



Comunidad Virtual de Contadores,  
creada por Contadores para Contadores



# Form 20-F

AVIANCA HOLDINGS S.A.

For the Fiscal Year Ended December 31, 2015

# AVIANCA HOLDINGS S.A.

(Exact name of registrant as specified in its charter)

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**Avianca Holdings S.A.**

(Translation of registrant's name into English)

**Republic of Panama**

(Jurisdiction of incorporation or organization)

**Aquilino de la Guardia Calle No. 8, Panama City,**

**Republic of Panama**

**(+507) 205-600**

(Address of principal executive offices)

**Andrés Felipe Ruiz Vesga**

**Tel: (57+1) - 587 77 00 ext. 7575 • Fax: (57+1) - 423 55 00 ext. 2544/2474**

**Address: Avenida calle 26 # 59 – 15 P5, Bogotá, Colombia**

(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:**

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<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<b>American Depositary Shares (as evidenced by American Depositary Receipts), each representing 8 Preferred Shares, with a par value of \$0.125 per share</b>	<b>New York Stock Exchange</b>

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**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2015:**

**Common Shares — 660,800,003**

**Preferred Shares — 340,507,917**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  (note: not required of registrant)

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

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this annual report, we use the terms “we,” “us,” “our,” “the Company” and “Avianca Holdings” to refer to Avianca Holdings S.A., together with its subsidiaries, except where the context requires otherwise.

**IFRS Financial Statements**

On December 11, 2012, our board of directors approved our adoption of International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. We used a transition date of January 1, 2011, and therefore our consolidated financial statements as of and for the year ended December 31, 2012 were our first annual audited consolidated financial statements required to be prepared in accordance with IFRS. We have not prepared any financial information in accordance with IFRS as of or for any prior periods. For periods prior to 2012, we prepared our audited consolidated financial statements solely in accordance with Colombian GAAP.

Our consolidated financial statements prepared in accordance with IFRS are stated in U.S. dollars. This annual report includes our audited consolidated financial statements as of December 31, 2014 and 2015 and for the years ended December 31, 2013, 2014 and 2015, together with the notes thereto, prepared in accordance with IFRS. Unless otherwise indicated, all financial information provided in this annual report has been prepared in accordance with IFRS.

**Non-IFRS Financial Measures**

This annual report includes certain references to non-IFRS measures such as our Adjusted EBITDAR and Adjusted EBITDAR margin. See “Item 3. Key Information—Part A. Selected Financial Data” for a discussion of our use of Adjusted EBITDAR in this annual report, including the reasons why we believe this information is useful to management and to investors, and a reconciliation of Adjusted EBITDAR to net profit. These supplemental financial measures are not prepared in accordance with IFRS. Accordingly, you are cautioned not to place undue reliance on this information and should note that Adjusted EBITDAR and Adjusted EBITDAR margin, as calculated by us, may differ materially from similarly titled measures reported by other companies, including our competitors.

Adjusted EBITDAR is commonly used in the airline industry to view operating results before depreciation, amortization and aircraft operating lease charges, as these costs can vary significantly among airlines due to

differences in the way airlines finance their aircraft and other assets. However, Adjusted EBITDAR should not be considered as an alternative measure to operating profit, as an indicator of operating performance, as an alternative to operating cash flows or as a measure of our liquidity. Adjusted EBITDAR as calculated by us and as presented in this annual report may differ materially from similarly titled measures reported by other companies due to differences in the way these measures are calculated. Adjusted EBITDAR has important limitations as an analytical tool and should not be considered in isolation from, or as a substitute for an analysis of, our operating results as reported under IFRS. Some of the limitations are:

- Adjusted EBITDAR does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDAR does not reflect changes in, or cash requirements for, working capital needs;
- Adjusted EBITDAR does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDAR does not reflect any cash requirements for such replacements;
- Adjusted EBITDAR does not reflect expenses related to leases of flight equipment and other related expenses; and
- other companies may calculate Adjusted EBITDAR or similarly titled measures differently, limiting its usefulness as a comparative measure.

### **Currency Presentation**

In this annual report, references to “dollars,” “U.S. dollars,” “US\$” and “\$” are to the currency of the United States and references to “Colombian pesos,” “Pesos” and “COP” are to the currency of Colombia. The meaning of the word “billion” in the Spanish language is different from that in American English. In the Spanish language, as used in Colombia, a “billion” is a million millions, which means the number of 1,000,000,000,000, while in American English a “billion” is a thousand millions, which means 1,000,000,000. In this annual report, the meaning of billion is as used in American English.

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We have converted certain U.S. dollar amounts presented in this annual report from Colombian peso amounts solely for the convenience of the reader. We make no representation that the peso or dollar amounts shown in this annual report could have been or could be converted into U.S. dollars or Colombian pesos at the rates shown in this annual report or at any other rate. The Federal Reserve Bank of New York does not report a noon buying rate for Colombian pesos. The conversion of amounts expressed in Colombian pesos as of a specified date at the then prevailing exchange rate may result in presentation of U.S. dollar amounts that differ from U.S. dollar amounts that would have been obtained by converting Colombian pesos as of another specified date.

The rates set forth in this annual report for conversion of COP into U.S. dollars are the rates published by the Colombian Central Bank (*Banco de la República*, or the Central Bank) as reported by the Colombian Financial Superintendency (*Superintendencia Financiera de Colombia*, or the SFC).

On March 31, 2016, the exchange rate between the Colombian peso and the U.S. dollar certified by the SFC was COP3,022.35 per US\$1.00. See “Item 10. Additional Information—Part D. Exchange Controls—Exchange Rates.”

IFRS does not currently require us to adjust our financial statements for inflation. Colombia experienced inflation rates of 1.9%, 3.7% and 6.8% for the years ended December 31, 2013, 2014 and 2015, respectively, according to the Colombian National Administrative Department of Statistics (*Departamento Administrativo Nacional de Estadística*), or DANE.

### **Rounding**

Certain figures included in this annual report have been rounded for ease of presentation. Percentage figures included in this annual report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this annual report may vary from those obtained by performing the same calculations using the figures in our consolidated financial statements. Certain other amounts that appear in this annual report may not sum due to rounding.

## **MARKET DATA**

This annual report contains certain statistical data regarding our airline routes and our competitive position and market share in, and the market size of, the Latin American air transportation market. This information has been derived from a variety of sources, including the Civil Aviation Authority of Colombia (*Unidad Administrativa Especial de Aeronáutica Civil*), the Civil Aviation Authority of El Salvador (*Autoridad de Aviación Civil*), the Civil Aviation Authority of Costa Rica (*Dirección General de Aviación Civil*), the Civil Aviation Authority of Peru (*Dirección General de Aviación Civil*), the Civil Aviation Authority of Ecuador (*Dirección General de Aviación Civil*), the International Air Transport Association, or IATA, the Latin American and Caribbean Air Transport Association, or ALTA, and other third-party sources, governmental agencies or industry or general publications.

Information for which no source is cited has been prepared by us on the basis of our knowledge of Latin American airline markets and other information available to us. The methodologies and terminologies used by different sources are not always consistent, and data from different sources are not readily comparable. In addition, sources other than us use methodologies that are not identical to ours and may produce results that differ from our own estimates. Although we have not independently verified the information contained herein concerning competitive positions, market shares, market sizes, market growth or other similar data that is based upon third-party sources or industry or general publications, we consider these sources and publications to be generally reliable.

## **CERTAIN TERMS**

This annual report contains terms relating to operating performance that are commonly used in the airline industry and are defined as follows:

“Aircraft utilization” represents the average number of block hours operated per day per aircraft for an aircraft fleet.

“Available seat kilometers,” or ASKs, represents aircraft seating capacity multiplied by the number of kilometers the seats are flown.

“Available ton kilometers,” or ATKs, represents cargo ton capacity multiplied by the number of kilometers the cargo is flown.

“Block hours” refers to the elapsed time between an aircraft leaving an airport gate and arriving at an airport gate.

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“CASK excluding fuel” represents operating expenses other than fuel divided by available seat kilometers (ASKs).

“Code share alliance” refers to our code share agreements with other airlines with whom we have business arrangements to share the same flight. A seat can be purchased on one airline but is actually operated by a cooperating airline under a different flight number or code. The term “code” refers to the identifier used in flight schedules, generally the two-character IATA airline designator code and flight number. Code share alliances allow greater access to cities through a given airline’s network without having to offer extra flights, and makes connections simpler by allowing single bookings across multiple planes.

“Cost per available seat kilometer,” or CASK, represents operating expenses divided by available seat kilometers (ASKs).

“Load factor” represents the percentage of aircraft seating capacity that is actually utilized and is calculated by dividing revenue passenger kilometers by available seat kilometers (ASKs).

“Operating revenue per available seat kilometer,” or RASK, represents operating revenue divided by available seat kilometers (ASKs).

“Revenue passenger kilometers,” or RPKs, represent the number of kilometers flown by revenue passengers.

“Revenue passengers” represents the total number of paying passengers (which do not include passengers redeeming *LifeMiles* (previously known as *AviancaPlus* or *Distancia*) frequent flyer miles or other travel awards) flown on all flight segments (with each connecting segment being considered a separate flight segment).

“Revenue ton kilometers,” or RTKs, represents the total cargo tonnage uplifted multiplied by the number of kilometers the cargo is flown.

“Technical dispatch reliability” represents the percentage of scheduled flights that are not delayed at departure more than 15 minutes or cancelled, in each case due to technical problems.

“Yield” represents the average amount one passenger pays to fly one kilometer, or passenger revenue divided by revenue passenger kilometers (RPKs).

## **FORWARD LOOKING STATEMENTS**

This annual report includes forward-looking statements, principally under the captions “Item 4. Information on the Company—Business Overview,” “Item 3. Key Information—Part D. Risk Factors,” and “Item 5. Operating and Financial Review and Prospects.” We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- general economic, political and business conditions in our core markets of Colombia, Peru, Ecuador and Central America and the other geographic markets we serve;
- our level of debt and other fixed obligations;
- demand for passenger and cargo air services in the markets in which we operate;
- competitive pressures on pricing;



- our capital expenditures;
- changes in the regulatory environment in which we operate;
- fluctuations of crude oil prices and its effect on fuel costs;
- changes in labor costs, maintenance costs and insurance premiums;
- changes in market prices, customer demand and preferences and competitive conditions;
- terrorist attacks and the possibility or fear of such attacks affecting the airline industry;
- future threat or outbreak of diseases affecting traveling behavior and/or imports and/or exports;
- natural disasters affecting traveling behavior and/or imports and/or exports;

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- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy and integrate acquisitions;
- our ability to successfully implement our fleet modernization program;
- our ability to obtain financing and the terms of such financing; and
- the risk factors discussed under “Item 3. Key Information—Part D. Risk Factors” beginning on page 6.

The words “believe,” “may,” “should,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “will,” “expect” and similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the future events and circumstances discussed in this annual report might not occur or come into existence and forward-looking statements are thus not guarantees of future performance. Considering these limitations, you should not place undue reliance on forward-looking statements contained in this annual report.

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## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

### A. Selected Financial Data

The following tables present selected summary consolidated financial and operating data as of the dates and for the periods indicated. We prepare consolidated financial statements in accordance with IFRS as issued by the IASB in U.S. dollars. You should read this information in conjunction with our consolidated financial statements together with the notes thereto included in this annual report, "Presentation of Financial and Other Information" and "Item 5. Operating and Financial Review and Prospects."

The selected consolidated financial information as of December 31, 2011, 2012, 2013, 2014 and 2015 and for the years ended December 31, 2011, 2012, 2013, 2014 and 2015 has been derived from our audited consolidated financial statements prepared in accordance with IFRS.

On December 11, 2012, our board of directors approved our adoption of IFRS. We used a transition date of January 1, 2011, and therefore our consolidated financial statements as of and for the year ended December 31, 2012 were our first annual audited consolidated financial statements required to be prepared in accordance with IFRS. We have not prepared any financial information in accordance with IFRS as of or for any prior periods. For periods prior to 2011, we prepared our audited consolidated financial statements solely in accordance with Colombian GAAP.

	As of December 31,				
	2015	2014	2013	2012	2011
	(in US\$ thousands)				
<b>BALANCE SHEET DATA</b>					
<b>Assets</b>					
<i>Current assets:</i>					
Cash and cash equivalents	\$ 479,381	\$ 640,891	\$ 735,577	\$ 402,997	\$ 288,726
Restricted cash	5,397	1,987	23,538	6,547	1,815
Available-for-sale securities	—	1,218	—	19,460	—
Accounts receivable, net of provision for doubtful accounts	279,620	355,168	276,963	202,962	186,353
Accounts receivable from related parties	23,073	27,386	26,425	29,427	7,836
Expendable spare parts and supplies, net of provision for obsolescence	68,768	65,614	53,158	48,796	45,235
Prepaid expenses	45,708	56,065	46,745	54,512	51,603
Assets held for sale	3,323	1,369	7,448	9,832	28,339
Deposits and other assets	130,724	174,128	125,334	105,028	295,609
<b>Total current assets</b>	<b>1,035,994</b>	<b>1,323,826</b>	<b>1,295,188</b>	<b>879,561</b>	<b>905,516</b>
<i>Non-current assets:</i>					
Available-for-sale securities	793	237	14,878	13,165	30,052
Deposits and other assets	246,486	218,010	189,176	221,558	221,712
Accounts receivable, net of provision for doubtful accounts	59,713	42,407	32,441	64,540	41,755
Accounts receivable from related parties	—	11,247	—	24,001	56,167
Intangible assets	413,766	416,070	363,103	344,908	340,496
Deferred tax assets	5,847	35,664	50,893	73,644	70,513

Property and equipment, net	4,599,346	4,128,051	3,233,358	2,699,546	2,309,477
Total non-current assets	5,325,951	4,851,686	3,883,849	3,441,362	3,070,172
Total assets	\$6,361,945	\$6,175,512	\$5,179,037	\$4,320,923	\$3,975,688

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	As of December 31,				
	2015	2014	2013	2012	2011
	(in US\$ thousands)				
<b>Liabilities and equity</b>					
<i>Current liabilities:</i>					
Current portion of long-term debt	\$ 412,884	\$ 458,679	\$ 314,165	\$ 282,145	\$ 283,520
Accounts payable	480,592	547,494	509,129	488,568	449,695
Accounts payable to related parties	9,449	13,797	7,553	7,309	13,746
Accrued expenses	118,192	138,262	134,938	181,802	119,235
Provisions for legal claims	13,386	14,157	14,984	7,903	11,060
Provisions for return conditions	52,636	61,425	33,033	7,598	10,987
Employee benefits	32,876	49,193	52,392	57,241	44,390
Air traffic liability	433,575	461,118	491,752	405,295	356,049
Other liabilities	12,691	127,496	27,432	29,470	38,333
Total current liabilities	1,566,281	1,871,621	1,585,378	1,467,331	1,327,015
<i>Non-current liabilities:</i>					
Long-term debt	3,060,110	2,711,898	1,951,330	1,572,299	1,375,994
Accounts payable	3,599	21,167	2,735	3,041	19,596
Provisions for return conditions	109,231	70,459	56,065	59,297	57,792
Employee benefits	127,720	173,460	276,284	400,831	340,366
Deferred tax liabilities	13,475	15,760	7,940	2,528	2,134
Air traffic liability(1)	93,519	85,934	72,853	63,494	61,696
Other liabilities non-current	15,375	8,466	11,706	—	—
Total non-current liabilities	3,423,029	3,087,144	2,378,913	2,101,490	1,857,578
Total liabilities	4,989,310	4,958,765	3,964,291	3,568,821	3,184,593
<i>Equity:</i>					
Common stock	82,600	82,600	83,225	92,675	92,675
Preferred stock	42,023	42,023	41,398	19,473	19,988
Additional paid-in capital on common stock	234,567	234,567	236,342	263,178	263,178
Additional paid-in capital on preferred stock	469,273	469,273	467,498	270,061	279,112
Retained earnings	507,132	355,671	351,102	68,153	96,167
Revaluation and other reserves	18,394	24,550	28,857	25,418	27,059
Total equity attributable to the Company	1,353,989	1,208,684	1,208,422	738,958	778,179
Non-controlling interest	18,646	8,063	6,324	13,144	12,916

Total equity	1,372,635	1,216,747	1,214,746	752,102	791,095
Total liabilities and equity	\$6,361,945	\$6,175,512	\$5,179,037	\$4,320,923	\$3,975,688

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	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in US\$ thousands, except per share data)				
<b>INCOME STATEMENT DATA</b>					
Operating revenue:					
Passenger	\$ 3,458,017	\$ 3,862,721	\$ 3,862,397	\$ 3,550,559	\$ 3,182,953
Cargo and other(2)	903,324	840,850	747,207	719,097	611,475
Total operating revenue	4,361,341	4,703,571	4,609,604	4,269,656	3,794,428
Operating expenses:					
Flight operations	58,069	56,695	82,872	84,774	79,934
Aircraft fuel	1,006,792	1,345,755	1,325,763	1,305,396	1,123,547
Ground operations	412,382	397,625	343,812	321,552	279,607
Aircraft rentals	317,505	299,220	273,643	255,566	214,861
Passenger services	149,292	154,464	143,512	132,823	115,049
Maintenance and repairs	309,719	268,894	188,659	222,705	228,280
Air traffic	202,980	206,151	180,140	169,650	177,407
Sales and marketing	612,775	605,674	584,468	522,645	500,822
General, administrative and other	176,195	165,172	257,273	206,666	184,700
Salaries, wages and benefits	666,084	725,793	674,951	644,901	561,331
Depreciation, amortization, and impairment	230,732	198,660	169,580	122,080	126,507
Total operating expenses	4,142,525	4,424,103	4,224,673	3,988,758	3,592,045

Operating profit	218,816	279,468	384,931	280,898	202,383
Interest expense	(169,407)	(133,989)	(113,330)	(122,112)	(90,778)
Interest income	19,016	17,099	11,565	25,006	33,649
Derivative instruments	626	5,924	(11,402)	(24,042)	(3,164)
Foreign exchange	(177,529)	10,272	23,517	(56,788)	1,600
Profit (loss) before income tax	(108,478)	178,774	295,281	102,962	143,690
Total income tax expense	(31,028)	(50,280)	(46,460)	(64,705)	(43,814)
Net (loss) profit for the year	\$ (139,506)	\$ 128,494	\$ 248,821	\$ 38,257	\$ 99,876
Net (loss) profit attributable to equity holders of the parent	(155,388)	129,270	257,493	35,141	98,886
Net (loss) profit attributable to non-controlling interest	15,882	(776)	(8,672)	3,116	990
Basic and diluted (loss) earnings per share (common and preferred)	(0.14)	0.13	0.27	0.04	0.11
Basic and diluted (loss) earnings per ADS	(1.12)	1.04	2.16	—	—
Common and preferred share dividends per share (COP/US\$)(3)	198.5 / 0.07	160.1 / 0.07	75 / 0.04	75 / 0.04	50 / 0.03
Common shares at period end	660,800,003	660,800,003	665,800,003	741,400,000	741,400,000
Preferred shares at period end	336,187,285	336,187,285	331,187,285	155,784,429	159,907,920
Weighted average of common shares used in computing earnings per share (thousands)	660,800	665,383	728,800	741,400	761,369
Weighted average of preferred shares used in computing earnings per	336,187	331,604	184,854	158,081	114,939

share (thousands)						
<b>CASH FLOW DATA</b>						
Net cash provided by operating activities	\$	363,002	\$	257,130	\$	544,642
					\$	391,226
						\$ 330,312
Net cash (used in) provided by investing activities		(330,491)		(246,889)		(483,259)
						(300,805)
						(371,179)
Net cash (used in) provided by financing activities		18,079		(52,820)		289,294
						16,744
						57,001
<b>OTHER FINANCIAL DATA</b>						
Adjusted EBITDAR(4)	\$	767,053	\$	777,348	\$	828,154
					\$	658,544
						\$ 543,751
Operating margin(5)		5.0%		5.9%		8.4%
						6.6%
						5.3%
Adjusted EBITDAR margin(6)		17.6%		16.5%		18.0%
						15.4%
						14.3%

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	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>OPERATING DATA (Unaudited)(7)(8)</b>					
Total passengers carried (in thousands)	28,290	26,230	24,625	23,093	20,455
Revenue passengers carried (in thousands)(9)	27,378	25,382	23,865	22,425	19,909
Revenue passenger kilometers (RPK) (in millions)(10)	35,478	32,602	31,186	29,072	26,368
Available seat kilometers (ASK) (in millions)(11)	44,513	41,052	38,762	36,545	33,136
Load factor(12)	79.7%	79.4%	80.5%	79.6%	79.6%
Block hours(13)	547,859	517,943	483,204	466,439	429,712
Average daily aircraft utilization(14)	10.1	10.3	10.1	10.2	9.9
Average one-way passenger fare (US\$)	126.3	152.2	161.8	158.0	160.0
Yield(15)	9.7	11.8	12.4	12.2	12.1
Passenger revenue per ASK (PRASK)(16)	7.8	9.4	10.0	9.7	9.6
Operating revenue per ASK (RASK)(17)	9.8	11.5	11.9	11.7	11.5
Cost per ASK (CASK)(18)	9.3	10.8	10.9	10.9	10.8
CASK excluding fuel	7.0	7.5	7.5	7.3	7.4
Revenue ton kilometers (RTK) (in millions)(19)	1,259	1,104	867	777	717
Available ton kilometers (ATK) (in millions)(20)	2,152	1,810	1,538	1,315	1,182

Gallons of fuel consumed (in thousands)	461,268	427,785	406,143	388,066	350,122
Average price of jet fuel into plane (net of hedge) (US\$/gallon)	2.18	3.15	3.27	3.33	3.15
Average stage length (kilometers)(21)	1,002	972	1,025	1,056	1,063
On-time domestic performance(22)	83.5%	71.9%	67.4%	66.4%	70.1%
On-time international performance(23)	85.7%	80.9%	80.4%	79.2%	79.3%
Completion rate(24)	98.5%	98.1%	98.0%	98.3%	98.3%
Technical dispatch reliability(25)	99.5%	99.4%	99.4%	99.5%	99.3%
Departures(26)	299,192	282,475	253,967	247,365	228,056
Average daily departures	820	774	696	678	627
Airports served at period end	104	102	98	98	110
Routes served at period end	179	168	170	169	168
Direct sales as % of total sales(27)	34.1%	33.6%	31.0%	33.3%	32.1%
Full-time employees and cooperative members at period end	21,145	20,545	19,153	18,071	17,360
Revenue per full-time employee plus cooperative members (US\$)	206	229	241	236	219

- (1) We previously recognized deferred miles related to our *LifeMiles* rewards program as current air traffic liability. We now recognize such deferred miles as current and non-current air traffic liability. A similar adjustment in this presentation has been made for prior years. We launched *LifeMiles* in March 2011. As a result, we had no non-current air traffic liability as of January 1, 2014.
- (2) Includes Aerounion revenues beginning in October 22, 2014.
- (3) Dividends of COP50 per share were declared in March 2016, and will be paid in four equal installments of COP12.50 per share. The first installment was paid on April 7, 2016. The remaining three installments will be paid no later than July 1, 2016, October 7, 2016 and December 16, 2016, based on retained earnings for the year 2015. The US\$ equivalent of such dividends will be determined the date prior to each payment date. Dividends of \$0.06691 per share were declared in April 2015 and paid in October 2015 based on profits for the year 2014. Dividends of 75/0.04 COP/US\$ per share were declared in March 2014 and paid in April 2014 based on profits for the year 2013. Dividends of 75/0.04 COP/US\$ per share were declared in March 2013 and paid in April 2013 based on profits for the year 2012. Dividends of 50/0.03 COP/US\$ per share were declared in March 2012 and paid in April 2012 based on profits for the year 2011.
- (4) Adjusted EBITDAR represents our consolidated net profit for the year plus the sum of income tax expense, depreciation, amortization, and impairment and aircraft rentals, minus interest expense, minus interest income, minus derivative instruments, minus foreign exchange. Adjusted EBITDAR is presented as supplemental information, because we believe it is a useful indicator of our operating performance and is useful in comparing our operating performance with other companies in the airline industry. However, Adjusted EBITDAR should not be considered in isolation, as a substitute for net profit determined in accordance with IFRS or as a measure of a company's profitability. In addition, our calculation of Adjusted EBITDAR may not

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be comparable to other companies' similarly titled measures. The following table presents a reconciliation of our net profit to Adjusted EBITDAR for the specified periods:

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Net (loss) profit for the year	\$(139,506)	\$ 128,494	\$ 248,821	\$ 38,257	\$ 99,876

Add: Income tax expense	31,028	50,280	46,460	64,705	43,814
Add: Depreciation, amortization, and impairment	230,732	198,660	169,580	122,080	126,507
Add: Aircraft rentals	317,505	299,220	273,643	255,566	214,861
Minus: Interest expense	(169,407)	(133,989)	(113,330)	(122,112)	(90,778)
Minus: Interest income	19,016	17,099	11,565	25,006	33,649
Minus: Derivative instruments	626	5,924	(11,402)	(24,042)	(3,164)
Minus: Foreign exchange	(177,529)	10,272	23,517	(56,788)	1,600
<b>Adjusted EBITDAR</b>	<b>\$ 767,053</b>	<b>\$ 777,348</b>	<b>\$ 828,154</b>	<b>\$ 658,544</b>	<b>\$543,751</b>

- (5) Operating margin represents operating profit divided by total operating revenue.
- (6) Adjusted EBITDAR margin represents Adjusted EBITDAR divided by total operating revenue.
- (7) Operating data does not include cargo operations except for block hours, departures, average daily aircraft utilization, gallons of fuel consumed, average price of jet fuel into plane (net of hedge), average number of aircraft, full-time employees and cooperative members at period end, revenue per full-time employee plus cooperative members, RTK and ATK.
- (8) Operating data does not include regional operations in Central America except for airports served at period end, full-time employees and cooperative members at period end, revenue per full-time employee plus cooperative members.
- (9) Total number of paying passengers (excluding all passengers redeeming *LifeMiles* frequent flyer miles and other travel awards) flown on all flight segments (with each connecting segment being considered a separate flight segment).
- (10) Revenue passenger kilometers (RPKs) represent the number of kilometers flown by scheduled revenue passengers.
- (11) Aircraft seating capacity multiplied by the number of kilometers the seats are flown.
- (12) Percentage of aircraft seating capacity that is actually utilized. Load factors are calculated by dividing revenue passenger kilometers by available seat kilometers.
- (13) The number of hours from the time an airplane moves off the departure gate for a revenue flight until it is parked at the gate of the arrival airport. Includes Tampa Cargo.
- (14) Average number of block hours operated per day per average number of passenger aircraft.
- (15) Average amount (in U.S. cents) one passenger pays to fly one kilometer.
- (16) Passenger revenue (in U.S. cents) divided by the number of available seat kilometers.
- (17) "Operating revenue per available seat kilometer" (RASK) represents operating revenue (in U.S. cents) divided by available seat kilometers.
- (18) "Cost per available seat kilometer" (CASK) represents service rendering costs and operating expenses (in U.S. cents) divided by available seat kilometers.
- (19) "Revenue ton kilometers" (RTKs) represent the total cargo tonnage uplifted multiplied by the number of kilometers the cargo is flown. RTKs does not include domestic Ecuador. Includes Aerounion since October 22, 2014.
- (20) "Available ton kilometers" (ATKs) represent cargo ton capacity multiplied by the number of kilometers the cargo is flown.
- (21) The average number of kilometers flown per flight. ATKs does not include domestic Ecuador. Includes Aerounion since October 22, 2014.
- (22) Percentage of domestic scheduled flights that arrive at the gate within 15 minutes of the scheduled arrival.
- (23) Percentage of international scheduled flights that arrive at the gate within 15 minutes of the scheduled arrival.
- (24) Percentage of scheduled flights that arrive at the destination gate (other than flights cancelled with at least 168 hours' notice).
- (25) Percentage of scheduled flights that are not delayed at departure more than 15 minutes or cancelled, in each case, due to technical problems.
- (26) Includes passenger and cargo operations.
- (27) Direct sales include sales from our ticket offices, our call centers, direct agents and our website.



## **B. Capitalization and Indebtedness**

Not applicable.

## **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

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### **D. Risk Factors**

*An investment in the American Depositary Shares, or ADSs, involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks, and you may lose all or part of your investment. The risks described below are those known to us that we currently believe may materially affect us.*

#### **Risks Relating to Our Company**

*In our most recent fiscal year, we experienced a net loss and a decrease in revenues.*

In the fiscal year ended December 31, 2015, we experienced a net loss due to, among other factors, decreased revenue, foreign exchange losses (primarily from a significant devaluation of cash balances in Venezuela resulting from the lack of repatriations at the official exchange rates, resulting in a total loss of \$236.7 million), and an increase in interest expense. Our decreased revenue was primarily the result of lower yields, which were caused by increased competition and the depreciation of the Colombian peso against the U.S. dollar (which caused the dollar-equivalent amount of our revenues earned in Colombian pesos to decrease). These factors acted as headwinds to our business, more than offsetting growth in our capacity and traffic. There is no assurance that these factors will not continue to negatively affect our business. Prospective investors should understand that our future results of operations are subject to significant uncertainties.

We seek to grow by expanding our service to new markets and by increasing the frequency of our flights to some of the markets we currently serve. We cannot assure you, however, that any future growth will improve our overall profitability and may, in fact, damage our profitability. When we commence a new route, our load factors tend to be lower than those in our established routes, and our advertising and other promotional costs tend to be higher, which may result in initial losses that would have a negative impact on our consolidated results of operations as well as require a substantial amount of cash to fund. We also periodically offer special promotional fares, particularly in connection with the opening of new routes. Promotional fares may have the effect of increasing load factors while reducing our yield on such routes during the period that they are in effect.

During 2015, Latin America faced a challenging scenario due to the fall of commodity prices; especially fuel, which had collateral effects in the economies of the region, such as a downturn in economic growth rates, a significant currency devaluation, an increase in inflation and a decline of international investments, affecting the demand for air travel and overall performance in our home markets. The high dependency of these economies on commodities have weakened their performance, which is reflected in the decrease of the GDP's forecast of each country as reported by The International Monetary Fund.

As a result of these economic conditions, in 2015 the international passenger traffic from Colombia, Ecuador and Peru suffered a downturn, especially due to the effect of currency exchange rates on the tourism sector. As a consequence, our revenue and the revenues of other airlines in the region significantly dropped last year.

Also, the capacity increase and low fare strategy of North American airlines in our core markets, led by low cost carriers aided by the decline of fuel prices, may continue to affect our and other Latin American airlines revenues.

In 2016, we do not intend to expand our network by opening routes to new destinations; however, we may have a moderate growth in capacity. Our growth and profitability depend on the number of markets we serve and our flight frequencies, which in turn depend on our ability to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. According to ALTA, air travel in Latin America grew at rates of 7.2%, 5.8% and 5.8% in 2013, 2014 and 2015, respectively. We cannot give you any assurance that this growth will continue in the future or that any new markets we enter will provide passenger traffic that is sufficient to make our operations in those new markets profitable. Any condition that would prevent or delay our access to key airports or routes, including limitations on the ability to carry more passengers, the imposition of flight capacity restrictions, the inability to secure additional route rights under bilateral agreements or the inability to maintain our existing slots and obtain additional slots, could constrain the expansion of our operations. See “—Risks Relating to Colombia, Peru, Venezuela, Central America and Other Countries in which We Operate.” In light of the factors mentioned above, we cannot assure you that we will be able to successfully achieve profitability or expand our existing markets, and our failure to do so could harm our business and results of operations, as well as the value of the ADSs.

***We may not be able to achieve all the anticipated benefits of the combination of Avianca and Taca.***

We became the parent company of Aerovías del Continente Americano S.A. Avianca, or Avianca, and Grupo Taca Holdings Limited, or Taca, in February 2010 in connection with the combination of Avianca and Taca, two large and complex airlines that had

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previously operated as competitors. The success of the combination of Avianca and Taca depends in large part on our ability to achieve anticipated synergies from the streamlining of operations and personnel, increased economies of scale, new product and service offerings and organic growth. We have successfully implemented the initial phase of our integration, which consisted of the commercial integration of our fleets, networks and certain revenue management practices; however, we still face challenges in implementing the second phase of operational integration, which focuses on achieving improved operating efficiencies from synergies and economies of scale. There is a risk that we may not be able to complete this integration in a manner that achieves the revenue synergies, cost savings and growth opportunities in the time, manner or amounts that we seek, if at all.

Challenges we face in the ongoing integration process include, among others, the following:

- integrating differing customer service practices and corporate cultures in order to provide a unified and superior client experience in each of the jurisdictions in which we now operate;
- streamlining human resources and differing management structures while retaining highly qualified personnel;
- integrating different accounting, information technology and management systems; and
- encountering unforeseen expenses, delays or liabilities that could exceed the savings that we seek to achieve from the elimination of duplicative expenses and the realization of greater efficiencies from increased scale and market integration, other efficiencies and cost savings.

In addition, the integration process itself presents significant management challenges and is time consuming and disruptive, as it requires coordination of geographically diverse organizations. As a result, the integration process may divert our management's attention from the day-to-day operation of our core businesses. Any such diversion could adversely affect our ability to maintain good relations with our customers, suppliers, employees, regulators and other constituencies or otherwise adversely affect our businesses, financial condition, results of operations and or business prospects.

In order to achieve the anticipated benefits of the combination of Avianca and Taca, the operations of both companies will need to continue to be reorganized, and their resources will need to be combined in a timely and efficient manner. We cannot assure you that we will be able to do so as anticipated. If we fail to implement the integration effectively and within the time frame currently contemplated, or if for any other reason the anticipated cost savings and growth opportunities fail to materialize, our business, financial condition, results of operation and business prospects could be materially and adversely affected.

***If our new aircraft are not delivered or placed into service on time, our competitive position and results of operations are likely to be harmed.***

We have entered into several agreements to acquire up to 141 Airbus and eight Boeing to be delivered between 2016 and 2025. On April 30, 2015, the Company signed a Purchase Contract for a total of 100 A320 New Engine Option (NEO) family aircraft to be delivered between 2019 and 2024. As a result, Avianca and Taca are jointly and severally liable for all of the commitments and obligations set forth in the Purchase Contract, under which we shall make pre-delivery payments to Airbus at predetermined dates. In line with our initiatives directed towards enhancing profitability, achieving a leaner capital structure and reducing the current levels of debt, in April 2016, we negotiated with Airbus a significant reduction of our scheduled aircraft deliveries for 2016, 2017, 2018 and 2019 and certain changes to the type of aircraft (both upgrades and downgrades), but did not alter the total deliveries scheduled between 2016 and 2025. As a result, we have a different schedule for advanced payments and aircraft acquisition. The timely delivery of these new aircraft by Airbus and Boeing is subject to a number of uncertainties including (i) the fact that Airbus or Boeing may be unable or unwilling to fulfill their contractual delivery obligations as a result of production capacity constraints or otherwise, (ii) the aircraft delivered to us may encounter unexpected safety or other operational problems and could be grounded, as has happened in the past to B787 aircraft operated by other airlines and (iii) our inability to obtain necessary aircraft financing for any reason.

Even if our new aircraft are delivered on time, certain additional risks may delay our ability to put them into service immediately, including:

- difficulties or delays in obtaining the necessary certifications from the aviation regulatory authorities of the countries to which we fly;
- difficulties in obtaining the required documentation to complete the registration of the aircraft before each local aviation authority;
- difficulties with local customs authorities in the process of reporting the entrance and import of the aircraft into the countries in which we fly;
- difficulties in obtaining parts and other buyer-furnished equipment (such as in-flight entertainment systems); and

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- the failure of the new aircraft and their components to comply with agreed specifications and performance standards.

These and other such risks may significantly delay our ability to implement the critically important continuing modernization of our passenger and cargo fleet. While our jet passenger operative fleet had an average age of approximately 5.7 years as of December 31, 2015, our total operative fleet had an average age (including both passenger and cargo and jet and turboprop aircraft) of approximately 6.2 years. Our ability to remain competitive and to achieve improvements in operating efficiencies is heavily dependent on the prompt modernization of our fleet, and any disruptions of, or delays in, our proposed modernization program may significantly harm our business by eroding our competitive position, delaying our ability to reduce operating costs and complicating our ability to retire our older aircraft on schedule.

***Underperformance of aircraft ordered from Airbus, Boeing and ATR may adversely impact our operations and financial results.***

We expect our fleet renewal plan to result in increased fuel efficiency, crew productivity, and lower training costs leading to higher operational efficiency and flexibility. However, if the aircraft do not perform as expected, their introduction may not result in the aforementioned benefits, and additional cost will be incurred associated with their purchase and with the replacement of older aircrafts. Although our agreements with Airbus, Boeing and ATR would permit us to receive compensation under certain circumstances in the event these aircraft fail to meet their agreed specifications, we can offer no assurance that compensation received, if any, would adequately compensate us for the loss of the anticipated benefits of the new aircraft; however, we do track the guarantees with our manufactures and manage the claims, if any. As a result, in 2015 we received compensation for a fuel performance claim against Boeing for \$8.4 million and a claim against ATR for approximately \$1.0 million for delays on a super boost certificate. The incurrence of the additional financing costs to purchase these aircraft and the additional cost of retiring portions of our current fleet without achieving the related increase in efficiency and cost reductions could have a negative impact on our business, operations and financial performance.

***Integration of new aircraft and return of old aircraft into our fleet may be costly in terms of financial and human resources.***

We currently expect to integrate approximately 149 new aircraft into our fleet between 2016 and 2025 and may exercise purchase rights for additional new aircraft. We may experience difficulties in integrating these new aircraft into our fleet. In addition, we face risks in integrating new types of aircraft into our existing infrastructure and operations, including, among other things, the additional costs, resources, space, personnel and time needed to hire and train new pilots, technicians and other skilled support personnel. We may also face significant difficulties selling the aircraft we own in a short period of time at favorable prices and returning our leased aircraft and engines on reasonable terms due to rigorous pre-return inspections by the lessors, which can lead to lengthy and costly negotiations during which we are obliged to continue making lease payments for unutilized equipment. Our failure to integrate these newly purchased aircraft into our fleet as planned might require us to seek extensions of the terms for some leased aircraft. Such unanticipated extensions may require us to operate existing aircraft beyond the point at which it is economically optimal to retire them, resulting in increased maintenance costs. If new aircraft orders are not filled on a timely basis, we could face higher monthly rental rates. We also have a large inventory of spare parts and components for our current fleet and we may not be able to sell this inventory at favorable prices.

***We may not be able to obtain the capital we need to finance our growth and modernization strategy.***

We seek to implement our growth and modernization strategy by providing increased frequencies to markets where we believe demand for air travel exceeds availability of flights, replacing our existing fleet with a new fleet and expanding our cargo activities, among other capital-intensive initiatives. The majority of our aircraft are subject to favorable long-term operating leases or are financed on favorable terms. We may be unable to obtain similarly favorable financing for our new fleet. We intend to rely upon internally-generated cash from our operations and additional debt financing in the domestic and international capital markets to fund our growth and modernization strategy. There can be no assurance, however, that we will be able to generate sufficient cash flow from operations or obtain sufficient funds from external sources with favorable financing terms. Failure to generate sufficient cash flow or to obtain such financing could result in us paying higher financing rates or being unable to accept delivery of the new aircraft, which may result in defaults under our

aircraft purchase contracts with Airbus, Boeing and ATR or in the delay or abandonment of some or all of our planned expenditures, which, in turn, could adversely affect our competitive position and our business, financial condition, results of operations, cash flows and prospects.

***We have significant indebtedness and financing costs and expect to incur additional indebtedness and financing costs as we modernize our fleet and seek to grow our business.***

We have substantial and increasing fixed financial costs in connection with our aircraft financing obligations. As of December 31, 2015, we had \$3,473.0 million of total debt outstanding. Our interest expense was \$169.4 million in 2015. For the year ended December 31, 2015, our aircraft rental expense under aircraft operating leases aggregated \$317.5 million, and our facility rental

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costs aggregated more than \$29.8 million. In addition, we have entered into agreements to acquire up to 141 Airbus and eight Boeing to be delivered between 2016 and 2025. On April 30, 2015, the Company signed a Purchase Contract for a total of 100 A320 New Engine Option (NEO) family aircraft to be delivered between 2019 and 2024. In line with our initiatives directed towards enhancing profitability, achieving a leaner capital structure and reducing the current levels of debt, in April 2016, we negotiated with Airbus a significant reduction of our scheduled aircraft deliveries for 2016, 2017, 2018 and 2019 and certain changes to the type of aircraft (both upgrades and downgrades), but did not alter the total deliveries scheduled between 2016 and 2025. As a result, we have a different schedule for advanced payments and aircraft acquisition. Avianca and Taca are jointly and severally liable for all of the commitments and obligations set forth in the Purchase Contract, under which we shall make pre-delivery payments to Airbus at predetermined dates. See “Item 5. Operating and Financial Review and Prospects—Part F. Contractual Obligations” for information on the magnitude of such financial commitments.

A high level of leverage may have significant negative effects on our future operations, including:

- impairing our ability to obtain additional financing in the future (or to obtain such financing on acceptable terms) for working capital, capital expenditures, acquisitions or other important needs;
- requiring us to dedicate a substantial portion of our cash flow to the payment of principal and interest on our indebtedness, which could impair our liquidity and reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other important needs;
- increasing the possibility of an event of default under the financial and operating covenants contained in our debt instruments; and
- limiting our ability to adjust to rapidly changing conditions in the market or the airline industry, reducing our ability to withstand competitive pressures and making us more vulnerable to a downturn in general economic conditions or business than our competitors with less debt.

If we are unable to generate sufficient cash flow from operations to service our debt, we may be required to refinance all or a portion of our existing debt or obtain additional financing. We cannot assure you that any such refinancing would be possible or that any additional financing could be obtained. Our inability to obtain such refinancing or financing may have a material adverse effect on our business, financial condition and results of operations.

***We have recently experienced ratings downgrades.***

Major rating agencies, including Fitch and Standard and Poor’s, have recently downgraded us, suggesting the likelihood that we will be able to repay our existing debt obligations has diminished. This will likely make it

more difficult for us to refinance our debt and may increase our interest expenses, which could damage our financial condition and results of operations. A default on any of our debt obligations would likely have a negative impact on the market value of the ADSs.

***We have significant off-balance sheet arrangements.***

We have significant off-balance sheet arrangements, which must be taken in to account in evaluating our overall level of leverage and financial health. As of December 31, 2015, the balance of our aircraft off-balance sheet arrangements was \$981.8 million, primarily related to obligations under our operating leases for aircraft in our fleet. See “Item 5. Operating and Financial Review and Prospects—Part E. Off-Balance Sheet Arrangements.” The amount of these off-balance sheet arrangements may grow in the future as we incorporate new aircraft into our fleet under our fleet plan, many of which could be through operating leases.

***Our existing debt and lease financing arrangements contain restrictive covenants and events of default that impose significant operating and financial restrictions on us.***

Several of our financing arrangements and several aircraft leases contain a number of covenants and restrictions including limits on our ability and our subsidiaries’ ability to incur additional debt and make certain investments. Some of these covenants require that we comply with specified financial ratios and other financial and operating tests. Our access to certain borrowings under our financing arrangements is conditioned upon our compliance with minimum debt service coverage, capitalization ratios, cash levels and maximum leverage ratio. See “Item 5. Operating and Financial Review and Prospects—Part B. Liquidity and Capital Resources—Debt and Other Financing Agreements.”

Complying with these covenants may cause us to take actions that make it more difficult to execute our business strategy successfully and we may face competition from companies not subject to such restrictions. Moreover, our failure to comply with these covenants could result in an event of default or refusal by our creditors to renew certain loans.

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We have in the past and may in the future fall out of compliance with financial covenants in our debt agreements. Currently, we are not in compliance with some of the financial covenants in our debt agreements. Although we have obtained waivers for these incidences of non-compliance currently and in the past, we cannot give any assurance that we will be able to obtain waivers for any future failures to meet financial covenants, or that our lenders will not declare defaults or accelerate the repayment of our debt as a result of such failures.

***We recently began preparing our financial statements in accordance with IFRS and, as a result, our available financial data is limited.***

As of December 11, 2012, our board of directors approved the adoption of IFRS. We used a transition date of January 1, 2011, and as a result our consolidated financial statements as of and for the year ended December 31, 2012 were our first annual audited consolidated financial statements required to be prepared in accordance with IFRS. We have not prepared any financial information in accordance with IFRS for any prior periods. This makes it more difficult for you to compare our consolidated results of operations for prior years to our results of operations for the more recent years and to discern trends that would otherwise be more apparent if we were to present financial information in accordance with IFRS for years prior to 2012. The lack of financial information from which to draw comparisons of our financial data may make it difficult for you to gain a full and accurate understanding of trends affecting our results of operations, financial condition and business prospects.

***Our maintenance costs will increase as our fleet ages.***

Because the average age of our operative fleet was approximately 6.2 years as of December 31, 2015, our fleet requires less maintenance now than it will in the future. As of December 31, 2015, our jet passenger operative fleet had an average age of approximately 5.7 years, our cargo fleet had an average age of approximately 18.2 years and our turboprop operative fleet had an average age of approximately 4.0 years. Our maintenance costs can be expected to increase significantly, both on an absolute basis and as a percentage of our operating expenses, if our fleet ages and such fleet is not replaced or the warranties covering such fleet expire and are not renewed.

***We depend on strategic alliances or commercial relationships, such as our membership in Star Alliance, in many of the countries in which we operate and our business may suffer if any of our strategic alliances or commercial relationships terminate.***

In many of the jurisdictions in which we operate, we have found it in our interest to maintain a number of alliances and other commercial relationships. We depend on these alliances and/or commercial relationships to enhance our network and, in some cases, to offer our customers alternative services that we could not otherwise offer. If any of our strategic alliances and commercial relationships, in particular with Star Alliance or its members, deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be negatively affected.

***We depend on a limited number of suppliers for our aircraft and engines.***

One of the elements of our business strategy is to save costs by operating a simplified fleet. As of December 31, 2015, of the 191 aircraft that comprised our total fleet (including seven aircraft we lease or sublease to an entity indirectly controlled by José Efromovich, OceanAir, which conducts business under the trade name Avianca Brazil, and four inactive aircraft) 137 were Airbus. Our jet fleet also includes 12 Embraer aircraft, and we have also entered into agreements to acquire up to 15 Boeing 787 Dreamliners to implement our long-haul strategy. As of December 31, 2015, seven B787s have been received. We also completely replaced our regional turboprop fleet of Fokker 50s with new ATR72s. As a result, we are vulnerable to significant problems associated with the Airbus, Embraer, Boeing or ATR aircraft or the engines that power them, including design defects, mechanical problems, contractual performance by the manufacturers or adverse perception by the public that would result in customer avoidance or in actions by the FAA or other regulators resulting in a reduced ability to operate our aircraft.

If any of Airbus, Embraer, Boeing or ATR or the manufacturers of the engines that power them were unable to perform their contractual obligations, or if we are unable to acquire or lease new aircraft or engines from aircraft or engine manufacturers or lessors on acceptable terms, we would have to find another supplier for a similar type of aircraft or engine. If we have to lease or purchase aircraft from another supplier, we could lose the benefits we derive from our current fleet composition. We cannot assure you that any replacement aircraft would have the same operating advantages as the Airbus, Embraer, Boeing or the ATR aircraft that currently comprise our fleet that would be replaced or that we could lease or purchase engines that would be as reliable and efficient as the engines that currently power them. We may also incur substantial transition costs, including costs associated with retraining our employees, replacing our manuals and adapting our facilities. Our operations could also be harmed by the failure or inability of Airbus, Embraer, Boeing or ATR or the manufacturers of our engines to provide sufficient parts or related support services on a timely basis.

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Our business would be significantly harmed if a design defect or mechanical problem with any of the types of aircraft that we operate were discovered that would ground any of our aircraft while the defect or problem was corrected, assuming it could be corrected at all. The use of our aircraft could be suspended or restricted

by regulatory authorities in the event of any actual or perceived mechanical or design problems. Our business would also be significantly harmed if the public began to avoid flying with us due to an adverse perception of the types of aircraft that we operate stemming from safety concerns or other problems, whether real or perceived, or in the event of an accident involving those types of aircraft. Carriers that operate a more diversified fleet are better positioned than we are to manage such events.

***Our operational growth depends on the airport infrastructure in our hubs at Bogotá's El Dorado International Airport, Lima's Jorge Chavez International Airport and El Salvador's International Airport Monseñor Oscar Arnulfo Romero y Galdámez.***

Our business is heavily dependent on our operations at our Bogotá hub consisting of El Dorado International Airport and *Puente Aéreo*. During 2015, approximately 77% of our domestic flights and approximately 33% of our total international flights either departed from or arrived at our Bogotá hub. As a result, any significant interruption or disruption in service at El Dorado International Airport, or any other condition adversely affecting the international competitiveness of the Bogotá hub, could have a serious impact on our business, financial condition and operating results.

The hub-and-spoke structure of many of our operations is particularly dependent on the on-time arrival of tightly coordinated groupings of flights to ensure that passengers can make timely connections to continuing flights. Like other airlines, we are subject to delays caused by factors beyond our control, including air traffic congestion at airports, adverse weather conditions and increased security measures. El Dorado International Airport currently faces significant traffic congestion due to the lack of capacity in flight and ground operations. IATA is currently providing advisory services to the Colombian Civil Aviation Authority to improve overall runway capacity and ground movement patterns at El Dorado International Airport, but we cannot give any assurance that IATA's solutions will in fact be implemented as planned, or that, if implemented, they will be successful in alleviating the current congestion.

If the expansion of El Dorado International Airport is not carried out timely, this will likely constrain significantly our ability to grow and adversely affect our ability to maintain the competitiveness of our business model. Delays inconvenience passengers, reduce aircraft utilization and increase costs, all of which negatively affect our profitability. During periods of fog, rain, storms or other adverse weather conditions, flights may be cancelled or significantly delayed. Cancellations or delays due to weather conditions, traffic control problems and breaches in security could harm our operating results and financial condition. In addition, the number of gates at El Dorado International Airport need to be increased to accommodate demand, which currently exceeds the airport's capacity.

The accelerated operational growth of El Dorado International Airport during the last years has allowed us a better use of the actual capacity. As a consequence, IATA changed the level of slot coordination for Bogotá from one to three starting on October 25, 2015. This classification is given to airports such as John F. Kennedy (New York), Narita, Changi, Charles-de-Gaulle, Frankfurt, Madrid Barajas and Mexico City international airports, among others, that meet the following conditions contained in IATA's Worldwide Slot Guidelines:

- "Demand for airport infrastructure significantly exceeds the airport's capacity during the relevant period;"
- "Expansion of airport infrastructure to meet demand is not possible in the short term;"
- "Attempts to resolve the problem through voluntary schedule adjustments have failed or are ineffective;" and
- "A process of slot allocation is required whereby it is necessary for all airlines and other aircraft operators to have a slot allocated by a coordinator in order to arrive or depart at the airport during the periods when slot allocation occurs."

In June of 2014, we moved some of our domestic operations from *Puente Aéreo* domestic terminal to El Dorado International Airport in order to improve connectivity between our international and domestic flights.



We implemented a second phase on October 26, 2014, and now operate 54% of our daily domestic flights from El Dorado International Airport. Although the new airport benefits our customer experience, a new operation scheme may also present challenges in coordination, planning and costs. The expansion plan of the El Dorado International Airport announced by the Colombian government seeks to increase the terminal capacity and size, improve its infrastructure, its process and customer service and its benefit operations by 2018. By the end of 2015, the new control tower infrastructure was finalized and operational tests began. We expect that in the first semester of 2016, the airport's operation will be managed by the new control center using significant technology improvements. This expansion plan also includes: increase of operations per hour, implementation of new and more efficient nav aids and flight procedures, high speed taxi ways, runway extensions, an addition of 27 new gates (for a total of 54 at the airport), more space for passenger terminals (such as areas related to customer service, new commercial and food court areas) and new VIP lounges. We may experience difficulties in our

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operations during this expansion process and we cannot assure that the expansion will be successful or be completed within the expected time frame.

Lima's Jorge Chaves Airport is one of our three hubs, where we operate daily more than 50 national and international flights. One of the major operational risks we face on a daily basis in this airport is the limited number of parking positions. Currently, we operate 30% of our flights in remote parking positions, causing 20% of our delays. Additionally, the indoors infrastructure of the airport limits our ability to manage connections and launch new flights due to the lack of gates and increasing security and immigration controls.

Lima Airport Partners (LAP), the concessionaire of Lima's airport, plans to expand the airport's capacity with a second runway, more parking positions and a new terminal for passengers. However, these expansion plans have been postponed for 2017 due to new decisions from the Peruvian government. Therefore, we expect that for the next few years, Lima's airport's capacity will remain as it is today, limiting our ability to grow and affecting our competitiveness in the country and in the region.

Furthermore, we operate more than 50 daily international flights at El Salvador International Airport. Our operational growth in this region depends on the airport's infrastructure. Due to the growth in the number of flights in each of the banks, the operation in remote parking positions has increased, the gates capacity is more limited and the equipment for the security controls to special destinations are not enough to attend our passengers. These events could limit our ability to manage connections and operations according to our standards.

***We are in the process of incorporating new information technology systems, the phase-in of which may have a negative impact on our general ledger systems and other related IT systems we use to process our accounting transactions.***

We are in the process of incorporating new information technology systems, the phase-in of which may have a negative impact on our general ledger systems and other related IT systems we use to process our accounting transactions. We are in the process of incorporating new information technology systems to improve our flight operations and integrate our legacy Avianca and Taca systems. Although we seek to implement our new flight operations systems during 2016, we cannot assure you we will be able to do so. Our incorporation of these new systems is intended to help us increase revenue, reduce costs, enhance customer satisfaction and increase operating efficiencies; however, these new systems may not deliver the benefits we seek. In addition, in the short term, the phase-in of these new systems may result in lower service and operating performance, which could adversely affect how our customers perceive us. Also, in transitioning to new systems, we may lose data or experience interruptions in service, which could harm our business.

***We face significant challenges which may limit our ability to grow our cargo business.***

Our cargo business is highly sensitive to macroeconomic conditions and to significant competitive pressures. The air cargo business is generally volatile and reacts quickly and often disproportionately to changes in economic conditions. For example, a decrease of a certain percentage in GDP or consumer demand often results in a disproportionately larger decrease in demand for air cargo services, as cargo customers elect to suspend restocking orders and reduce existing inventories and/or to use cheaper forms of transportation for their goods. Although global air freight growth was healthier in 2015 compared to 2014 (2.5% measured in revenues ton per kilometer), such trend was not the same in Latin America, where cargo traffic measured in RTKs decreased by 6.0%, and in North America it increased only by 0.4%. Several Latin American countries, in particular Argentina, Brazil and Venezuela, may continue to face economic challenges that may impact both import and exports of goods.

A competitive environment and excess capacity in most markets continuously puts pressure on yields. This situation may be worsened by continued low fuel prices which may cause increased capacity in certain routes by competitor airlines, adversely affecting yields and market share and therefore expected profitability.

Cargo demand and flows are unidirectional, and dependent on a small number of product categories. This structural imbalance between inbound and outbound flows poses a challenge to freighter operations as lack of demand in a particular direction may force airlines to rely on different markets in order to maximize loads on return flights. Product concentration may also enhance this challenge, as the volume of goods that we transport on a specific direction may be strongly affected by any event that negatively affects the production of these goods (for example fresh flowers from Ecuador and Colombia).

During 2015, the continued depreciation of regional currencies compared to U.S. dollars has had a detrimental impact on the purchasing power of South American economies as well as a significant decrease on the import of goods and services.

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Regarding our recent investment in Aerounión, if we fail to achieve the expected synergies from this acquisition in a timely manner, we may not meet the expected return of investment within the timeframe originally contemplated.

***We rely on third parties to provide us with parts and services.***

We have entered into agreements with, and depend upon, a number of suppliers for our parts and engines for both provisioning and maintenance. We also have entered into agreements with third-party contractors to provide us with call-center services, catering, ground handling, cargo and baggage handling and “below the wing” aircraft services. It is our general policy that our agreements with suppliers and third-party contractors are subject to termination on short notice. In some cases, we would be forced to pay penalties for terminating contracts on short notice and our contractors have also the right to terminate on short notice the agreements entered into with us. The termination of these agreements or our inability to renew these agreements or to negotiate new agreements with other providers at comparable rates could harm our business and results of operations. Further, our reliance on third parties to provide essential supplies and services on our behalf gives us less control over the costs, efficiency, timeliness and quality of those supplies and services. We expect to be dependent on such agreements for the foreseeable future, and, if we enter any new market, we will need to enter into additional similar agreements.

***Our business is highly regulated and changes in the regulatory environmental in which we operate may adversely affect our business and results of operations.***

Our business is highly regulated and substantially depends upon the regulatory environment in the countries in which we operate or intend to operate. For example, price controls on fares may limit our ability to effectively apply customer segmentation profit maximization techniques (management techniques that use passenger demanding forecasting and fare-mix optimization techniques to maximize profit for an airline) and adjust prices to reflect cost pressures. High levels of government regulation may limit the scope of our operations and our growth plans, especially in the event of deterioration of the relations between the countries in which we operate or the public perception of foreign companies in local markets. Accordingly, regulatory issues could adversely affect our business and results of operations.

Our business, financial condition and results of operations could be adversely affected if we fail to maintain the required governmental authorizations in the various jurisdictions where we operate. In order to maintain the necessary authorizations issued by the different civil aviation authorities in jurisdictions where we operate, we must continue to comply with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future. We cannot predict or control any actions that the civil aviation authorities or other aviation regulators may take in the future, which could include restricting our operations or imposing new and costly regulations.

We are also subject to international bilateral and multilateral air transport agreements that provide for the exchange of air traffic rights between the different countries, and we must obtain permission from applicable governments to provide service to international destinations. Bilateral aviation agreements as well as local aviation approvals frequently involve political and other considerations beyond our control. A modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permission to operate in certain airports or destinations or the imposition of other sanctions could also have a material adverse effect. A change in the administration of current laws and regulations or the adoption of new laws and regulations in any of the countries in which we operate that restricts our route, airport or other access may have a material adverse effect on our business, financial condition and results of operations. We cannot give you any assurance that existing bilateral agreements among the countries in which we are based and to which we fly, and permits from local and foreign governments, will continue, or that we will be able to obtain more traffic rights to accommodate our future expansion plans.

Further, if we are unable to obtain favorable take-off and landing authorizations at certain high-density airports, our business, financial condition and results of operations could be adversely affected. There can be no assurance that we will be able to obtain all requested authorizations and slots in the future because, among other factors, government policies regulating the distribution of the authorizations and slots are subject to change.

In addition, certain of the bilateral air transport agreements, including, among others, agreements of Colombia with Bolivia, Ecuador, Mexico, Peru, Panama, Chile, Argentina, the Dominican Republic, Cuba, the Netherlands and Costa Rica contain the requirement that our relevant operating subsidiaries must be incorporated and have their principal domicile, management, operations, technical maintenance and offices in certain designated countries. Also, all of the agreements negotiated by El Salvador (except for the agreements with Ecuador, Colombia, Emirates, Qatar and Chile) contain a clause that our airline in El Salvador (Taca International) remains substantially owned and effectively controlled by Salvadoran nationals. A substantial part of the agreements negotiated by Costa Rica also contain ownership and control requirements.

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Other bilateral air transport agreements, including, among others, agreements with the United States and Brazil, contain requirements that we remain substantially owned and effectively controlled by a national governmental entity or its nationals. We cannot assure you that national citizens, directly or indirectly, will

continue to own and control a majority of our capital stock indefinitely. For example, if for any reason Germán Efromovich, José Efromovich and/or Roberto Kriete, who each have different citizenships and are the beneficial owners of all of our common stock, cease to have substantial ownership of our capital stock, or the effective control of our management and operations ceases to be exercised by nationals, or if we fail to continue to have our corporate domicile, administrative headquarters, and our base of operations within each territory, we may no longer comply with the requirements of bilateral agreements and, as a result, our route and landing rights in a number of important countries may be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations. A modification, suspension or revocation of one or more bilateral agreements and other permission from applicable foreign governments could have a material adverse effect on our business, financial condition and results of operations. See “Item 4. Information on the Company—Part B. Business Overview—Regulation.”

As of December 31, 2015, approximately 70.7% of our total fleet was U.S.-registered. The U.S. Federal Aviation Administration, or FAA, and the European Aviation Safety Agency, or EASA, are our most significant foreign government regulators. For example, the FAA from time to time issues directives and other regulations relating to the maintenance and operation of aircraft that require significant expenditures. FAA requirements, which apply to our U.S.-registered aircraft, cover, among other things, collision avoidance systems, airborne wind shear avoidance systems, noise abatement and other environmental issues, and increased inspections and maintenance procedures to be conducted on older aircraft. We expect to continue incurring expenses to comply with these and other international government regulations, and any increase in the cost of compliance could have an adverse effect on our financial condition and results of operations. Additional new regulations continue to be regularly implemented by various U.S. and European agencies, including, among others, the U.S. Transportation Safety Administration, or TSA, and the U.S. Drug Enforcement Agency. We cannot assure you that the laws and regulations of the jurisdictions to which we fly (including, without limitation, immigration and security regulations, which directly affect passengers) will not change or that new laws adverse to us will not be enacted, and any such events may adversely affect our business, financial condition and results of operations.

***Our reputation and financial condition would be harmed in the event of an accident or major incident involving our aircraft or aircraft of the types we use.***

Between 1988 and 1993 Avianca had four serious accidents involving significant fatalities. More recently, in 2008, one of Taca’s aircraft had an accident involving five fatalities after landing in Tegucigalpa, Honduras. An accident or major incident in the future involving one of our aircraft could result in significant claims by injured passengers and/or relatives, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent removal from service.

We are required by our creditors and the lessors of our aircraft under our operating lease agreements to carry liability insurance. The insurance coverage and conditions set forth in our liability insurance policies are in accordance with the practice for internationally recognized airlines and comply with the requirements of the aviation authorities in the countries we operate. However, if the insurance coverage is not sufficient to cover the potential liabilities incurred from a loss, we may suffer a significant financial impact as we would be liable for any amounts exceeding our insurance coverage. Our insurance premiums may also increase significantly due to an accident or incident affecting one of our aircraft. Substantial claims resulting from an accident in excess of our related insurance coverage or increased premiums would harm our business and financial results. Moreover, any aircraft accident or incident, even if fully insured, could cause the public to perceive us as less safe or reliable than other airlines, which could materially and adversely affect our results of operations and business prospects. Our business would also be significantly harmed if the public were to avoid flying with us due to an adverse perception of an aircraft type, safety concerns or other problems, whether real or perceived, or in the event of an accident involving an aircraft of a type that we operate.

***We are subject to litigation that could negatively affect our profitability and cash flow or have a material adverse effect on our business, financial condition or results of operations.***

Our future profitability and cash flows could be affected by an adverse ruling in any of the potentially significant lawsuits currently pending against us or that may be filed against us in the future. We cannot give you any assurance that we will be successful in any of such lawsuits.

Some of our subsidiaries are currently defendants to several lawsuits of a civil, commercial or labor nature originating from alleged acts or omissions related to their activities as carriers or as employers, with varying claims for damages on legal and contractual bases. See “Item 8. Financial Information—Part A. Consolidated Statements and Other Financial Information—Litigation” and “Note 32—Provisions for legal claims” to our audited financial statements as of and for the year ended December 31, 2015.

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Additionally, there are several proceedings in which our subsidiaries are plaintiffs demanding that certain decisions of administrative authorities be declared null. In the event that our subsidiaries do not prevail in such proceedings, not only will the decisions of the authorities remain effective, but our subsidiaries may also be required to pay penalties, sanctions or other additional amounts.

Additionally, some tax returns filed on time with the different authorities are pending review in accordance with the applicable statute of limitations. The auditing of those tax returns may result in additional taxes, or interest, or penalties which could give rise to administrative proceedings with applicable authorities. Our business also makes us and our subsidiaries subject to potential lawsuits which have not yet materialized, but in the future could negatively impact our business.

### ***Failure to comply with applicable environmental regulations could adversely affect our business and reputation.***

Our operations are covered by environmental regulations at the local and national levels, in our hubs, focus markets and in foreign countries. These regulations cover, among other things, emissions into the atmosphere, disposal of solid waste and aqueous effluents, management and disposal of hazardous wastes, aircraft noise and other activities incident to our business. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and adversely affect our operations and financial results.

The European Union (“EU”) has adopted a directive under which the existing emissions trading scheme (the “ETS”) in each EU member state would be extended to airlines. This directive would require us to submit annual emission allowances in order to operate routes to and from EU member states. The ETS’s application to flights was scheduled to begin in 2012, however, its implementation to international flights has been delayed by the EU. The EU did not collect allowances from airlines in 2013 and only enforced the directive with respect to airlines that conducted intra-European flights during 2012.

Although it is uncertain when and if the ETS will be implemented, its effectiveness will depend on a potential consensus reached on ICAO’s discussion on global market-based measures, which will take place at the forthcoming ICAO’s meeting to be held in the second half of 2016.

It is increasingly likely that we will be required to participate in some form of an international aircraft emissions program in the future.

The EU also adopted the 2012 Energy Efficiency Directive (Directive 2012/27/EU) (“EED”) to improve its energy efficiency in order to achieve the objective of saving 20.0% of energy consumption by 2020. The EED sets a number of requirements that EU member states are required to implement into their national legal system by June 5, 2014. The application of the EED to air transport raises two main issues: (i) when

combined or replaced by an energy tax, the energy efficiency target may result in the taxation of fuel used in air transport and (ii) airlines will have to comply with the energy audit requirements in the different jurisdictions, which sometimes may apply for the same flights. The United Kingdom has already implemented the EED requirements into its legislation and we have been exempted from said requirements in the United Kingdom. However, in the case of Spain, the EED requirements have not been implemented into their legislation yet, and therefore, we cannot assure you if we will be exempted from complying with these requirements once they have been implemented into their national legal system.

Similarly, the Catalunya region has implemented a tax on nitrogen oxide (nox tax) emissions for its flights to and from the Catalunya region. Through international associations such as IATA, we have been contesting such taxes. Unfortunately, such tax is currently in force and we are required to pay such tax under protest, reserving our right to argue our position through other legal means.

Currently, we operate three routes to and from Europe, and service additional destinations through our code-share agreements. The cost of compliance with any international emissions program, including the ETS, EED and/or national taxes imposed, is difficult to estimate; however, these costs could be significant and could require us to reduce our emissions, purchase allowances or otherwise pay for our emissions, which could have a significant impact on our operating costs or impact the frequency of our flights to and from EU member states, we may be required to participate in some form of an international aircraft emissions program in the future. Costs associated with compliance with any international emissions program, including the ETS, EED and/or national taxes imposed, could be significant and require us to reduce our emissions, purchase allowances or otherwise pay for our emissions, which could have a significant impact on our operating costs or impact the frequency of our flights to and from EU member states.

In addition, failure to comply with these regulations could adversely affect us in a variety of other ways, including adverse effects on our reputation. Remediation obligations can result in significant costs associated with the investigation and clean-up of contaminated properties, as well as damage claims arising out of the contamination of properties or any impact on natural resources.

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***Our ability to fly to the United States and the benefits of our strategic alliances or commercial relationships are dependent on the FAA's continued favorable safety assessment of each of the three countries in which we have hubs.***

The FAA periodically audits the aviation regulatory authorities of other countries. As a result of its audits, each country is given an International Aviation Safety Assessment, or IASA, rating. The IASA rating of each of Colombia, Peru, El Salvador, Ecuador and Costa Rica is currently "Category 1," which means that each such country complies with the International Civil Aviation Organization, or ICAO, safety requirements. As a result, we may continue our service from our hubs in such countries to the United States in a normal manner and take part in reciprocal code-sharing arrangements with U.S. carriers. Nevertheless, any of these ratings may be downgraded for a variety of safety and other reasons. If a downgrading occurs, we will be prevented from offering flights to any new destinations in the United States and from certifying new aircraft for flights to the United States; in addition, our U.S. air carrier code share partners will be required to suspend placement of their codes on our flights.

If any of the countries in which we have a hub or focus is downgraded to "Category 2," our ability to fly to the United States from such hub would likely be significantly restricted. We cannot assure you that the governments of Colombia, Peru, El Salvador, Ecuador and Costa Rica and their respective civil aviation authorities in particular, will continue to meet international safety standards, and we have no direct control over their compliance with IASA guidelines. If the IASA rating of any of Colombia, Peru, El Salvador, Ecuador or Costa Rica were to be downgraded in the future, this could materially and adversely affect our

service to the United States, causing us to lose revenue, including revenue from code sharing, as a result of reducing flight options to our customers.

***We rely on automated systems to operate our business, and any failure of such systems could harm our business.***

We rely on automated systems to operate our business, and any failure of such systems could harm our business. We are dependent on automated systems and technology to operate our business, enhance customer service and reduce operating costs. The performance and reliability of our automated systems and data center is critical to our ability to operate our business and compete effectively. These systems include our computerized airline reservation system, flight operations system, telecommunications systems, website, engineering and maintenance systems, check-in kiosks, in-flight entertainment systems and our primary and secondary data centers. Our website and reservations system must be able to accommodate a high volume of traffic and deliver important flight information. These systems require upgrades or replacement periodically, which involve implementation and other operational risks. Our business may be harmed if we fail to operate, replace or upgrade our systems or data center infrastructure or contracted services successfully.

For some systems, we rely on the third party providers of automated systems and data center infrastructure as well as for technical support. If the current provider were to fail to adequately provide technical support for any one of our key existing systems or if new or updated components were not integrated smoothly, we could experience service disruptions, which, if they were to occur, could result in the loss of important data, increase our expenses, decrease our revenues and generally harm our business and reputation. Furthermore, our automated systems cannot be completely protected against events that are beyond our control, including natural disasters, computer viruses, other security breaches, or telecommunications failures. Substantial or sustained system failures could impact customer service and ticket sales. We have implemented security and disaster recovery measures and change control procedures; however, we cannot assure you that these measures are adequate to prevent disruptions, which, if they were to occur, could result in the loss of important data, increase our expenses, decrease our revenues and generally harm our business and reputation.

***We may incur substantial compliance costs and face sanctions if we fail to comply with U.S. and other international drug trafficking laws.***

We are required to comply with strict drug trafficking laws mainly in Colombia, the United States and the European Union and are subject to substantial government oversight in connection with the enforcement of such laws. For example, the U.S. Foreign Narcotics Kingpin Designation Act and Executive Order 12978 contain a list of persons designated by the United States government as drug traffickers. This list is periodically updated. Pursuant to these regulations, we may be subject to severe sanctions and reputational harm if we are found by the U.S. government to have intentionally or inadvertently assisted in the international narcotics trafficking activities of a designated person. Although we monitor this list in an effort to determine that we do not conduct business with any designated person, no assurance can be given that the counterparties with whom we do business in the future will not be subject to these regulations. In the event a counterparty of ours became a designated person, such party might face severe sanctions and as a result be unable to perform under their agreements with us.

We cannot assure you that we will succeed in complying at all times with such laws. For example, in August 2004, the U.S. Attorney for the Southern District of New York advised us that, because of several seizures from our aircraft of baggage, catering and cargo containing narcotics, our security practices and procedures were inadequate. We were required to engage an internationally

recognized security consulting firm in order to identify and implement additional aircraft security measures and were also required to make additional investments in the area of aircraft and facility security. As part of our efforts to improve our practices, we developed a new security division which reports directly to our CEO, elevated our security standards with respect to hiring and operating procedures and increased training and supervision. The requirement to maintain this consulting arrangement was lifted two years after it was initiated by the U.S. Attorney for the Southern District of New York. In the event, however, that we violate any U.S. or other foreign narcotics restriction in the future, we may be subject to sanctions, severe fines, seizures of our planes or the cancellation of our flights.

***Our results of operations fluctuate due to seasonality and other factors.***

We expect our quarterly operating results to fluctuate due to seasonality including high vacation and leisure demand occurring during the summer months of July and August and again during December and January. Actions of our competitors may also contribute to fluctuations in our results. As a result of this, our first quarter results are usually higher than our second quarter results. We are more susceptible to adverse weather conditions, including hurricanes, as a result of our operations being concentrated in Colombia, Central America and the Caribbean, than some of our competitors. As we enter new markets we could be subject to additional seasonal variations along with any competitive responses to our entry by other airlines. Price changes in aircraft fuel as well as the timing and amount of maintenance and advertising expenditures also impact our operations. As a result of these factors, quarter-to-quarter comparisons of our operating results may not be a good indicator of our future performance. In addition, it is possible that in any future period our operating results could be below the expectations of investors and any published reports or analyses regarding us.

***We are dependent on key personnel and we may be unable to attract and retain qualified, skilled employees necessary to operate our business.***

Our success depends to a significant extent upon the efforts and abilities of our senior management team and key financial, operational and commercial personnel. Our employment agreements with members of our senior management team may be terminated by them at any time, without prior notice and without penalties. Furthermore, in certain countries we are not permitted to have non-competition agreements in place with members of our senior management team after termination of employment. In addition, our business is labor-intensive and our operations require us to employ a large number of highly-skilled personnel including pilots, maintenance technicians and other skilled operating personnel. In the countries in which we operate, there is a significant shortage of qualified pilots and maintenance technicians or other qualified personnel, and we have faced considerable turnover of our skilled employees, many of whom have left us to work in other countries where compensation is higher, we have to attract new people. Our business is also dependent on customer-service skilled employees, as we are focused on delivering superior customer experience, that skillset is a prerequisite for all members of our Company.

Further, should the turnover of such employees (particularly pilots and maintenance technicians) increase, our training costs would be significantly higher. We cannot assure you that we will be able to recruit, train and retain the managers, pilots, technicians and other qualified employees that we need to continue our current operations or replace departing employees. We have dedicated recruiting teams focused on hiring new personnel, mainly for our hubs.

A failure to hire and retain such qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

***Labor disputes may result in a material adverse effect on our results of operations.***

Approximately 25% of our overall employees and 32% of our pilots belong to a labor union. There are currently fifteen unions covering our employees. Eight of these unions are in Colombia: the National Workers Union of Avianca, the National Union of Aircraft Industry Workers, the Colombian Association of Flight Attendants, the Colombian Association of Civil Aviators, the Colombian Association of Aircraft Mechanics, the Colombian Association of Flight Engineers, the Colombian Union of Air Transportation Workers and the



Association of Tampa Cargo Workers. We also have employees covered by one labor union in Argentina, two in Mexico and two in Peru.

On October 2013, we negotiated a new collective bargaining agreement with the Colombian Association of Civil Aviators (ACDAC), but we did not reach an agreement. The prior collective bargaining agreement with ACDAC expired on March 2013 and was automatically extended for a six month period according to Colombian regulations. Pursuant to a judicial order, we were required to resume our suspended negotiations with ACDAC on March 21, 2014. No agreement was reached during these negotiations, which expired on April 10, 2014. On April 2014, ACDAC requested arbitration to settle the collective dispute. On October 5, 2015, ACDAC withdrew the list of demands and therefore, withdrew from the arbitration tribunal.

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On June 10, 2015, in compliance with a judiciary order from the Colombian Constitutional Court (T-069/2015), Avianca paid the contingency we had, to all members of ACDAC and ACAV.

We cannot predict the duration of any labor dispute with our unions or the terms of our future collective bargaining agreements, therefore we cannot accurately predict the impact of labor disputes on our financial results or operations.

We commenced negotiation sessions with the Workers (flight attendants, airport agents and instructors) Union of Trans American Airlines, S.A. on April 10, 2015. The results of the negotiations with the Workers Union of Trans American Airlines, S.A. may affect the negotiations with the members of the Colombian Association of Flight Attendants. Typically, our collective bargaining agreements in Colombia, Peru and Mexico last two to five years. In addition, we signed an agreement with the Pilot's Union of Trans American Airlines S.A. on April 9, 2015, which will remain in place 3.5 years and we expect negotiations will resume in August 2017. The relations during this negotiation were carried out in very professional terms and no disruptions arose during these months. Because we provide an essential public service, strikes and work interruptions are forbidden by law in Colombia; however, a slow-down or stoppage or any prolonged dispute with our employees who are represented by any of these unions, or any other sizable number of our employees, could have an adverse impact on our operations. These risks are typically exacerbated during periods of renegotiation with the unions.

As of December 31, 2015, we had 5,112 individuals hired through nonprofit cooperative organizations. However, in 2010, the Colombian Congress passed Law 1429, which modified the legal regime of labor relationships for full-time employees in Colombia. As a consequence of these changes, we have been directly hiring all administrative personnel while continuing to use the cooperatives for services and maintenance personnel. Even though we believe we were and continue to be in compliance with applicable laws, individuals hired through cooperatives may potentially file claims against us in connection with alleged labor benefits earned during the time they were hired through the cooperatives. An adverse decision under these claims could force us to make substantial payments, which could adversely affect our financial condition.

***If we are unable to continue to successfully attract passengers to, and make direct ticket sales on, our website, our sales and revenues would be negatively impacted.***

Our direct e-commerce sales represented 18.4% of our passenger revenue in 2015 and the proportion of our sales through this channel has been growing in recent years. As a result, it is increasingly important that we are able to attract customers to our website and encourage them to purchase tickets online. Our direct online sales are particularly important to our business because they do not involve sales commissions paid to third parties.

In order to win shopper preference we may make significant capital expenditures related to our website. These will increase our expenses and there is no guarantee that these efforts will improve our online sales. If we are unable to process online sales, because of technological failures or cybersecurity attacks, it would damage our sales, revenues and potentially our reputation and customer relations.

***We may not be able to maintain or grow our ancillary revenues.***

Our business strategy includes expanding our portfolio of ancillary products and services. There can be no assurance that passengers will pay for additional ancillary products and services or that passengers will continue to choose to pay for the ancillary products and services we currently offer. Failure to maintain our non-ticket revenues could have a negative effect on our results of operations and financial condition.

***If we are unable to protect our intellectual property rights, specifically our trademarks and service marks, our ability to compete could be negatively impacted.***

We own the rights to certain trademarks and trade names used in connection with our business including “Avianca” and “LifeMiles.” We believe that our names, trademarks and other related intellectual property are important to the success of our business. We protect our intellectual property rights through a variety of methods, including, but not limited to, applying for and obtaining trademark protection in Colombia, Central America, the United States and certain other countries throughout the world in which we operate our business. Any violation of our intellectual property rights or refusal to grant record of such rights in foreign jurisdictions may result in having to devote our time and resources to protect these rights through litigation or otherwise, which could be expensive

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and time consuming. If we fail to protect our intellectual property rights for whatever reason, it could have an adverse impact on our operations and financial condition.

***We are exposed to increases in landing charges and other airport access fees and cannot be assured access to adequate facilities and landing rights necessary to achieve our expansion plans.***

We must pay fees to airport operators for the use of their facilities. Passenger taxes and airport charges have increased in recent years, in some cases substantially. We cannot assure you that the airports we use will not impose, or further increase, passenger taxes and airport charges in the future. Any substantial increase in airport charges could have a material adverse impact on our results of operations.

Moreover, some of the airports to which we fly impose various restrictions, including limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. In addition, we cannot assure you that the airports at which there are currently no such restrictions will not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports.

Certain airports that we serve (or that we plan to serve in the future) are subject to capacity constraints and impose slot restrictions during certain periods of the day. In addition, we cannot assure you that we will be able to obtain a sufficient number of slots, gates and other facilities at airports to expand our services in the manner in which we are proposing to do so. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risk having those slots re-allocated to others. Where slots or other airport resources are not available or their availability is restricted in some way, we may have to amend our schedules, change routes or reduce aircraft utilization. If we are unable to obtain or maintain favorable take-off and landing authorizations, slots,

gates or other facilities at certain high-density airports, our business, financial condition and results of operations could be materially adversely affected.

***We are a holding company with no independent operations or assets, and our ability to repay our debt and pay dividends to holders of the ADSs is dependent on cash flow generated by our subsidiaries, which are subject to limitations on their ability to make dividend payments to us.***

We conduct no operations, and our only material asset is our equity interests in our operating subsidiaries. Accordingly, our ability to repay our indebtedness and pay dividends to holders of the ADSs is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries' ability to generate sufficient cash from operations to make distributions to us will depend upon their future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond their control.

In addition, our subsidiaries may not be able to, or may not be permitted to, make distributions to us in order to enable us to make payments in respect of our indebtedness or to pay dividends. Restrictions in our subsidiaries' debt instruments and under applicable law limit their ability to provide funds to us, and if our subsidiaries are not able to make funds available to us by dividend, debt repayment or otherwise, we may not have sufficient funds to fulfill our obligations under our indebtedness or pay dividends to our shareholders, including holders of the ADSs. For example, our local bonds restrict Avianca S.A.'s ability to pay dividends prior to December 31, 2016 unless certain covenants are satisfied. As of December 31, 2015, Avianca S.A. was not meeting the ratio necessary to pay dividends to us under its local bonds.

***We may be liable for the potential under-funding of a pilot's pension fund.***

We are obligated to make contributions to a pilot's pension fund for the Colombian Association of Civil Aviators known as *La Caja de Auxilios y de Prestaciones de la Asociación Colombiana de Aviadores Civiles*, or CAXDAC, on behalf of certain of our eligible pilots. The pensioners affiliated with CAXDAC include not only some of our current pilots and former pilots, but also pilots employed and formerly employed by other Colombian airlines. The assets that we have contributed to CAXDAC are segregated into a separate account that is restricted for the payments of retirement benefits payments of our employees. The amount in the common CAXDAC fund used to pay the pensions may not be sufficient to cover all accrued pension liabilities since other Colombian airlines have gone bankrupt or have been liquidated and have failed to pay their ratable contributions to the pension fund. Although CAXDAC, as a pension fund manager, is the only entity obligated to pay retirement pensions to those pensioners legally affiliated with CAXDAC, it is uncertain how the expected deficiency will ultimately be funded, and whether or not pensioners and other third parties may bring actions against contributing airlines, including ourselves, seeking contributions to cover such deficiency, in which case we will be required to defend our position that we are not liable for this deficiency and face the uncertainty of judicial review. However, the obligation of pension contribution to CAXDAC shall terminate at the time we transfer the full value of actuarial calculation, which, under Colombian law, should occur no later than the end of 2023.

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### **Risks Relating to the Airline Industry**

***The airline industry is highly competitive.***

We face intense competition throughout our domestic and international route networks, which can affect our yields and otherwise adversely impact our results of operations. Overall airline industry profit margins are

low and industry earnings are volatile. Airlines compete in the areas of pricing, scheduling (frequency and flight times), on-time performance, on-board experience, frequent flyer programs and other services.

During 2013, 2014 and 2015, respectively, domestic air travel in Colombia, Peru and Ecuador accounted for approximately 26.7%, 27.7% and 39.4% of our passenger revenue and approximately 58.0%, 59.9% and 60.5% of our revenue passengers. As a result, our financial performance is highly sensitive to competitive conditions in the Colombian, Peruvian and Ecuadorian domestic air travel markets. Our primary competitors in the Colombian domestic market are LATAM Airlines Group, VivaColombia, EasyFly and Satena. We may face significantly stronger domestic competition in the future because of these competitors and new competitors, therefore, our prior results and market share may not be indicative of future performance in the Colombian domestic market. Our primary competitors in the Peruvian domestic market are LATAM Airlines Group, Star Peru, LC Peru and Peruvian and in the Ecuadorian domestic market our primary competitors are LATAM Airlines Group and TAME. In addition to traditional competition among airline companies, we face competition from companies that provide ground transportation, especially in our domestic cargo and passenger business, as well as companies that provide sea transportation in our cargo business.

We also compete with a number of large airlines that serve the same international routes that we fly, including, among others, Copa Airlines, LATAM Airlines Group, American Airlines, United Airlines, Iberia, Delta Air Lines, Aeroméxico, Interjet, Jet Blue Airways, Spirit Airlines, Aerolineas Argentinas, VECA and VivaColombia. See “Item 4. Information on the Company—Part B. Business Overview—Competition.” Some of our competitors, including American Airlines, United Airlines and LATAM Airlines Group, have larger customer bases and greater brand recognition in the markets we serve outside of Colombia, and most of our international competitors have significantly greater financial and marketing resources than we do. In December 2015, members of the Schengen community eliminated the Schengen Visa requirements (which permits free travel without immigration checks between participating European countries) for Colombian and Peruvian citizens, increasing the passenger traffic between these countries and therefore many European airlines entering into these markets are pressuring to reduce market fares, such as KLM, Air Europa, TAP, Alitalia, British Airways and Iberia. In response to this situation, we have increased our frequencies from three to five per week in the route Cali - Madrid and from four to seven in the route Bogotá - London. Airlines based in other countries may also receive subsidies, tax incentives or other state aid from their respective governments, which are not provided to us by the governments in the countries in which we operate. The commencement of, or any increase in, service on the routes we serve by existing or new competitors could negatively impact our operating results. Likewise, competitors’ service on routes that we are targeting for expansion may make those expansion plans less attractive.

We must constantly react to changes in prices and services offered by our competitors to remain competitive. The airline industry is highly susceptible to price discounting, particularly because airlines incur very low marginal costs for providing service to passengers occupying otherwise unsold seats. Carriers use discount fares to stimulate traffic during periods of lower demand in order to generate cash flow and increase market share. Any lower fares offered by one airline are often matched by competing airlines, which often results in lower industry yields with little or no increase in traffic levels. Price competition among airlines in the future could lead to lower fares or passenger traffic on some or all of our routes, which could negatively impact our profitability. Such activity by other airlines could lead to reductions in the fares or passenger traffic on our routes, to the point where profitable operations could not be maintained. Due to our smaller size and financial resources compared to some of our international competitors, we may be less able to withstand aggressive marketing tactics or fare wars engaged in by or with our competitors should such events occur.

***Volatility in our fuel costs or disruptions in our fuel supply would materially and adversely affect our operating results.***

Aircraft fuel costs constitute a significant portion of our total operating expenses, representing approximately 31.4%, 30.4% and 24.3% respectively, of our operating expenses in the years ended December 31, 2013, 2014 and 2015. Fuel costs have been subject to wide fluctuations as a result of increases in demand and sudden disruptions in, and other concerns about, global supply, as well as market speculation. Both the cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world that we can neither control nor accurately predict, such as political instability in major oil-exporting

countries in the Middle East, Latin America and Africa. As a result of factors such as this, fuel costs continue to exhibit substantial volatility. If there are wide fluctuations in fuel costs in short periods of time, we cannot assure you that we will have enough time to adapt and respond to these scenarios.

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Therefore, substantial increases in fuel costs would materially and adversely affect our operating results. Even though fuel prices decreased approximately 60% between June 2014 and June 2015, we are vulnerable to any future increases in fuel costs. We cannot assure you that fuel costs will not increase significantly above their current levels, similar to what occurred in 2010, when West Texas Intermediate, or WTI, crude prices, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, gradually increased and closed the year at approximately \$91 per barrel and by the end of 2011, prices had reached approximately \$99 per barrel. Our aircraft fuel purchase agreements do not protect us against price increases or guarantee the availability of fuel. Additionally, some of our competitors may have more leverage than we do in obtaining fuel. We have and may continue to develop our corporate risk policy to protect against fuel prices volatility and due to the competitive nature of the airline industry, at times we have not been able to adequately increase our fares to offset the increases in fuel prices and we may not be able to do so in the future. When fuel prices fall, we are typically exposed to losses on our hedge contracts, which can partially offset savings in fuel cost expense that we experience in our operations. However, the hedge contracts and agreements we use do not completely protect us against price volatility, are limited in volume and duration and may carry counterparty risk. Under the fuel hedge contracts we may enter from time to time, counterparties to those contracts may require us to fund the margin associated with any loss position on the contracts if the price of crude oils falls below specified benchmarks. Meeting our obligations to fund these margin calls could adversely affect our liquidity. Similar to what happened by the end of 2014, WTI prices started to fall reaching average prices of \$37.13 per barrel by the end of 2015. The average price of WTI on March 28, 2016 was \$37.99. A decrease in fuel costs not only affects economies of countries where we operate, but also has a material adverse effect on our financial conditions and results, mainly because of the fuel hedges we previously negotiated.

Future fuel price increases, continued high fuel price volatility or fuel supply shortages may result in a curtailment of scheduled services and could have a material adverse effect on our financial condition and results of operations.

In addition, should Ecopetrol S.A. (Colombia's government-controlled oil company) experience any disruption or slow-down in its fuel production or pumping capacity, particularly in Bogotá, we may be unable to obtain fuel or may be forced to pay significantly higher prices to do so. This risk is heightened by the low oil storage levels that we understand are maintained by Ecopetrol S.A. and its distributors in Bogotá. We currently have an exclusive agreement with a single fuel distributor in Bogotá, Organización Terpel S.A., or Terpel, pursuant to which Terpel supplied us with approximately 90.4%, 97.7% and 97.6% of our fuel needs in Colombia for each of 2013, 2014 and 2015, respectively. During 2013, 2014 and 2015, respectively, it supplied approximately 36.8%, 41.0% and 43.4% of our total fuel consumption. In the event such arrangements were to terminate, we could be forced to renegotiate our fuel supply in a market with a limited number of suppliers, which might result in higher costs for us.

### ***We expect to face increasing competition from low-cost carriers offering discounted fares.***

Airlines in the United States and Europe have in recent years faced substantial and increasing competitive pressure from low-cost carriers offering discounted fares. The low-cost carriers' operations are typically characterized by point-to-point route networks focusing on the highest-demand city pairs, high aircraft utilization, single-class service and fewer in-flight amenities. As has been evidenced by the operations of competitors such as Gol Linhas Aéreas Inteligentes, or Gol, in Brazil, and other Latin American countries and

several new low-cost carriers which have started service in Mexico, Colombia and other markets, such as Interjet, Viva Aerobus, Volaris, EasyFly, VECA and VivaColombia, the low-cost carrier business model is gaining acceptance in the Latin American aviation industry. For example, in 2015, VivaColombia continued expanding its international operations with the new routes from Bogotá and Medellín to Miami. JetBlue Airways initiated operations between Bogotá and Fort Lauderdale, and Spirit Airlines, another U.S. low cost carrier, launched new routes between Houston, Texas and Central America. Low fuel costs have made it easier for these airlines to expand into our market.

Our business model is significantly different from that of low-cost carriers and is predicated on providing a level of service that we consider superior and charging higher prices for such service. As low-cost carriers continue to penetrate our home markets, they could have a material adverse effect on our financial condition and results of operations; therefore, we may be forced to reconsider our business model and adapt it to evolving passenger preferences. In any event, we may face new and substantial competition from low-cost carriers in the future which could result in significant and lasting downward pressure on the fares we charge for flights on our routes. We must constantly react to changes in prices and services offered by our competitors to remain competitive. Price competition among airlines in the future could lead to lower fares or passenger traffic on some or all of our routes, which could adversely affect our profitability.

***We face increasing competition from other international airlines due to the continuing liberalization of restrictions traditionally affecting the global airline industry.***

Over the last 25 years the global airline industry has been shifting to increasing acceptance of liberalized and “open skies” air transport agreements among nations. For example, “open skies” agreements currently exist among the countries of the European Union, and between Europe and the United States. In Latin America, “open skies” agreements exist among Colombia, Ecuador, Peru

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and Bolivia and among each of these countries and the United States, Chile, Panama, Venezuela and the countries of Central America. El Salvador also has an “open skies” policy. As a general matter, these liberalized or “open skies” air transport agreements serve to (i) reduce (or, in the case of “open skies,” eliminate) restrictions on route rights, designated carriers, aircraft capacity or flight frequencies and (ii) promote competitive pricing.

As a result of this continuing trend toward liberalized air transport agreements, a number of countries to which we fly have been negotiating with each local government to liberalize or provide more flexibility to its bilateral agreements with such countries and to permit more flights to and from each local country. We cannot assure you that each government’s political position will not change or that additional flights will not be granted when requested by carriers from any other country.

It is likely that the different governments will continue to liberalize the current restrictions on international travel to and from each country, among other things, granting new route rights and flights to competing airlines and generally promoting increased numbers of market participants on routes we serve. As a result of such liberalization, we could face substantial new competition, which may erode our pricing and market share and have a material adverse effect on our consolidated financial position and consolidated results of operations. For example, the joint business agreement entered into between LATAM Airlines Group, American Airlines and IAG (British Airways and Iberia) allows them to expand their airlines networks by adding frequencies and capacity to markets between South America, North America and Europe, where we operate. The implementation of these commercial agreements are subject to authorization by the applicable authorities in the different countries where the airlines party to these agreements operate, a process that may take between 12 to 18 months.

However, Colombia and Peru have an air transportation political position based on reciprocity, especially for fifth freedom rights, which means a liberalization on the services based on third and fourth freedom rights.

***We face increased competition from certain airlines that have recently been restructured or emerged from bankruptcy and further consolidation of the Latin American airline industry may adversely affect our business and results of operations.***

In recent years, a number of air carriers have sought to reorganize in bankruptcy. The successful completion of reorganizations could present us with competitors with significantly lower operating costs derived from favorable labor, supply and financing contracts renegotiated under the protection of the applicable bankruptcy laws. In addition, many air carriers involved in reorganizations have historically undertaken substantial fare discounting in order to maintain cash flows and to enhance continued customer loyalty. Such fare discounting could further lower yields for all carriers, including us.

Further consolidation of the Latin American airline industry may increase competition in the markets we serve. For example, in 2015, three years after the merger between LAN Airlines and TAM, the group announced a single commercial brand named LATAM Airlines Group, which is the largest airline in Latin America in terms of fleet size, passengers carried, and destinations served. As a result of the competitive environment, there may be further consolidation in the Latin American and global airline industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry. Furthermore, consolidation in the airline industry and changes in international alliances will continue to affect the competitive landscape in the industry and may result in the formation of airlines and alliances with increased financial resources, more extensive global networks and reduced cost structures.

***Some of our competitors may receive external support which could negatively impact our competitive position.***

Some of our competitors may receive support from external sources, such as their national governments, which may be unavailable to us. Support may include, among others, subsidies, regulatory facilities, financial aid or tax waivers. This support could place us at a competitive disadvantage and adversely affect our operations and financial performance.

***The airline industry's financial performance is characterized by low profit margins and high fixed costs, and we may be unable to compete effectively against other airlines with greater financial resources or lower operating costs.***

The airline industry is characterized generally by low profit margins and high fixed costs, primarily consisting of wages and salaries of crew and other personnel, fuel costs and aircraft and engine lease payments and other financing costs related to aircraft equipment. Revenues per flight are primarily driven by the number of passengers transported and fares, which may vary significantly depending on several factors which are generally outside of our control, including general economic conditions, weather and our competitors' pricing strategies. However, the operating expenses of flying an aircraft do not vary significantly with the number of passengers transported and cannot be adjusted quickly to respond to changes in revenue and a deficit in expected revenue levels. As a result, fluctuations in the number of passengers per flight or in pricing could have a significant effect on our operating and financial results.

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***We rely on maintaining a high daily aircraft utilization rate, which makes us vulnerable to delays.***

We seek to maintain a high daily aircraft utilization rate (the number of hours we use our aircraft per day). High daily aircraft utilization allows us to generate more revenue from our aircraft and is achieved in part by reducing turnaround time at airports so we can fly more hours on average in a day. Nevertheless, aircraft utilization is reduced by delays and cancellations arising from a number of different factors, many of which are beyond our control, including, among others, air traffic and airport congestion, adverse weather conditions, security requirements, unscheduled maintenance and delays by third-party service providers relating to matters such as fueling and ground handling. High aircraft utilization also increases the risk that, if an aircraft falls behind schedule during a given day, it could remain behind schedule for several additional days. Such delays could result in a disruption of our operating performance, leading to customer dissatisfaction due to delayed or cancelled flights and missed connections, which could in turn adversely affect our reputation, business, financial condition and results of operations.

On February 3, 2014, we took preventative action to ground our fleet of ten Fokker 50 turboprop aircraft (including four that were inactive) following an engine malfunction in one of the Fokker 50 aircraft in Cali, Colombia. We have since replaced our entire fleet of Fokker 50s with ATR72s.

***Terrorist attacks or hostilities could adversely affect the airline industry by decreasing demand and increasing costs.***

The terrorist attacks in the United States on September 11, 2001 had an adverse impact on the airline industry. Airline traffic in the United States fell dramatically after the attacks, while it decreased less severely in Latin America. Our revenue depends on the number of passengers traveling on our flights. Therefore, any future terrorist attacks or threat of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations or otherwise and any related economic impact could result in decreased passenger traffic and materially and negatively affect our business, financial condition and results of operations.

Following the 2001 terrorist attacks, airlines have experienced increased costs resulting from additional security measures that may be made even more rigorous in the future. In addition to measures imposed by the U.S. Department of Homeland Security and the TSA, IATA and certain foreign governments have also begun to institute additional security measures at foreign airports we serve. A substantial portion of the costs of these security measures is borne by the airlines and their passengers. Terrorist attacks against the airline industry have recently increased. On October 31, 2015, a Metrojet Airbus 321 was destroyed as a result of an in-flight explosion in a cargo hold. According to Egyptian authorities, the explosion was caused by an improvised explosive device placed by airport personnel in one of the cargo holds. On February 3, 2016, there was another explosion in a Daello Airlines flight climbing out of Mogadishu. Investigations suggest that the explosion was caused by explosives hidden in a laptop computer with the help of airport personnel. Security measures imposed by the U.S. and foreign governments not only after September 11, 2001, have increased our costs and may adversely affect us and our financial results, and additional measures taken in the future may result in similar adverse effects. Over the past six months, citing increased terrorist threats, the governments of Peru and El Salvador have ordered the airline to increase the number of security personnel in its operations.

Premiums for insurance against aircraft damage and liability to third parties increased substantially following the 2001 terrorist attacks, and insurers could reduce their coverage or increase their premiums even further in the event of additional terrorist attacks, hijackings, airline crashes or other events adversely affecting the airline industry abroad or in Latin America. In the future, certain aviation insurance could become unaffordable, unavailable or available only with amounts of coverage that are insufficient to comply with the levels of insurance coverage required by aircraft lenders and lessors or applicable government regulations. While governments in other countries have agreed to indemnify airlines for liabilities that they might incur from terrorist attacks or provide low-cost insurance for terrorism risks, the Colombian government has not indicated any intention to provide similar benefits to us. Increases in the cost of insurance may result in both higher airline ticket prices and decreased demand for air travel generally, which could materially and negatively affect our business, financial condition and results of operations.



***The outbreak or the threat of an outbreak of a contagious disease may have a negative impact on the airline industry.***

In recent years, concerns about the possibility of an outbreak of a disease that can be spread by commercial airline passengers (such as avian flu, swine flu, Severe Acute Respiratory Syndrome, tuberculosis or other contagious illnesses) has had a negative impact on the public's willingness to travel by air. It is impossible to determine when and where threats of contagious diseases may arise, but if and to the extent they do, the public's willingness to travel by air may significantly decline, which could materially and negatively affect our business, financial condition and results of operations.

During 2015, both Latin America and the Company faced two important epidemic viruses, Zika and Chikungunya. These viruses affected our customers' decision to travel to areas with a high risk of infection. In addition, it was necessary to strengthen our

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fumigation and disinfection standards and procedures on aircrafts, that fly to and from airports that are located below 2,200 meters above sea level.

### **Risks Relating to Colombia, Peru, Venezuela, Central America and Other Countries in which We Operate**

***Our performance is heavily dependent on economic and political conditions in the countries in which we do business.***

Passenger demand is heavily cyclical and highly dependent on global and local economic growth, economic expectations and foreign exchange rate variations. See "Item 3. Key Information—Part D. Risk Factors—In our most recent fiscal year, we experienced a net loss and a decrease in revenues." In the past, we have been negatively impacted by poor economic performance in certain countries in which we operate. Any of the following developments in the countries in which we operate could adversely affect our business, financial condition and results of operations:

- changes in economic or other governmental policies;
- changes in regulatory, legal or administrative practices;
- other political or economic developments over which we have no control;
- governments of the countries where we have assets may expropriate those assets under certain circumstances; or
- potential instability may cause expropriation, nationalization, renegotiation or nullification of existing contracts.

Additionally, a significant portion of our revenue is derived from discretionary travel and leisure travel, which are especially sensitive to economic downturns. A worsening of economic conditions could result in a reduction in passenger traffic, and leisure travel in particular, which in turn would materially and negatively affect our financial condition and results of operations. Any perceived weakening of economic conditions in the Andean region and/or Central America could likewise negatively affect our ability to obtain financing to meet our future capital needs in international capital markets.

Our results of operations and financial condition may be adversely affected by changes in governmental policies and actions, and judicial decisions, involving a broad range of matters, including interest rates, exchange rates, exchange controls, inflation rates, taxation, banking, labor and pension fund regulations and

other political or economic developments affecting Colombia, Peru, Venezuela, Ecuador and Central America. The governments in these countries have historically exercised substantial influence over their respective economies, and their policies are likely to continue to have a significant effect on companies operating in such countries, including us. Our business and results of operations or financial condition may be adversely affected by changes in government or fiscal policies, and other political, diplomatic, social and economic developments that may affect Colombia, Peru, Venezuela, Ecuador and/or Central America. We cannot predict what policies will be adopted by the governments in these countries and consequently cannot assure you that future development in government policies or in the economies of these countries will not impair our business or financial condition or the market value of the ADSs.

Our three main hubs are located in Colombia, El Salvador and Peru, we have focus markets in Costa Rica and Ecuador and we are organized under the laws of the Republic of Panama. Accordingly, our financial condition and results of operations are significantly dependent on the macroeconomic, social and political conditions prevailing in these countries and in the other jurisdictions in which we operate. As a result, decreases in the growth rate, periods of negative growth, increases in inflation, changes in policy, or future judicial interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in or affecting Colombia, El Salvador, Costa Rica, Peru, Ecuador and Panama and/or the other jurisdictions where we operate may affect the overall business environment and may in turn impact our financial condition and results of operations.

***Our performance is heavily dependent on economic and political conditions in Colombia.***

Our financial condition and results of operations depend significantly on macroeconomic and political conditions prevailing in Colombia. Decreases in the economic growth rate, periods of negative growth, increases in inflation, changes in law, regulation, policy, or future judicial rulings and interpretations of policies involving exchange controls and other matters such as (but not limited to) currency depreciation, inflation, interest rates, taxation, banking laws and regulations and other political or economic developments in or affecting Colombia may affect the overall business environment and may, in turn, impact our financial condition and results of operations.

Colombia's central government fiscal deficit and growing public debt could adversely affect the Colombian economy. The Colombian fiscal deficit was 2.4% of GDP in 2013 and 2.3% of GDP in 2014. According to the projections published in May 2015 by the Ministry of Finance and Public Credit, the Colombian government expected a fiscal deficit of 3.0% of GDP for the year 2015. According to the latest information, during the third quarter of 2015, the fiscal deficit was approximately 1.0% of GDP. The

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Colombian government frequently intervenes in Colombia's economy and from time to time makes significant changes in monetary, fiscal and regulatory policy. Our business and results of operations or financial condition may be adversely affected by changes in government or fiscal policies, and other political, diplomatic, social and economic developments that may affect Colombia. We cannot predict what policies will be adopted by the Colombian government and whether those policies would have a negative impact on the Colombian economy or our business and financial performance.

We cannot assure you as to whether current stability in the Colombian economy will be sustained, given that, among other factors, there is still a high level of poverty in the country, which was 28.5% and 27.8% of the total population in 2014 and 2015, respectively, according to DANE. If the condition of the Colombian economy were to deteriorate, we would likely be adversely affected.

The Colombian government and the Central Bank may seek to implement new policies aimed at controlling further fluctuation of the Colombian peso against the U.S. Dollar and fostering domestic price stability. The Central Bank may impose certain mandatory deposit requirements in connection with foreign-currency denominated loans obtained by Colombian residents, including us. We cannot predict or control future actions by the Central Bank in respect of such deposit requirements, which may involve the establishment of a different mandatory deposit percentage. The use of such measures by the Central Bank may be a disincentive for us to obtain loans denominated in a foreign currency. The U.S. dollar/Colombian peso exchange rate has shown some instability in recent years. We cannot assure you that measures adopted by the Colombian government and the Central Bank will suffice to control this instability or that the Colombian peso will not depreciate or appreciate relative to other currencies in the future.

We also cannot predict the effects that such policies will have on the Colombian economy. Colombia has suffered from periods of widespread criminal violence over the past four decades, primarily due to the activities of guerrilla groups such as the Revolutionary Armed Forces of Colombia (*Fuerzas Armadas Revolucionarias de Colombia*), or FARC, paramilitary groups and drug cartels. In regions of the country with limited governmental presence, these groups have exerted influence over the local population and funded their activities by protecting, and rendering services to drug traffickers. In response, the Colombian government has implemented various security measures and has strengthened its military and police forces by creating specialized units. Since 2012, the Colombian government began peace process negotiations with FARC and recently announced that the final peace agreement, once approved by popular vote, may be signed in 2016. Nevertheless, despite these efforts, guerrilla, paramilitary and criminal activities, particularly in the form of terrorism attacks, homicides, kidnappings and extortion, persist in Colombia. These continuing activities, their possible escalation and the violence associated with them may have a material adverse effect on the Colombian economy and/or on us in the future. We cannot assure you that preventative measures we have taken will protect us, our customers, employees or assets from violence or other actions that are detrimental to us.

***Our performance is heavily dependent on economic and political conditions in El Salvador.***

El Salvador has a history of political instability marked by long periods of civil unrest and military rule. From 1979 until 1991, El Salvador was mired in guerrilla activities which were ended by a United Nations-brokered peace accord in January of 1992. Since the peace accords were signed, El Salvador has experienced political stability. The Nationalist Republican Alliance Party, or ARENA, controlled the presidency from 1989 to 2009, at which time the FMLN (a former guerrilla organization now turned into a political party) won the presidential elections. Salvador Sánchez Cerén, an FMLN member, was recently elected by a narrow margin and became president on June 1, 2014. We are uncertain what this new leader's policies may be and how they will affect our business and operations. Future government policies in response to social unrest could include, among other things, increased taxation, as well as expropriation of assets. These policies could materially and adversely affect the Salvadorian economy and, as a result, our business, financial condition and results of operations.

El Salvador's economy has recently been growing at a moderate pace, yet its unemployment and poverty rates remain high. In 2014, the poverty level was 31.8% of the total population. Despite reforms and initiatives, El Salvador still ranks among the ten poorest countries in Latin America and suffers from inequality in the distribution of income. We cannot assure you that El Salvador will not face political, economic or social problems in the future, and we may be seriously affected by such problems.

***Our performance is heavily dependent on economic and political conditions in Peru.***

In the past, Peru has experienced periods of severe economic recession, large currency devaluation and high inflation. In addition, Peru has experienced periods of political instability, which have led to adverse economic consequences. We cannot assure you that Peru will not experience similar adverse developments in the future.

While Peru has experienced economic growth in the recent past, political tensions, high levels of poverty, which according to the latest available data provided by Peru's National Center of Statistics and Informatics,

or INEC, was 22.7% of the total population in 2014, and unemployment, and social conflicts within local communities continue to be pervasive problems in Peru. In the past,

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certain areas in the south and the northern highlands of Peru with significant mining developments have experienced strikes and protests related mainly to the environmental impact of metallic mining activities, which have resulted in political tensions, commercial disruptions and a climate of uncertainty with respect to future mining projects. Future government policies in response to social unrest could include, among other things, increased taxation, as well as expropriation of assets. These policies could materially and adversely affect the Peruvian economy and, as a result, our business, financial condition and results of operations.

For example, prior to 1991, Peru exercised control over foreign exchange markets by imposing restrictions to multiple exchange rates and restrictions to the possession and use of foreign currencies. Currently, foreign exchange rates are determined by market conditions, with regular operations by the Central Reserve Bank in the foreign exchange market in order to reduce volatility in the value of Peru's currency against the U.S. dollar. The Peruvian government may institute restrictive exchange rate policies in the future. Any such restrictive exchange rate policy could affect our ability to engage in foreign exchange activities, and could also have a material adverse effect on our business, financial condition and results of operations.

Moreover, although Peru's current president, Ollanta Humala, has substantially maintained the moderate economic policies that sustained and fostered economic growth, while controlling the inflation rate at historically low levels, we cannot assure you that the current or any future administration will maintain business-friendly and open-market economic policies or policies that stimulate economic growth and social stability. Any changes in the Peruvian economy or the Peruvian government's economic policies may have a negative effect on our business, financial condition and results of operations. The first round of general elections was held on April 9, 2016. The new President will be elected for a five-year term and hopefully will maintain moderate economic policies. Since 1990, Peruvian Presidents have maintained business-friendly and open-market economic policies to stimulate economic growth.

### ***Our performance is heavily dependent on economic and political conditions in Costa Rica.***

While Costa Rica is one of Latin America's oldest democracies, we cannot assure you that these conditions will continue. In 2015, Costa Rica faced a poverty level estimated at 21.7%, sizeable internal and external deficits resulting in high inflation, and an outdated tax system. Additionally, Costa Rica's traditionally strong social safety net is eroding as a result of fiscal constraints, as well as increasing pressure from both legal and illegal immigration from other Central American countries.

In addition, fiscal reforms are needed to stop or lower the fiscal deficit. However, such reforms have not yet been approved by the Costa Rican government. This situation could lead to a more negative economic outlook in the medium-term future and at the same time, there are no political agreements to remedy this situation.

### ***Our performance is heavily dependent on economic and political conditions in Ecuador.***

The Ecuadorian economy is heavily dependent on the oil industry and was severely impacted by the 2009 financial crisis, which adversely affected the country's economic growth. While Ecuador's economic growth has since improved, it faces a poverty level estimated at approximately 22.0% and 23.3% in 2014 and 2015, respectively, according to the National Center of Statistics, or ECU. In addition, Ecuador defaulted on a sovereign debt obligation in 2008 and its economic policies have created a great deal of uncertainty about its future. The decline of oil prices in 2014 and 2015 may also prove to have a significant impact on the Ecuadorian economy.

Due to the decline in fuel prices, the government's income has decreased approximately 25%, putting a lot of pressure on the national budget and the country's investments, since government expenditure accounts for 62% of it. Ecuadorian exports have also lost competitiveness due to currency depreciation among its neighbors. In a dollarized economy, most of the adjustments are coming from raising unemployment levels, which also affects consumption and demand in general. All of the foregoing has led the government to enact new regulations, changing the prior legal framework, which in turn, has increased uncertainty.

***Our performance is heavily dependent on economic and political conditions in Panama.***

We are organized under the laws of the Republic of Panama and as a result may be affected by economic and political conditions prevailing from time to time in Panama. Panama's economic conditions are highly dependent on the continued profitability and economic impact of the Panama Canal. Control of the Panama Canal and many other assets were transferred from the United States to Panama in 1999 after nearly a century of U.S. control. Although the Panamanian government is democratically elected and the Panamanian political climate is currently stable, we cannot assure you that current conditions will continue. If the Panamanian economy experiences a recession or a reduction in its economic growth rate, or if Panama experiences significant political disruptions, our business, financial condition and results of operations could be materially and negatively affected.

We cannot assure you that any crises such as those described above or similar events will not negatively affect the economies of Colombia, El Salvador, Costa Rica, Peru, Panama or the other jurisdictions where we operate. Future developments in the countries in which operate could impair our business or financial condition.

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***We recently recognized a significant loss related to cash balances in Venezuela and we still have significant local currency cash balances in Venezuela, which we may be unable to repatriate or exchange into U.S. dollars or any other currency.***

For the year ended December 31, 2015, we recognized a loss of \$234.0 million related to exchange rates in Venezuela. The cause for this was changing the applicable exchange rate from the SICAD, which is used for essential goods, to Marginal Currency System, or SIMADI, which is the general market rate exchange. The determination to reflect the outstanding cash balances at the less favorable SIMADI rate was made due to the fact that the Venezuelan government has not been making repatriations at the official SICAD rate and we therefore do not believe that rate will be applied to our existing cash balances in Venezuela. As of December 31, 2014, the applicable exchange rate for the SICAD was 6.30 VEF to US\$1. As of December 31, 2015, the applicable exchange rate for the SIMADI was 198.7 VEF to US\$1.

Political and economic conditions in Venezuela continue to be uncertain, and restrictions for the remittance of funds have not been removed. Consequently, as of December 31, 2015, the carrying amount of cash balances held in Venezuela (after the devaluation described above) of \$7.7 million was classified as follows: \$417 thousand as cash and cash equivalents, which is expected to be used over the next three months as part of the normal operations in Venezuela; \$698 thousand as short-term restricted cash, which is expected to be used in the following nine months; and, \$6.5 million as long-term restricted cash, which we expect to use during the following 12 months. As of December 31, 2015, available-for-sale securities represented \$0.7 million and the available cash in Venezuela represented 0.0% of our total cash and cash equivalents. For the years ended December 31, 2013 and 2014, we had incurred losses of \$46.0 and \$36.9 million, respectively, as a result of the devaluation of the official exchange rates applicable for the Venezuelan *bolivares* during said periods.

***Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect the market price of many Latin American securities, including the ADSs.***

The market value of securities issued by companies with operations in the Andean region and Central America may be affected to varying degrees by economic, political and market conditions in other countries, including other Latin American and emerging market countries. Although macroeconomic conditions in such Latin American and other emerging market countries may differ significantly from macroeconomic conditions in Colombia and the other countries in which we operate, investors' reactions to developments in these other countries may have an adverse effect on the market values of our securities. For example, as a result of economic problems in various emerging market countries in recent years (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis of 2001), investors have viewed investments in emerging markets with heightened caution. Crises in world financial markets, such as those of 2008, could affect investors' views of securities issued by companies that operate in emerging markets. Crises in other emerging market countries may hamper investor enthusiasm for securities of Panamanian issuers, including the ADSs, which could adversely affect the market price of the ADSs. This could also make it more difficult for us and our subsidiaries to access the capital markets and finance our operations in the future on acceptable terms, or at all.

***Natural disasters in the countries in which we operate could disrupt our businesses and affect our results of operations and financial condition.***

We are exposed to natural disasters in each of the countries in which we operate, such as earthquakes, volcanic eruptions, tornadoes, tropical storms and hurricanes. For example, heavy rains in Colombia have resulted in severe flooding and mudslides. El Salvador has experienced many significant earthquakes, including in 1982, 1986 and 2001, that in each case resulted in numerous fatalities. Peru has also experienced numerous significant earthquakes, including in 2001, 2005, 2007 and 2011. Moreover, the Central American isthmus, in particular El Salvador, Costa Rica, Guatemala and Nicaragua, is home to one of the world's largest concentrations of active volcanos. Colombia has also experienced significant volcanic activity, affecting important cities covered by our domestic operation. Such volcanic ash clouds would not only affect airport operations, but also the route conditions of flights operating near the affected zone.

In 2015, our operation experienced a significant increase in the amount of flight cancellations due to volcanic ash emissions. During that year, we cancelled 443 flights due to the activity from the volcanos Ruiz (Colombia), Cotopaxi (Ecuador), Fuego (Guatemala) and Turrialba (Costa Rica).

In the event of a natural disaster, there is a risk of damage to our airport hubs and other facilities, and our disaster recovery plans may prove to be ineffective, which could have a material adverse effect on our ability to conduct our businesses, particularly if such an occurrence affects computer-based data processing, transmission, storage and retrieval systems or destroys customer or other data. In any such event, our property damage and business interruption insurance might not be sufficient to fully offset our losses, which could adversely affect our results of operations and financial condition. In addition, if a significant number of our employees and senior managers were unavailable because of a natural disaster, our ability to conduct our businesses could be compromised.

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***Government policies and actions, and judicial decisions, in Colombia, Peru, Venezuela, Ecuador or Central America could significantly affect the local economy and, as a result, our results of operations and financial condition.***

The Colombian government and the Colombian Central Bank have historically exercised and continue to exercise, substantial influence over the Colombian economy; they occasionally make significant changes in

monetary, fiscal and regulatory policy. Changes in macroeconomic policies could materially and adversely affect our business and the market value of the ADSs.

***Any additional taxes resulting from changes to tax regulations or the interpretation thereof in Panama, Colombia or other countries where we operate could adversely affect our consolidated results.***

Uncertainty relating to applicable tax legislation poses a constant risk to us. Changes in legislation, regulation and jurisprudence can affect tax burdens by increasing tax rates and fees, creating new taxes, limiting eligible expenses and deductions, and eliminating incentives and non-taxed income. Currently, Panama imposes no income tax on revenues generated from a source outside Panama and subjects dividends paid to a withholding tax of only 10% of the portion of the dividend that is attributable to Panamanian sourced income (as defined pursuant to the territoriality principles that govern Panamanian tax law) and to a withholding tax of 5% of the portion of the dividend that is attributable to foreign sourced income. Currently Panama does not impose a withholding tax on dividends distributed by entities that do not earn income from Panamanian sources. Nevertheless, we cannot assure you that Panamanian and Colombian tax laws or tax laws in other countries where we operate will not change or may be interpreted differently by authorities as a result of the implementation of IFRS, and any change could result in the imposition of significant additional taxes. Moreover, the Colombian and Salvadoran governments have significant fiscal deficits that may result in future tax increases. Additional tax regulations could be implemented that could require us to make additional tax payments, negatively affecting our results of operations and cash flow. In addition, national or local taxing authorities may not interpret tax regulations in the same way that we do. Differing interpretations could result in future tax litigation and associated costs.

***High rates of inflation may have an adverse impact on our business, results of operations, financial condition and prospects, and the market price of the ADSs.***

Rates of inflation in the countries in which we operate, like some other countries in Latin America have been historically high, and we cannot assure you inflation will not return to high levels. Inflationary pressures may adversely affect our ability to access foreign financial markets, leading to adverse effects on our capital expenditure plans. In addition, inflationary pressures may, among other things, reduce consumers' purchasing power or lead certain anti-inflationary policies to be instituted by the relevant governments, such as an increase in interest rates. Recently, inflation has increased, and there is no assurance that measures taken by the relevant governments will suffice to curb inflation. Inflationary pressures may harm our business, results of operations, financial condition and prospects, or adversely affect the price of our ADSs.

***Fluctuations in foreign exchange rates and restrictions on currency exchange could negatively affect our financial performance and the market price of the ADSs.***

The currency used by us is the U.S. dollar in terms of setting prices for our services, the composition of our statement of financial position and effects on our operating income. We sell most of our services in U.S. dollars or price equivalent to the U.S. dollar, and a large part of our expenses are also denominated in U.S. dollars or equivalents to the U.S. dollar, particularly fuel costs, aircraft leases, insurance and aircraft components and accessories.

In 2015, approximately 64.2% of our costs and expenses and 68.0% of our revenues were denominated in, or linked to, U.S. dollars. The remainder of our expenses and revenues were denominated in currencies of the countries in which we operate, of which the most significant is the Colombian peso. Changes in the exchange rate between the Colombian peso and the U.S. dollar or other currencies in the countries in which we operate adversely affected our business in 2015 and could adversely affect our business, financial condition and results of operations in the future. In particular, during times when our non-U.S. dollar-denominated revenues exceed our non-U.S. dollar-denominated expenses, the depreciation of non-U.S. currencies against the U.S. dollar could have an adverse effect on our results, because conversion of these amounts into U.S. dollars will decrease our net income. We operate in numerous countries and face the risk of variation in foreign currency exchange rates against the U.S. dollar or between the currencies of these various countries.

In addition, a significant amount of our liabilities are denominated in Colombian pesos. At times when the Colombian peso appreciates against the U.S. dollar, the value of these liabilities will increase in U.S. dollar terms, resulting in an increase in our non-operating expenses, which can have a negative effect on our consolidated financial statements and can have a real or perceived impact on our financial performance, which could negatively affect the market price of the ADSs. Our \$23.5 million foreign exchange gain in 2013 was principally the result of the depreciation of the Colombian peso against the U.S. dollar in 2013, our \$10.3 million currency exchange gain in 2014 was principally the result of the depreciation of the Colombian peso against the U.S. dollar, coupled with the

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depreciation of the Brazilian real and Argentinian peso in which we also maintain active positions against the U.S. dollar, in 2014, and our \$177.5 million currency exchange loss in 2015 was principally the result of the write-off of \$236.7 million related to the devaluation of our cash in Venezuela, partially offset by the 31.6% depreciation of the Colombian peso against the U.S. The carrying amount of cash balances held in Venezuela is \$7.7 million, classified in cash and cash equivalents and short-term and long-term restricted cash. We also have a significant cash balance in *bolivares*, which currency is currently subject to Venezuelan exchange controls. See “—Risks Relating to Colombia, Peru, Venezuela, Central America and Other Countries in which We Operate—We have significant local currency cash balances in Venezuela, which we may be unable to repatriate or exchange into U.S. dollars or any other currency.” Variations in the values of other currencies may have similar effects.

### ***Variations in interest rates may have adverse effects on our business, financial condition, results of operations and prospects and the market price of the ADSs.***

We are exposed to the risk of interest rate variations. Our Colombian peso-denominated debt is mainly exposed to variations in long-term interest rates and the Colombian 90-day deposit rate for commercial banks (*establecimientos bancarios*), financial corporations (*corporaciones financieras*) and financing companies (*companias de financiamiento*), or DTF, as published by the Colombian Central Bank. Our non-Colombian peso-denominated debt is mainly exposed to variations in the London Interbank Offer Rate, or LIBOR. Any increase in inflation or other macroeconomic pressures may lead to increases in these rates. As of December 31, 2015, we had approximately \$922.0 million in aggregate principal amount of variable-rate debt.

Increases in the above mentioned rates may result in higher debt service payments under our loans, and we may not be able to adjust the prices we charge to offset the impact of these increases. If we are unable to adequately adjust our prices, our revenue might not be sufficient to offset the increased payments due under our loans and this would adversely affect our results of operations. Accordingly, such increases may adversely affect our business, financial condition, results of operations and prospects and the market price of the ADSs.

### **Risks Relating to the ADSs and our Preferred Shares**

#### ***Our two principal shareholders have veto power over certain strategic and operating transactions, and their interests may differ significantly from the interests of our other shareholders.***

We and our controlling shareholders, Synergy Aerospace Corp., or Synergy, and Kingsland Holdings Limited, or Kingsland, are parties to a joint action agreement, or the Joint Action Agreement, that gives Synergy and Kingsland veto power over most significant strategic and operating transactions. See “Item 7. Major Shareholders and Related Party Transactions—Part B. Related Party Transactions—Joint Action Agreement.” As of March 31, 2016, Synergy’s investment in us is approximately 78.1% of our common shares and approximately 51.5% of our total outstanding shares and Kingsland’s investment in us is approximately 21.9% of our common shares and approximately 14.5% of our total outstanding shares. The



Joint Action Agreement gives Synergy and Kingsland veto power over significant strategic and operating transactions including, among others:

- mergers and consolidations;
- certain acquisitions or investments in excess of \$30 million in any single instance and \$75 million in the aggregate during any fiscal year, except as already contemplated in our annual budget;
- our business plan and annual budget;
- capital expenditures in excess of \$120 million, except as already contemplated in our annual budget;
- changes to our charter and bylaws or other similar document;
- issuance of voting stock; and
- related party transactions.

As a result of the foregoing veto rights, as well as the Synergy Purchase Right and Kingsland Tag-along Right (see “Item 7. Major Shareholders and Related Party Transactions—Part B. Related Party Transactions—Joint Action Agreement”), Synergy and Kingsland have the ability to prevent us from taking strategic and other actions that may be in your best interests, including strategic transactions that might enhance the long-term value of the ADSs and/or provide you with an opportunity to realize a premium on your investment in our ADSs. Mr. José Efromovich, who together with his brother Germán Efromovich indirectly control Synergy, controls OceanAir, which operates under the trade name Avianca Brazil and provides passenger services primarily in the Brazilian market. In addition, Mr. Robert Kriete is a Director of Volaris, a growing Mexican airline that provides passenger service to markets including North America. We cannot predict the extent to which we may compete with OceanAir or Volaris in the future in Brazil, Mexico and elsewhere, and as a result cannot assure you that the interests of Synergy and

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Kingsland will be aligned with those of the holders of the ADSs and cannot give you any assurance that Synergy and Kingsland will exercise their respective rights under the Joint Action Agreement in a manner that is favorable to your interests as a holder of ADSs.

### ***Our controlling shareholders have the ability to direct our affairs, and their interests could conflict with those of ADS holders.***

Our controlling shareholders beneficially own all of our outstanding common shares. Holders of our preferred shares and the ADSs are not entitled to attend or vote at any of our general shareholders’ meetings except under very limited circumstances including:

- changes to our by-laws which would impair the rights of holders of preferred shares;
- conversions of preferred shares into common shares;
- our dissolution, transformation or change of corporate purpose; and
- the delisting of our preferred shares on the Colombia Stock Exchange.

Holders of our preferred shares and ADSs are not entitled to vote on other matters, many of which may be significant and may adversely affect the value of our preferred shares and ADSs. As a result, our controlling shareholders have the ability to determine the outcome of substantially all matters submitted for a vote to our shareholders and thus exercise control over our business policies and affairs, including, among others, the following:

- the composition of our board of directors and, consequently, any determinations of our board with respect to our business direction and policy, including the appointment and removal of our executive officers;
- determinations with respect to mergers, other business combinations and other transactions, including those that may result in a change of control;
- whether dividends are paid or other distributions are made and the amount of any such dividends or distributions;
- whether we offer preemptive and accretion rights to holders of our preferred or common shares in the event of a capital increase;
- sales and dispositions of our assets; and
- the amount of debt financing that we incur.

Our controlling shareholders may direct us to take actions that could be contrary to your interests and may be able to prevent other shareholders, including you, from blocking these actions or from causing different actions to be taken. Also, our controlling shareholders may prevent change of control transactions that might otherwise provide you with an opportunity to dispose of or realize a premium on your investment in our ADSs. In addition, we have entered into various transactions with OceanAir, an entity indirectly controlled by Mr. José Efromovich and Synergy, including, among other things, licensing our *Avianca* trademark for use by OceanAir in Brazil, leasing and subleasing aircraft to OceanAir and entering into various agency agreements. See “Item 7. Major Shareholders and Related Party Transactions—Part B. Related Party Transactions.” We cannot assure you that our controlling shareholders will act in a manner consistent with your best interests.

***Holders of the ADSs have even more limited rights than holders of our preferred shares and may encounter difficulties in exercising some of such rights.***

Holders of the ADSs may encounter difficulties in exercising some of their rights as shareholders for as long as they hold the ADSs rather than the underlying preferred shares. For example, holders of the ADSs are not entitled to vote at shareholders’ meetings, and they are only able to exercise their limited voting rights by giving timely instructions to the depositary in advance of a shareholders’ meeting, and only in respect of certain matters. Moreover, holders of the ADSs are only entitled to exercise inspection rights through a representative designated for that purpose and such rights may only be exercised 15 business days prior to an ordinary shareholders’ meeting.

The depositary is the holder of the preferred shares underlying the ADSs and holders may exercise voting rights with respect to the preferred shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. To the limited extent permitted by the deposit agreement, the holders of the ADSs should be able to direct the depositary to vote the underlying preferred shares in accordance with their individual instructions. Nevertheless, holders of ADSs may not receive voting materials in time to instruct the depositary to vote the preferred shares underlying their ADSs. Also, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of ADS or for the manner of carrying out such instructions, unless such failure can be attributed to gross negligence, bad faith or willful misconduct on the part of the depositary or its agents. Accordingly, holders of ADSs may not be able to exercise voting rights, and they will have little, if any, recourse if the underlying preferred shares are not voted as requested.

***American Depositary Shares on our preferred shares are subject to certain foreign exchange regulations from the Colombian Central Bank that may impose registration requirements upon certain events of the ADS Program***

The International Investment Statute of Colombia regulates the manner in which foreign investors may participate in the Colombian securities markets, prescribes registration with the Colombian Central Bank of certain foreign exchange transactions and specifies procedures under which certain types of foreign investments are to be authorized and administered. A holder of ADSs who withdraws preferred shares from the ADS deposit facility under certain circumstances may be required to comply directly with certain requirements under the foreign investment regulations. Under these regulations, the failure of a non-resident investor to comply with foreign exchange regulations may prevent the investor from obtaining remittance payments, including for the payment of dividends, constitute an exchange control violation and/or result in a fine.

***Our shareholders' ability to receive cash dividends may be limited.***

Under Panamanian law, we may pay dividends only out of retained earnings and capital surplus. Our articles of incorporation provide that all dividends declared by our shareholders' meeting will be paid equally with respect to all of the preferred shares and common shares. Although our common shareholders have adopted a dividend policy that provides for the payment of at least 15% of our annual consolidated net income to shareholders as a dividend, our common shareholders may at any time, in their sole discretion and for any reason, amend or discontinue the dividend policy. If they decide not to declare a dividend, you will not have any right to participate in or override that decision. Future dividends with respect to shares of our preferred stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our common shareholders and board of directors may deem relevant. As a result, we cannot give you any assurance that we will pay dividends in accordance with our current dividend policy or otherwise.

***Holders of our preferred shares are not entitled to preemptive rights, and as a result you may experience substantial dilution upon future issuances of stock by us.***

Under our organizational documents, and in accordance with Panamanian law, holders of our preferred shares are not entitled to any preemptive rights with respect to future issuances of capital stock by us. Therefore, unlike companies organized under the laws of many other Latin American jurisdictions, we will be free to issue new shares of stock to other parties without first offering them to our existing preferred shareholders. In the future we may sell common or other shares to persons other than our existing preferred shareholders at a lower price than the shares are offered as ADSs on the New York Stock Exchange, and as a result you may experience substantial dilution of your interest in us.

***ADS holders may be subject to additional risks related to holding ADSs rather than shares.***

Because ADS holders do not hold their shares directly, they are subject to the following additional risks, among others:

- as an ADS holder, we do not treat you as one of our direct shareholders and you may not be able to exercise shareholder rights;
- distributions on the preferred shares represented by your ADSs are paid to the depositary, and before the depositary makes a distribution to you on behalf of your ADSs, withholding taxes, if any, that must be paid will be deducted and the depositary will be required to convert the Colombian pesos received into U.S. dollars. Additionally, if the exchange rate fluctuates significantly during a time when the depositary cannot convert the Colombian pesos received into U.S. dollars, or while it holds the Colombian pesos, you may lose some or all of the U.S. dollar value of the distribution;
- we and the depositary may amend or terminate the deposit agreement without the ADS holders' consent in a manner that could prejudice ADS holders or that could affect the ability of ADS holders to transfer ADSs; and

- the depositary may take other actions inconsistent with the best interests of ADS holders.

***The market price for the ADSs could be highly volatile, and the market price of our ADSs may be negatively impacted.***

Volatility in the market price of our ADSs may prevent you from being able to sell your ADSs at, above or near the price you paid for them. The market price and liquidity of the market for our ADSs may be significantly affected by numerous factors, including, among others:

- fluctuations in our periodic operating results;
- changes in financial estimates, recommendations or projections by securities analysts;
- changes in conditions or trends in the airline industry;

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- changes in the economic performance or market valuation of other airlines;
- announcements by our competitors of significant acquisitions, divestitures, strategic partnerships, joint ventures or capital commitments;
- increased competition in the airline industry;
- general economic trends in Colombia, El Salvador, Costa Rica, Peru, Ecuador and the other jurisdictions in which we operate;
- events affecting equities markets in the countries in which we operate;
- legal or regulatory measures affecting our financial condition;
- departures of managers and other key personnel; and
- potential litigation or the adverse resolution of pending litigation against us or our subsidiaries.

Volatility in the price of the ADSs may be caused by factors outside of our control and may be unrelated to our operating results or disproportionate to the effect upon us of such factors. In particular, announcements of potentially adverse developments, such as proposed regulatory changes, new government investigations or the commencement or threat of litigation against us, as well as announced changes in our business plans or those of competitors, could adversely affect the trading price of the ADSs, regardless of the likely outcome of those developments or proceedings. Broad market and industry factors could also adversely affect the market price of the ADSs, regardless of our actual operating performance. As a result, the market price of our ADSs may be negatively impacted.

***We recently completed our first assessment of the effectiveness of our internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.***

We are required to comply with the internal control, evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in this Annual Report on Form 20-F for the year ending December 31, 2015. In addition, our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002. This process requires the investment of substantial time and resources, including by our chief financial officer and other members of our senior management. As a result, this process may divert internal resources and take a significant amount of time and effort to complete.

***In the recent past we identified material weaknesses in our internal controls over financial reporting, and if we have additional material weaknesses and fail to achieve an effective system of internal controls, we may not be able to report our financial results accurately, and current and potential shareholders could lose confidence in our reporting, which would harm our business and the trading price of the ADSs.***

In connection with the evaluation of our disclosure controls and procedures, we identified material weaknesses in our internal control over financial reporting as of December 31, 2014. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statement will not be prevented or detected on a timely basis. The material weaknesses identified related to our IT general controls and financial statement close process was that our disclosure controls and procedures were not effective as a result of the implementation of our new enterprise resource planning (ERP) platform.

While we believe those material weaknesses have been remediated, any failure to implement and maintain effective controls over our financial reporting, or difficulties encountered in the implementation of these controls, could result in a material misstatement in our annual or interim financial statements that would not be prevented or detected, or cause us to fail to meet our reporting obligations under applicable securities laws. Any failure to maintain effective internal controls could result in our incurring substantial liability for not having met our legal obligation and could also make it more difficult for us to obtain additional financing on favorable terms or cause investors to lose confidence in our reported financial information, which could have a material adverse impact on our business and the trading price of the ADSs.

***As a foreign private issuer, we are permitted to, and do, rely on exemptions from certain New York Stock Exchange, or NYSE, corporate governance standards applicable to U.S. issuers. This may afford less protection to holders of our ADSs.***

Section 303A of the NYSE Listed Company Manual sets forth certain corporate governance requirements that a company must fulfill in order to be listed on the NYSE. However, exemptions from many of the requirements are available to foreign private issuers such as us. As a foreign private issuer, we are permitted to, and do, follow home country practice in lieu of the NYSE corporate

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governance standards from which we are exempt. Our home country standards are those of the Colombian Stock Exchange and Colombian securities laws. Although we are a Panamanian company, our preferred shares are listed on the Colombian Stock Exchange and are subject to Colombian securities laws.

In particular, we are exempt from the requirements of §303A.03 and §303A.04 of the NYSE Listed Company Manual. §303A.03 requires non-management directors to meet regularly in executive sessions without management and independent directors to meet alone in an executive session at least once a year. §303A.04 requires a nominating/corporate governance committee composed of independent directors to be established. Under our bylaws and in accordance with the Colombian Stock Exchange regulations, our non-management directors are not required to meet regularly in executive sessions without management and we are not required to have a nominating/corporate governance committee, although our board of directors has the power to establish such a committee in the future. In addition, we are exempt from the requirements to give shareholders the opportunity to vote on equity-compensation plans and to have a compensation committee composed entirely of independent directors, as defined by the NYSE, and governed by written charters. We are also exempt from certain director independence requirements of the NYSE, the requirement to hold executive sessions of directors without management present, certain additional requirements of audit committees, the requirement to adopt corporate governance guidelines and a code of conduct and annual certification requirements. For more detail on differences in corporate governance between NYSE standards and our home country standards, see “Item 16G. Corporate Governance.” As long as we rely on these foreign

private issuer exemptions, the management oversight of our Company may be more limited than if we were not exempt from these requirements of Section 303A.

***As a foreign private issuer we are not be subject to U.S. proxy rules and are exempt from filing certain Exchange Act reports.***

As a foreign private issuer, we are exempt from the rules and regulations under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. Moreover, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission, or SEC, as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act.

In addition, we would lose our foreign private issuer status if a majority of our directors or executive officers are U.S. citizens or residents and we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We may also be required to modify certain of our policies to comply with governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we may lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

***We are a “controlled company” within the meaning of the New York Stock Exchange rules and qualify for and rely on exemptions from certain corporate governance requirements.***

Certain of our shareholders control a majority of the combined voting power of all classes of our voting stock, and we are a “controlled company” within the meaning of the New York Stock Exchange corporate governance standards. Under these rules, a company of which more than 50% of the voting power is held by an individual, a group, or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements of the New York Stock Exchange, including:

- the requirement that a majority of the Board consist of independent directors,
- the requirement that we have a nominating/corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities, and
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities. We rely on these exemptions.

As a result, we may not have a majority of independent directors and our compensation committee does not consist entirely of independent directors. In addition, we do not have a nominating/corporate governance committee. Accordingly, you do not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***We are subject to anti-corruption laws in the jurisdictions in which we operate.***

We are subject to a number of anti-corruption laws, including the U.S. Foreign Corrupt Practices Act (“FCPA”) and various other anti-corruption laws. The FCPA generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits. Although our code of ethics and standards of conduct require our employees to comply with the FCPA and similar laws and our Board of Directors has issued an anticorruption policy, we are still in the process of FCPA compliance training for our employees and consultants. In addition, despite our ongoing efforts to ensure compliance with the FCPA and similar laws, there can be no assurance that our employees, agents, and the companies to which we outsource certain of our business operations, will not take actions in violation of our policies, for which we may be ultimately held responsible. If we are not in compliance with anti-corruption laws and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could harm our reputation and have a material adverse impact on our business, financial condition, results of operations and prospects. Any investigation of any actual or alleged violations of such laws could also harm our reputation or have an adverse impact on our business, financial condition, results of operations and prospects.

***The protections afforded to minority shareholders in Panama are different from, and more limited than, those in the United States and may be more difficult to enforce.***

Under Panamanian law, the protections afforded to minority shareholders are different from, and more limited than, those in the United States and some other Latin American countries. For example, the legal framework with respect to shareholder disputes, such as derivative lawsuits and class actions, is less developed under Panamanian law than under U.S. law as a result of Panama’s short history with these types of claims and the small number of successful cases in each country. In addition, there are different procedural requirements for bringing these types of shareholder lawsuits. As a result, it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company to do the same.

***Holders of ADSs may find it difficult to enforce civil liabilities against us or our directors, officers and controlling persons.***

We are organized under the laws of Panama, and our principal place of business (*domicilio social*) is in Panamá City, Panamá. All of our directors, officers and controlling persons reside outside of the United States. In addition, substantially all our assets are located outside of the United States. As a result, it may be difficult for holders of ADSs to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. Based on the opinion of our Panamanian and Colombian counsel, there is doubt as to the enforceability against such persons in Panama and Colombia, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

***Relative illiquidity of the Colombian securities markets may impair the ability of an ADS holder to sell preferred shares.***

Our preferred shares are listed on the Colombian Stock Exchange, which is relatively small and illiquid compared to stock exchanges in major financial centers. In addition, a small number of issuers represent a disproportionately large percentage of market capitalization and trading volume on the Colombian Stock Exchange. A liquid trading market for our securities might not develop or continue on the Colombian Stock Exchange. A limited trading market could impair the ability of an ADS holder to sell preferred shares (obtained upon withdrawal of such shares from the ADS facility) on the Colombian Stock Exchange in the amount and at the price and time such holder desires, and could increase the volatility of the price of the ADSs.

***Exchange rate fluctuations may adversely affect the foreign currency value of the preferred shares represented by the ADSs and any dividend or other distributions.***

The preferred shares represented by the ADSs are quoted in Colombian pesos on the Colombian Stock Exchange. Dividends and other distributions, if any, with respect to the preferred shares may be declared in Colombian pesos. Fluctuations in the exchange rate between Colombian pesos and U.S. dollars will affect, among other things, the foreign currency value of any such dividends or distributions.

***It may be difficult to enforce your liquidation preference reimbursement right if we enter into a bankruptcy, liquidation or similar proceeding in Panama.***

The insolvency laws of Panama, particularly as they relate to the priority of creditors, may be less favorable to your interests than the bankruptcy laws of the United States. Your ability to enforce your liquidation preference reimbursement rights as a holder of ADSs may be limited if we become subject to the insolvency proceedings set forth in Title I of the Third Book of the Commercial

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Code, as amended from time to time, which establishes the events under which a petition for the declaration of insolvency of a company can be filed before a circuit court, considering that this preference reimbursement will be feasible after payment to third-party creditors.

***Our ability to pay dividends would be limited if any of our relevant operating subsidiaries enters into a bankruptcy, liquidation or similar proceeding in their home jurisdictions.***

Our ability to pay dividends may be limited if any of our relevant operating subsidiaries becomes subject to the insolvency proceedings under the applicable laws of Colombia, the Bahamas, El Salvador, Costa Rica or Peru, as amended from time to time, which establish the events under which a company, its creditors or the authorities may request its admission to insolvency proceedings in order to reach an agreement with its creditors as to the terms of its debt structure. In addition, if a debtor breaches an insolvency agreement, or if continuation of a debtor's business is not economically feasible, the restructured company may be liquidated, and payments of our dividends may also be contingent upon operating subsidiaries' earnings and business considerations.

***Our shares are traded on more than one market and this may result in price variations; in addition, investors may not be able to easily move shares for trading between such markets.***

Our preferred shares have been traded on the Colombian Stock Exchange since May 2011 and our ADSs representing preferred shares have been traded on the NYSE since November 2013. Trading in our ADSs or preferred shares on these markets takes place in different currencies (U.S. dollars on the NYSE and COP on the Colombian Stock Exchange), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Colombia). The trading prices of our shares on these two markets may differ due to these and other factors. Any decrease in the price of our preferred shares on the Colombian Stock Exchange could cause a decrease in the trading price of our ADSs on the NYSE. Investors could seek to sell or buy our shares to take advantage of any price differences between the markets through a practice referred to as arbitrage. Any arbitrage activity could create unexpected volatility in both our share prices on one exchange, and the shares available for trading on the other exchange. In addition, holders of ADSs cannot immediately surrender their ADSs and withdraw the underlying preferred shares for trading on the other market without effecting necessary procedures with the depository. This could result in time delays and additional cost for holders of ADSs.



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### **Item 4. Information on the Company**

#### **A. History and Development of the Company**

##### **History**

We are an airline holding company incorporated in Panama in connection with the combination of Avianca and Taca in February 2010. The combination of Avianca and Taca was announced and agreed in October 2009 by their respective controlling shareholders who, after the approval of the combination by the antitrust and regulatory authorities, contributed their respective interests in Avianca and Taca to us. Avianca Holdings S.A. (formerly AviancaTaca Holding S.A.) changed its domicile from the Commonwealth of the Bahamas to Panama and adopted its by-laws under Panamanian law on March 2, 2011.

In May 2011, we completed our initial public offering in Colombia on the Colombian Stock Exchange. In connection with that public offering we sold 100,000,000 preferred shares for COP500,000 million (approximately \$279 million as of such date).

In May 2013, we issued \$300 million in aggregate principal amount of 8.375% Senior Notes due 2020, our first offering in the international capital markets.

In November 2013, we completed our initial public offering in the United States, listing our ADSs on the NYSE.

In April 2014, we issued \$250 million in aggregate principal amount of additional 8.375% Senior Notes due 2020, which were first issued in May 2013.

In December 2014, we issued our first aircraft financing through a private placement. The transaction financed three new aircraft deliveries (A319, A321 and B787) for Avianca and totaled \$152.9 million.

##### ***Avianca***

Avianca was organized in 1919 as SCADTA (*Sociedad Colombo-Alemana de Transportes Aéreos*) by a group of Colombian and German investors that pioneered aircraft navigation in Colombia with Junkers F-13 hydroplanes. By the early 1920s, Avianca was offering international service to Venezuela and the United States. During World War II, the German investors sold their stake to Pan American World Airways, a U.S. corporation. In 1940, Aerovías Nacionales de Colombia S.A., or Avianca, was incorporated in connection with the merger of SCADTA and SACO (*Servicio Aéreo Colombiano*). In 1977, Avianca acquired SAM S.A., a Medellín based passenger airline. In 1981, Avianca built and began operating the *Puente Aéreo* terminal in Bogotá to service domestic routes in Colombia. Avianca remodeled this terminal in 2006 and currently enjoys exclusive rights to use it for domestic routes in Colombia until Operadora Aeroportuaria Internacional, or OPAIN, provides Avianca the necessary space to have its domestic and international operations integrated under one terminal. In 2004, our current controlling shareholder, Synergy, acquired Avianca, helping it emerge from its Chapter 11 reorganization. In 2008, Avianca acquired Tampa Cargo, a leading Colombian cargo airline, and in November 2010 acquired Aerogal, an Ecuadorian airline, which currently is a direct subsidiary of Avianca Holdings S.A.

##### ***Taca***

Taca was organized in 1931 in Honduras as Transportes Aéreos Centroamericanos (TACA). During the 1930s and 1940s, Taca expanded throughout Central America, including Costa Rica, El Salvador, Guatemala, Nicaragua and Panama. By the 1950s, the operations were consolidated into one airline, Taca International, based in El Salvador. In 1963, the Kriete family acquired a majority interest in Taca. In the 1990s, Taca began acquiring interests in the flag carriers of each of the other Central American countries. In 1998, Taca modernized its fleet and redesigned its schedule into a dual hub and spoke network, with hubs in San Salvador and San José. In 1999, Taca launched Transamerican Airlines S.A., and added a hub in Lima, Peru.

## Corporate Information

Our executive offices are located at Aquilino de la Guardia Calle No. 8, Panama City, Republic of Panama, and our telephone number is (+507) 205-6000.

Our authorized agent in the U.S., Avianca, Inc., is located at 122 East 42nd Street, Suite 2525, New York, NY 10168.

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### Capital Expenditures

Our capital expenditures consist primarily of expenditures related to our purchase of new aircraft and engines, and advance payments on aircraft purchase contracts. For the years ended December 31, 2015, 2014 and 2013, we invested \$220.9 million, \$169.3 million, and \$320.3 million, respectively, in advance payments on aircraft purchase contracts and \$156.7 million, \$130.3 million, and \$264.7 million, respectively, in acquisition of property and equipment, which primarily consisted of aircraft and engines.

### B. Business Overview

#### Overview

We are a leading airline in Latin America. In February 2010, we completed the combination of Avianca and Taca, two established airlines with geographically complementary operations in the Andean region (Colombia, Ecuador and Peru) and Central America (Belize, Guatemala, Costa Rica, Honduras, El Salvador, Nicaragua and Panama). In 2015, we were the market leader in terms of passengers carried in the domestic market of Colombia (the third largest domestic market in Latin America), according to the Colombian Civil Aviation Authority, and a leader in terms of passengers carried on international flights within the Andean region and Central America (our home markets), according to internal data we derive from Travelport Marketing Information Data Tapes, or MIDT. Our strong presence within the Andean region and Central America enables us to consolidate regional passenger traffic in our hubs and provide connectivity to international destinations, making us a leader in terms of international air passengers carried from our home markets to both North America and South America.

We operate an extensive route network from our strategically located hubs in Colombia, Peru and El Salvador (plus the focus markets of Costa Rica and Ecuador). We offer passenger and cargo service through approximately 5,700 weekly scheduled flights to more than 100 destinations in over 25 countries around the world. Our code share alliances, together with our membership in Star Alliance, which we joined in 2012, provide our customers with access to a worldwide network of over 1,300 destinations. During the year ended December 31, 2015, we transported approximately 28.2 million passengers and 540,000 metric tons of cargo.

Since the combination of Avianca and Taca in February 2010, we have grown significantly. We believe we have already achieved many revenue-enhancing synergies from the integration of Avianca's and Taca's networks, which was the initial focus of the combination. We are implementing a second stage of our integration plan focused primarily on achieving cost-oriented synergies from greater operating and administrative efficiencies and economies of scale. Our consolidated operating revenue increased 14.9% from \$3,794.4 million in 2011 to \$4,361.3 million in 2015, and our consolidated operating profit increased 8.1% from \$202.4 million for the year ended December 31, 2011 to \$218.8 million in 2015. The revenue-enhancing synergies from our network integration allowed us to optimize our route capacity and efficiency, through which we added new routes and increased our available seat kilometers (ASKs) and our total passengers carried 34.3% and 38.3%, respectively, from 2011 to 2015 and during the same period our load factor increased from 79.6% to 79.7%.

As of December 31, 2015, we operated a modern fleet of 180 aircraft (141 jet passenger aircraft, 28 turboprop passenger aircraft and 11 cargo aircraft), mainly from the Airbus family. Since 2010, we have focused on increasing homogeneity in our fleet, and therefore increasing efficiency, by decreasing the number of aircraft models we operate. We intend to enhance our modern jet fleet further by continuing to add new aircraft and we currently have firm orders for delivery between 2016 and 2025 of 141 new Airbus aircraft and eight Boeing 787 Dreamliners. In line with our initiatives directed towards enhancing profitability, achieving a leaner capital structure and reducing the current levels of debt, in April 2016, we negotiated with Airbus a significant reduction of our scheduled aircraft deliveries for 2016, 2017, 2018 and 2019 and certain changes to the type of aircraft (both upgrades and downgrades), but did not alter the total deliveries scheduled between 2016 and 2025. As a result, we have a different schedule for advanced payments and aircraft acquisition.

We provide other products and services that complement our passenger and cargo businesses and diversify our sources of revenue. In March 2011, we launched our *LifeMiles* frequent flyer program, which has become a significant Latin American frequent flyer program, with approximately 6.5 million members as of December 31, 2015. In August 2015, we sold a 30.0% stake in *LifeMiles* to Advent International (“Advent”) for \$343.7 million. We hope to grow our *LifeMiles* business through this partnership with Advent by leveraging Advent’s strategic capabilities. We retain a 70.0% ownership stake in *LifeMiles*. We also provide aircraft maintenance, crew training and other airport services to other carriers as well as travel-related services to our customers.

We are a Panamanian company (*sociedad anónima*), and approximately 34.0% of our outstanding capital stock is represented by our non-voting preferred shares that are listed on the Colombian Stock Exchange (Bolsa de Valores de Colombia), including preferred shares represented by American Depositary Shares listed on the New York Stock Exchange as a result of our international initial public offering in November 2013. Approximately 78.1% of our voting common shares are owned by Synergy Aerospace Corp., a

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corporation indirectly controlled by the Efromovich family, and approximately 21.9% of our voting common shares are owned by Kingsland Holdings Limited, a corporation controlled by the Kriete family.

## **Our Strengths**

We believe that our most important business strengths include the following:

- *A market leader in a dynamic Latin American region.* We have a leading presence in the Colombian domestic market and also in the market for international passenger service within the Andean region and Central America, a region with approximately 148.5 million inhabitants (excluding Panama) as of December 31, 2015 and what we believe to be dynamic and growing economies. Our passengers carried increased 6.6% in 2013, 6.5% in 2014 and 7.9% in 2015. We believe our strong presence in the regions in which we operate positions us to benefit from economies of scale and grow from a position of strength.
- *A strong brand associated with a superior customer experience.* We believe our *Avianca* brand is associated with superior service in the minds of many customers in our core Latin American markets. Since the combination of Avianca and Taca in 2010, we have unified our service standards to strive for “*Excelencia Latina*” (Latin Excellence), the ideal we set for our service goals. In 2013, we were recognized as the “Best Airline in South/Latin America 2013” (Business Traveler Magazine “Best of the Best 2013” Awards) and the “Best Airline Staff Service South America” (Skytrax World Airline Awards 2013). In 2014, we were recognized as the “Best Airline Staff Service Central America and the Caribbean” (Skytrax World Airline Awards 2014), the “e-commerce Leader in the Colombian Tourism Industry” (Colombia e-commerce Award 2014) and the “Leader in Electronic Commerce in

the category of Tourism in Latin America” (Latin American e-commerce Award). Beginning in May 2013, Avianca became our sole, unified brand for all of our operations.

- *A multi-hub network in Latin America.* Our strategically located hubs in Bogotá, Lima and San Salvador provide coverage of the domestic markets in Colombia, Peru, Ecuador and Central America and support a broad international network connecting the Andean Region, Central America, the Caribbean, North America and Europe. Our hub network is complemented by focus city operations in San José in Costa Rica, Quito and Guayaquil in Ecuador and our membership in Star Alliance, the largest airline network in the world as of December 31, 2015 in terms of member airlines, daily flights, destinations and covered countries. We believe that the broad reach of our network, together with our code share alliances and Star Alliance membership, provide our customers with a wide range of destination options and provide us with a geographically diversified source of revenues that affords us flexibility and adaptability with respect to demand cycles in our industry.
- *One of the most modern passenger fleets among Latin American airlines.* Our continuous fleet modernization process has increased our jet passenger fleet’s capacity and has made our jet passenger operative fleet one of the youngest among Latin American airlines, with an average aircraft age of approximately 5.7 years as of December 31, 2015. Since 2010, as a result of our fleet modernization program, we have been able to increase fuel efficiency and improve our technical dispatch reliability. Since 2010, we have reduced the number of jet passenger aircraft types or models we use, and our current passenger fleet now consists primarily of Airbus aircraft. The increased homogeneity of our fleet has enabled us to reduce crew and staff training costs and also maintenance costs through the implementation of unified spare parts inventories and maintenance processes.
- *World-class loyalty program.* Launched in March 2011, *LifeMiles*, the consolidation of AviancaPlus and Distancia, has enhanced our brand recognition by providing superior customer service through member engagement and an outstanding miles-to-rewards ratio. As of December 31, 2015, *LifeMiles* has more than 6.5 million members. In March 2013, *LifeMiles* won its first Freddie Award for Best Redemption Ability in the Americas, just two years after the program was launched. In 2014, *LifeMiles* won two more Freddie Awards (Best Redemption Ability in the Americas, Best FFP Promotion in the Americas). In 2015, the program won another two Freddie awards: the “Best Promotion in the Americas” award and the “Up and Coming Program of the Year in the Americas” award. The program has more than 200 commercial partners and continues developing new partnerships with banks, hotel chains, car rental companies, retailers and other airlines.
- *Diversified business.* Each year, we continue to expand our business units to complement our passenger transport business. Through targeted investments, the company offers specialized courier and cargo services, personnel training, aircraft maintenance and tourism products which have increased revenue sources.
- *Experienced senior management team with strong track record.* Our senior management team has significant industry knowledge and a demonstrated ability to acquire and integrate businesses successfully. In addition, we believe our incentive programs align our management team with our strategic objectives and can contribute to our success by rewarding the accomplishment of pre-defined financial and operating goals.

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### **Our Strategy**

Our goal is to leverage our leadership position to take advantage of opportunities for profitable growth in the Latin American aviation market by expanding our network and continuing to reduce our operating costs. Key elements of our business strategy include the following:

- *Enhance customer loyalty through seeking to provide superior customer service and a culture of “Excelencia Latina.”* Seeking to provide superior customer service is a cornerstone of our passenger and cargo business, and we seek to create a culture that delivers “Excelencia Latina” (Latin Excellence). We believe our culture of *Excelencia Latina* can differentiate us from our competitors by combining high-quality operating performance with a warm, Latin American service culture that we believe caters to the tastes of Latin American passengers. Our strategy is based on selecting, training and rewarding dedicated personnel, establishing a solid operational and technological platform to provide high-quality operations, and delivering products and services such as improved VIP lounges, self-service check-in (over the internet, at kiosks or from mobile phones) and a superior experience aboard modern aircraft with a varied selection of in-flight entertainment options. We also intend to leverage our *LifeMiles* frequent flyer program to increase customer loyalty and attract new customers by providing competitive benefits, including priority seat availability, check-in and baggage handling and VIP lounge access.
- *Focus on achieving further synergies from the Avianca-Taca combination to increase revenues and to implement initiatives to reduce costs.* After the combination of Avianca and Taca in February 2010, we focused initially on the commercial integration of our combined network and grew significantly in terms of passengers carried and operating revenues. As we continue with the second phase of our post-combination integration, we believe there is still potential to achieve further revenue growth from the consolidation of our operations and improvement of our revenue management practices. We are currently seeking to achieve cost synergies by optimizing our administrative and operational procedures, in particular, procedures related to fleet management, consolidating our maintenance procedures across the regions we serve and optimizing our flight operations, increasing aircraft utilization through interchangeability of aircraft, better crew planning and more efficient use of our regional hubs. In addition, we continue to develop several projects to unify our IT platforms in finance, maintenance, operations and customer service.
- *Pursue opportunities for profitable growth in our passenger segment.* We seek to grow our passenger business by protecting and leveraging our strong presence and optimizing our network in the markets we serve. We also continue to expand and grow our presence in the region with domestic and international destinations routes through our Bogotá and Lima hubs, as well as by enhancing our connectivity for passengers traveling between South and North America via our San Salvador hub. However, our growth has to be aligned with the macroeconomic environment, demand and other factors related to our home markets in order to maintain our profitability. We also expect to continue to evaluate selectively additional growth opportunities through strategic alliances with other airlines as well as potential acquisitions and strategic opportunities that would complement our existing operations.
- *Grow our cargo operations.* We believe our cargo operations offer an attractive opportunity for growth, complementing our passenger operations and diversifying our sources of revenue and profit. We believe we have been successful in increasing our footprint in the cargo business in Latin American markets by optimizing our freighter schedules in spite of market imbalances, by maximizing the belly utilization in our passenger fleet, and through the continuous analysis of opportunities for growth in strategic markets. We have also strengthened our strategic alliances, starting in 2014 with the acquisition of an ownership interest of 25.0 % of the voting rights and 92.7% of the economic rights of Aero Transporte de Carga Unión, S.A. de C.V., or Aerounion, a Mexican cargo company. We also entered into a commercial agreement with our affiliate OceanAir Linhas Aereas S.A. and entered into a commercial agreement with Etihad Cargo on a freighter service between Milan/Amsterdam and Bogota. During 2015, regional expansion projects and strategic alliances were crucial to compensate the market contraction that Latin America is currently going through. Despite this market contraction, Avianca Cargo, the trademark we use to identify our international cargo services, had an approximately 17.3% growth in transported tons of cargo. Our diversification and strategic alliances have allowed us to offer new routes and services, such as shipping flower cargo to the west coast of the United States, entering into the perishable market to Amsterdam and increasing traffic to Europe and Asia from our Bogotá hub.
- *Expand our LifeMiles program to enhance our overall value.* We believe our *LifeMiles* frequent flyer program enhances our brand recognition, strengthens our position in strategic markets and provides

ancillary revenue opportunities. Our majority-owned loyalty business unit operates our *LifeMiles* frequent flyer program and offers miles and loyalty services to program members and about 200 commercial partners. We intend to further enhance the program's revenue growth by (1) increasing the number of active members, (2) increasing the accrual and redemption of miles per active member and (3) strengthening the network of commercial partners who allow their customers to earn *LifeMiles*, including by developing new co-branding products and partnerships and similar initiatives with hotel chains, car rental companies, banks, credit card companies and other airlines. In August 2015, we sold a 30.0% stake in *LifeMiles* to Advent for \$343.7

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million. We hope to grow our *LifeMiles* business through this partnership with Advent by leveraging Advent's strategic capabilities. We retain a 70.0% ownership stake in *LifeMiles*.

### **Airline Operations**

Our operating revenues are comprised of passenger revenue, cargo and courier revenue and related revenue activities. Passenger revenue consists primarily of ticket sales and redemption of rewards under our *LifeMiles* loyalty program. Cargo and courier revenue consists primarily of services designed for the air transportation of goods, on an airport to airport basis and other complementary services. In addition, cargo and courier revenues include revenues derived from shipment of small parcels between countries, on a door-to-door basis and with defined transit time commitments from carriers. Related activities consist primarily of sales of *LifeMiles* program rewards to banks for use in credit card reward programs (net of the value of the underlying rewards which, when redeemed, are recognized as passenger revenue), and also include air transport-related services such as maintenance, crew training and other airport services provided to other carriers through our *Avianca Services* division, as well as service charges, ticket penalties, aircraft and property leases, marketing rebates, duty-free sales, charter flights and other general activities. Moreover, we are implementing initiatives to increase ancillary revenues, through special services such as empty chair, unaccompanied minors, lounge pass day and others.

### **Seasonality**

We expect our quarterly operating results to continue to fluctuate from quarter to quarter due to seasonality. This fluctuation is the result of high vacation and leisure demand occurring during the northern hemisphere's summer season in the third quarter (principally in July and August) and again during the fourth quarter (principally in December). In addition, January is typically a month in which heavy air passenger demand occurs.

### **Passenger operations**

Our passenger revenues represented 83.8%, 82.1% and 79.3% of our total revenues for the years ended December 31, 2013, 2014 and 2015, respectively.

### **Domestic**

Domestic revenue accounted for approximately 26.7%, 27.7% and 39.4% of our total passenger revenue for the years ended December 31, 2013, 2014 and 2015, respectively.

Our Colombian domestic passenger revenue accounted for approximately 87.6%, 88.2% and 86.6% of our total domestic passenger revenue for the years ended December 31, 2013, 2014 and 2015, respectively. The majority of our domestic traffic corresponds to business travelers, but during peak vacation and holiday

seasons in July and August, in December and January, and during the Easter holiday in March/April, the heaviest volumes of traffic come from leisure travelers. In Colombia, during 2015, approximately 63% of our domestic passengers regard Bogotá as their destination or origination point, 27% of our domestic passengers pass through Bogotá in transit to other points on our domestic route network and the remaining 10% of our domestic passengers are point-to-point travelers who do not travel to or through Bogotá. Bogotá is a significant business center with a population of approximately 8.0 million. Medellín, Cali and Barranquilla are also important destinations, with a population of approximately 2.4 million, 2.3 million and 1.2 million, respectively.

Our Peruvian domestic passenger revenue accounted for approximately 7.9%, 7.0% and 8.2% of our total domestic passenger revenue for the years ended December 31, 2013, 2014 and 2015, respectively. We have flown a daily route between Lima and Cuzco for more than 10 years. Currently we fly approximately 15 daily frequencies to six domestic destinations. During the years ended December 31, 2014 and 2015, according to the data provided by the Peruvian Civil Aviation Authority, we were the third-largest domestic carrier in Peru with approximately 13.0% and 12.7%, respectively, of the domestic passenger market.

Our Ecuadorian domestic passenger revenue accounted for approximately 4.5%, 4.7% and 5.1% of our total domestic passenger revenue for the years ended December 31, 2013, 2014 and 2015, respectively.

#### *International*

International revenue accounted for approximately 73.3%, 72.3% and 60.6% of our total passenger revenue for the years ended December 31, 2013, 2014 and 2015.

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The majority of our passenger traffic to the United States and Europe is for leisure purposes, principally from Colombian travelers. Leisure traffic tends to coincide with holidays, school schedules and cultural events and peaks in July and August and again in December and January. Within Latin America, business travel constitutes the heaviest traffic volume, although a substantial amount of passenger traffic also comes from leisure travel.

Our international traffic is served through our airlines: Avianca (Colombia), Taca International (El Salvador), LACSA (Costa Rica) and Transamerican Airlines S.A. (Peru). Two of our subsidiaries, Aviateca S.A. (Guatemala) and Taca de Honduras (Honduras), operate their international routes through charter flights and wet leases with other of our subsidiaries. We are not currently operating any flights with the license for international routes of Nicaraguense de Aviación S.A.—Nica (Nicaragua).

#### *Regional operation in Central America*

Our regional operation in Central America is served through our regional airlines: Aerotaxis La Costeña S.A.—La Costeña (Nicaragua), Isleña de Inversiones S.A.—Isleña (Honduras), Servicios Aéreos Nacionales S.A.—Sansa (Costa Rica) and Aviateca (Guatemala). Our passenger revenue from our regional operation in Central America accounted for approximately 0.2%, 0.8% and 1.5% of our total passenger revenue for the years ended December 31, 2013, 2014 and 2015, respectively.

#### *Cargo and other*

Our cargo business operates in most of the route network of our passenger airline business, using the belly capacity of our passenger fleet, and also by freighter-only operations. Our passenger airline business includes more than 100 destinations to which we can transport cargo in the bellies of our passenger aircraft. In

addition, we operate in four more destinations exclusively for cargo. We carry cargo for a variety of customers, including other international air carriers, freight-forwarding companies, export oriented companies and individual consumers. We may also strengthen our destination offerings through interline agreements.

During 2015, our cargo capacity in terms of ATKs increased 18.8%. Our RTKs grew 14.1% from 2014 to 2015. This resulted in a 2.4 percentage points decrease in our cargo load factor, from 61.0% in 2014 to 58.5% in 2015. This performance was much stronger than general market growth. For example, RTKs in Latin America decreased 6.0% and RTKs in North America only grew 0.4%. Our performance reflects our strategy of belly maximization, freighter schedule optimization and strategic market growth.

The following table sets forth certain of our cargo operating statistics for domestic and international routes for the periods indicated:

	<u>Year Ended December 31,(1)</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total ATKs (millions)	2,152	1,810	1,538
Total RTKs (millions)	1,259	1,104	867
Weight of cargo carried (thousands of tons)	540	461	375
Total cargo yield (cargo revenues/RTKs, in \$)	0.44	0.44	0.49
Total cargo load factor (%)	58.5%	61.0%	56.4%

(1) Information regarding ATKs, RTKs and cargo tons does not include domestic Ecuador and includes Aerounion since October 22, 2014.

Our international cargo operations are headquartered in Bogotá, though we also have a significant cargo operation in Medellin and Miami. The United States accounts for the majority of our cargo traffic to and from Latin America. In Latin America, our main origins of our cargo are Colombia, Ecuador, Peru, Brazil and Mexico. We operate in/out of Europe through our passenger schedule services to Madrid, Barcelona and London. We also offer other destinations around the world through our code share, interline and commercial agreements.

During 2015, Avianca Cargo considerably increased its footprint in Miami and Colombia. In Miami, Avianca Cargo as a group ranked in the top two airlines to carry international freight in/out of Miami, with a 6.6% increase in 2015 versus 2014. In Colombia, Avianca Cargo represented the strongest growth in gross tons, with an 8.4% growth in 2015 versus 2014, validating it as Colombia's largest cargo carrier in gross tons.

In general terms, cargo flows are unidirectional. This characteristic is a key determinant in the structure of cargo operations. This is especially relevant in markets featuring structural imbalances between inbound and outbound flows or during specific periods of such disequilibrium. Lack of demand in one particular direction may force airlines to rely on different markets in order to maximize loads on return flights. In recent years, we have diversified origins and destinations, creating a larger network that can maximize asset

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utilization and decrease regional dependence. Also, we have strengthened our cargo headquarters in Bogotá through the integration of the freighters and passenger plane networks.

Under our *DEPRISA* brand, we operate an express courier operation in Colombia. *DEPRISA* is a significant player in the courier industry with more than 600 branches, 300 domestic and 200 international (UPS allied in



Colombia) destinations, a broad domestic and international product portfolio with same day and next day deliveries, and we believe a strong brand recognition and reputation in Colombia.

*DEPRISA* also manages our domestic cargo operation in Colombia and express courier operation located mainly in the United States that operates currently under the brand *AVIANCA EXPRESS*, which has more than 50 branches in the United States.

Our courier revenues represented 1.7%, 1.6% and 1.5% of our total revenues for the years ending December 31, 2013, 2014 and 2015, respectively.

We provide other services that complement our passenger and cargo businesses and diversify our sources of revenue. Other revenues consist primarily of sales of *LifeMiles* program rewards to banks for use in credit card reward programs (net of the value of the underlying rewards which, when redeemed, are recognized as passenger revenue), and also include air transport-related services such as maintenance, crew training and other airport services provided to other carriers through our *Avianca Services* division, as well as service charges, ticket penalties, aircraft and property leases, marketing rebates, duty-free sales, charter flights and other general activities.

Other revenues accounted for approximately 5.3%, 5.9% and 6.4% of our total revenue for the years ending December 31, 2013, 2014 and 2015, respectively.

### Route Network and Schedules

Through our network, we operate more than 800 daily scheduled flights (including domestic flights) to more than 100 different destinations in North America, Central America, South America and Europe. Our network combines three strategically located hubs in Bogotá, San Salvador and Lima, as well as strong point-to-point service from and to different major destinations in North America, Central America, South America and Europe. We also provide our passengers with access to flights to more than 100 destinations worldwide through code-sharing arrangements with Aeroméxico, OceanAir, Air Canada, COPA, Iberia, Lufthansa, Satena, Sky Airline, Turkish Airlines and United Airlines. Additionally, by joining Star Alliance in 2012, we increased the reach of our frequent flyer program, granting access to our clients to more than 1,300 airports in 192 countries and more than 1,000 VIP lounges throughout the world, as well as mileage accruals and redemptions with the 28 Star Alliance carrier members.

We connect city pairs with lower passenger traffic through our three hubs, which build density on flights and enable us to serve these destinations with a higher frequency. When passenger demand for a particular city pair is sufficient, we provide point-to-point service, which reduces travel time and inconvenience for passengers. We believe that this mixed model allows us to efficiently allocate our resources among high and low-traffic destinations.

For our international connections at our three hubs, we utilize a morning bank, an evening bank and, for some of our hubs, a midday bank of flights, with flights timed to arrive to the corresponding hub at approximately the same time and to depart a short time later. These banks give us the opportunity to provide more frequent service to many destinations, allow some passengers more convenient connections and increase the flexibility of scheduling flights throughout our route network.

The following table shows the distribution of our passenger revenue generated in each of the different regions for the periods indicated measured by destination:

Region	Year Ended December 31,		
	2015	2014	2013
Domestic Colombia	25.4%	27.9%	26.1%
Domestic Ecuador	1.5%	1.5%	1.3%
Domestic Peru	2.4%	2.2%	2.4%

Central America & Caribbean (non-regional)	8.0%	7.1%	7.1%
Intra Home Markets(1)	10.7%	10.1%	9.7%
Europe	11.2%	9.8%	8.7%
North America(2)	25.0%	24.7%	24.9%
South America	15.6%	16.6%	19.7%
Regional Central America	0.3%	0.2%	0.2%

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Region	Year Ended December 31,		
	2015	2014	2013
Total	100.0%	100.0%	100.0%

- (1) International traffic between our home markets (Colombia, Ecuador, Peru, El Salvador, Costa Rica, Nicaragua, Honduras, Guatemala, Belize, excluding Central American & Caribbean (non-regional)).  
(2) North America includes Mexico.

The following table sets forth the information regarding the number of revenue passengers we carried for the periods indicated measured by destination:

Region	Year Ended December 31,					
	2015		2014		2013	
Domestic Colombia	14,711,396	53.7%	13,198,917	52.0%	12,028,242	50.1%
Domestic Ecuador	622,698	2.3%	831,481	3.3%	707,545	2.9%
Domestic Peru	1,241,697	4.5%	1,173,258	4.6%	1,188,803	4.9%
Central America & Caribbean (non-regional)	2,240,290	8.2%	2,070,371	8.2%	1,988,961	8.3%
Intra Home Markets(1)	2,137,186	7.8%	2,008,145	7.9%	1,912,645	8.0%
Europe	679,922	2.5%	543,222	2.1%	509,538	2.1%
North America(2)	3,564,321	13.0%	3,550,738	14.0%	3,414,358	14.2%
South America	1,970,240	7.2%	1,843,825	7.3%	2,115,779	8.8%
Regional Central America	210,654	0.8%	161,585	0.6%	156,382	0.7%
Total	27,378,404	100.0%	25,381,542	100.0%	24,022,253	100.0%

- (1) International traffic between our home markets (Colombia, Ecuador, Peru, El Salvador, Costa Rica, Nicaragua, Honduras, Guatemala, Belize, excluding Central American & Caribbean (non-regional)).  
(2) North America includes Mexico.

The following table shows our ASKs (in millions) in each of the different regions for the periods indicated.

Region	Year Ended December 31,					
	2015		2014		2013	
Domestic Colombia	8,182	18.4%	7,309	17.8%	6,472	16.7%
Domestic Ecuador	491	1.1%	563	1.4%	576	1.5%
Domestic Peru	1,050	2.4%	947	2.3%	1,012	2.6%
Central America & Caribbean (non-regional)	2,737	6.1%	2,491	6.1%	2,262	5.8%

Intra Home Markets(1)	4,670	10.5%	4,432	10.8%	4,176	10.8%
Europe	6,654	14.9%	5,169	12.6%	4,753	12.2%
North America(2)	12,983	29.2%	12,885	31.4%	11,973	30.8%
South America	7,670	17.2%	7,204	17.5%	7,539	19.4%
Regional Central America	76	0.2%	51	0.1%	51	0.1%
Total	44,513	100.0%	41,052	100.0%	38,814	100.0%

- (1) International traffic between our home markets (Colombia, Ecuador, Peru, El Salvador, Costa Rica, Nicaragua, Honduras, Guatemala, Belize, excluding Central American & Caribbean (non-regional)).
- (2) North America includes Mexico.

### ***Network and schedule from Bogotá hub***

As of December 31, 2015, through our Bogotá hub, we operated approximately 3,280 weekly scheduled flights to 23 different destinations in Colombia, seven in North America, nine in South America, 12 in Central America and the Caribbean and three in Europe. Unlike our international operations, we utilize a “rolling hub” system in our domestic operations whereby our inbound and outbound connecting flights operate throughout the day, instead of during designated time banks. Our *Puente Aéreo* domestic terminal allows us to more efficiently manage our large volumes of domestic traffic.

Through our Bogotá hub, we currently provide scheduled service to the following cities in Colombia:

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Domestic Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Armenia	96	418,136	313,655	253,419
Barrancabermeja	50	119,739	157,674	156,620
Barranquilla	219	1,327,528	1,145,315	1,078,734
Bucaramanga	153	926,242	868,739	773,768
Cali	344	2,031,542	1,868,658	1,674,123
Cartagena	254	1,470,733	1,343,484	1,330,224
Cucuta	127	718,220	620,997	499,366
El Yopal	42	81,490	72,387	60,687
Florencia	14	31,603	37,019	27,615
Ibagué	52	116,183	108,700	92,228
Leticia	14	78,806	64,356	6,861
Manizales	94	184,234	177,123	165,366
Medellín	378	2,091,983	2,051,847	1,882,346
Montería	56	297,729	276,759	270,583
Neiva	94	222,758	184,585	209,548
Pasto	54	234,241	184,712	175,720
Pereira	146	885,286	730,471	652,687
Popayán	40	94,687	91,468	79,066
Riohacha	28	131,451	130,675	99,782
San Andrés	56	363,351	276,771	255,299
Santa Marta	136	781,694	625,936	563,797

Valledupar	42	254,015	238,448	209,419
Villavicencio	28	58,818	26,471	—

(1) Reflects destinations served as of December 31, 2015.

(2) Departures and arrivals for the week ended December 31, 2015.

(3) These numbers reflect the number of revenue passengers carried on flights to or from Bogotá.

We currently provide international scheduled service from our Bogotá hub to the following cities:

International Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3) (4)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Aruba (Oranjestad)	14	79,416	80,814	79,031
Barcelona	14	151,403	91,963	88,372
Bridgetown	4	587	—	—
Buenos Aires	8	91,249	91,015	93,929
Cancún	28	153,866	116,001	24,491
Caracas	30	205,100	148,136	310,664
Curaçao (Willemstad)	14	55,131	55,103	54,257
Fort Lauderdale	14	87,492	88,573	88,279
Guatemala City	14	47,566	30,809	5,434
Guayaquil	42	215,864	199,814	185,214
Havana	14	58,744	41,782	38,366
La Paz	14	70,756	59,239	56,080
Lima	70	476,793	432,760	436,622
London	14	104,640	39,516	—
Los Angeles	8	37,953	—	—
Madrid	28	300,977	304,744	276,872
Mexico City	42	286,713	276,107	259,168

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International Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3) (4)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Miami	44	326,422	302,581	310,160
New York	33	225,145	219,587	238,878
Orlando	16	90,115	79,456	71,762
Panama City	40	223,788	204,684	183,296
Punta Cana	20	93,277	78,704	60,523
Quito	58	326,670	307,594	304,560
Rio de Janeiro	14	74,962	80,282	69,151
San José	28	129,478	118,550	109,464
San Juan	10	43,811	30,252	11,010
San Salvador	36	169,024	173,716	138,495
Santiago	28	229,827	176,199	153,778
Santo Domingo	22	91,886	68,728	67,848
São Paulo	28	260,805	258,600	236,396

Washington	14	71,002	71,030	74,006
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- (1) Reflects destinations served as of December 31, 2015.
  - (2) Departures and arrivals for the week ended December 31, 2015.
  - (3) These numbers reflect the number of revenue passengers carried on flights to or from Bogotá.
  - (4) During 2014, we carried 11,653 passengers between Bogotá and Valencia, Venezuela. During 2015 we did not service this route.

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### *Network and schedule from San Salvador hub*

Our San Salvador hub connects, principally, passengers from different destinations in North America, Central America and South America. As of December 31, 2015, through our San Salvador hub, we operated approximately 629 weekly scheduled flights to 11 destinations in North America, five in South America, 10 in Central America and the Caribbean and currently provide scheduled service to the following destinations:

Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3) (4) (5)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Belize City	12	36,244	36,516	36,617
Cali	14	41,887	41,870	30,641
Cancún	14	77,271	73,331	78,067
Chicago	10	49,096	59,924	12,875
Dallas	10	37,264	43,808	45,540
Guatemala City	48	233,037	233,990	223,968
Guayaquil	14	59,923	54,429	40,679
Havana	14	58,291	62,313	41,793
Houston	14	51,066	53,512	53,197
Liberia	8	6,982	6,903	8,234
Lima	28	191,033	171,019	162,119
Los Angeles	46	336,971	342,781	306,507
Managua	46	175,734	160,196	160,796
Medellín	14	48,673	45,634	32,507
Mexico City	28	115,424	110,333	75,552
Miami	14	80,654	109,721	94,180
New York	28	177,097	172,659	173,151
Panama City	22	76,394	76,413	69,005
Quito	14	64,209	67,780	53,001
Roatán	14	27,646	21,413	16,675
San Francisco	28	130,269	117,845	125,129
San José	59	265,256	248,530	248,555
San Pedro Sula	42	144,940	137,323	138,925
Tegucigalpa	42	125,959	118,831	106,743
Toronto	14	79,986	83,485	85,141
Washington	32	218,904	241,374	208,232

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- (1) Reflects destinations served as of December 31, 2015.
  - (2) Departures and arrivals for the week ended December 31, 2015.

- (3) These numbers reflect the number of revenue passengers carried on flights to or from San Salvador.
- (4) During 2014, we carried 19,451 passengers between San Salvador and Orlando, Florida in the United States. During 2015, we did not service this route.
- (5) During 2014, we carried 54,337 passengers between San Salvador and Newark, in the United States. During 2015, we carried 5,128 passengers on this route, which ended operations on January 31, 2015.

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### *Network and schedule from Lima hub*

Our Lima hub connects passengers from different destinations in South America to destinations in North America, Central America and Europe, through our other two hubs. As of December 31, 2015, through our Lima hub, we operated approximately 476 weekly scheduled flights to six destinations in Peru, three in North America, 14 in South America and three in Central America and the Caribbean and currently provide scheduled service to the following cities in Peru:

Domestic Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3) (4)(5)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Arequipa	28	162,936	160,357	164,444
Cuzco	70	401,524	382,184	451,579
Iquitos	14	78,366	46,098	—
Juliaca	28	158,642	88,940	81,123
Piura	28	151,959	155,066	143,304
Trujillo	28	124,223	121,062	104,605

- (1) Reflects destinations served as of December 31, 2015.
- (2) Departures and arrivals for the week ended December 31, 2015.
- (3) These numbers reflect the number of revenue passengers carried on flights to or from Lima.
- (4) During 2014, we carried 51,655 passengers between Lima and Tarapoto, Peru. During 2015, we did not service this route.
- (5) During 2014, we carried 77,921 passengers between Lima and Chiclayo, Peru. During 2015, we carried 63,987 passengers on this route, before ending its operation on October 16, 2015.

We currently provide scheduled service from our Lima hub to the following cities internationally:

International Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3)(4)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Asunción	14	51,428	48,607	46,990
Buenos Aires	28	265,711	271,989	268,078
Cali	14	52,803	45,424	25,150
Cancún	6	12,200	—	—
Caracas	14	91,671	78,269	146,327
Guayaquil	14	69,445	69,835	52,925
Havana	10	55,715	52,754	48,856

La Paz	14	68,468	69,861	67,327
Medellín	14	59,270	62,719	28,842
Mexico City	14	70,767	64,121	44,997
Miami	14	142,823	141,192	111,989
Montevideo	14	92,143	89,716	90,226
Porto Alegre	14	62,991	64,633	30,325
Punta Cana	12	50,895	—	—
Quito	14	74,016	84,156	111,640
Rio de Janeiro	14	87,579	89,435	84,731
Santa Cruz	14	69,779	63,716	57,813
Santiago	14	117,791	118,853	119,694
São Paulo	14	126,722	113,518	117,547
San José	14	71,516	68,581	103,282

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- (1) Reflects destinations served as of December 31, 2015.  
(2) Departures and arrivals for the week ended December 31, 2015.  
(3) These numbers reflect the number of revenue passengers carried on flights to or from Lima.  
(4) During 2014, we carried 40,940 passengers between Lima and Santo Domingo, in the Dominican Republic. During 2015, we did not service this route.

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### *Network and schedule from San José*

As of December 31, 2015, through our network in San José, we operated approximately 101 weekly scheduled flights to one destination in South America, and four in Central America and the Caribbean. Our San José network connects, principally, passengers from different destinations in South America and Central America and currently provides scheduled service to the following destinations:

Destinations(1)	Departures scheduled per week(2)	Number of Passengers Carried(3)(4)(5)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Guatemala City	28	99,497	120,759	117,731
Managua	14	22,886	15,503	20,930
Panama City	42	122,383	57,599	50,776
San Andrés	6	3,505	—	—
Tegucigalpa	11	18,087	13,300	15,836

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- (1) Reflects destinations served as of December 31, 2015.  
(2) Departures and arrivals for the week ended December 31, 2015.  
(3) These numbers reflect the number of revenue passengers carried to or from San José.  
(4) During 2014, we carried 9,797 passengers between San José and Caracas, Venezuela, 2,247 passengers between San José and Miami, Florida in the United States, and 11,860 passengers between San José and San Pedro Sula, Honduras, respectively. During 2015, we did not service these routes.  
(5) During 2014, we carried 51,498 passengers between San José and México City, in México. During 2015, we carried 4,493 passengers on this route, before ending its operation on January 31, 2015.

### *Domestic network and schedule in Ecuador*

We operate approximately 156 weekly scheduled domestic flights to six destinations in Ecuador, through our subsidiary Aerogal.

We currently provide scheduled domestic service between the following cities in Ecuador:

Domestic(1)	Departures scheduled per week(2)	Number of Passengers Carried(3)(4)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Quito—Baltra	14	21,087	13,866	17,739
Quito—Guayaquil	70	306,559	399,835	310,741
Quito—Manta	24	94,364	110,518	92,134
Quito—El Coca	10	28,016	47,787	49,141
Guayaquil—Baltra	20	104,391	114,234	113,008
Guayaquil—San Cristobal	18	66,576	71,766	68,933

(1) Reflects destinations served as of December 31, 2015.

(2) Departures and arrivals for the week ended December 31, 2015. These numbers do not include flights served by Isleña.

(3) These numbers reflect the number of revenue passengers carried between such destinations.

(4) During 2014, we carried 73,443 passengers between Quito and Cuenca. During 2015, we carried 878 passengers on this route, before ending its operation on January 14, 2015.

#### ***Regional operation and schedule in Central America***

We operate approximately 810 weekly scheduled domestic flights to 16 destinations in Central America, through a group of airlines composed by Sansa (Costa Rica) and Isleña (Honduras).

Through our regional operation in Central America, we currently provide scheduled domestic service between the following cities in Central America:

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Domestic(1)	Departures scheduled per week(2)	Number of Passengers Carried(3)(4)(5)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Golfito—Puerto Jimenez	14	3,052	—	—
San José—Drake Bay	53	6,253	5,334	4,447
San José—Golfito	68	9,914	9,922	9,006
San José—La Fortuna	28	1,645	—	—
San José—Liberia	47	11,967	10,399	6,912
San José—Palmar Sur	14	3,145	2,614	2,407
San José—Puerto Jimenez	147	16,603	14,344	11,706
San José—Puerto Limón	14	1,600	—	—
San José—Quepos	108	18,064	18,752	17,132
San José—Tamarindo	41	6,897	3,238	4,764
San José—Tambor	142	21,943	19,948	17,174
San José—Tortuquero	19	1,860	—	—
San Pedro Sula—Roatán	13	20,669	14,191	16,921



San Pedro Sula—Tegucigalpa	27	42,329	32,839	37,540
Tamarindo – Liberia	37	3,141	—	—
Tortuquero—Puerto Limón	13	1,104	—	—

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- (1) Reflects destinations served as of December 31, 2015.  
(2) Departures and arrivals for the week ended December 31, 2015. These numbers do not include flights served by Isleña.  
(3) These numbers reflect the number of revenue passengers carried between such destinations.  
(4) During 2014, we carried 8,964 passengers between Tegucigalpa and Roatán, Honduras. During 2015 we did not service this route.  
(5) During 2014, we carried 7,039 passengers between Tegucigalpa and La Ceiba, Honduras. During 2015, we carried 1,624 passengers on this route, until April 8, 2015, when we ended its operation.

#### *Network and schedule from other cities*

In addition to the different destinations served through our three hubs, we provide point-to-point service between different destinations and domestic flight service in Central America and Ecuador.

#### *Point-to-Point Service*

We currently provide domestic point-to-point scheduled service between the following cities:

<u>Domestic(1)</u>	<u>Departures scheduled per week(2)</u>	<u>Number of Passengers Carried(3)(4)</u>		
		<u>Year Ended December 31, 2015</u>	<u>Year Ended December 31, 2014</u>	<u>Year Ended December 31, 2013</u>
Cali—Barranquilla	28	138,431	102,266	96,266
Cali—Cartagena	28	143,834	110,803	106,317
Cali—Pasto	14	35,534	37,110	30,019
Cali—Tumaco	28	78,964	71,021	61,473
Cartagena—Pereira	6	28,584	14,063	—
Cuzco—Puerto Maldonado	14	59,874	63,444	64,838
Medellín—Barranquilla	42	247,342	213,781	193,566
Medellín—Bucaramanga	11	55,347	56,634	33,968
Medellín—Cali	110	444,723	400,187	380,002
Medellín—Cartagena	70	425,499	430,412	444,259
Medellín—Cucuta	13	58,152	45,836	54,933
Medellín—Santa Marta	18	112,869	116,763	108,867

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- (1) Reflects destinations served as of December 31, 2015.  
(2) Departures and arrivals for the week ended December 31, 2015.

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- (3) These numbers reflect the number of revenue passengers carried between such destinations.  
(4) During 2014, we carried 26,326 passengers between Cuzco and Arequipa, Perú. During 2015, we carried 39,917 passengers on this route, until October 16, 2015, when we ended its operation.

We currently provide international point-to-point scheduled service between the following cities:

International(1)	Departures scheduled per week(2)	Number of Passengers Carried(3)		
		Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Barranquilla—Miami	14	74,809	74,946	78,458
Cali—Guayaquil	10	35,261	29,772	33,443
Cali—Madrid	10	81,029	64,349	99,859
Cali—Miami	14	83,224	80,354	80,739
Cartagena—Miami	14	68,313	63,597	64,963
Cartagena—New York	6	29,172	13,976	—
Guatemala City—Flores	28	51,328	48,772	43,947
Guatemala City—Los Angeles	14	92,814	96,299	102,064
Guatemala City—Managua	16	22,036	—	—
Guatemala City—Miami	6	24,262	22,318	37,816
Guatemala City—San Pedro Sula	14	15,080	13,643	14,000
Guatemala City—Tegucigalpa	11	19,451	21,635	22,547
Managua—Miami	24	100,210	86,898	95,689
Medellín—Madrid	4	41,096	42,486	44,430
Medellín—Miami	14	81,734	78,881	85,306
Medellín—New York	20	57,391	55,487	53,056
San Pedro Sula—Miami	14	55,711	57,787	55,229
San Pedro Sula—New York	4	22,797	20,777	25,970

(1) Reflects destinations served as of December 31, 2015.

(2) Departures and arrivals for the week ended December 31, 2015.

(3) These numbers reflect the number of revenue passengers carried between such destinations.

## Alliances

We have a number of bilateral alliances with other airlines, which enhance travel options for customers by providing better coverage to common destinations, additional mileage accrual and redemption opportunities, and access to markets that we do not serve directly. These commercial alliances typically include one or more of the following features: loyalty program reciprocity; code sharing of flight operations (whereby seats on one carrier's selected flights can be marketed under the brand name of another carrier); coordination of passenger services including, but not limited to, ticketing, passenger check-in, baggage handling and passenger connection, and other resource-sharing activities.

We are a member of Star Alliance, a global integrated airline network founded in 1997 and the largest and the most comprehensive airline alliance in the world. As of January 1, 2016, Star Alliance carriers served 1,330 airports in 192 countries with over 18,500 daily flights. Current Star Alliance members are, in addition to us, Adria Airways, Aegean Airlines, Air Canada, Air China, Air India, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, Oceanair Linhas Aereas, SAS Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAP Portugal, THAI Airways International, Turkish Airlines and United Airlines. On February 14, 2013, US Airways announced an agreement to merge with AMR Corporation and its intent to exit Star Alliance as a result of such merger. That same year, TAM Linhas Aereas announced its merger with LAN Airlines, which is why both US Airways and TAM Linhas Aereas no longer belong to Star Alliance as of March 31, 2014.

We also have code share agreements in place with Air Canada, All Nippon Airways, Copa Airlines, Lufthansa, Oceanair Linhas Aereas, Turkish Airlines and United Airlines and reciprocal frequent flyer agreements with all of the members of Star Alliance. Besides our Star Alliance partnerships, we currently have strategic code share agreements with Aeroméxico, Iberia and Sky Airlines. In addition, we have a reciprocal frequent flyer program agreement in place with Aeroméxico and Iberia.

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These alliances enhance our network, providing more options, facilities and benefits to our customers and additional revenues to us.

### **Loyalty Business Unit**

We believe that a strong loyalty program provides the basis for improved profitability and for the development of a lucrative loyalty business. In recent years we have made investments to improve our frequent flyer program, *LifeMiles*. We monitor *LifeMiles* performance carefully and believe it continues to have significant growth and value creation potential.

In March 2011, we launched *LifeMiles*, the consolidated and improved frequent flyer program of Avianca and Taca. Aerogal adopted *LifeMiles* as its frequent flyer program in November 2012. As of December 31, 2015, *LifeMiles* has approximately 6.5 million members. We believe that *LifeMiles* is the most attractive frequent flyer program offered by a Latin American airline. For example, *LifeMiles* has been the only Latin American loyalty program to win a Freddie Award, the most prestigious member-generated award in the travel loyalty industry, in the last two years. Indeed, since 2013, *LifeMiles* has won three Freddie Awards and two Global Traveler Awards. In 2015, *LifeMiles* won the Freddie Awards for “Best Up & Coming Program of the Americas” and the “Best Promotion in the Americas,” and was awarded as the program with the best redemption ability in the 2015 Global Traveler Awards. *LifeMiles* members earn mileage by flying on Avianca, Taca, Aerogal, and on partner airlines. Mileage can also be earned by using certain services offered by about 200 program partners, including banks, hotels and car rental agencies and retail stores. *LifeMiles* members can use their miles to fly to over 1,200 destinations around the world. In addition, miles can be redeemed for upgrades, entrance to our VIP lounges, excess baggage waivers, hotel nights and many other awards from program partners. Our Elite program includes three Elite status levels. Among the benefits that all of our Elite members enjoy are: complementary automated upgrades based on space availability and complementary access to our network of VIP lounges. Our Diamond Elites and Gold Elites also enjoy the benefits of Star Alliance Gold status, including complementary access to some 1,000 Star Alliance VIP lounges around the world.

Since the combination of Avianca and Taca, loyalty programs have been the source of significant direct and indirect value creation for us. Indirectly, *LifeMiles* contributes to the strength of our primary business in key commercial markets, and supports yields through miles-based voluntary up-sell incentives. More directly, loyalty generates financial value for us principally through the commercialization of miles. A significant majority of miles commercialized through partners are sold to banks. For example, we have approximately 20 co-branded credit and debit card partner banks, and active mileage sales agreements with more than 80 financial institutions. In the case of Avianca, the airline decides how many miles it will reward its customers based on several factors, such as the route flown, the fare or family fare purchased and the elite status of the customer, among others.

*LifeMiles*' expenses can be grouped in reward costs and overhead costs. Reward costs represent approximately 80% of *LifeMiles*' cost base and our biggest reward cost is airline tickets, in which *LifeMiles* is required to pay Avianca for tickets redeemed by *LifeMiles* members to fly on Avianca or any of its partners. Other reward costs include hotel nights, rental cars, tours and merchandise via the LifeMiles Rewards Catalog, among others. Overhead costs include, but not limited to, investments in marketing, operational costs and information technology costs and salaries.

*Sale of Minority Stake of LifeMiles to Advent*

In August 2015, we sold a 30.0% stake in *LifeMiles* to Advent for \$343.7 million and in connection with this transaction *LifeMiles* declared a dividend of \$41.0 million in favor of Avianca Holdings prior to the execution of the transaction. Furthermore we recognized \$301.4 million recorded directly to equity, net of related transaction costs. We hope to grow our *LifeMiles* business through this partnership with Advent by leveraging Advent's strategic capabilities. We retain a 70.0% ownership stake in *LifeMiles*.

New contracts were entered into between Avianca and *LifeMiles*. These contracts include, among other provisions, a 20-year exclusivity with *LifeMiles* as the provider and operator of the frequent flyer program of Avianca and a formula that complies with the applicable transfer pricing rules in each jurisdiction, to calculate (i) the price of miles sold from *LifeMiles* to Avianca (which in turn, are used by Avianca to incentivize loyalty from their customers through the frequent flyer program) and (ii) to determine the price paid by *LifeMiles* to Avianca for reward tickets (when a member of the *LifeMiles* program redeems his or her miles for air services with Avianca).

### **Pricing and Revenue Management**

We maintain revenue management policies and procedures that are intended to maximize total revenue, while keeping fares generally competitive with those of our major competitors. We charge higher prices for tickets on higher-demand flights, tickets purchased on short notice and tickets for itineraries suggesting a passenger would be willing to pay a premium. The number of seats we offer at each fare level in each market is determined by a continual process of analysis and forecasting, taking into account factors such as past booking history, seasonality, the effects of competition and current booking trends. We use a combination of approaches,

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taking into account yields, flight load factors and effects on load factors of continuing traffic, depending on the characteristics of the markets served, to arrive at a strategy for achieving the highest possible revenue per ASK, balancing the average fare charged against the corresponding effect on our load factors.

Our revenue management software includes PROS O&D III for demand forecasting and inventory control optimization, PROS GRMS for group requests acceptance and negotiation process optimization, Profit Line Price (PLP) for competitors fares monitoring and analysis and Infare for competitors' websites availability and fares monitoring and analysis.

### **Sales and Distribution**

As traveler habits evolve, digital sales become a must, and as more sophisticated sales processes evolve, we will continue to reach customers by maintaining a multichannel strategy. Our focus will continue to be to reach the proper balance between channels (our sales split in 2015 was approximately 66% indirect and 34% direct—website, mobile, call centers and direct point of sales), increasing the relevance of more profitable corporate travel agencies, to increase e-commerce penetration, and to recover GDS distribution control.

We will continue consolidating our global agreements with major corporations, aiming to become the preferred corporate carrier in Latin America, and continue working closely with tourism boards to drive growth for both leisure and corporate travelers.

Through our integrated commercial process, we will continue working on positioning our brand's international equity, improving the quality of our communication, ensuring we reach them through an effective marketing mix (360°) that evolves and adapts in line with consumer and technological trends.

The following are data for our sales in 2015 through our ticket offices, direct agents, call center and website portals:

- Ticket sales through direct ticket offices in Colombia (43 points of sale) and abroad (64 points of sale) accounted for 8.71% of our sales.
- Ticket sales through our direct agents accounted for approximately 2.0% of our sales. Our direct agents are third-party agents who work for us on an exclusive basis.
- Ticket sales through our call center accounted for approximately 4.68% of our sales. Our call centers are located in Colombia and El Salvador, and handle reservations and sales calls with a reliable 24/7 customer service model.
- Ticket sales through the website portals accounted for approximately 18.36% of our sales.

### **Marketing, Customer Experience and Advertising and Promotional Activities**

The *Avianca* brand embraces a forward-looking vision to be the preferred Latin American airline, and we seek to continue to improve the quality of our marketing based on knowledge of traveler's preferences, adherence to our processes, and through nurturing our relationships with our communication partners.

We have also moved forward with fewer and stronger brands, strengthening the value of our corporate brand. Beginning in May 2013, Avianca became our sole, unified brand for all of our operations. We continue to focus on improving the quality of our communications, building on our Latin Excellence standard of service across our operations, which we believe differentiates us from other airlines. We seek to enhance customer experience by delivering high quality professional service, connecting people emotionally, with warmth and Latin style. Moreover, we have worked on improving our communication effectiveness and integration with sales activities, enabling us to drive demand and strengthen brand loyalty, while maintaining a strong emotional bond built upon Colombian heritage in our core market.

Our advertising and promotional activities include the use of television, print, radio, billboards and digital media as well as targeted public relations events in the cities to which we fly. We believe that the corporate traveler is an important part of our business, and we promote our services to these customers by conveying the reliability, convenience and consistency of our services and offering value-added services such as convention and conference travel arrangements. We also target large Colombian and multinational corporations that do business in Colombia by offering these companies rewards, which may be used towards the purchase of Avianca tickets, upgrades, excess baggage fees, and other services. As travelers' habits and technologies evolve, we continue ensuring to efficiently

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reach current and prospect customers by new technological platforms, while maximizing services, sales and return on our digital investments.

Promotional activities include, (i) "Air only fares" (Low fare communication) for domestic travel, pursuant to which special rates are available during certain time frames, (ii) "*LifeMiles* + Cash promotions" for domestic and international travel, establishing a combination of miles from our Frequent Flyer Program and cash on different routes throughout our network and (iii) "Added Value Promotions" such as awarding bonus miles or double segments in their accrual of miles or segments when flying with us in specific destinations. For example, we have sponsored a promotional charity run for more than 10,000 runners in Bogotá in March 2014, 2015 and 2016.

## Aircraft

As of December 31, 2015, we operated a fleet consisting of 180 aircraft (169 passenger aircraft and 11 cargo aircraft), including nine Airbus A330s, five Airbus A330Fs, seven Boeing B787-800, four Airbus A300F, nine Airbus A321 Sharklets, three Airbus A321s, 11 Airbus A320 Sharklets, 50 Airbus A320s, eight Airbus A319 Sharklets, 22 Airbus A319s, 10 Airbus A318s, two Boeing 767-200s, 12 Embraer E190s, two ATR42s, 15 ATR72s and 11 CESSNA 208s. As of December 31, 2015, the average age of our operative jet passenger fleet was approximately 5.7 years.

For our freight operations development, as of December 31, 2015, we operated two 767 200SF, five Airbus A330F and four A300F.

As of December 31, 2012, we had replaced all of our former Boeing 767 (passenger aircraft), Boeing 737, MD83 and F100 fleets with A318s, A319s, A320s and A330s, finishing a successful transition to a new, more homogenous operative fleet of aircraft with more efficiency and reliability. We believe that a modern, homogeneous and younger operative fleet further strengthens our ability to provide better customer service, which is reflected in higher passenger satisfaction. The technology used in these aircraft offers substantial cost savings as they are more fuel efficient and require lower maintenance costs.

The following table sets forth the composition of our operative fleet as of December 31, 2015:

	Number of Aircraft(1)			Average Age (Years)	Seating Capacity
	Total	Owned and Finance Leases	Operating Leases		
<b>Jets</b>					
Embraer E190	12	10	2	6.28	96
Airbus A318	10	0	10	10.79	100
Airbus A319	22	12	10	9.05	120
Airbus A319S	8	8	0	1.52	120
Airbus A320	50	31	19	6.17	150
Airbus A320S	11	3	8	1.36	150
Airbus A321	3	1	2	8.66	194
Airbus A321S	9	4	5	1.08	194
Airbus A330	9	1	8	4.44	252
Boeing B787	7	5	2	0.71	250
<b>Turboprop</b>					
CESSNA 208	11	11	0	4.09	12
ATR42	2	2	0	21.54	48
ATR72	15	15	0	1.60	68
<b>Cargo</b>					
Airbus A330F	5	5	0	2.30	60 tons
Airbus A300F	4	4	0	32.92	40 tons
Boeing 767-200	2	2	0	28.59	40 tons
Total	180	114	66	6.17	

(1) Does not include three F100s leased, three A319s and one A330F aircraft subleased to OceanAir. Does not include two ATR42s and two A319s that are inactive. Some of the aircraft owned are financed through financial leasing contracts with financial institutions and export credit agencies.

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The following table sets forth the scheduled expiration of our operational aircraft operating leases existing as of December 31, 2015.

<u>Aircraft Type</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
Embraer E190	—	2	—	—	—	—	—	—	2
Airbus A318	—	—	—	—	—	10	—	—	10
Airbus A319	5	2	1	—	2	—	—	—	10
Airbus A320	4	10	2	—	3	—	—	—	19
Airbus A320S	—	—	—	—	—	4	2	2	8
Airbus A321	1	1	—	—	—	—	—	—	2
Airbus A321S	—	—	—	—	—	—	4	1	5
Airbus A330	1	1	1	2	2	1	—	—	8
Boeing B787	—	—	—	—	—	—	1	1	2
	11	16	4	2	7	15	7	4	66

We have entered into agreements to acquire up to eight Boeing 787 Dreamliners for delivery between 2016 and 2019, five Airbus A320 family (consisting of A319, A320 and A321CEO models) for delivery in 2016 and 136 Airbus A320 family aircraft with a New Engine Option (NEO) for delivery between 2017 and 2025.

The following table sets forth our firm contractual deliveries through 2025.

<u>Aircraft Type</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Total</u>
Boeing 787	3	2	—	3	—	—	—	—	—	—	8
Airbus A319S	2	—	—	—	—	—	—	—	—	—	2
Airbus A320S	2	—	—	—	—	—	—	—	—	—	2
Airbus A321S	1	—	—	—	—	—	—	—	—	—	1
Airbus A319 neo	—	—	3	5	4	4	3	3	3	3	28
Airbus A320 neo	—	—	2	3	14	17	15	15	14	12	92
Airbus A321 neo	—	2	—	—	2	2	2	2	3	3	16
Total(1)	8	4	5	11	20	23	20	20	20	18	149

- (1) We also have purchase rights options to purchase up to 10 Boeing 787 Dreamliners, 15 ATR72s and in April 30, 2015, the Company signed a Purchase Contract for a total of 100 A320 New Engine Option (NEO) family aircraft to be delivered between 2019 and 2025. In line with our initiatives directed towards enhancing profitability, achieving a leaner capital structure and reducing the current levels of debt, in April 2016, we negotiated with Airbus a significant reduction of our scheduled aircraft deliveries for 2016, 2017, 2018 and 2019 and certain changes to the type of aircraft (both upgrades and downgrades), but did not alter the total deliveries scheduled between 2016 and 2025.

Our long-term fleet plan includes the incorporation of the following aircraft types: Airbus A319, A320, A321, Boeing 787. We expect these aircraft to offer substantial cost savings, as they are more fuel-efficient and require lower maintenance costs. The Boeing 787 belongs to a new generation of aircraft made of lighter composite materials, offering new technology and powered with more efficient Rolls Royce Trent 1000D engines, which will allow us to reach long-haul destinations with enhanced capacity and efficiency. Our new 787 aircraft are expected to be configured with premium business class sections that will provide our customers with modern in-flight amenities.

As of December 31, 2015, our operative fleet was comprised of 180 aircraft, 114 of which were owned and 66 were subject to long-term operating leases. Additionally, we lease three F100s, sublease three A319s and one A330F, to OceanAir, none of which have been included in the composition of our operative fleet as of December 31, 2015. The three F100s, two A319s and one A330F are owned and one A319 is under operating lease. In addition, two ATR42s and two A319s are inactive and are not included in the composition of our operative fleet.

The 66 of our operative aircraft that are subject to long-term operating leases require monthly rental payments and have purchase options at the end of the lease. We are generally responsible for the maintenance, servicing, insurance, repair and overhaul of our leased aircraft during the terms of the leases. Under some of our operating lease agreements, we are required to make supplemental rent payments to aircraft leasing companies as deposits to guarantee the performance of overhaul work on aircraft under

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lease and are disbursed to cover overhaul costs. Such funds are refunded to us to pay for scheduled overhauls. As such, we record the payments as “Deposits and other assets under Current and Non-Current Assets” in our consolidated financial statements. We are required to return the leased aircraft in an agreed upon condition at the end of the leases. There are some contracts in which we have agreed to make an end of lease adjustment. The rates to calculate this adjustment are set forth in the relevant lease contract.

Of the 114 aircraft of our operative aircraft that we own or have under financial lease, approximately 92.1% are financed through commercial bank financing and some of these aircraft are supported by export credit agency financing. The average rate of these financings is 3.1% as of December 31, 2015.

All of our jet aircraft have a two-class configuration. Our Boeing B787s have 250 seats, with a business class capacity of 28 seats; nine Airbus A330s have 252 seats, with a business class capacity of 30 seats; our Airbus A321s have 194 seats, with a business class capacity of 12 seats; our Airbus A320s have a capacity of 150 seats, with a business class capacity of 12 seats; our Airbus A319s have a capacity of 120 seats, with a business class capacity of 12 seats; our Airbus A318s have 100 seats, with a business class capacity of 12 seats; our Embraer E190s have 96 seats, with a business class capacity of eight seats; our ATR42s have an average of 48 seats, in an all-economy configuration; our ATR72s have a capacity of 68 seats; and our CESSNA 208s have 12 economy seats.

## **Maintenance**

Our maintenance facilities are located in Bogotá, San Salvador, Rionegro, Quito, San José, Lima and Guatemala City and have capability to perform line maintenance, heavy maintenance, components maintenance, Non Destructive Test (NDT) and specialized services, which consist of scheduled and unscheduled maintenance checks on our aircraft, including pre-flight, daily and overnight checks, “A-checks” and any diagnostics and routine repairs and heavy airframe checks, including “C and structural checks.”

Currently, we have six maintenance hangars dedicated to maintenance. We have three hangars in Bogotá, one of which can accommodate wide body planes such as a Boeing 767, and the other two can accommodate narrow body planes. Currently, these hangars are certified for maintenance on the Airbus A320 family, Boeing 757s, Boeing 767s, McDonnell Douglas MD-83s, and FK50s, and the repair station holds FAA Part-145 and EASA certifications. We have one hangar at the Rionegro Airport serving Medellín. The hangar is certified for the Airbus A320 family, A330s and Boeing 767s. We also have one hangar in Guatemala City certified for our ATR fleet and one in El Salvador for line maintenance.



In addition, on April 25, 2014, we entered into a lease agreement for property near Medellín, Colombia where we intend to construct a new Maintenance, Repair and Overhaul (MRO) facility for our exclusive use. The new facility is currently scheduled to be in operation the second semester of 2016. We believe that the new MRO facility will afford us flexibility for future expansion and will enable us to achieve economies of scale in our maintenance operation across the regions we serve.

Maintenance and engineering activities are supervised by local authorities in each country, including the UAEAC (*Unidad Especial de la Aeronáutica Civil*) in Colombia, the AAC (*Autoridad de la Aviación Civil*) of El Salvador and the DGAC (*Dirección General de Aviación Civil*) in Peru, Ecuador, Costa Rica and Guatemala. Our maintenance activities are also subject to recurring external audits from international entities such as the FAA, the EASA, the International Air Transport Association Operational Safety Audit, or the IOSA (from the IATA), and the Bureau Veritas Quality International (ISO 9001:2008) in order to comply with applicable regulations. The audits are conducted in connection with each country's certification procedures and enable us to continue to perform maintenance for aircraft registered in the certifying jurisdictions.

Our repair station located in Bogotá holds FAA, EASA Part-145 certification and UAEAC (Unidad Aeronautica Especial de Aviacion Civil of Colombia) and is also certified by other authorities such as the CCAA (Curaçao Civil Aviation Authority), the ANAC (*Agencia Nacional de Aviacion Civil of Brasil*), the INAC (*Instituto Nacional de la Aeronáutica Civil*) of Venezuela, the DGAC (*Dirección General de Aviación Civil*) of Ecuador and the AAC (*Autoridad de la Aviación Civil*) of El Salvador allowing us to perform maintenance on aircraft from several countries.

Each year we are subject to audits by the aviation authorities in each of the countries in which we operate and generally receive more than 250 audits each year (including self-audits), assuring our maintenance process complies with the best practices and standards of the aviation industry.

During the first semester of 2015, we implemented AMOS, a new Aircraft Maintenance and Engineering System software. AMOS system has already been implemented in Isleña, Tampa, Taca International, Taca Peru, LACSA and in 2016, it will be implemented in Avianca S.A. and Aerogal.

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We provide line maintenance services in most of our local stations, heavy and components maintenance service at our Bogotá station for other carriers through our *Avianca Services* business unit. Heavy maintenance consists of more complex inspections and “C-checks”, as well as servicing of the aircraft that cannot be accomplished during an overnight visit. Maintenance checks are performed as prescribed by an aircraft's manufacturer. These checks are based on the number of hours flown or the number of take-offs or calendar days.

All major engine repairs and overhauls are conducted by certified outside maintenance providers including, but not limited to, GE, Pratt & Whitney, IAI and Rolls Royce.

As of December 31, 2015, we employed approximately 3,241 maintenance professionals, including engineers, supervisors, technicians and inspectors, who perform maintenance in accordance with maintenance programs that are established by the manufacturers of our aircraft and approved and certified by international aviation authorities. Every certified mechanic is trained in maintenance procedures and goes through our own rigorous in-house training program. Every mechanic is licensed by the local authorities of the relevant country and many of our mechanics are also licensed by the FAA.

## **Operational Training Center**

In November 2014, we began construction of a new operational training center, located close to Bogotá's El Dorado International Airport, is a new facility that will serve as an educational training center for the pilots, flight attendants and technicians, as well as for the rest of our employees from different administrative areas. The new operational training center is estimated to be approximately 23,700 square meters, including 440 parking lots, 60 classrooms, and six simulator positions, and is currently scheduled to be in operation during the second semester of 2016.

#### **Aviation Center – MRO (Maintenance Repair Overhauling)**

In January 2015, Avianca signed a turnkey contract for the design, construction and implementation of an aviation center in adjacent areas to the José María Córdova International Airport. The aviation center will have a total area of 42,125 square meters and will have 19,799 square meters in hangars and aircraft component repair facilities, as well as premises for aircraft taxi, parts and replacements warehouses, and training classrooms.

#### **Fuel**

Aircraft fuel costs represented 31.4%, 30.4% and 24.3% of our operating expenses for the years ended December 31, 2013, 2014 and 2015, respectively. Fuel costs are volatile, as they are subject to many global economic and geopolitical factors that we cannot control or predict. In addition, oil prices remain an important determinant of global economic performance which affects demand for air transportation services. See "Item 3. Key Information—Part D. Risk Factors—Risks Relating to the Airline Industry—Volatility in our fuel costs or disruptions in our fuel supply would materially and adversely affect our operating results."

The following tables set forth certain information about our fuel consumption for the periods set forth below:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Average price per gallon of jet fuel into plane (net of hedge) (in U.S. dollars)	2.18	3.15	3.27
Gallons consumed (in thousands)	461,268	427,785	406,143

- Data in table does not include regional operations in Central America.

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Average price per gallon of jet fuel into plane (net of hedge) (in U.S. dollars)	2.18	3.15	3.27
Gallons consumed (in thousands)	426,982	396,973	377,696
Available seat kilometers (in millions)	44,513	41,052	38,762
Gallons per ASK (in thousandths)	9.6	9.7	9.7

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- Data in table does not include regional operations in Central America and cargo operations.

We currently have an exclusive agreement with a single fuel distributor in Bogotá, Terpel, pursuant to which Terpel supplied us with approximately 97.6% of our fuel needs in Colombia in 2015. We have a fuel supply agreement with PUMA for our fuel needs in San Salvador. We also have a fuel supply agreement with Repsol Marketing S.A.C., pursuant to which Repsol Marketing S.A.C. supplied us 97.8% of our fuel needs in Peru in 2015. During the year ended December 31, 2015, Terpel supplied approximately 43.5% and Repsol Marketing S.A.C. supplied approximately 10.2% of our total fuel consumption.

As of December 31, 2015, we had hedges in place for approximately 24.4% of our projected next 12-month fuel consumption through financial instruments and futures, forwards and options contracts. We also seek to tanker extra fuel at lower cost airports to reduce our fuel costs. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Fuel.”

## **Competition**

We face intense competition throughout our domestic and international route networks. Overall airline industry profit margins are low and industry earnings are volatile. Airlines compete in the areas of pricing, scheduling (frequency and flight times), on-time performance, on-board experience, frequent flyer programs and other services. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to the Airline Industry—The airline industry is highly competitive.”

Within the market, we face competition from different types of business models, such as full-service and low-cost carriers, differentiated by the operation and cost structure, sales channels and service, among others. Full-service carriers concentrate their domestic and international operation in major hubs, with complex fleets and often provide a wider range of services, such as VIP lounges, on-board meals and multiple cabin classes.

Airlines in the United States and Europe have in recent years faced substantial and increasing competitive pressure from low-cost carriers offering discounted fares. The low-cost carriers’ operations are typically characterized by point-to-point route networks focusing on the highest-demand city pairs, high aircraft utilization, single-class service and fewer in-flight amenities. Several new low-cost carriers have started service in Mexico, Colombia and other markets, such as Interjet, Viva Aerobus, Volaris, Azul, Veca and VivaColombia. The low-cost carrier business model is gaining acceptance in the Latin American aviation industry. During 2015 we competed with local low-cost carriers in the Colombian domestic market and with American low-cost carriers in markets between the United States and our home markets. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to the Airline Industry—We expect to face increasing competition from low-cost carriers offering discounted fares.”

### ***Domestic Competition Colombia***

In the domestic Colombian market, we compete with LATAM Airlines Group, VivaColombia, EasyFly, Satena and Copa Airlines. We currently are the largest domestic carrier with approximately 58.4% of the domestic passenger market for the year ended December 31, 2015 according to data about regular flights provided by the Colombian Civil Aviation Authority.

According to the Colombian Civil Aviation Authority, information about regular flights for the 12-month period ended December 31, 2015, our largest competitor, LATAM Airlines Group’s share of Colombia’s domestic market was approximately 18.0% . VivaColombia, which started operations in May 2012, had approximately 12.0% . Copa Airlines has been gradually reducing its domestic operations in Colombia, focusing on point-to-point service between major Colombian cities and Panama. For the same period, Copa’s share of Colombia’s domestic market was approximately 1.4%.

Easyfly’s share of Colombia’s domestic market was 4.2% during the same period according to the Colombian Civil Aviation Authority. We expect that these airlines will target leisure travelers.

Satena is a government-owned regional carrier and its share of Colombia’s domestic market was approximately 4.5% for the year ended December 31, 2015.

### ***Domestic Competition Peru***

In the domestic Peruvian market, we compete with LATAM Airlines Group, Peruvian, Star Peru and LC Peru. We have flown a daily route between Lima and Cuzco for more than 10 years. Currently we fly seven routes to seven domestic destinations. During the year ended December 31, 2015, according to the data provided by the Peruvian Civil Aviation Authority, we were the third-largest domestic carrier in Peru with approximately 12.7% of the domestic passenger market.

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Our largest competitor, LATAM Airlines Group, started operations in Peru's domestic market in 1999. During 2015, according to the data provided by the Peruvian Civil Aviation Authority, LATAM Airlines Group's share of Peru's domestic market was approximately 62.2%. LATAM Airlines Group operates 19 routes served in Airbus planes targeting the corporate segment market.

Peruvian is a local company which started operations in October 2009. During 2015 according to the data provided by the Peruvian Civil Aviation Authority, Peruvian's share of Peru's domestic market was approximately 13.1%. For that period, Peruvian offered regular passenger service in nine routes.

Star Peru is our third-largest competitor in the Peruvian domestic market. During 2015, Star Peru's share of Peru's domestic market was approximately 6.0%. For that period, Star Peru offered regular passenger service in nine routes.

### ***Domestic Competition Ecuador***

In the domestic Ecuadorian market, we compete with LATAM Airlines Group and Tame Airlines. As of December 31, 2015, we operate six routes to six destinations with 22.0% of market share, according to the Ecuadorian Civil Aviation Authority.

Tame Airlines is a state airline, which brings differences and other complexities to the market. As of December 31, 2015, they operated 19 routes to 15 destinations. LATAM Airlines Group operates five routes to five destinations.

### ***International***

Internationally, we compete with a number of other airlines that currently serve the routes in which we operate, including Aeroméxico, Aerolíneas Argentinas, American Airlines, Copa Airlines, Delta Air Lines, Iberia, Interjet, Jet Blue Airways, KLM, LATAM Airlines Group, Sky Airlines, Spirit Airlines, TAP, United Airlines, Air Canada, VivaColombia and VECA. In addition, we expect to encounter competition in the future from low-cost carriers. Low-cost carriers often offer discounted fares and their operations are typically characterized by high aircraft utilization, single-class service and fewer in-flight amenities.

Over the last 20 years the global airline industry has been shifting to increasing acceptance of liberalized and "open skies" air transport agreements among nations. As a result of this continuing trend toward liberalized air transport agreements, a number of countries to which we fly, including the United States, the United Kingdom and Spain, have been negotiating with the Colombian, Salvadoran and Costa Rican governments to liberalize its bilateral agreements with such countries and also to authorize more flights to and from these countries. It is likely that the Colombian government will eventually liberalize the current restrictions on international travel to and from our Bogotá hub by, among other things, granting new route rights and flights to competing airlines and generally promoting increased numbers of market participants on routes we serve. See "Item 3. Key Information—Part D. Risk Factors—Risks Relating to the Airline Industry—We face

increasing competition from other international airlines due to the continuing liberalization of restrictions traditionally affecting the global airline industry.”

LAN Chile, LAN Peru, LAN Ecuador, LAN Argentina, LAN Colombia, TAM, LAN Cargo and LAN Express together comprise LATAM Airlines Group. LATAM Airlines flies to more than 145 destinations, primarily in Latin America. We compete with LATAM Airlines on routes from Colombia to Santiago, Quito, Miami, Sao Paulo, Cancun and Lima; and from Peru to Caracas, Buenos Aires, Sao Paulo, Guayaquil, Havana, La Paz, Madrid, Mexico, Miami, New York, Quito, Santa Cruz and Santiago. LATAM Airlines Group is currently our major competitor and its expansion plans will lead to more shared routes. LATAM Airlines is also a strong cargo carrier in Latin America.

Copa Airlines has been consolidating its traffic through its Panama hub, from which it serves approximately 75 destinations in 31 countries. Through its Panama hub, Copa Airlines competes directly with us for international traffic from Barranquilla, Bucaramanga, Cucuta, Bogotá, Cali, Cartagena, Medellín, Pereira and San Andres to important international destinations such as Buenos Aires, Caracas, Lima, New York, São Paulo and Miami. Copa Airlines is also our largest competitor in the Central American market where we have our San Salvador hub and at the same time competes with us in our hub at El Dorado International Airport. In addition, in June 2012, Copa Airlines also joined Star Alliance.

American Airlines is also an important competitor. It has strong brand recognition throughout the Americas and is able to attract brand loyalty through its “AAdvantage” frequent flyer program, and competes through its hub in Miami. American Airlines was a founding member of the OneWorld Alliance. As of December 31, 2015, American Airlines provided two daily flights from Miami to Bogotá, one daily flight from Miami to Cali, 14 weekly flights from Miami to Medellín, one daily flight from Dallas to Bogotá, two daily flights from Miami to Lima, one daily flight from Dallas to Lima, three daily flights from Miami to Managua, one daily flight from Miami to Tegucigalpa, three daily flights from Miami to Guatemala, eight weekly flights from Dallas to Guatemala, one daily

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flight from Miami to San Salvador, six weekly flights from Dallas to San Salvador, four daily flights from Miami to San Jose, three weekly flights from New York to San Jose (seasonally in December) and one daily flight from Dallas to San Jose.

United Airlines has one daily flight from New York to Bogotá, two daily flights from Houston to Bogotá, one daily flight from Houston to Lima, seven weekly flights from New York to Lima, 17 weekly flights from Houston to Managua, one daily flight from Houston to Tegucigalpa, five weekly flights from New York to Guatemala, 17 weekly flights from Houston to Guatemala, three weekly flights from New York to San Salvador, two daily flights from Houston to San Salvador, 20 weekly flights from New York to San Jose, four weekly flights from Washington to San Jose, 30 weekly flights from Houston to San Jose and four weekly flights from Chicago to San Jose.

Iberia has one daily flight from Madrid to Bogotá, one daily flight from Madrid to Lima, four weekly flights from Madrid to Guatemala/San Salvador and one daily flight from Madrid to San Jose. We have a code-sharing agreement with Iberia.

Delta Air Lines has two weekly flights from New York to Bogotá, one daily flight from Atlanta to Bogotá, one daily flight from Atlanta to Lima, one daily flight from Atlanta to Managua, one daily flight from Atlanta to Tegucigalpa, 12 weekly flights from Atlanta to Guatemala, nine weekly flights from Los Angeles to Guatemala, one daily flight from Atlanta to San Salvador, two daily flights from Atlanta to San Jose and one daily flight from Los Angeles to San Jose. We have a code-sharing agreement with Delta.

Lufthansa started operations on the Frankfurt-Bogotá route in 2012, one daily flight from Frankfurt to Bogotá and has a code-sharing agreement with us in order to serve the Colombian and German markets.

We also compete with Spirit Airlines and JetBlue Airways in the market from the U.S. to Central and South America. Spirit Airlines serves routes from U.S. to Colombia, Guatemala, Peru, Nicaragua, El Salvador and Costa Rica. JetBlue operates routes from U.S. to Colombia, Peru and Costa Rica.

### ***Cargo***

Our main cargo network hubs are located at El Dorado Airport in Bogotá and Miami's international airport. With respect to our international cargo operations, our largest competitor is LATAM Airlines Group. We also compete for the international market with Centurion Air Cargo, Líneas Aéreas Sudamericanas, Martinair Cargo, UPS and Iberia. Other competitors in Miami are Atlas Airlines, Amerijet and American Airlines.

Competition and excess capacity in some markets during the last few years has put pressure on yields, which have been decreasing yearly. In this context, our recently modernized A330F fleet will be fundamental to keep our operating costs low and to allow us to remain competitive.

With respect to our domestic cargo operations, we face competition most notably from Líneas Aéreas Sudamericanas S.A. and Aero Sucre S.A., both of which have large cargo operations at the El Dorado International Airport. These airlines sell through third parties focusing on traffic between Bogotá, Medellín, Cali and Barranquilla. The service offered by these companies competes with the capacity of the bellies of our passenger fleet.

The Colombian courier market is very competitive. Our major competitors are Servientrega, Coordinadora, TCC, Envía, Inter Rapidísimo and 4/72. Most of these companies are family-owned businesses except 4/72, which is a government-owned company. These companies operate through alliances with larger companies like FedEx, UPS and DHL.

### **Safety**

Colombian government regulations require that our pilots attend extensive training at least twice a year as well as prior to their transition to flying new aircraft types. In 2012, we implemented a flight data analysis program, in which data from every Avianca flight is analyzed for safety and technical issues. We are currently finalizing the construction of a training facility in Bogotá, which is scheduled to be in operation during the second semester of 2016

We have successfully implemented a single corporate Safety Management System ("SMS"), a safety risk management system that IATA has established and that the aeronautical authorities of the different countries where we operate are starting to require. This assures that each of our airlines has its own SMS implemented under the same corporate guidelines and in accordance with the same requirements as each of the nine regulatory authorities that regulate SMS in Central and South America. Thanks to the implementation of SMS, we have been able to develop a systematic process for managing safety risks through a data-driven decision-making process for resource allocation.

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During the past years, we have developed several safety programs for the flight operations and ground handling areas, in order to minimize risks in our operations.

- Flight Data Analysis—FDA: We are performing flight data analysis on all flight operations of our different AOC's, focusing on the monitoring of unstable approaches, as this is one of the main areas

of concern within the industry. During the last year, we have performed above our goal of stabilized approaches (99.9%).

- Line Operations Safety Audit—LOSA: During 2014 we received the LOSA Collaborative Group final report, identifying areas of improvement within the Company. We are now working on the implementation of corrective and improvement actions to close the identified gaps.
- Ground Safety Risk Management Programme—GSRM: The Ground Safety Risk Management program, or GSRM, will address and reduce risk behaviors by providing a behavior-based management approach that will allow our management to: measure performance on a daily basis, drive a change in employee/ sub-contractor behaviors and ultimately achieve the desired change in safety and risk culture. GSRM implementation will provide the foundation at the operational level to build and enhance a positive working safety culture while reducing the cost of risk to the business.
- Advanced Qualification Program—AQP: We are in the process of implementing an Advanced Qualification Program, or AQP, in our operations. AQP incorporates data-driven quality control processes for validating and maintaining the effectiveness of curriculum content, providing reports to analyze data collected forward to evaluate threats and develop training action plans.
- Runway Overrun Prevention System—ROPS: IATA statistics show that one of the accident categories that is affecting the industry is the runway/taxiways excursions. Based on that premise, we are implementing a Runway Overrun Prevention System, or ROPS, in our aircrafts. ROPS allows the A/C to calculate in real time the landing and braking distance on the runway, taking into account its actual conditions (wet/dry runway, contaminated runway, stab app, touchdown point), minimizing the risk of runway excursions.

The effectiveness and relevance of our safety management system has been evaluated and validated by different civil aviation authorities in Central and South America and by different industry organizations such as IATA and Bureau Veritas, assuring that our guidelines and procedures are in compliance with the requirements established by ICAO and within the best industry practices.

Our airlines that are part of IATA have been implementing the IOSA and ISAGO standards since 2003, continuously achieving recertification from IATA that validates the implementation integrity of standards and recommended practices for managing and developing safe operations of the organization in compliance with industry standards.

Neither Avianca nor Taca has had a serious accident since 1993, except for an accident on May 30, 2008 involving one of Taca's Airbus A320 aircraft which overshot the runway while landing at Tocontin Airport in Tegucigalpa, Honduras, causing the death of five people (three people on board and two on the ground).

The FAA periodically audits the aviation regulatory authorities of other countries, and each country is given an International Aviation Safety Assessment, or IASA, rating and also an International Operational Safety Audit, or IOSA audit implemented for the industry by the International Aviation Transport Association. The IASA rating for Colombia, El Salvador, Costa Rica and Peru is Category 1, which is the highest rating and which indicates a strong level of confidence in the safety regulation of each country's respective civil aviation authority.

## **Security**

We are subject to the security regulations of every country in which we conduct operations.

We have a security division, the director of which reports directly to our CEO and works within the framework of the Security Management System designed by IATA. The Direction of Aviation and Corporate Security works closely with all areas of Avianca to ensure regulatory compliance in security matters, as well as with authorities to identify and neutralize internal drug trafficking and money laundering conspiracies.

In March 2005, pursuant to an order from the U.S. Attorney for the Southern District of New York, because of several seizures from our aircraft of baggage and cargo containing narcotics, we hired the International Aviation Services Group, or IASG, to provide us with security consulting services until 2007. We also (i) adopted a code of conduct that is signed by all employees of the airline;

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(ii) adopted a hiring process that includes background checks, home visits, psychological evaluations, and polygraph testing; (iii) implemented periodic dissemination of corporate security policies and communications of security matters to personnel; (iv) restructured procedures related to baggage, passenger identification, screening of transit passengers and inspection of baggage on United States-bound flights; (v) increased the level of supervision and training for security coordinators, increased the training for interviewers, and increased the presence of security personnel in areas such as catering and baggage; (vi) increased the use of inspection technicians under the supervision of security agents and, as often as possible, the Colombian anti-narcotics police, to conduct detailed inspections of aircraft before departing to the United States; (vii) improved the training of x-ray operators; and (viii) implemented a response procedure for security incidents on flights to the United States, including investigations, depositions, sanctions, and polygraph tests for specific cases, including the creation of an internal investigations office with personnel and support from the Colombian police and judicial authorities.

On June 27, 2007, the U.S. Attorney for the Southern District of New York determined that we had effectively complied with our commitment to substantially improve our security procedures and security related work culture and, as a result, the U.S. District Court for the Southern District of New York terminated our court-mandated consulting arrangement with IASG. We work with Central American, South American, European and U.S. authorities in the implementation of interdiction measures, which, in 2015, resulted in the seizure of 1,373 kilograms of cocaine. The adequate implementation of aviation security standard operating procedures is periodically verified by internal and external audit programs. In the event, however, that we violate any U.S. or foreign narcotic restrictions in the future, we may be subject to new sanctions, severe fines, seizure of our planes, or cancellation of our flights. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Our Company—We may incur substantial compliance costs and face sanctions if we fail to comply with U.S. and other international drug trafficking laws.” To minimize the possibilities of such seizures, Avianca continues to rigorously apply the procedures adopted under the monitorship and work closely with authorities in the investigation of internal conspiracies. Although we cannot guarantee that the airline’s drug interdiction procedures are fail-safe, in the last four years, no subsequent drug seizures have occurred.

### **Airport Facilities**

Our operations are based on a multi-hub system at El Dorado International Airport and *Puente Aéreo* in Bogotá; El Salvador International Airport *Monseñor Oscar Arnulfo Romero y Galdámez* in San Salvador; and Jorge Chávez International Airport in Lima. During 2015, we operated from approximately 100 airports in the Americas and Europe, including 25 airports in Colombia and nine in Peru. We lease more than 160,000 square meters (approximately 1.72 million square feet) of check-in space, gates, crew lounges, maintenance, warehouses, sales and VIP lounge space throughout our network.

### ***Colombia: El Dorado International Airport and Puente Aéreo***

Since June 8, 2014, we have conducted our Colombian domestic operations in Bogotá from our El Dorado International Airport and *Puente Aéreo*, our exclusive domestic terminal. Currently, flights to and from Cali, Medellín, Cartagena, Barranquilla and Pereira are operated in the new domestic terminal, grouping nearly 54% of our operations and 60% of our total domestic passengers in Bogotá. This new operation brings an



enhanced customer experience as a consequence of 30 check-in counters, 20 self check-in kiosks, 13 boarding gates, nearly 900 square meters for VIP lounge, 20 security filters, among other benefits that optimize the connectivity process for our travelers.

We lease the *Puente Aéreo* facilities from OPAIN and have exclusive rights to use the terminal, including our ability to lease advertising and retail space to third parties. This terminal is used by us for 53% of our Colombian domestic operations and has a broad selection of retail stores and restaurants, large check-in areas, electronic check-in kiosks, easily accessible boarding gates to facilitate domestic connections, high-speed wireless internet access throughout the terminal and a VIP lounge.

The El Dorado International Airport has two runways which have a declared capacity of 40 departures and 30 arrivals per hour (weather permitting). The airport is located at a high altitude due to Bogotá's elevation of approximately 2,600 meters above sea level. This results in appreciably higher fuel consumption for aircraft taking off and landing than similar aircraft at lower altitudes. Also, the high elevation and temperature conditions bring some payload restrictions to some of our flights due to a lower takeoff weight as a result of the lower aircraft performance. The El Dorado International Airport terminal 1 is operated by OPAIN and the runways are operated by CODAD S.A. (*Compañía de Desarrollo Aeropuerto El Dorado S.A.*). We provide all of our own ground services and handling for our domestic and international passengers, and we also provide such services to approximately 12 additional foreign carriers operating in Bogotá through our *Avianca Services* business unit. Air traffic control is managed by the Colombian Civil Aviation Authority. Avianca works closely with OPAIN in order to improve the passenger experience and ensure the compliance of all international procedures related to air transportation.

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El Dorado's current expansion project started in 2007, with the expansion of the Central Arrivals Hall and installation of common use terminal systems at the old terminal. Recently, the Colombian government has presented the current plan, which adds 27 gates by July 2018, resulting in a total 54 at the airport. Many other improvements are expected such as the construction of high speed taxi ways which will contribute to the increase in the declared capacity. For our passengers, so far this remodeling has led to an improvement in terms of common use spaces and circulation areas, more check-in spaces and boarding areas. Additionally the baggage handling system allows Avianca to have a better baggage control from check-in to baggage selection process.

We execute our international Colombian-based operations in Bogotá from the international terminal at El Dorado International Airport (Terminal 1). At this terminal, we have almost 13,000 square meters (approximately 140,000 square feet) for check-in counters, ticket sales facilities and a 2,000 square meter VIP lounge, which we lease from OPAIN. We operate from this terminal with 24 check-in positions, 40 check-in kiosks and 24 boarding positions. We lease similar facilities at other Colombian domestic airports and at some Colombian international airports we operate in.

We also have facilities at many other Colombian domestic airports including Medellín, Cali and Cartagena, each containing newly remodeled VIP lounges. During 2014, we nearly tripled the size of the domestic VIP lounge in Medellín by 900 square meters; in Cali, we doubled the size of our domestic VIP lounge to 422 square meters and started the operation of an international VIP lounge with 350 square meters. In this context, between 2013 and 2015 we have made significant efforts and investments in more than 20 VIP lounges in 14 airports throughout our network, creating spaces that are exclusive and modern.

*El Salvador: El Salvador International Airport Monseñor Oscar Arnulfo Romero y Galdámez*

Our hub at El Salvador International Airport is located approximately 31 kilometers from the country's capital San Salvador. Avianca moved nearly 2.1 million passengers during 2015, 52% of which connected through this hub to one of our 26 destinations offered from this airport.

The current infrastructure has one passenger terminal, one cargo terminal and separate maintenance facilities. The government is evaluating a plan that would significantly increase the number of gates and also add a second runway. Due to the fact that the airport is located away from populated areas, the expansion can be significant.

We lease over 28,358 square meters for our 30 check-in counters, offices, warehouses, maintenance areas, and a flight simulator. We also operate nearly 50 daily flights in 14 gates and 12 remote positions (four at the passenger terminal, three at the cargo terminal and four next to the maintenance facilities). During 2014 we performed several modifications in our VIP lounge, which were first available in November for our Business Class passengers and our *LifeMiles* and Priority Pass partners. The final opening of the 650 square meters lounge took place in the first quarter of 2015. The International Airport in El Salvador is government-owned and operated by an autonomous port authority entity, *Comisión Ejecutiva Portuaria Autónoma*, or CEPA, with which we have a good working relationship. We have entered into an operations contract with CEPA which governs access fees, landing rights and allocation of terminal gates. We are in good standing with respect to this agreement and intend to continue to comply with such agreement to ensure that we have access to the airport resources we need at reasonable prices. We are actively participating in the logistics and efforts to modernize the current terminal and are proactively contributing expertise in the development of the master plans for the construction of a new terminal. We are also involved in the governmental project to transform the areas next to the airport into an aeronautical cluster.

Aligned with the infrastructure plans but in a more rapid pace, the airspace of this airport was redesigned in 2014, allowing different operators to use modern flight procedures that contribute to the operational efficiency and safety.

#### ***Peru: Jorge Chávez International Airport***

Jorge Chávez is Peru's main international and domestic airport. In 2015, Avianca moved almost 3.6 million passengers. The airport serves as one of our hubs for South America, with more than 68 scheduled flights per day, including 20 international destinations. During 2015 we connected nearly 1,886 passengers on a daily basis through this airport, which corresponds to 23% of our total passenger movement in Lima.

After its privatization in 2001, Jorge Chávez underwent a substantial renovation project, the first phase of which was completed in 2005 and the second one in 2009. As a result of the accelerated growth plan the airport had after its privatization, it was ranked by Skytrax as the "Best Airport in South America" for seven years in a row, between the years 2008 to 2014. Currently this airport has 55 aircraft parking spaces between contact and remote positions.

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The airport is currently managed and operated by Lima Airport Partners, LAP. We have entered into an operations contract with Lima Airport Partners which governs access fees, landing rights and allocation of terminal gates. The current fees that we pay to LAP for use of the airport are higher than for most other airports in the region.

#### **Insurance**

We maintain insurance policies covering damage to our property, third-party liabilities, commercial crime and war. Our insurance policies are provided by reputable insurance companies. We have obtained all insurance coverage required by the terms of our leasing and financing agreements. We believe our insurance coverage is consistent with airline industry standards and appropriate to protect us from material loss in light of the activities we conduct. No assurance can be given, however, that the amount of insurance we carry will be sufficient to protect us from material losses. In 2015, we paid a total of approximately \$245.1 million in insurance premiums and had a total insured value of approximately \$20.5 billion.

We have also contracted liability insurance with respect to our directors and officers.

## **Regulation**

### **Colombia**

#### ***Overview***

Avianca is a *sociedad anónima* duly organized and validly existing under the laws of Colombia. It is duly qualified to hold property and transact business as a *sociedad anónima*, and holds all licenses, certificates and permits from governmental authorities necessary for the conduct of its business as now conducted. All consents, licenses, approvals, registration and authorizations as may be required in connection with providing airlines services under applicable Colombian laws have been obtained or affected and are in full force and effect.

The policy of the *Consejo Directivo* of the *Aeronáutica Civil de Colombia* is to make the markets flexible and open them under reciprocity with the other countries and as a consequence of such policy there are no governmental policies that materially restrict our airline services in Colombia.

The government of Colombia is not a declared “open skies country” except in some of the countries of the Americas region. Colombia is subject to multilateral and/or bilateral air transport agreements that provide for the exchange of air traffic rights between Colombia and various other countries.

Notwithstanding the agreements, we are subject to permits, laws, regulations and operational restrictions provided by each of the different aviation authorities of countries where we are willing to operate, and the ongoing operational costs the local or regional authorities apply.

#### ***Authorizations and licenses***

The Colombian aviation market is heavily regulated by the Colombian Civil Aviation Authority. For domestic aviation, particularly for the authorization of trunk routes (*rutas troncales*), airlines must present feasibility studies to secure specific route rights, and no airline may serve the part of the city with the most traffic unless that airline owns or leases at least five certified aircraft and has a paid-in minimum capital equal to approximately \$2.5 million.

In the past, the Colombian Civil Aviation Authority even established maximum fares for each route. However, by means of Resolution 904 of February 28, 2012, the Colombian Civil Aviation Authority established (i) fuel surcharge freedom for national and foreign passengers or cargo airlines operating in Colombia, which are included in airfares and (ii) tariff freedom for air transportation services. Notwithstanding the above, airlines are obliged to inform their tariffs as well as its conditions to the Civil Aviation Authority one day after its publication, and promotional fares prior to its application. Since November 2006, all customers are charged an administrative fee in connection with purchases of airline tickets (although this fee is at the discretion of the seller for Internet sales).

Avianca’s status as a private carrier means that it is not required under Colombian law to serve any particular route and is free to withdraw service from any of the routes it currently serves as it sees fit, subject to bilateral agreements in the case of international service. Avianca is also free to determine the frequency of the services it offers across its route network without any minimum frequencies imposed by the Colombian authorities.

Nevertheless, the Colombian Civil Aviation Authority may establish a maximum frequency under certain conditions.

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Colombian law requires airlines providing commercial passenger service in Colombia to maintain an Operation and Air Transportation Certificate (*Certificado de Operación y Transporte Aéreo*) issued by the Colombian Civil Aviation Authority. The Operation and Air Transportation Certificate lists the airline's routes, equipment used, capacity and frequency of flights. This certificate must be updated each time a carrier acquires new aircraft, or when routes or the frequency of service to a particular destination are modified. A public hearing before the director of the Colombian Civil Aviation Authority and the members of the Commercial Aviation Projects Evaluating Group (*Grupo Evaluador de Proyectos Aero-comerciales*) of the Colombian Civil Aviation Authority is required to determine the necessity of modifying an airline's Operation and Air Transportation Certificate, except in the Andean region.

Colombian law also requires airlines providing commercial passenger service in Colombia to maintain for each aircraft an Air Worthiness Certificate (*Certificado de Aeronavegabilidad*) issued by the Colombian Civil Aviation Authority. This certificate must be obtained each time a carrier acquires a new aircraft.

Colombian law also requires that aircraft operated by Avianca be registered with the Colombian National Aviation Registry (*Registro Aeronautico Nacional*) kept by the Colombian Civil Aviation Authority, and that the Colombian Civil Aviation Authority certify the air-worthiness of each aircraft in Avianca's fleet.

Furthermore, Colombian airlines are subject to the authority of the Colombian Transportation and Ports Superintendency (*Superintendencia de Puertos y Transportes*), which is part of the Ministry of Transportation (*Ministerio de Transporte*). The Colombian Transportation and Ports Superintendency is in charge of (i) verification of compliance with regulations such as regulations relating to transportation facilities, service quality, passenger security, international treaties and other resolutions and decrees issued by the Ministry of Transportation and the Transportation and Ports Superintendency, and (ii) the levying of fines for the non-compliance with such treaties and regulations, and (iii) the evaluation of the financial, technical and managerial aspects of each airline, among other things.

Under Colombian commercial law, air transportation is considered a commercial activity, and therefore, certain elements of the standard terms and conditions of air transportation agreements entered into by airlines and passengers are expressly covered under such law. For instance, if an airline decides to include a new condition to an air transportation agreement, it must request the approval of the Colombian Civil Aviation Authority. Article 1180 of the Colombian Commercial Code establishes that with respect to domestic service, an airline is responsible for any damages caused to any passenger, when boarding, on board, or when disembarking an aircraft, except for (i) damages caused by any third party, (ii) damages caused by the passenger and (iii) damages caused to the passenger by pre-travel illness that has not been aggravated by any act attributable to the carrier. Additionally, the carrier must prove that all practicable measures to avoid the damage were taken.

Passengers in Colombia are also entitled by law to compensation in cases of excessive delays, over-bookings and cancellations. Furthermore, local law establishes sanctions for more than one-hour delays, and for flight cancellations, regardless of the compensatory measures that the airlines may adopt, which trigger the obligation to compensate passengers and increases the compensatory amounts.

Currently there is a project to harmonize actual aviation regulations of Colombia (*Reglamentos Aeronáuticos de Colombia*) with Latin American Regulations LAR. This project has not been completed, therefore the final version may vary substantially from the proposed version.

Some of Colombia's airports are operated by the government. Currently, the main airports in Bogotá, Cali, Cartagena, Barranquilla, Bucaramanga, Santa Marta and Medellín, are privately operated through concessions. The government, however, has stated its intention to continue privatizing the operations of other airports in order to finance expansion projects and increase the efficiency of operations. Increased privatization may lead to increases in landing fees and facility rentals at such airports.

The Convention for the Unification of Certain Rules for International Carriage by Air, signed in Montreal, Canada on May 28, 1999, as approved and adopted by Colombia by means of Law 701 of 2001 imposes duties upon Colombian airlines with respect to their international services. Under these rules, airlines are responsible for compliance with certain obligations regarding quality and passenger security, as well as for damages sustained in case of any death of, or bodily injury to, a passenger, which occurs on board, as well as for baggage loss or damage. This convention applies to international transportation between Colombia and the territory of another party to the treaty, regardless of whether there is an interruption in the transportation or a trans-shipment, or whether, prior to arriving in, or departing from, Colombia, there is an agreed stop-over within the territory of another state. Under Article 17 of the convention, an airline is liable for damage sustained in case of death or bodily injury of a passenger upon condition that the accident which caused the death or injury took place on board the aircraft or in the course of any of the operations of embarking or disembarking. Air carriers are responsible, even if not at fault, for proven damages up to 113,100 Special Drawing Rights (SDRs), which represent a mix of currencies established by the International Monetary Fund. For damages above 113,100 SDRs, the airline

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may avoid liability by showing that the accident that caused injury or death was not due to its negligence or was the fault of a third party. In the case of cargo business, the liability of the carrier is absolutely limited to 19 SDRs/Kg. These provisions also cover baggage and delay.

Currently, there are four projects in the Colombian Congress that are relevant for the aviation industry, because they intend to :

- increase the passenger protection scheme (Bill No. 037 of the House of Representatives);
- extend the faculties of the Ports and Transportation Superintendence (*Superintendencia de Puertos y Transporte*) and to create the rules in order to calculate the new surveillance tax (Bill No. 134 of the Senate);
- transfer some functions from the Aviation Authority (Unidad Administrativa Especial de Aeronáutica Civil de Colombia) to the Industry and Commerce Superintendence (Superintendencia de Industria y Comercio) (Bill No. 052 of the Senate); and
- include in the Labor Code (*Código Sustantivo de Trabajo*) special rules for duty time and working hours for flight crew (Bill No. 153 of the Senate).

As of the date of this annual report, these projects are still under discussion and therefore the final versions may vary substantially from the proposed versions.

## ***Security***

Chapter Seventeen of the Colombian Civil Aviation Regulations encompasses all aspects of civil aviation security, including, (i) implementation of certain security measures by airlines and airports, such as the requirement that all passenger luggage be screened for explosives, (ii) designation of restricted areas, (iii) systems of airport controls for identification of passengers (iv) inspection of vehicles, and (v) the

transportation of explosives and dangerous goods. Additionally, on April 11, 2005 the Colombian Civil Aviation Authority issued Resolution 01556, which regulates all aspects of the transportation of firearms.

### ***Environmental regulation***

We are subject to the general environmental regulations of Colombia such as Law 99 of 1993, as amended, and several other laws, decrees and local resolutions which regulate the management of natural resources and their contamination. Pursuant to these regulations, we prepared an Environmental Management Plan (*Plan de Manejo Ambiental*), detailing the procedures to be followed in connection with any activity that has any environmental impact, including solid and liquid waste management, hazardous waste management and the management of effluents and noise, among others. Additionally, we must maintain certain permits and authorizations for the use and management of natural resources, such as waste water discharge and emissions permits, and maintain our environmental impact within required levels. If we fail to maintain the relevant permits and authorizations or to abide by the environmental regulations, we may be subject to penalties or fines.

In addition, the RAC contains a general environmental policy establishing that the Colombian Civil Aviation Authority must comply with Colombian environmental regulations and must require the compliance of parties involved in the Colombian civil aviation industry. The RAC includes provisions and guidelines relating to noise and effluents that must be followed in the provision of aviation services. The RAC requires that noise levels be kept on or below the levels established under Colombian law. Compliance is evidenced by means of a certificate (*certificado de homologación de ruido*) that must be obtained for each aircraft from the Colombian Civil Aviation Authority or the competent authority of each country member of ICAO. If noise levels exceed the limits, the Colombian Civil Aviation Authority has the power and authority to sanction and penalize us with fines.

If the Colombian Civil Aviation Authority determines that our operations or facilities do not meet the RAC standards or otherwise fail to comply with Colombian environmental regulations, we could be subject to a fine. We have voluntarily hired a consulting firm to conduct an environmental audit of our hangar and support facilities at the El Dorado International Airport to obtain a certification under ISO 14001:2004, which is an international standard for environmental management systems. Certification should indicate that we are in compliance with all applicable environmental regulations, including the RAC environmental regulations. We have also prepared an environmental management plan designed to ensure our compliance with environmental regulations, including the requirements of the RAC. While we do not believe that compliance with these or other environmental regulations that may be applicable to us in the future will expose us to material expenditures, compliance could increase our costs and adversely affect our operations and financial results. In addition, failure to comply with these regulations could adversely affect us in a variety of other ways, including by negatively impacting our reputation.

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Currently, there is an operational restriction against operating in the south runway of the El Dorado International Airport between 10 p.m. and 6 a.m., with some exceptions in order to protect flight operations.

### ***Bilateral agreements***

With respect to our international services, our plans to introduce new destinations and increase the frequency of existing services depend, among other things, upon the allocation of route rights, a process over which we do not have direct control. Route rights are allocated through negotiations between the government of Colombia and the governments of foreign countries and are set forth in bilateral agreements. If we are unable to obtain route rights, we will re-allocate capacity within our route network as appropriate.

Bilateral agreements between countries also regulate other aspects of our commercial cargo and passenger air transport relations, including the designation of carriers and aircraft capacity restrictions and requirements. They may also establish minimum safety, security, customs and environmental requirements for each designated carrier. These agreements can be modified upon the agreement of the relevant countries at any time prior to their expiration dates. Our principal bilateral agreements include those with the United States, Spain, the Andean Pact countries (Ecuador, Peru and Bolivia), Venezuela, Mexico, Brazil and Argentina. The bilateral agreement with the United States was modified and since the beginning of 2013 is an “open skies” agreement that allows the parties to engage in foreign scheduled and charter air transportation of persons, property, and mail from points behind Colombia via Colombia and intermediate points to points in the United States and beyond with fifth freedom. The bilateral agreement with Spain, which was modified in January 2012, grants for passengers and cargo a total of 37 frequencies with third, fourth and fifth freedom rights for each of the parties, and parties can freely choose their routes. In this connection Colombia was granted nine additional frequencies resulting in a total of 37 frequencies.

The Colombian Civil Aviation Authority allocates rights obtained pursuant to bilateral agreements to specific airlines. In 2015, the Colombian Civil Aviation Authority authorized us to operate 27 new international weekly flights, including seven weekly frequencies from Bogotá to Boston, four more frequencies from Bogotá to Spain (MAD and/or BCN), seven flights to Frankfurt, two additional frequencies to Barbados and seven additional frequencies to Toronto (via El Salvador). If we do not use these rights within nine months (or 18 months if a nine-month extension is granted) from their effective date, they will expire.

Colombia has “open skies” agreements with the Andean Pact countries, Venezuela and the U.S. pursuant to which there are no regulations on the numbers of flights. The bilateral agreement with Argentina provides for four weekly flights by each country’s designated carrier. The bilateral agreement with Brazil provides for 28 weekly flights by each country’s designated carrier.

Over the last 20 years the global airline industry has been shifting to increasing acceptance of liberalized and “open skies” air transport agreements among nations. For example, “open skies” agreements currently exist among the countries of the European Union, and between the European Union and the United States. In the Americas, “open skies” agreements exist among Colombia, Ecuador, Peru and Bolivia and among the United States, Chile, Panama, Venezuela and the countries of Central America. As a general matter, these liberalized or “open skies” air transport agreements serve to (i) reduce (or, in the case of “open skies,” eliminate) restrictions on route rights, designated carriers, aircraft capacity or flight frequencies and (ii) promote competitive pricing.

We believe that it is likely that the Colombian government will eventually liberalize the current restrictions on international travel to and from our Bogotá hub by, among other things, granting new route rights and flights to competing airlines and generally promoting increased numbers of market participants on routes we serve. As a result of such liberalization, we could face substantial new competition, which may erode our pricing and market share and have a material adverse effect on our financial position and results of operations. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Our Company—We face increasing competition from other international airlines due to the continuing liberalization of restrictions traditionally affecting the global airline industry.”

Colombia is currently a party to a multilateral agreement known as Andean Community CAN, between Bolivia, Ecuador, Peru and Colombia, which among other things, allows airlines from such countries to operate between them without limitation on international flights. No cabotage is allowed. Colombia is also party to an Air Transport Agreement and/or Memorandum of Understanding with the following countries: United States, El Salvador, Costa Rica, Canada, Mexico, Panama, Aruba, Curaçao, Argentina, Austria, Bolivia, Brazil, Chile, Ecuador, Paraguay, Peru, Uruguay, Saudi Arabia, Venezuela, Germany, Belgium, Spain, France, Holland, Italy, Luxemburg, Portugal, United Kingdom, Switzerland, Iceland, Turkey, Korea, United Arab Emirates, Singapore, Dominican Republic, Cuba, French Antilles, Barbados, Israel, New Zealand, Qatar, Surinam and China.

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### *Ownership and control*

The Colombian State Council (*Consejo de Estado—Sala de Consulta y Servicio Civil*), in an opinion dated April 6, 2000, declared that article 1426 of the Commerce Code, which established a 40% limitation on foreign investment in Colombian airlines, was no longer applicable as it is considered to have been tacitly overturned by Decree 2080 of 2000 (Foreign Investment Statute), and stated that, from a Colombian law perspective, there are no restrictions on foreign investment in Colombian airlines. However, some of Colombia's bilateral agreements do restrict foreign involvement in Colombian airlines. For example, bilateral agreements entered into by Colombia with the United States, Canada, the United Kingdom, France, China, Germany, Uruguay, Italy, contain requirements that each designated airline remain substantially owned and effectively controlled by a Colombian governmental entity or Colombian nationals. Nevertheless United States, Canada and China granted a waiver to the Colombian airlines under certain conditions.

Currently, in those bilateral agreements it is established that each of the countries may deny, revoke or impose any conditions deemed necessary upon an airline's operating permit in the event it determines that there is not sufficient evidence that a substantial proportion of ownership and effective control of the airline is held or exercised by Colombia or its nationals. These ownership and control restrictions have not been expressly defined in the bilateral agreements, in terms of percentage thresholds or otherwise, and therefore should be interpreted according to the Vienna Convention on the Law of Treaties.

Taking the above into account, certain aviation authorities have interpreted these ownership and control restrictions as follows:

- The DOT policy on “substantial ownership and effective control” is to examine the relationships of the airline in depth and determine who actually controls the airline's key decisions (examining composition of the board, management and control and special voting majorities, among other factors), rather than simply looking at the airline's ownership.
- The Spanish aviation authority's basic policy on “substantial ownership and effective control” issues is to examine the nationality of the shareholders who have direct control of the airline.
- Other countries also consider the nationality of the aircraft crews, including Mexico, Brazil and the Netherlands Antilles.

Agreements entered into by Colombia with Spain, The Netherlands, Portugal, Bolivia, Ecuador, Peru, Panama, Chile, the Dominican Republic, Cuba, Venezuela and Costa Rica, among others, require that we be incorporated, have our principal domicile, management, operation and offices within the Colombian territory and to have the oversight and control done by the national aeronautical authority.

Although we believe Avianca is currently in compliance with such substantial ownership and effective control requirements, we cannot assure you that Colombians, directly or indirectly, will continue to own and control a majority of our capital stock indefinitely. If for any reason the owners, all Colombian citizens cease to have at least 51% of Avianca, or the effective regulatory control of the national aeronautical authority ceases to be exercised, or if Avianca fails to continue to have its corporate domicile, administrative headquarters, and base of operations within Colombian territory, Avianca may no longer comply with the requirements of Colombia's bilateral agreements and, as a result, its route and landing rights in a number of important countries may be adversely affected, which could have a material adverse effect on our business, financial condition and results of operations.

As an additional protection to ensure compliance with our principal bilateral agreements, when our board of directors are notified by any shareholder of its intent to have any direct or indirect transfer of our capital stock (including a change in the ultimate beneficial ownership by Colombian shareholders) affecting the substantial



ownership of the shares by Colombian nationals, the board of directors (excluding any directors having a personal economic interest in such transfer) shall determine, after consultation with more than one independent and internationally recognized aviation counsel, that such transfer would likely result in a violation of bilateral agreements causing our legal ability to engage in the aviation business or to exercise our international route rights to be revoked, suspended or materially inhibited, in each case in a manner which would materially and adversely affect us.

This shareholders' agreement shall remain in effect until such time as our board of directors (excluding any directors having a personal economic interest in any such transfer then proposed) determines that this undertaking is no longer necessary to ensuring our compliance with bilateral treaties material to us.

Under this shareholders' agreement, all determinations of our board of directors shall take into account the interests of our various shareholders and shall be made subject to each director's duty to exercise his or her duties in accordance with Colombian law.

Even though it is possible that we may be able to obtain waivers of any future non-compliance with these requirements under our bilateral agreements, their mere existence may deter a non-Colombian entity from acquiring control of us as well as limit our future flexibility to sell additional shares or conduct a recapitalization.

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### **El Salvador**

#### *Overview*

Taca International is a *sociedad anónima* duly organized and validly existing under the laws of El Salvador. It is duly qualified to hold property and transact business as a *sociedad anónima*, and holds all licenses, certificates and permits from governmental authorities necessary for the conduct of its business as now conducted. All consents, licenses, approvals, registration and authorizations as may be required in connection with providing airlines services under applicable Salvadoran laws have been obtained or affected and are in full force and effect.

By means of Legislative decree No. 126 dated September 1972, Taca International was named as a national air carrier, for the effect of being considered as such in the countries where it provides or is willing to provide Air transport services. Effective legal control and principal place of business is still established in El Salvador.

The failure to maintain the required foreign and domestic governmental authorizations, will adversely affect our operations. We are subject to national and international regulations which may vary frequently and are out of our control. These may result in an increase of costs and/or operational requirements and restrictions. Also, there is instability concerning governmental policies, due to highly polarized political environment, ranging from a left-to right-wings perspective which does not provide the expected continuity and stability in economic and fiscal issues.

The government of El Salvador has declared an "open skies policy" when negotiating air transport agreements and the traffic rights. Currently, the Civil Aviation law was reformed to provide for an open skies regime and, as a result, is now "open skies based on reciprocity. This new regime includes up to seventh air freedom specifically for cargo operations.

#### *Authorizations and licenses*

The Civil Aviation Law of El Salvador requires that airlines authorized for the operation of national or international air transport possess an Operation Certificate and an Operating Permit issued by the Autoridad de Aviación Civil, or AAC. An Operating Permit sets forth the routes, rights and the frequency of the flights that are permitted to be flown. An Operating Permit is valid for five years and must be modified each time a carrier intends to add or cancel new routes or flight frequencies. In addition, a carrier is also required to present revised itineraries to the AAC each time it intends to change its schedules, the aircraft servicing its routes and flight and route frequencies. We possess the required operating certificates and permits and are in compliance with all regulations requiring the presentation of revised itineraries.

The Civil Aviation Law of El Salvador requires that carriers register their aircraft with the Salvadoran Civil Aviation Registry, or RAS, which is maintained by the AAC, and such aircraft are subject to periodic inspection by the AAC. The AAC is responsible for certifying that each aircraft in a carrier's fleet meets the safety standards required by the AAC's aeronautical regulations. Each of our aircraft that flies to El Salvador is properly registered and certified with the AAC. Only Tariffs must be filed.

On January 2015, the AAC issued new tariffs for the services provided by such authority. The tariffs were contested and AAC decided to leave such tariffs without effect and return to the former tariffs. However, all parties agreed to revise the tariffs and an agreement on the final tariffs is still pending.

Apart from local governments we are regulated by the Federal Administration Authorization and Transport Security Agency, from the United States. Most of Taca International's aircraft are registered at the United States. Therefore, we are subject to directives, and regulations imposed by the United States, which represent high expenditures for us.

In addition, there is currently a bill underway to modify the Migration Law, which may affect our operations.

#### ***Air transport agreements***

El Salvador is subject to multilateral and/or bilateral air transport agreements that provide for the exchange of air traffic rights between El Salvador and various other countries. Until recently El Salvador has been actively negotiating such agreements, seven of which in the past three years are under ratification of the countries party to the agreements. Nevertheless, it holds Memoranda of Understanding, or MOUs, that provide for immediate force and effect of the provisions contained therein. Operations to countries where there is no Air Transport Agreement, have been negotiated under reciprocity, such is the case with Costa Rica, Peru and Panama.

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Notwithstanding the agreements, we are subject to permits, laws, regulations and operational restrictions provided by each of the countries where we are willing to operate, and these laws, regulations and restrictions may vary frequently and are out of our control. Those may result in an increase in our costs and/or operating registrations.

#### ***Passenger flow separations***

El Salvador has not adopted alternative measures to comply with ICAO standards in passenger flow separations and it has no budget to build flow separations in its international airport. If found in non-compliance with ICAO standards, the country could be placed on the blacklist of countries without proper security measures. An ICAO audit is scheduled for May 2016.

In 2015, El Salvador was audited by ICAO and TSA. As a result, security concerns were raised, demanding a second inspection to operations to and from El Salvador. We are working closely with El Salvador government to implement the One Stop Security program, as promoted by ICAO and IATA.

### ***Bilateral and open skies agreements***

El Salvador is currently a party to a multilateral agreement known as CA-4, between Guatemala, Honduras, Nicaragua and El Salvador, which among other things allows airlines from such countries to operate between them as if they were domestic flights. No cabotage is allowed. El Salvador is also a party to Air Transport Agreements and/or MOUs with the following countries: Spain, Mexico, United Kingdom, Ireland, Cuba, China (Taiwan), Ecuador, the United Arab Emirates, Qatar, Chile, Colombia, Canada (agreement is under ratification).

### ***Safety rating***

El Salvador currently possesses FAA Category 1 status, which allows Salvadoran airlines to operate flights to and from the United States. Category 1 status signifies that a nation's aeronautical regime fulfills all necessary standards of operational safety established by International Civil Aviation Organization, or ICAO. Receipt of Category 1 status is based upon the FAA's review of various safety standards with respect to the regulations, licensing of personnel, condition of the aircraft, airline monitoring, pilot training, maintenance, repair and overhaul facilities and aeronautical organizations.

### ***Foreign ownership***

El Salvador does not impose any limitations or restrictions with respect to the ownership or control by foreigners of airlines organized in El Salvador.

### ***Antitrust regulation, enforcement***

El Salvador has enacted antitrust laws and regulations which govern the aerial transport market. These laws and regulations prohibit anticompetitive practices between airlines. The antitrust laws and regulations provide for various enforcement actions including both civil and criminal penalties against those parties found to be in violation. There are currently no pending antitrust enforcement actions against us in El Salvador.

### ***Noise regulations***

El Salvador has adopted noise regulations applicable to the airline industry in accordance with the ICAO standards. These regulations provide that no person can operate an aircraft to or from an airport in El Salvador which does not comply with the noise regulations as set forth in Annex 16 of the ICAO standards. Each of our aircraft that flies in El Salvador complies with applicable noise regulations imposed by El Salvador.

## **Costa Rica**

### ***Overview***

LACSA is a *sociedad anónima* duly organized and validly existing under the laws of Costa Rica. It is duly qualified to hold property and transact business as a *sociedad anónima*, and holds all licenses, certificates and permits from governmental authorities necessary for the conduct of its business as now conducted. All consents, licenses, approvals, registration and authorizations as may be required in connection with LACSA being an entity providing airlines services under applicable laws of Costa Rica have been

obtained or affected and are in full force and effect. Effective legal control and principal place of business is still established in Costa Rica.

The failure to maintain the required foreign and domestic governmental authorization, will adversely affect our operations. We are subject to national and international regulations which may vary frequently and are out of our control. These may result in an increase of costs and/or operational requirements and restrictions.

Costa Rica has adopted an open skies regime for its AirTransport negotiations, based on real and effective reciprocity. Costa Rica is subject to multilateral and/or bilateral air transport agreements that provide for the exchange of air traffic rights between Costa Rica and various other countries. Notwithstanding these agreements, we are subject to permits, laws, regulations and operational restrictions provided by each of the countries where we are willing to operate.

Apart from local governments we are regulated by the FAA and TSA, of the United States. Most of LACSA's aircraft are registered in the United States. Therefore, we are subject to directives, and regulations imposed by the United States, which represent high expenditures for us.

#### ***Authorizations and licenses***

Costa Rican law requires airlines providing commercial air transport services to and from Costa Rica to hold an Aeronautical Operation Certificate, or COA, and an Air Transportation License/Certificate issued by the *Dirección General de Aviación Civil*, or DGAC. An Air Transportation Certificate specifies a carrier's designated routes, the equipment it may use, its permitted capacity and its flight frequencies. A carrier's Air Transportation Certificate is required to be updated each time it acquires a new aircraft, or when such airline modifies any of its routes or frequencies to a particular destination. We possess the required COA and Air Transportation Certificate as required by the DGAC.

Costa Rican carriers are required to register their aircraft with the Costa Rican National Aviation Registry kept by the DGAC. The DGAC is responsible for certifying the airworthiness of each registered aircraft. All registered aircraft must be re-certified each year through inspections carried out by the DGAC. Each of our aircraft that flies to Costa Rica is properly registered with the DGAC.

In addition, there are currently law projects to modify the Civil Aviation Law, Consumers Protection Rights Law, Migration Law and the law that regulates departures from Costa Rica, all of which may affect our operations.

#### ***Bilateral and open skies agreements***

Costa Rica has entered into various bilateral agreements which allow Costa Rican airlines to fly to the United States and to and within the Americas and the Caribbean. All international fares are filed and subject to the approval of the Costa Rican government. Costa Rica is currently a party to Air Transport Agreements and/or MOUs with the following countries: United States, Spain, Panama, Mexico, Venezuela, Holland, China, Germany, Canada, United Kingdom, Ireland, Peru, Brazil, Argentina, the Dominican Republic, Colombia, Cuba, Chile, Ecuador, Argentina, the United Arab Emirates and Qatar.

Costa Rica is the first country in the Central American region to have a full open skies agreement with Canada, which is in full force and effect.

#### ***Safety rating***

Costa Rica currently possesses FAA Category 1 status, which allows Costa Rican airlines to operate flights to and from the United States.

#### ***Foreign ownership***

Following a recent ruling by the Costa Rican Constitutional Court, there are no restrictions on foreign ownership and control of airlines organized in Costa Rica.

### ***Antitrust regulation, enforcement***

Costa Rica has adopted certain antitrust laws which govern the airline industry. Costa Rica's antitrust laws were enacted to protect the rights and interests of the consumer and the guardianship and promotion of the competitive process. There are currently no pending antitrust enforcement actions against us in Costa Rica.

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### ***Noise regulations***

Costa Rica has adopted noise regulations applicable to the airline industry. These regulations provide that no person can operate an aircraft to or from an airport in Costa Rica that does not comply with the noise regulations set forth in Annex 16 of the ICAO standards.

Costa Rica has also adopted noise abatement provisions which require aircraft registered in Costa Rica to comply with at least Stage 2 noise requirements. All aircraft registered for the first time with the Costa Rican Civil Aviation Authority after January 1, 2003 are required to comply with Stage 3 noise restrictions. Our aircraft which fly in Costa Rica comply with applicable noise regulations imposed by Costa Rica.

## **Peru**

### ***Overview***

Peruvian law requires that all airlines organized in Peru that provide commercial services to and from Peru hold an Operations Permit valid for a period of four years and an Air Services Operator Certificate, or ASEC, issued by the Civil Aviation Authority, or DGAC without expiration. Both must be modified each time a carrier modifies the characteristics of its service. An Operations Permit specifies a carrier's designated routes, the equipment it may use, its permitted capacity and its flight frequencies.

Peruvian law requires that carriers register their aircraft in the Public Aircraft Registry of the Registry Office of the National Superintendency of Public Registrar, or SUNARP. The DGAC is responsible for issuing a Conformity Certification of airworthiness for each aircraft in a carrier's fleet. This certification is valid for two years and must be renewed thereafter. Additionally, the DGAC approves all technical aspects of a carrier's operation and such operations are reviewed by the DGAC as modifications or changes arise. We possess the required Operations Permit and ASEC as required by the DGAC and our aircraft which fly in Peru are properly registered with the SUNARP, and all other permits required by Peruvian law.

### ***Bilateral and open skies agreements***

Peru has entered into 37 bilateral agreements and other memoranda of understanding, several of which are open sky agreements, which allow Peruvian airlines to fly to the United States and various countries in South America, Central America, Europe, Africa and Asia.

### ***Safety***

Peru currently possesses FAA Category 1 status which allows Peruvian airlines to operate flights to and from the United States.

### ***Foreign ownership***

Peruvian law requires that “National Airline Services” can only be provided by Peruvian natural persons and legal entities. A Peruvian legal entity is an entity that complies with the following requirements:

- the entity has its principal domicile in Peru;
- more than a majority of the directors, managers and people who control the entity’s management must be Peruvian nationals or must be permanently domiciled in Peru;
- the legal entity’s property must substantially be Peruvian; and
- at least 51% of the entity’s stock must be under the control of stockholders that are Peruvian nationals who are permanently domiciled in Peru.
- in addition, Peruvian law further requires that a Peruvian legal entity:
  - must be organized in accordance with Peruvian law; and
  - must indicate that its legal purpose is providing airline service.

Notwithstanding the foregoing, Peruvian regulations provide that 51% of an entity’s voting stock only needs to be the property of a Peruvian national who is permanently domiciled in Peru for a period of six months commencing on the effective date of the airline’s occupational license. Upon the expiration of such term, up to 70% of an entity’s voting stock may be owned by foreigners. As of the date of this annual report, we own 49% of the voting stock and 99% of the non-voting stock in our Peruvian airline, Transamerican Airlines S.A.

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### *Antitrust regulation, enforcement*

The National Institution of Competition Defense and Intellectual Property, or INDECOPI, governs competition in the aerial transport market. Peruvian law does not foresee any previous control mechanisms or authorization procedures for mergers or other forms of associations. It does not restrict or penalize the mere existence of dominant market positions or monopolies, but regulates behaviors that might constitute an abuse of such positions in detriment of competitors. It therefore regulates anticompetitive practices between airlines, the registry of tariffs and the modification, cancellation or suspension of operations. There is currently one investigation against Trans American Airlines S.A initiated by the *Asociación Peruana de Empresas Aéreas* (APEA), for an alleged unlawful conduct by TACA Perú. On August 26, 2015, INDECOPI concluded the investigation and decided that the claim made by APEA has no legal grounds. However, APEA appealed the decision before the INDECOPI’s tribunal on September 26, 2015, and the final decision is still pending. INDECOPI also has authority to control passenger rights’ violations and has in the past years increased control over passenger rights protection and fines have been imposed to our airlines.

### *Noise regulations*

Peru has adopted noise regulations applicable to the airline industry. These regulations provide that no person can operate an aircraft to or from an airport in Peru that does not comply with the noise regulations set forth in Annex 16 of the ICAO standards. Our aircraft which fly in Peru comply with applicable noise regulations imposed by Peru.

## **Ecuador**

### *Overview*

Aerogal is a private carrier duly organized and validly existing under the laws of Ecuador. It is duly qualified to hold property and transact business as a *sociedad anónima*, and holds all licenses, certificates and permits

from governmental authorities necessary for the conduct of its business as now conducted. All consents, licenses, approvals, registration and authorizations as may be required in connection with it being an entity providing air transport services under applicable laws of Ecuador have been obtained or affected and are in full force and effect.

### ***Authorizations and licenses***

The aviation market in Ecuador is heavily regulated by the Ecuadorian Civil Aviation Authority. For domestic aviation, airlines must present feasibility studies to secure specific route rights, and no airline may serve the city pairs with the most traffic unless that airline has aircraft with air-worthiness certificates in force. Airlines in Ecuador are obligated to add a surcharge for fuel to their ticket prices and charge an administrative fee in connection with purchases of airline tickets, although this fee is at the discretion of the seller for Internet sales.

Aerogal's status as a private carrier means that it is not required under Ecuadorian law to serve any particular route and is free to withdraw service from any of the routes it currently serves as it sees fit, subject to bilateral agreements in the case of international service. Aerogal is also free to determine the frequency of the services it offers across its route network without any minimum frequencies imposed by the Ecuadorian authorities.

Ecuadorian law requires airlines providing commercial passenger service in Ecuador to maintain an Operation and Air Transportation Certificate (*AOC*) issued by the Ecuadorian Civil Aviation Authority. The Operation and Air Transportation Certificate lists the airline's routes, equipment used, capacity and frequency of flights. This certificate must be updated each time a carrier acquires new aircraft, or when routes or the frequency of service to a particular destination are modified.

Ecuadorian law also requires that aircraft operated by us be registered with the Ecuadorian National Aviation Registry (*Registro Aeronautico Nacional*) kept by the Ecuadorian Civil Aviation Authority, and that the Ecuadorian Civil Aviation Authority certify the air-worthiness of each aircraft in our fleet.

Furthermore, Ecuadorian airlines are subject to the authority of the Ecuadorian Civil Aviation Council. The Ecuadorian Civil Aviation Council is in charge of granting operations permits, which contain the routes and frequencies, and evaluating the financial, technical and managerial aspects of each airline, among other things.

Under Ecuadorian commercial law, air transportation is considered a commercial activity, and therefore, certain elements of the standard terms and conditions of air transportation agreements entered into by airlines and passengers are expressly covered under such law. Passengers in Ecuador are also entitled by law to compensation in cases of delays in excess of four hours, over-bookings and cancellations.

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Most of Ecuadorian's airports are operated by the government. Currently, only the Quito, Guayaquil and Baltra airports are privately operated through concessions.

The Convention for the Unification of Certain Rules for International Carriage by Air, signed in Montreal, Canada on May 28, 1999, as approved and adopted by Ecuador by means of Law 701 of 2001, imposes duties upon Ecuadorian airlines with respect to their international services. Under these rules, airlines are responsible for compliance with certain obligations regarding quality and passenger security, as well as for damages sustained in case of any death of, or bodily injury to, a passenger, which occurs on board, as well as for baggage loss or damage. This convention applies to international transportation between Ecuador and the territory of another party to the treaty, regardless of whether there is an interruption in the transportation or a

trans-shipment, or whether, prior to arriving in, or departing from, Ecuador, there is an agreed stop-over within the territory of another state. Under Article 17 of the convention, an airline is liable for damage sustained in case of death or bodily injury of a passenger upon condition that the accident which caused the death or injury took place on board the aircraft or in the course of any of the operations of embarking or disembarking. Air carriers are responsible, even if not at fault, for proven damages up to 113,100 Special Drawing Rights (SDRs), which represent a mix of currencies established by the International Monetary Fund. For damages above 113,100 SDRs, the airline may avoid liability by showing that the accident that caused injury or death was not due to its negligence or was the fault of a third party.

### ***Security***

Parts 107 and 108 of the Ecuadorian *regulaciones técnicas de la DAC*, or RDAC, regulate all aspects of civil aviation security, including, (i) implementation of certain security measures by airlines and airports, such as the requirement that all passenger luggage be screened for explosives, (ii) designation of restricted areas, (iii) systems of airport controls for identification of passengers (iv) inspection of vehicles, and (v) the transportation of explosives and dangerous goods.

### ***Environmental regulation***

We are subject to the general environmental regulations of Ecuador, and several other laws, decrees and local resolutions which regulate the management of natural resources and their contamination. Pursuant to these regulations, we prepared an Environmental Management Plan (*Plan de Manejo Ambiental*), detailing the procedures to be followed in connection with any activity that has any environmental impact, including solid and liquid waste management, hazardous waste management and the management of effluents and noise. Additionally, we must maintain certain permits and authorizations for the use and management of natural resources, such as discharge and emissions permits, and maintain our environmental impact within required levels. If we fail to maintain the relevant permits and authorizations or to abide by the environmental regulations, we may be subject to penalties or fines.

In addition, the RDAC contains a general environmental policy establishing that the Ecuadorian Civil Aviation Authority must comply with Ecuadorian environmental regulations and must require the compliance of parties involved in the Ecuadorian civil aviation industry. The RDAC includes provisions and guidelines relating to noise and effluents that must be followed in the provision of aviation services. The RDAC requires that noise levels be kept below levels established under Ecuadorian law. Compliance is evidenced by means of a certificate (*Certificado de Homologación de Ruido*) that must be obtained for each aircraft from the Ecuadorian Civil Aviation Authority or the competent authority of each country member of ICAO. If noise levels exceed the limits, the Ecuadorian Civil Aviation Authority has the power and authority to sanction and penalize us with fines.

If the Ecuadorian Civil Aviation Authority determines that our operations or facilities do not meet the RDAC standards or otherwise fail to comply with Ecuadorian environmental regulations, we could be subject to a fine. In addition, failure to comply with these regulations could adversely affect us in a variety of other ways, including by negatively impacting our reputation.

### ***Fuel price***

In 2015, the President of Ecuador issued Decree No. 799, changing the fuel pricing formula in the country. The decree establishes that Ecuador is moving away from Platts-based pricing (weekly) to a price set by Petroecuador (on a monthly basis). The new price is based on the weighted average cost of imported and domestic product, plus transport, production and profit margin. Furthermore, this price is compared with those of neighboring countries and the highest is chosen as the new price.

The methodology and formula used by the above mentioned decree is different from international industry standards, and results in a increase in the price of Jet A1 fuel used in aviation.



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Considering the above, the regional and local airline associations (ALTA and ARLAE, respectively), and IATA, have sent a number of communications to the authorities in order to review a pricing formula that would not compromise jet fuel volumes sold by Petroecuador, the growth of the aviation industry and ultimately its impact on the country's economy.

The industry will continue its efforts to set a new pricing mechanism and avoid an unstable situation with high risks for airlines operating in Ecuador.

### ***Bilateral agreements***

With respect to our international services, our plans to introduce new destinations and increase the frequency of existing services depend, among other things, upon the allocation of route rights, a process over which we do not have direct control. Route rights are allocated through negotiations between the government of Ecuador and the governments of foreign countries and are set forth in bilateral agreements. If we are unable to obtain route rights, we will re-allocate capacity within our route network as appropriate.

Bilateral agreements between countries also regulate other aspects of our commercial cargo and passenger air transport relations, including the designation of carriers and aircraft capacity restrictions and requirements. They may also establish minimum safety, security, customs and environmental requirements for each designated carrier. These agreements can be modified upon the agreement of the relevant countries at any time prior to their expiration dates. Our principal bilateral agreements include those with the United States, Spain, the Andean Pact countries (Colombia, Peru and Bolivia), Venezuela, Brazil, the Netherlands, Argentina, Panama, Mexico and Chile. The bilateral agreement with the United States, which granted 120 weekly flights to Ecuadorian carriers and 120 weekly flights to U.S. carriers, was modified on June 4, 2010. In addition, the following routes were added for Ecuador: (i) from Ecuador via 15 intermediate points to Miami, Orlando, Washington, New York, Chicago, Los Angeles, and four additional points in the United States and beyond Madrid, Montreal and Toronto; and five additional points in Europe via code share; (ii) as of July 1, 2011, five additional points in the United States that were selected by Ecuador and five additional points in the United States that were selected by Ecuador for code share only; and (iii) as of July 1, 2012, five additional points in the United States that were selected by Ecuador for code share only. There is an "open sky" policy for all cargo services. The bilateral agreement with Spain, which was modified in July 2003, grants 14 weekly flights. The following routes are to be determined: from Ecuador via points in Colombia, Venezuela and points in the Caribbean to Madrid and/or Barcelona, and points in France, Italy and Germany in both directions. Fifth freedom rights should be negotiated for each case.

The Ecuadorian Civil Aviation Authority allocates rights obtained pursuant to bilateral agreements to specific airlines. In 2014, the Ecuadorian Civil Aviation Authority authorized us to operate new international weekly flights, including flights within the Andean Pact Operation Permit. We operate routes from Quito and/or Guayaquil to Bogotá, with 49 frequencies per week from Quito to Lima with the following points from Santa Cruz (14 frequencies per week), La Paz (seven frequencies per week) and Bogotá (three frequencies per week) and seven flights from Panama to Quito. In 2014, we obtained 21 frequencies per week to Panama, increased to 25 frequencies per week in 2015, seven frequencies to Aruba and seven to Curaçao. Ecuador has "open skies" agreements with the Andean Pact countries pursuant to which there are no regulations on the numbers of flights to such destinations.

Over the last 25 years the global airline industry has been shifting to increasing acceptance of liberalized and "open skies" air transport agreements among nations. For example, "open skies" agreements currently exist among the countries of the European Union, and during the first quarter of 2007 were agreed to between the European Union and the United States. In Latin America, "open skies" agreements exist among Colombia, Ecuador and Peru and among the United States, Chile, Panama, Venezuela and the countries of Central America. As a general matter, these liberalized or "open skies" air transport agreements serve to (i) reduce

(or, in the case of “open skies,” eliminate) restrictions on route rights, designated carriers, aircraft capacity or flight frequencies and (ii) promote competitive pricing.

As a result of this continuing trend toward liberalized air transport agreements, a number of countries to which we fly, including the United States, have been negotiating with the Ecuadorian government to liberalize its bilateral agreements with such countries and to permit more flights to and from Ecuador. We believe that it is likely that the Ecuadorian government will eventually liberalize the current restrictions on international travel to and from Ecuador by, among other things, granting new route rights and flights to competing airlines and generally promoting increased numbers of market participants on routes we serve. As a result of such liberalization, we could face substantial new competition, which may erode our pricing and market share and have a material adverse effect on our financial position and results of operations. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Our Company—We face increasing competition from other international airlines due to the continuing liberalization of restrictions traditionally affecting the global airline industry.”

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### *Ownership and control*

The Ecuadorian Civil Aviation Law was changed in 2001 eliminating a 40% limitation on foreign investment in Ecuadorian airlines, and stated that, from an Ecuadorian law perspective, there were no restrictions on foreign investment in Ecuadorian airlines. However, some of Ecuadorian’s bilateral agreements do restrict foreign involvement in Ecuadorian airlines. For example, bilateral agreements entered into by Ecuador with the United States, Spain, the United Kingdom, France, Germany, Switzerland, all contain requirements that each designated airline remain substantially owned and effectively controlled by an Ecuadorian governmental entity or Ecuadorian nationals.

Currently, the bilateral agreements establish that each of the countries may deny, revoke or impose any conditions deemed necessary upon an airline’s operating permit in the event it determines that there is not sufficient evidence that a substantial proportion of ownership and effective control of the airline is held or exercised by Ecuador or its nationals. These ownership and control restrictions have not been expressly defined in the bilateral agreements, in terms of percentage thresholds or otherwise, and therefore should be interpreted according to the Vienna Convention on the Law of Treaties.

Agreements entered into by Ecuador with Bolivia, Colombia, Peru and United Kingdom, among others, require that our relevant operating subsidiaries be incorporated, have our principal domicile, management, operation, technical maintenance operations and offices within the Ecuadorian territory.

### **U.S. Airline Regulation**

Service to the United States by non-U.S. airlines is subject to Title 49 of the U.S. Code, under which the DOT, the FAA and the TSA exercise regulatory authority. The U.S. Department of Justice also has jurisdiction over airline competition matters under the federal antitrust laws. The provision of foreign air transportation (i.e., the transportation of persons, property or mail by aircraft as a common carrier between a place in the United States and a place outside the United States) by non-U.S. airlines is subject to several U.S. laws and regulations and falls under the jurisdiction of a number of federal agencies. For example, in order for a non-U.S. airline to provide scheduled or charter service to the United States, it must have economic route authority from the DOT (in the form of a foreign air carrier permit or exemption authority), safety authority from the FAA (in the form of operations specifications) and a Transportation Security Administration (TSA) approved model security program addressing aviation security. In addition, non-U.S. airlines serving the United States are subject to extensive aviation consumer protection regulations of DOT under that agency’s statutory authority to prohibit unfair and deceptive practices and unfair methods of competition in air

transportation or the sale of air transportation, as well as various civil rights requirements of the DOT, including access to air travel for persons with disabilities and anti-discrimination laws. Moreover, such airlines are subject to ongoing aviation security directives imposed by the TSA, and border security, customs, immigration, and agriculture inspection requirements administered by U.S. Customs and Border Protection (CBP). Both TSA and CBP are agencies within the U.S. Department of Homeland Security. Each of the DOT, FAA, TSA and CBP have authority to investigate and institute proceedings to enforce their regulations and assess civil penalties and/or suspend or revoke permits, licenses or authorizations for violations of those regulations. Our carriers serving the United States, including Avianca S.A. (Colombia), Taca International (El Salvador), LACSA (Costa Rica) Trans American Airlines (Peru) and Aviateca (Guatemala) hold various permits, licenses and authorizations issued by the foregoing federal agencies, and the modification, suspension or revocation of such authority could have a material adverse effect on the business.

### ***Authorizations and licenses***

#### ***DOT***

DOT primarily regulates economic matters pertaining to air services, including the provision of foreign air transportation by non-U.S. airlines. Our carriers serving the United States hold all required economic route authorities from the DOT, allowing each such carrier to engage in foreign air transportation from points behind its homeland via its homeland and intermediate points to a point or points in the United States and beyond, to the full extent permitted under the “open skies” bilateral air services agreement between each carrier’s homeland government and the government of the United States. These authorities are held either in the form of a foreign air carrier permit or exemption authority. The DOT has jurisdiction over international aviation, including routes, within the United States, subject to review by the President of the United States. The DOT also has jurisdiction with respect to unfair practices and methods of competition by airlines and related consumer protection matters.

We are authorized by the DOT to engage in scheduled and charter air transportation services, including the transportation of persons, property (cargo) and mail, or combinations thereof, between points in Colombia and certain points in the United States and beyond, and including the carriage of passengers to their final destination in the United States via an intermediate location in another country and picking up passengers at an intermediate location to carry them to the United States. We hold the necessary authorizations

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from the DOT, including a foreign air carrier permit, to conduct our current U.S. operations. We also have an exemption authority related to the code share agreement and our flights to Fort Lauderdale.

Avianca, Taca, LACSA, Trans American Airlines and Aviateca also hold exemption authority from the DOT permitting them to jointly use the trade name “Avianca” and use the “AV” designator code in their services in foreign air transportation to and from the United States.

The “exemption authority” is authorized pursuant to a different statutory section and regulatory procedure from that used to obtain a foreign air carrier permit. The most relevant difference between exemption authority and a foreign air carrier permit is that exemption authority is usually granted for shorter periods (usually up to one or two years) and is not subject to presidential review for possible national defense or security considerations, while foreign air carrier permits, like Avianca’s foreign air carrier permit, have no expiration date or at least have a five year term. Exemptions must periodically be renewed upon submission of a renewal application, and may be amended, modified or suspended by DOT at any time without having to first give the airline notice and a hearing. In contrast, DOT generally may not amend, suspend or revoke a foreign air carrier permit without providing the subject carrier the opportunity for a hearing. Exemptions and

foreign air carrier permits both carry a number of conditions, including compliance with DOT, FAA, and TSA regulations.

Our DOT “exemption authority,” which was granted by the DOT in February 1998, was due to expire on April 3, 2007, however, it remains in effect pending final DOT action on the renewal application that we filed on March 14, 2007. So far there has been no final decision on this application.

A number of our carriers serving the United States also participate in code-sharing operations on such flights, wherein a carrier’s designator code is used to identify a flight operated by another carrier. For example, a number of scheduled flights that our carriers operate to and from the United States display the “UA” designator code of United Air Lines and, as noted above, Taca, LACSA, Trans American Airlines and Aviateca, when operating scheduled flights to and from the United States, display the “AV” designator code of Avianca. To engage in code-sharing on flights to and from the United States, the operating carrier must hold a DOT statement of authorization issued under 14 C.F.R. Part 212, with such approval subject to various conditions. Our carriers that display the code of another carrier on flights operated to and from the United States hold all required DOT statements of authorization to engage in such arrangements. We believe the operations of our carriers serving the United States are in material compliance with DOT requirements.

#### *FAA*

Our operations to the United States are also subject to regulation by the FAA with respect to safety matters, including aircraft maintenance and operations, equipment, aircraft noise, ground facilities, dispatch, communications, personnel, training, weather observation, air traffic control and other matters affecting air safety. The FAA requires each foreign air carrier serving the United States to maintain operations specifications pursuant to Part 129 of its regulations and to meet operational criteria associated with specified equipment on approved international routes. Our carriers serving the United States hold operations specifications issued by the FAA pursuant to 14 C.F.R. part 129. The FAA can amend, suspend, or revoke those specifications, including in cases where the carrier fails to comply with FAA regulations.

In addition, under the FAA’s the International Aviation Safety Assessment (IASA) program, the FAA periodically assesses another country’s oversight of its air carriers that operate, or seek to operate, into the United States, or engage in code-sharing with a U.S. carrier, to determine whether the oversight complies with safety standards established by the International Civil Aviation Organization (ICAO) and, if so, assigns the country a Category 1 rating. Each of the homelands for our carriers that operate to and from the United States has been rated Category 1 by the FAA. As a result, such carriers a may continue their U.S. services in a normal manner and take part in reciprocal code-sharing arrangements with U.S. carriers. If the IASA rating of any of our carriers’ homelands were to be downgraded in the future, it could prohibit us from increasing service to the United States and would lead United Airlines to suspend the placement of its codes on flights operated by the carrier from the downgraded homeland country.

FAA regulations also require implementation of the Traffic Alert and Collision Avoidance System, which mandates that each aircraft be equipped with an approved airborne wind-shear warning system and certain other requirements related to the age of the aircraft. The aircraft operated by our carriers to and from the United States meet these requirements. In addition, under the Airport Noise and Capacity Act of 1990, or ANCA, and related FAA regulations, aircraft that fly to the United States must comply with certain noise restrictions. These requirements are set forth under 14 C.F.R. Part 36, and the DOT foreign air carrier permits and exemptions held by our carriers that serve the United States are conditioned upon ongoing compliance with Part 36. The FAA also requires that aircraft comply with regulations pertaining to emissions. The fleet operated by our carriers to and from the United States meets all these requirements.

We believe that we are in compliance in all material respects with all requirements to maintain our FAA operations specifications in good standing. The FAA can amend, suspend, revoke or terminate those specifications, or can suspend or revoke our authorization if we fail to comply with FAA regulations, in addition to having the ability to assess civil penalties for such failure. A modification, suspension or revocation of any of our DOT authorizations or FAA operations specifications could have a material adverse effect on our business. The FAA also conducts safety audits and has the power to impose fines and other sanctions for violations of airline safety regulations. We have not incurred any material fines related to operations. The FAA periodically rates foreign countries' safety standards and Colombia is ranked Category 1, which is the top category and which means that it complies with the ICAO safety requirements. As a result, we may continue our service to the United States in a normal manner and take part in reciprocal code-sharing arrangements with U.S. carriers.

### *Security*

On November 19, 2001, the Aviation and Transportation Security Act, or the Aviation Security Act (ATSA), became U.S. law. This law put substantially all aspects of civil aviation security under direct federal control and created the TSA, an agency of the Department of Homeland Security, which assumed the security responsibilities previously held by the FAA. The Aviation Security Act requires, among other things, the implementation of certain security measures by airlines and airports, such as the requirement that all passenger bags be screened for explosives. Pursuant to the ATSA, the TSA has issued, and continues to issue, several regulations governing foreign air carrier security. The regulations require foreign air carriers to adopt and implement a security program that covers security for operations and threat response. Our carriers serving the United States have adopted and implemented a security program in accordance with those regulations. The TSA also requires our carriers serving the United States to implement the Secure Flight Program, which requires such carriers to collect certain personal information from passengers and transmit that information to TSA for comparison against watch lists maintained by the U.S. federal government.

Funding for airline and airport security required by the Aviation Security Act is provided in part by a \$5.60 per-segment passenger security fee for flights departing from the U.S., subject to a \$11.20 per-roundtrip cap; however, airlines are responsible for costs incurred in excess of the amount raised by the fee. There is no assurance this fee will not be raised in the future as the TSA's costs exceed the revenue it receives from this fee. Implementation of the requirements of the Aviation Security Act has resulted in increased costs and security burdens for airlines and their passengers. Since the events of September 11, 2001, the U.S. Congress has also mandated, and the TSA has implemented, numerous other security procedures and requirements that have imposed and will continue to impose burdens on airlines, passengers and shippers.

The Aviation Security Act also requires us to pay an Aviation Security Infrastructure Fee directly to the U.S. Government. Currently, the amount of the fee is set at the amount we actually paid for screening passengers and property in calendar year 2000. However, the TSA is authorized to adjust the methodology for determining the infrastructure fee and this process may result in future fee increases. We believe the operations of our carriers serving the United States are in material compliance with TSA requirements.

### *Other regulations*

Our carriers serving the United States are subject to other regulations promulgated by CBP as well as the Animal and Plant Health Inspection Service (APHIS) of the Department of Agriculture. CBP agents inspect baggage and cargo to ensure, among other things, that such items meet APHIS regulations related to the importation of animal and plant products. APHIS charges user fees on both passengers and airlines to pay for such services. APHIS issued a final rule in 2015 which set the passenger usage fee at \$3.96 and the commercial aircraft fee at \$225.00 – a significant increase over the previous commercial aircraft fee of \$70.75. Also, CBP officers are responsible for immigration controls and other security controls, such as the transmittal of passenger information via APIS, the Advanced Passenger Information System. We believe the operations of our carriers serving the United States are in material compliance with CBP and APHIS requirements.

## European Regulation

Within Europe, we currently operate to Spain and therefore are subject to Spanish DGAC (*Dirección General de Aviación Civil*) regulation and authorizations. Our license to operate to certain destinations in Spain and the number of frequencies we operate is reviewed on a bi-annual basis. We must also comply with special noise abatement procedures required by the Madrid airport. In addition, on October 10, 2014, the Catalan authority (*Generalitat de Catalunya*), enacted Law 12 of 2014 to create a new tax on nitrogen oxide emissions to the atmosphere caused by commercial aviation.

Currently, the European Parliament and the European Council is proposing to amend Regulation (EC) No 261/2004, which establishes common rules on compensation and assistance to passengers in the event of denied boarding and cancellation or long delay of flights. In addition, they are also seeking to amend Regulation (EC) No 2027/97 regarding the air carrier liability with respect to the

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carriage of passengers and their baggage. As of the date of this annual report, these projects are still under discussion and therefore their final versions may vary substantially from the proposed versions.

In addition, since July 2014, we have been operating to London and therefore, we are we are subject to England's Civil Aviation Authority (CAA) regulation and authorizations.

As of November 2014, the European Aviation Safety Agency (EASA) is responsible for granting operating permits for non-EU carriers operating flights to Europe (Third Country Operator - TCO) pursuant to Reg (EU) 452/2014. At the time of writing this annual report, we are in process of obtaining this operation such permit.

## Other Jurisdictions

We are also subject to regulation by aviation regulatory bodies which set standards and enforce national aviation legislation in each of the other jurisdictions to which we fly. These regulators may exercise powers associated with their duties potentially including the ability to set fares, enforce environmental and safety standards, levy fines or restrict operations within their respective jurisdictions. We cannot predict how these various regulatory bodies will act in the future, and the evolving standards enforced by any of them could have a material adverse effect on our operations.

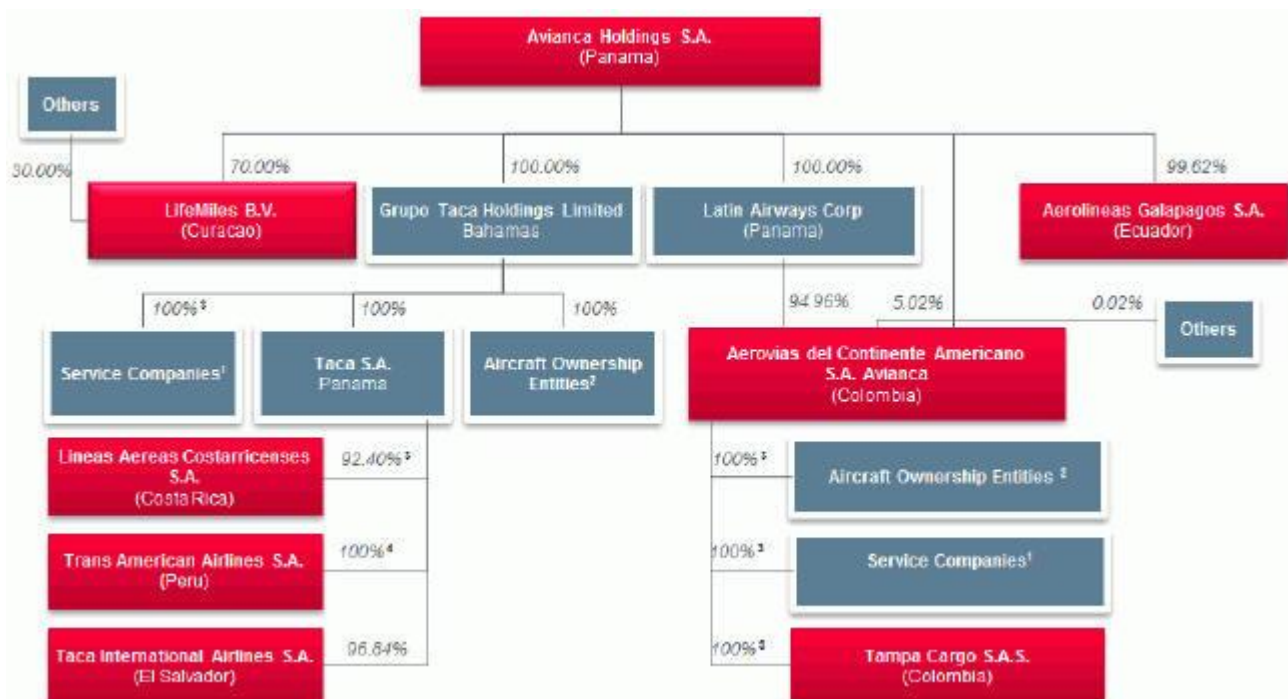
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### C. Organizational Structure

The following is a simplified organizational chart showing our principal subsidiaries as of December 31, 2015:



- 
- (1) “Service Companies” includes various special purpose vehicles formed to contract personnel and provide operating and other services.
  - (2) “Aircraft Ownership Entities” includes special purpose vehicles organized for the financing of aircraft.
  - (3) Participation through different vehicles.
  - (4) Participation through different vehicles, including voting and non-voting shares.

Avianca, Tampa Cargo, LACSA, Trans American Airlines and Taca International, are our operating airline subsidiaries in Colombia, Costa Rica, Peru and El Salvador, respectively. Taca is a holding company.

## D. Property, Plants and Equipment

### *Premises*

Our principal administrative offices are located at Avenida Calle 26, No. 59 – 15, Centro Administrativo, Bogotá, Colombia, approximately nine kilometers away from El Dorado International Airport, which covers approximately 34,426 square feet. We also have an office building in San Salvador, which covers approximately 18,000 square feet, which serves as our headquarters for our hub in San Salvador. Both of these properties are owned by us.

### *Other Property*

At *Puente Aéreo*, we lease maintenance hangars, operations offices, parking spaces and commercial spaces from OPAIN for approximately \$306,457 per month, which covers approximately 95,468 square meters. We have exclusive rights to use and commercially benefit from the *Puente Aéreo*, including the ability to sublease retail and commercial space, until OPAIN provides Avianca with the necessary space to have its domestic and international operations integrated under one terminal.

At El Dorado International Airport, we lease maintenance hangars, operations offices, counter space, parking spaces and other operational properties from OPAIN. We pay approximately \$532,652 per month for this leased property.

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We also lease property near Medellín, Colombia, where we intend to construct a new MRO facility for our exclusive use. The new facility is currently scheduled to be in operation by 2016. We pay approximately \$77,344 per month for this leased property.

We own an office building in San José, Costa Rica which covers approximately 16,400 square meters. This location serves as our headquarters for our operations in Costa Rica.

We occupy approximately 5,265 square feet of office space in Lima, Peru with aggregate payments of \$47,211 per month in rent.

At Jorge Chavez International Airport, we lease maintenance hangars, operations offices, counter space, parking spaces and other operational properties from Lima Airport Partners. We pay approximately \$75,589 per month for this leased property.

At Mariscal Sucre International Airport, we lease maintenance hangars, operations offices, counter space, parking spaces and other operational properties from QUIPORT. We pay approximately \$26,865 per month for this leased property.

At Jose Joaquin Olmedo International Airport, we lease maintenance hangars, operations offices, counter space, parking spaces and other operational properties from TAGSA. We pay approximately \$10,500 per month for this leased property.

At Comalapa International Airport, we lease maintenance hangars, operations offices, counter space, parking spaces and other operational properties from CEPA. We pay approximately \$35,000 per month for this leased property.

At Juan Santamaria International Airport, we lease maintenance hangars, operations offices, counter space, parking spaces and other operational properties from Alterra. We pay approximately \$49,000 per month for this leased property.

We also have approximately 118 leases at the different airports we operate at for check-in, reservations, gates, ticket-office sales, maintenance offices and cargo areas. In addition, we lease approximately 96 office spaces in the main countries where we operate for direct ticket sales. We pay approximately \$1,405,711 per month for these leased properties.

The duration of these lease agreements varies. In most cases they are long-term leases with monthly rent obligations. The lease agreements differ from each other in aspects such as payment terms and exit windows that enable us to terminate the agreement prior to its scheduled expiration. In some of the agreements, the lessor is entitled to terminate the agreement at any time without cause, subject to prior notice.

### ***Construction, expansion and improvement***

For a description of our plans to construct, expand and improve our facilities, see “Item 4. Information on the Company—Part B. Business Overview—Airport Facilities” and “Item 4. Information on the Company—Part B. Business Overview—Maintenance” and “Item 4. Information on the Company—Part B. Business Overview—Operational Training Center.”

### **Item 4A. Unresolved Staff Comments**



None.

## **Item 5. Operating and Financial Review and Prospects**

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements as of December 31, 2013, 2014 and 2015 and the notes thereto included elsewhere in this annual report, as well as with the information presented under the sections entitled “Presentation of Financial and Other Information,” “Item 3. Key Information—Part A. Selected Financial Data” and “Item 10. Additional Information—Exchange Controls—Exchange Rates.” The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in “Forward-Looking Statements” and “Item 3. Key Information—Part D. Risk Factors.”

On December 11, 2012, our board of directors approved our adoption of IFRS as issued by the IASB. We used a transition date of January 1, 2011, and therefore our consolidated financial statements as of and for the year ended December 31, 2012 were our first annual consolidated financial statements required to be prepared in accordance with IFRS. We have not prepared any financial information in accordance with IFRS as of or for any prior periods, including the eleven-month period ended December 31, 2010. For periods prior to 2012, we prepared our audited consolidated financial statements solely in accordance with Colombian GAAP.

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### **A. Operating Results**

#### **Overview**

We are a leading airline in Latin America. In February 2010, we completed the combination of Avianca and Taca, two established airlines with geographically complementary operations in the Andean region (Colombia, Ecuador and Peru) and Central America (Belize, Guatemala, Costa Rica, Honduras, El Salvador, Nicaragua and Panama). In 2015, we were the market leader in terms of passengers carried in the domestic market of Colombia (the third largest domestic market in Latin America), according to the Colombian Civil Aviation Authority, and a leader in terms of passengers carried on international flights within the Andean region and Central America (our home markets), according to internal data we derive from MIDT. Our strong presence within the Andean region and Central America enables us to consolidate regional passenger traffic in our hubs and provide connectivity to international destinations, making us a leader in terms of international air passengers carried from our home markets to both North America and South America.

We operate an extensive route network from our strategically located hubs in Colombia, Peru and El Salvador (plus the focus markets of Costa Rica and Ecuador). We offer passenger and cargo service through approximately 5,700 weekly scheduled flights to more than 100 destinations in over 25 countries around the world. Our code share alliances, together with our membership in Star Alliance, provide our customers with access to a worldwide network of over 1,300 destinations. During the year ended December 31, 2015, we transported approximately 28.2 million passengers and 468 metric tons of cargo.

Since the combination of Avianca and Taca in February 2010, we have grown significantly. We believe we have already achieved many revenue-enhancing synergies from the integration of Avianca’s and Taca’s networks, which was the initial focus of the combination. We are implementing a second stage of our integration plan focused primarily on achieving cost-oriented synergies from greater operating and administrative efficiencies and economies of scale. Our consolidated operating revenue increased 14.9% from \$3,794.4 million in 2011 to \$4,361.4 million in 2015, and our consolidated operating profit increased 8.1% from \$202.4 million for the year ended December 31, 2011 to \$218.8 million in 2015. The revenue-enhancing

synergies from our network integration allowed us to optimize our route capacity and efficiency, through which we added new routes and increased our available seat kilometers (ASKs) and our total passengers carried 8.9% and 7.3%, respectively, from 2011 to 2015 and during the same period our load factor increased from 79.6% to 79.7%.

Our growth has been driven primarily by our network flexibility and rising demand for passenger and cargo services in the Latin American region and in our domestic markets. In general, our passenger revenues are driven by regional and country-specific economic conditions, competitive activity and the allocation of our capacity throughout our route network. Our passenger demand for both international and domestic flights has risen over the past three years, driven by healthy economic conditions in our core markets in Latin America over the same period. This improvement in economic conditions was characterized by average annual GDP growth from 2012 to 2015 in Latin America, Colombia, Peru and El Salvador of approximately 5.0%, 5.1%, 1.9% and 1.9%, respectively. This increased demand, together with our efforts to optimize our route network following the Avianca-Taca combination, have created opportunities for us to optimize our network and thus carry more business and leisure passengers and increase our capacity and route network while maintaining a stable load factor.

Our operating expenses decreased by 6.4% for the year ended December 31, 2015, compared to the prior year, primarily as a result of the reduction of fuel prices and cost efficiencies despite of the growth in our operations. Our CASK excluding fuel decreased 6.1% for the year ended December 31, 2015 compared to the prior year. We are now implementing the second stage of our integration plan, which focuses primarily on cost-efficiency improvements to support our capacity growth in ASKs, as well as the growth in our strategic business units, such as cargo and loyalty programs, and integrating the Avianca and Taca legacy operational and administrative platforms to achieve cost-oriented synergies from greater efficiencies and economies of scale.

Our operating revenue is derived primarily from passenger transportation. During the year ended December 31, 2015, we derived approximately 79.3% of our operating revenue from passenger transportation, and 20.7% from our cargo and other operations and other sources, including our *LifeMiles* loyalty program and maintenance, training and other airport services provided to other carriers.

## **Results of Operations**

### ***Operating revenue***

*Passenger revenue.* We recognize passenger revenue, including revenue from redemption of miles under our *LifeMiles* loyalty program, when transportation service is provided, which we refer to as “flown revenue”. Passenger revenue is a function of the capacity of our aircraft on the routes we fly, our load factors and our yields. Our passenger capacity is measured in terms of available seat kilometers (ASKs), which represent the number of seats available on our aircraft multiplied by the number of kilometers the seats

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are flown. Our passenger usage is measured in terms of revenue passengers kilometers (RPKs), which represent revenue passengers multiplied by the kilometers these passengers fly. We calculate load factors, or the percentage of our capacity that is actually used by paying customers, by dividing RPKs by ASKs. Our passenger yield is the average amount that one passenger pays to fly one kilometer.

Fares for unused tickets that are expected to expire are recognized as revenue based on historical data and experience. We perform periodic evaluations of our air traffic liability relating to unused tickets, and any resulting adjustments to revenue, which can be significant, are recorded in our consolidated statement of comprehensive income. These adjustments relate primarily to the differences arising from actual events and

circumstances such as historical fare sale activity and customer travel patterns which may result in refunds, exchanges or forfeited tickets differing significantly from estimates. We evaluate these estimates and assumptions and adjust air traffic liability and passenger revenues as necessary.

*Cargo and other.* We recognize cargo and courier revenue when transportation and/or services are provided. We carry cargo in our dedicated freighter fleet and, to the extent we have excess capacity, in the bellies of our passenger aircraft. We operate our domestic Colombian courier operations primarily through our *DEPRISA* brand. Our cargo yield is the average price paid per one kilometer to fly one metric ton of cargo. Cargo revenue is a function of the total metric tons of cargo carried and cargo yield. Courier revenue is a function of the number of packages shipped and the price per package. Our cargo capacity is measured in terms of available ton kilometers (ATKs), which represent our cargo metric ton capacity multiplied by kilometers flown. Our cargo usage is measured in terms of revenue ton kilometers (RTKs), which represent the total metric tons carried multiplied by the kilometers the cargo is flown. Our cargo load factor is determined by dividing RTKs by ATKs.

Our other revenue-generating activities consist primarily of sales of *LifeMiles* program rewards to banks for use in credit card reward programs (net of the value of the underlying rewards which, when redeemed, are recognized as passenger revenue). Our other revenues also include air transport-related services such as maintenance, crew training and other airport services provided to other carriers through our *Avianca Services* division, as well as service charges and ticket penalties. Aircraft and property leases, marketing rebates, duty-free sales, charter flights and other general operating revenue are also included in this category.

The following table sets forth our capacity, load factors, yields and operating revenue per available seat kilometer (RASK) for the periods indicated:

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Passenger:</b>			
Capacity (in ASKs, in millions)	44,513	41,052	38,762
Load factor(1)	79.7%	79.4%	80.5%
Yield (in U.S. cents)(2)	9.7	11.8	12.4
Total passengers (in thousands)	28,290	26,230	24,625
<b>Cargo(3):</b>			
Capacity (in ATKs, in millions) (4)	2,152	1,810	1,538
Load factor(5)	58.5%	61.0%	56.4%
Yield (in U.S. cents)(6)	0.44	0.44	0.49
Cargo (in thousands of metric tons) (7)	540	461	375
RASK (in U.S. cents)(8)	9.8	11.5	11.9

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- (1) Percentage of aircraft seating capacity that is actually utilized by paying customers. We calculate passenger load factors by dividing revenues passenger kilometers (RPKs) by available seat kilometers (ASKs).
- (2) Average amount one passenger pays to fly one kilometer.
- (3) Includes courier services.
- (4) ATKs does not include domestic Ecuador. Includes Aerounion since October 22, 2014.
- (5) We calculate cargo load factors by dividing revenue ton kilometers (RTKs) by available ton kilometers (ATKs).
- (6) Average amount paid to fly one metric ton of cargo one kilometer.
- (7) Cargo does not include domestic Ecuador. Includes Aerounion since October 22, 2014.
- (8) Operating revenue divided by ASKs.

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### *Operating expenses*

The main component of our operating expenses is aircraft fuel expense. During 2015, fuel represented approximately 24.3% of our total operating expenses and 23.1% of our total operating revenue. In addition to aircraft fuel, our principal operating expense categories consist of salaries, wages and benefits, sales and marketing, ground operations, aircraft rentals, maintenance and repairs, air traffic, depreciation, amortization, and impairment, general and administrative expenses, passenger services and flight operations. A common measure of per-unit costs in the airline industry is cost per available seat kilometer (CASK) which is generally defined as operating expenses divided by ASKs.

*Aircraft fuel.* Our aircraft fuel expenses refer to our “into-plane” fuel cost (which includes the fuel price, taxes and distribution costs). These expenses are variable and fluctuate based on global oil prices and also vary significantly from country to country primarily due to local distribution and transportation costs and taxes. During 2015, we purchased approximately 30.1% of our fuel at our largest hub in Bogotá, Colombia where we were able to obtain better fuel distribution prices relative to our other locations of purchase due to volume discounts. We have approximately 29 fuel suppliers across our international network and seek to fuel our aircraft in those cities where fuel prices are lower. From 2014 to 2015, the price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, decreased 47.8% from an average of \$93.2 per barrel to an average of \$48.7 per barrel.

The following table sets forth certain summary information relating to our fuel expenses for the periods indicated:

	Year ended December 31,		
	2015	2014	2013
Average price per gallon of jet fuel into plane (net of hedge) (in US\$ dollars)	2.18	3.15	3.27
Gallons consumed (in thousands)	461,628	427,785	406,143

- Data in table does not include regional operations in Central America.

	Year ended December 31,		
	2015	2014	2013
Average price per gallon of jet fuel into plane (net of hedge) (in US\$ dollars)	2.18	3.15	3.27
Gallons consumed (in thousands)	426,982	396,973	377,696
Available seat kilometers (in millions)	44,513	41,052	38,762
Gallons per ASK (in thousandths)	9.6	9.7	9.7

- Data in table does not include regional operations in Central America or cargo operations.

Our total fuel costs are also affected by settlements of our fuel hedge instruments. Our current fuel hedging strategy contemplates hedging approximately 10.0% to 50.0% of our projected next 12-month fuel consumption. As of December 31, 2015 we had hedges in place for approximately 24.4% of our projected next 12-month fuel consumption through mechanisms such as futures, forwards and options contracts. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Fuel.”

*Salaries, wages and benefits.* Our salaries, wages and benefits costs related to personnel expenses (including cockpit crew, flight attendants and maintenance, airport and commercial and administrative personnel) have

historically increased as our business has grown due to the growth in the number of our employees required to support our increased capacity. In some cases, we adjust salaries of our employees based on changes in the cost of living in the countries where these employees work.

*Sales and marketing.* Our sales and marketing expenses consist of commissions paid to travel agencies, credit card fees, GDS costs, which are fees related to reservation systems and global distribution, as well as advertising expenses.

*Ground operations.* Ground operations expenses consist primarily of landing and parking fees, air navigation fees, ramp services and passenger security related costs. These costs are generally correlated with the number of departures and passengers carried.

*Aircraft rentals.* Our aircraft rentals expenses consist of leases of aircraft, engines other equipment, and are generally fixed by the terms of our operating lease agreements. As of December 31, 2015, we held 69, or 36.1%, of our total 191 aircraft under operating leases, the majority of which had fixed interest rates and therefore were not exposed to interest rate fluctuations during their term,

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which averages between six and eight years. As of December 31, 2015, the average term remaining on our aircraft operating leases was three years and five months.

As part of our strategy in recent years, we have replaced some of the operating leased aircraft in our fleet with aircraft financed by debt. Costs relating to aircraft debt are classified as interest expense, reducing our aircraft rental costs. As of December 31, 2015, we owned 122, or 63.9%, of our total 191 aircraft.

*Maintenance and repairs.* Our maintenance and repairs expenses consist primarily of repairs of aircraft components, engines and equipment and routine maintenance for aircraft. We account for engine and other aircraft components overhaul expenses by using the deferral method pursuant to which the cost of the overhaul is capitalized and then amortized until the shorter of the period to the next overhaul (based on total flying hours of each overhauled engine or estimated cycles for other aircraft components) and the end of the lease term. Maintenance of flight and aircraft equipment costs is generally correlated with departures and block hours.

For certain operating leases, we are contractually obligated to return aircraft in a defined condition. We accrue for restitution costs related to aircraft held under operating leases at the time the asset does not meet return conditions criteria and throughout the remaining duration of the lease. Restitution costs are based on the net present value of the estimated average costs of returning the aircraft. These costs are reviewed annually and adjusted as appropriate. Our line maintenance and our airframe heavy maintenance for all fleet types are performed by us at our hubs in Bogotá, Colombia and San Salvador, El Salvador. Line maintenance at other domestic and international destinations is carried out by third-party contractors. We outsource all of our engine and certain other heavy maintenance on aircraft components.

*Air traffic.* Our air traffic expenses consist primarily of airport facilities expenses, airport outsourced personnel, and costs related to passenger compensation for interrupted or over-booked flights.

*Depreciation, amortization, and impairment.* Our depreciation, amortization, and impairment costs include depreciation of aircraft assets owned or under finance leases, depreciation of non-aircraft assets, amortization of capitalized projects owned or under finance leases and amortization of intangible assets. Depreciation, amortization, and impairment costs also include impairment expense, which consists of fleet retirement charges including impairment charges for spare parts.

*General, administrative and other.* Our general, administrative and other expenses consist primarily of expenses related to administrative expenses, general services, legal and other professional fees and the gain or loss from the sale of assets. They also include local taxes, such as municipal taxes on sales in Colombia (each municipality has a different rate but the average tax rate is approximately 1.0% of sales generated in each municipality). Sales in Colombia are subject to value added tax which we withhold on behalf of the government. Revenue from certain of our domestic routes and all cargo revenue are not subject to this tax. We pay value added taxes on most of the services and products that we purchase but do not apply a tax credit on our value added tax accounts to all such valued added tax payments. The value added tax payments that are not registered as tax credits are registered as additional expenses in our Colombian accounting.

*Passenger services.* Our passenger services costs consist primarily of costs related to meals and beverages, baggage handling, in-flight entertainment and other costs related to aircraft and airport handling services. These expenses are directly related to the number of passengers we carry and the number of flights we operate, as well as the type of service provided.

*Flight operations.* Our flight operations expense consists primarily of insurance coverage for hull and liabilities (passenger liability, third-party liability), hull war, hull deductible and war excess and also include hotel accommodation, *per diem* expense, and training costs. We insure in the London reinsurance market.

#### ***Interest income, interest expense, derivative instruments and foreign exchange***

*Interest income.* Interest income comprises interest income on funds invested (including available-for-sale financial assets), changes in the fair value of financial assets and gains on interest rate hedging instruments. Interest income is recognized as accrued using the effective interest rate method.

*Interest expense.* Interest expense comprises interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets and losses on interest rate hedging instruments. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized using the effective interest method.

*Derivative instruments.* Derivative instruments include the net effect of changes in fair value of financial instruments as a result of variation in the market value of our instruments.

*Foreign exchange.* Foreign exchange consists primarily of the net non-cash gain or loss on our assets and liabilities related to the appreciation or depreciation of Colombian pesos against U.S. dollars.

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### ***Income taxes***

*Corporate income tax structure in certain countries.* Set forth below are certain highlights relating to the determination of our income tax in certain countries relevant to our operations, in each case as of December 31, 2015.

*Colombia.* The corporate income tax statutory rate was 33.0% in 2012, and the taxable base is the higher of the presumptive income based on taxable net worth and the ordinary base of taxable net profits. For tax years 2013, 2014 and 2015, due to a tax reform enacted in December 2012, the corporate income tax rate was reduced to 25.0%.

The income tax payment is calculated after the application of tax credits originated by advance payments and withholdings. The effective income tax rate for Avianca could be lower than the statutory rate due to the application of two mechanisms: first, a tax credit based on the proportion of revenue generated by

international flights over total operating revenue; and second, the application of a special deduction based on the value of our investment in productive fixed assets. Both mechanisms are protected from tax reforms until March 2029 through a Legal Stability Contract signed with the Colombian government. However, considering that Avianca did not have reported profits in 2015, the effective income tax rate is not applicable for such year.

Additionally, there is an income tax for equity called *Impuesto sobre la renta para la equidad*, or CREE, which has a 9.0% tax rate. CREE has a similar taxable base to the corporate income tax, except for special deductions such as productive fixed assets that are not deductible. Corporate taxpayers of the CREE were exempt from payroll taxes, provided that the employees of said taxpayers earn, on an individual basis, at least ten times the legal minimum wage. Additionally, from fiscal year 2015 to 2018, a new surcharge applies to CREE taxable income. These surcharge rates are 5.0% for 2015, 6.0% for 2016, 8.0% for 2017 and 9.0% for 2018.

Due to a tax reform enacted in December 2014, a new Wealth Tax was introduced that applies to companies from 2015 to 2017. This tax is levied at varying rates on Colombian and foreign entities owning a gross-worth net of liabilities equal or higher than COP1,000,000,000 beginning on January 1, 2015.

*El Salvador.* The corporate income tax rate is 30.0%, and the taxable base is net profit for the year (that includes some permanent adjustments between accounting and tax rules). The effective income tax rate for our local legal entity is lower than the statutory rate due to the application of a percentage based on the proportion of flights taking off from El Salvador and other domestic gross revenue items over total revenues. This percentage is applied to the total costs and expenses to obtain the total deductions. The total deductions are then subtracted from taxable income to obtain the taxable net profits subject to the 30.0% tax rate. The presumptive income tax based on gross revenue was declared unconstitutional and as of October 2015 a special tax (*Contribución Especial*) of 5.0% of the annual net income applies for large tax payers. The income tax payment is calculated after the application of the tax credits originated by advance payments and withholdings.

*Peru.* The corporate income tax rate is 28.0% for 2015 and 2016 and will be reduced to 27.0% in 2017 and to 26.0% in 2019. The taxable base is net profit for the year (that includes some permanent adjustments between accounting and tax rules). The income tax payment is calculated after the application of the tax credits originated in advance payments and withholdings. A temporary tax on net assets applies, based on the tax value of the net assets booked at the previous tax year closing. This tax rate is 0.4%, which is applied to the net assets which value exceeds an exempted threshold.

*Costa Rica.* The corporate income tax rate is 30.0%, and the taxable base is the net profit for the year (that includes some permanent adjustments between the accounting and tax rules). The effective income tax rate for our local legal entity is lower than the statutory rate due to the application of a percentage based on the proportion of flights taking off from Costa Rica and other domestic gross revenue items over total revenue. This percentage is applied to the total costs and expenses to obtain the total deductions. As a result, the total deductions are subtracted from the taxable income to obtain the taxable net profits subject to the 30.0% tax rate. The income tax payment is calculated after application of the tax credits originated in advance payments and withholdings.

*Panama.* Revenues at our holding company generated by foreign operations are not subject to taxation in Panama in accordance with Panamanian legislation since it is not deemed to be earning active income from Panamanian sources.

*Bahamas.* The Commonwealth of the Bahamas does not impose income taxes on companies organized under its jurisdiction. Revenues of our subsidiary Grupo Taca Holdings generated by foreign operations are not subject to taxation in accordance with the legislation of the Bahamas. However, the subsidiaries of Grupo Taca Holdings are subject to local taxes in the jurisdictions in which they operate.

*Deferred income tax.* Deferred tax is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax

is calculated using the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities

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and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. We book this difference in our income statement as deferred income tax. For the years ended December 31, 2013, 2014, we determined that we would generate sufficient taxable income to realize our deferred tax assets. For 2015, according to the finance forecast no taxable income will be generated during the next five (5) years that would allow realization of the deferred tax assets. Therefore, such deferred tax assets have only been recognized by an amount up to the concurrence of the deferred tax liabilities.

### **Factors Affecting Comparability**

#### *Changes in classification of certain accounts*

Beginning with the third quarter of 2014, we successfully migrated our accounting platform to a new ERP (enterprise resource planning) platform. In connection with this change, the grouping of certain expenses and the related presentation of certain line items changed beginning in the third quarter of 2014, which affects the comparability of these line items against prior periods. The most significant of these changes are described in footnotes to the table under “—Results of Operations for the Years Ended December 31, 2013 and December 31, 2014.” See also Note 35 to our audited consolidated financial statements.

#### *Seasonality*

We expect our quarterly operating results to continue to fluctuate from quarter to quarter due to seasonality. This fluctuation is the result of high vacation and leisure demand occurring during the northern hemisphere’s summer season in the third quarter (principally in July and August) and again during the fourth quarter (principally in December). In addition, January is typically a month in which heavy air passenger demand occurs.

#### *Changes in foreign exchange rates*

The average foreign exchange rates of the Colombian peso to the U.S. dollar for 2013, 2014 and 2015 were COP1,869.10, COP2,000.33 and COP2,743.39, respectively. The 37.1% average depreciation of the Colombian peso between 2014 and 2015 had a negative effect on our operating results due to the fact that the percentage of our total revenue denominated in Colombian pesos was greater than the percentage of our total expenses denominated in Colombian pesos for 2015. In 2015, we also realized a foreign exchange loss of \$236.7 million due to a write-off of cash in Venezuela.

### **Results of Operations for the Years Ended December 31, 2014 and December 31, 2015**

The following table sets forth certain income statement data for the years indicated:



	<u>Year Ended December 31,</u>				<u>% Change</u> <u>2014 to</u> <u>2015</u>
	<u>2015(1)</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	
	(in US\$ thousands)		(as a % of operating revenue)		
<b>Operating revenue:</b>					
Passenger	\$3,458,017	\$3,862,721	79.3%	82.1%	(10.5)%
Cargo and other(2)	903,324	840,850	20.7%	17.9%	7.4%
Total operating revenue	4,361,341	4,703,571	100.0%	100.0%	(7.3)%

	<u>Year Ended December 31,</u>				<u>% Change</u> <u>2014 to</u> <u>2015</u>
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	
	(in US\$ thousands)		(as a % of operating revenue)		
<b>Operating expenses:</b>					
Flight operations	58,069	56,695	1.3%	1.2%	2.4%
Aircraft fuel	1,006,792	1,345,755	23.1%	28.6%	(25.2)%

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Ground operations	412,382	397,625	9.5%	8.5%	3.7%
Aircraft rentals	317,505	299,220	7.3%	6.4%	6.1%
Passenger services	149,292	154,464	3.4%	3.3%	(3.3)%
Maintenance and repairs	309,719	268,894	7.1%	5.7%	15.2%
Air traffic	202,980	206,151	4.7%	4.4%	(1.5)%
Sales and marketing	612,775	605,674	14.1%	12.9%	1.2%
General, administrative and other	176,195	165,172	4.0%	3.5%	6.7%
Salaries, wages and benefits	666,084	725,793	15.3%	15.4%	(8.2)%
Depreciation, amortization, and impairment	230,732	198,660	5.3%	4.2%	16.1%
Total operating expenses	4,142,525	4,424,103	95.0%	94.1%	(6.4)%
Operating profit	218,816	279,468	5.0%	5.9%	(21.7)%
Interest expense	(169,407)	(133,989)	(3.9)%	(2.8)%	26.4%
Interest income	19,016	17,099	0.4%	0.4%	11.2%
Derivative instruments	626	5,924	0.0%	0.1%	(89.4)%
Foreign exchange	(177,529)	10,272	(4.1)%	0.2%	(1,828.3)%
(Loss) profit before income tax	(108,478)	178,774	(2.5)%	3.8%	(160.7)%
Total income tax expense	(31,028)	(50,280)	(0.7)%	(1.1)%	(38.3)%
Net (loss) profit for the year	\$ (139,506)	\$ 128,494	(3.2)%	2.7%	(208.6)%

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### *Net loss*

Our net loss for the year was \$139.5 million in 2015, a 208.6% decrease from a net profit of \$128.5 million in 2014, primarily as a result of a 21.7%, or \$60.7 million, decrease in operating profit, as a consequence of loss on foreign exchange, lower passenger yields and the 37.1% depreciation of the Colombian peso against the U.S. dollar in 2015, causing the dollar-equivalent value of our revenues in Colombian pesos to decrease. We recorded a net loss on foreign exchange of \$177.5 million in 2015 compared to a net gain of \$10.3 million in 2014, primarily as a result of the write-off of cash in Venezuela of \$236.7 million. The carrying amount of cash balances held in Venezuela as of December 31, 2015 was \$7.7 million classified in cash and cash equivalents and short-term and long-term restricted cash. During 2015, our net profit excluding foreign exchange translation adjustment loss and derivative instrument expense was \$37.4 million, a 66.7% decrease from \$112.3 million in 2014. Our operating revenue per ASK (RASK) was 11.5 and 9.8 cents for the years ended December 31, 2014 and 2015, respectively.

### *Operating revenue*

Our operating revenue was \$4,361.3 million in 2015, a 7.3% decrease from \$4,703.6 million in 2014, as a result of a \$404.7 million decrease in passenger revenue, partially offset by a \$62.5 million increase in revenue from cargo and other. Our operating revenue per ASK was 9.8 cents in 2015, a 14.5% decrease from 11.5 cents in 2014, primarily as a result of a 17.7% decrease in passenger yield due to increased price competition and the depreciation of the Colombian peso against the U.S. dollar.

*Passenger revenue.* Our passenger revenue was \$3,458.0 million in 2015, a 10.5% decrease from \$3,862.7 million in 2014, primarily as a result of a 17.0% decrease in average fare, partially offset by a 7.9% increase in passengers carried. Our passenger load factor increased from 79.4% in 2014 to 79.7% in 2015 while our capacity increased 8.4% in 2015. Our passenger yield decreased 17.7% from 11.8 cents in 2014 to 9.7 cents in 2015. In addition, passenger revenue related to write off decreased 15.2%, and revenue related to miles redemptions decreased 34.9%, offset by an increase of 18.7% in service charges.

*Cargo and other.* Our revenue from cargo and other was \$903.3 million in 2015, a 7.4% increase over \$840.9 million in 2014, primarily as a result of a 10.6% increase in cargo and courier revenues, from \$564.9 million in 2014 to \$624.5 million in 2015.

Our cargo revenues increased in 2015 primarily due to a 14.1% increase in traffic in terms of RTKs (from 1,104 million in 2014 to 1,259 million in 2015), and a 0.6% increase in cargo yields (from 0.442 cents in 2014 to 0.445 cents in 2015). Our cargo capacity increased by 18.8% in terms of ATKs while our cargo load factor decreased from 61.0% in 2014 to 58.5% in 2015.

Our other operating revenues were \$278.8 million in 2015, a 1.0% increase over \$276.0 million in 2014, primarily as a result of a \$4.8 million increase of income related to VIP room utilization. In 2015, *LifeMiles* revenues accounted for 50.1% of our total other operating revenues, air transport-related services provided to third parties accounted for 10.4%, aircraft leases accounted for 10.8% and other sources such as interline revenues, VIP lounges, duty free sales, vacation packages and other accounted for the remaining 28.7%.

### *Operating expenses*

Operating expenses were \$4,142.5 million in 2015, a 6.4% decrease from \$4,424.1 million in 2014, primarily as a result of a \$339.0 million decrease in aircraft fuel expense, partially offset by a \$40.8 million increase in maintenance and repairs expense, a \$32.0 million increase in depreciation and amortization, and a \$18.3 million increase in aircraft rentals. Other costs decreased \$33.8 million. As a percentage of operating revenue, operating expenses increased from 94.1% in 2014 to 95.0% in 2015.

Our operating expenses excluding aircraft fuel cost increased 6.2% as our capacity in ASKs increased 8.4%. As a result, our CASK excluding fuel decreased 6.1% in 2015. The breakdown of our operating expenses per ASK (CASK) is as follows:

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
	(in US cents)		
<b>Operating expenses per ASK (CASK):</b>			
Aircraft fuel	2.26	3.28	-31.0%
Salaries, wages and benefits	1.50	1.77	-15.4%
Sales and marketing	1.38	1.48	-6.7%

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	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>% Change</u>
	(in US cents)		
Ground operations	0.93	0.97	-4.4%
Aircraft rentals	0.71	0.73	-2.1%
Maintenance and repairs	0.70	0.66	6.2%
Depreciation, amortization, and impairment	0.52	0.48	7.1%
Air traffic	0.46	0.50	-9.2%
General, administrative and other	0.40	0.40	-1.6%
Passenger services	0.34	0.38	-10.9%
Flight operations	0.13	0.14	-5.5%
<b>Total</b>	<b>9.31</b>	<b>10.78</b>	<b>-13.6%</b>
<b>Total (excluding fuel)</b>	<b>7.04</b>	<b>7.50</b>	<b>-6.1%</b>

*Aircraft fuel.* Aircraft fuel expense was \$1,006.8 million in 2015, a 25.2% decrease from \$1,345.8 million in 2014, primarily as a result of a 30.6% decrease in our average “into-plane” fuel cost (fuel price plus taxes and distribution costs), which decreased from an average of \$3.15 per gallon in 2014 to an average of \$2.18 per gallon in 2015, partially offset by a 7.8% increase in fuel consumption during 2015 reflecting a 5.8% increase in our block hours. Our aircraft fuel expense in 2015 was affected by losses of \$136.1 million in 2015, from settlements of our fuel hedge instruments. Because our capacity in ASKs increased and our aircraft fuel expense decreased, our cost of fuel per ASK decreased 31.0% in 2015.

*Salaries, wages and benefits.* Salaries, wages and benefits expense was \$666.1 million in 2015, a 8.2% decrease from \$725.8 million in 2014, primarily as a result of the positive effect of the devaluation of the Colombian peso against the U.S. dollar (which has the effect of decreasing our salaries, wages and benefits expenses as measured in U.S. dollars because approximately 59.6% of our employees are located in Colombia), partially offset by 2.9% increase in total personnel, from 20,545 at December 31, 2014 to 21,145 at December 31, 2015 (mainly related to growth of our operations during 2015, particularly as a result of the growth in our domestic Colombian operations and increases in temporary personnel due to relocation of some domestic routes within Colombia from *Puente Aéreo* domestic terminal in Bogotá to El Dorado International Airport) and average salary adjustments based on inflation. In terms of unit cost per ASK, salaries, wages and benefits decreased by 15.4% from 1.77 cents in 2014 to 1.50 cents in 2015.

*Sales and marketing.* Sales and marketing expenses were \$612.8 million in 2015, a 1.2% increase over \$605.7 million in 2014, primarily as a result of the growth of the costs related with loyalty services, higher costs of distribution systems explained by an increase in reservations and passenger traffic, partially offset by a decrease of sales commissions, transportation, freight and haulage, contract labor, technical assistance, leases and advertising expenses. In terms of unit cost per ASK, selling expenses decreased 6.7% from 1.48 cents in 2014 to 1.38 cents in 2015.

*Ground operations.* Ground operations expense was \$412.4 million in 2015, a 3.7% increase over \$397.6 million in 2014, primarily as a result of a 5.9% increase in departures in 2015 compared to 2014, due to the introduction of new routes and frequencies during 2015. Also contributing to the increase were the growth of landing expense, international cargo handling, transportation, freight and haulage, outsourced services and ramp equipment leases expenses, partially offset by a reduction of non-aeronautical maintenance, infrastructure maintenance, ramp services, building leases and airport facilities. In terms of unit cost per ASK, ground operations decreased 4.4% from 0.97 cents in 2014 to 0.93 cents in 2015.

*Aircraft rentals.* Aircraft rentals expense was \$317.5 million in 2015, a 6.1% increase over \$299.2 million in 2014, primarily as a result of our incorporation of two A320s, one A321 and one B787 under operating leases in 2015 and an additional impact of our incorporation of two A320s, four A321s, two A330s and one B787 in 2014 that generated costs for only a portion of 2014 but for the entire year in 2015. In terms of unit cost per ASK, aircraft rentals decreased 2.1% from 0.73 cents in 2014 to 0.71 cents in 2015.

*Maintenance and repairs.* Maintenance and repairs expense was \$309.7 million in 2015, a 15.2% increase from \$268.9 million in 2014, primarily as a result of an increase in airframe maintenance expense, heavy checks costs and higher non-recoverable reserves. Also contributing to the increase were an increase in engine maintenance cost and higher expenses for engine return conditions, higher external repairs of minor components, higher repair contracts power by the hour (PBH) cost and higher cost of overhaul made by third parties. These increases were partially offset by a decrease in outstation line maintenance, lower cost of landing gear maintenance and a decrease in cost of transportation of parts and components. In terms of unit cost per ASK, maintenance and repairs increased 6.2% from 0.66 cents in 2014 to 0.70 cents in 2015.

*Depreciation, amortization, and impