is a joint stock limited company established and validly existing under the laws of the PRC with due qualification as an entity to sign and execute the Agreement, and has obtained authorizations or approvals from the Board of Directors for the transfer of its investment;
- (2) Party B warrants that the subject equity interest to be transferred is legally owned by it, and it has duly performed its obligation as a shareholder to make contribution to the registered capital of the Company, for which there shall not be any pledge or other restrictive rights attached to the subject equity interest. It has also dispatched a notice of transfer of the subject equity interest to Germany MTU as per Clause 15.2 of the JV Contract and Clause 13.2 of MTU Articles, with which it is deemed to have completed its obligation of notifying the foreign shareholder of the JV Company.
- (3) Signing and execution of the Agreement will not: 1) lead to breach of relevant laws and regulations; 2) cause conflicts with its articles or similar documents of such nature; 3) lead to or constitute default under the other agreement or document to which it is a party or bond by it;
- (4) Party B has taken all appropriate and necessary actions to authorize signing and delivery of the Agreement and all the other agreements and documents as mentioned therein to which it is a party, and authorize execution and compliance with the terms and conditions of the Agreement and such agreements and documents.
- (5) Party B undertakes to be bond by the agreement on the arrangement for engine maintenance under the four-party agreement among Party A, Party B, JV Company and Germany MTU.

3. The two parties confirm that the representations, warranties and undertakings made by each of them under the Agreement shall remain valid subsequent to the satisfactory performance of the same.

III. Transfer of the subject equity interest

1. Transfer of the subject equity interest

Subject to restriction of the terms and conditions of the Agreement, Party B agrees to transfer its 50% subject equity interest in MTU Company to Party A, and Party A agrees to take the 50% subject equity interest that Party B holds in MTU Company.

2. Consideration, terms and time of payment

- (1) With reference to the Property Valuation Report dated on 30 June 2009 provided by China United Assets Appraisal Co., Ltd. and subject to the approval of SASC, Party A and Party B confirm that consideration for the equity interest transfer is RMB1,607,850,000;
- (2) Party A shall make full payment in cash upon the Contract becoming effective.

3. Sharing of taxes

The taxes in respect of transfer of the subject equity interest under the Agreement shall be borne by each party in accordance with the provisions of the laws and administrative rules of PRC.

VI. Handover of the subject equity interest

1. After the Agreement is approved by the general meeting of Party B and SASC, the two parties shall urge MTU Co. to obtain the approval from MOC on transfer of the subject equity interest and complete the procedure of changes on shareholders at the Administration of Commerce and Industry.

2. Upon MTU Co. obtaining the approval documents from MOC on transfer of the subject equity interest and Party A making full payment for transfer of the subject equity interest under the Agreement, transfer of the subject equity interest under the Agreement is deemed to have been completed, Party B is notwithstanding obliged to assist MTU Co. in fulfilling the procedure of changes on industrial and commercial registration.

3. Party A and Party B agree that, should Party A have outstanding payment for the consideration under the Agreement after MTU Co. has completed the procedure of changes on industrial and commercial registration, Party B shall continue to enjoy all the benefits of the subject equity interest, until Party A completes such payment.

V. Rights and obligations of the Parties

1. Rights and Obligations of Party A

Party A shall

- (1) hold 50% of equity interest in MTU Co. upon the date of completion of the transfer of the subject equity interest and shall enjoy and bear the benefits and obligations of a shareholder;
- (2) pay to Party B the full transfer price due on time under the provisions of this Agreement. ;
- (3) work with the JV partner to amend the MTU Articles, JV Contract and go through the approval procedures at the MOC, and also assist MTU Co. in changes in commercial registrations ;
- (4) be responsible for effecting the equity transfer.

2. Rights and Obligations of Party B

Party B shall

- (1) receive the transfer price under the provisions of this Agreement ;
- (2) assist MTU Co. in amending the MTU Articles, JV Contract and go through the approval procedures at the MOC, and also assist MTU Co. in changes in commercial registrations ;
- (3) coordinate with Party A in effecting the transfer.

VI. Confirmations from the Parties

1、 Labor contracts entered into between MTU Co. and its employees continue to be effective. No actions will be required or adopted by the Parties which will give rise to the termination of employment, and thus any party will not be held responsible for the compensations and related expenses arising upon termination of employment. Any changes in directors assigned by Party B shall follow the instructions of Party A. The six senior management members assigned by Party B shall be transferred to Party A according to the principle of "movement of business and staff as a whole" .

2、 MTU Co. shall take on any credits and liabilities incurred during the course of its business and continue to be held responsible for the same. The transfer of the subject equity interest from Party A to Party B will not give rise to any obligation on Party A to settle any liabilities incurred prior to the transfer of the equity interest in MTU Co..

VII. Transition Period Arrangement

1. During the transition period, Party B shall not procure or permit MTU Co. to make any distribution in cash or in kind.

2. During the transition period, the directors and senior management staff assigned by Party B shall remain unchanged. Prior approval from Party A is required in case of any intended changes of the above persons arising from job requirements or personal reasons.

3. During the transition period, Party B shall not pledge or dispose the subject equity interest or otherwise take any action that hinders the transfer of the same.

4. During the transition period, any gains or losses attributable from the subject equity interest shall be enjoyed and born by Party A.

VIII. Effectiveness of This Agreement

1. This agreement shall become effective upon the satisfaction of the following conditions :

(1) Party A having obtained the approval from ASAC for the transfer of the subject equity interest ;

(2) Party B having obtained the approval from its general meeting of shareholders for the transfer of the subject equity interest ;

(3) Part A and Part B having obtained the approval from MOC for the transfer of the subject equity interest.

2. In the event of any of the above conditions not being satisfied on or before 31 December 2009 or any other later date as agreed upon by the Parties, this Agreement may be terminated by agreement after negotiation and no liabilities for default shall be borne by any party. Each party shall be responsible for the respective expenses incurred by it. Each party shall have no further rights or obligations other than those under this Agreement and no claims shall be made against the other party for any reasons, except out of any prior defaults.

IX. Force majeure

1. Either party shall use their best efforts to procure the success implementation of the Agreement. Neither party shall be considered in breach of the Agreement to the extent that performance of their respective obligation is prevented due to reasons of force majeure and each party shall seek a fair solution through mutual consultation. If a fair solution cannot be reached, such disputes shall be resolved in accordance with Article 10 of the Agreement.

2. Following the occurrence of a force majeure event, if the affected party cannot perform its obligation under the Agreement, the time for performance as prescribed hereunder shall be automatically extended for a period equivalent to the period of force majeure. The affected party shall not bear any default liability.

3. The party claiming the existence of force majeure shall notify the other party as soon as reasonably practicable and provide to the other party relevant evidence of the occurrence and expected duration of such force majeure and shall use all reasonable endeavour to minimise the losses arise therefrom.

X. Default liability

Should a party to the Agreement fail to fulfill its obligation under the Agreement, it is considered as a breach of the Agreement. The defaulting party shall then be held liable to the non-defaulting party. However, neither party shall be deemed in default or otherwise liable for failure to implement the equity transfer under the Agreement due to reasons of state policy of the PRC or force majeure.

XI. Modification and termination of the Agreement

1. Each party to the Agreement shall act in good faith to comply and perform the Agreement in full and shall immediately notify the other party of any major personnel change. However, such change shall not affect the validity and timely performance of the Agreement.

2. The terms of the Agreement shall be legally binding upon all parties once the Agreement is executed. No party shall modify, supplement or terminate the Agreement unless necessary approval has not been granted for the Agreement.

3. Any change or affairs not stated in the Agreement shall be covered by written supplemental agreement reached between both parties through negotiation. The supplemental agreement has the same legal effect as the Agreement.

4. Under the following circumstances, the Agreement may be terminated:

(1) If failure of the Agreement is due to reason of force majeure, either party may terminate the Agreement and shall not be deemed as default;

(2) If failure of the Agreement is due to default of either party, the non-defaulting party may terminate the Agreement and demand indemnities from the defaulting party for all the losses arise therefrom in accordance with Article 8 of the Agreement;

(3) Either party shall give 30 days' prior written notice to the other party in order to terminate the Agreement for reasons stated in (1) and (2) above.

5. The expiration or termination of the Agreement shall not affect the validity of any provisions on default liability or disputes settlement.

XII. Applicable laws and disputes settlement

1. The execution, validity, interpretation, performance and disputes settlement of the Agreement shall be governed by the laws of the People's Republic of China.

2. For any disputes arise from the execution or performance of the Agreement, the parties shall first settle through friendly negotiation. If such disputes cannot be settled thirty (30) days or such longer period as may be agreed by both parties after negotiation commenced, either party may file a lawsuit in a people's court having competent jurisdiction for settlement through litigation.

3. Any excuse or allowance given or delay in exercising a right under the Agreement by one party in respect of the other party's default or delay performance shall not be deemed as a waiver of such rights, nor shall it prejudice, affect or limit any of its rights under the Agreement or any relevant laws and regulations of the PRC.

4. Upon occurrence of any disputes or while any dispute is under processing, save for such disputes, each party is still entitled to exercise the other rights under the Agreement and shall perform their respective obligations thereunder.

XIII. Miscellaneous

1. This Agreement is made as of the date of signature and seal by the legal representatives or authorized signatories for each of the parties and came into effect after having obtained all the approvals.

2. This Agreement shall be held in 10 copies, Party A and Party B each held 5 copies and each copy has same legal effect.

Party A: China Southern Air Holding Company

Legal representative:

Party B: China Southern Airlines Company Limited

Legal representative:

EXHIBIT 8.1

SUBSIDIARIES OF CHINA SOUTHERN AIRLINES COMPANY LIMITED

The particulars of the Company's principal subsidiaries as of December 31, 2009 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
China Southern West Australian Flying College Pty Limited	Australia
Guangzhou Baiyun International Logistics Company Limited	PRC
Xinjiang Civil Aviation Property Management Limited	PRC
China Southern Airlines Group Air Catering Company Limited	PRC
Nan Lung International Freight Company Limited	Hong Kong
Beijing Southern Airlines Ground Service Company Limited	PRC

Exhibit 12.1

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: May 28, 2010

By: /s/ Tan Wan Geng
Name: Tan Wan Geng
Title: President

Exhibit 12.2

CERTIFICATION

I, Xu Jie Bo, 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
- (a) 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: May 28, 2010

By: /s/ Xu Jie Bo
Name: Xu Jie Bo
Title: Chief Financial Officer

Exhibit 13.1

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, 2009 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: May 28, 2010

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.

Exhibit 13.2

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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Xu Jie Bo, 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: May 28, 2010

By: /s/ Xu Jie Bo
Name: Xu Jie Bo
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.

This fax cover sheet is NOT part of the official filing and is meant as a courtesy only. Please disregard this page if you plan to submit changes via email. Email is the preferred method for submitting changes.

Fax Cover Sheet

To:	Rudy Singh	From:	
Fax:	646-349-9655	Phone:	
Phone:	(212) 730-4303	Pages:	
Project:	v186784	Form Type:	20-F
Client:	China Southern Airlines Co Ltd		

Comments: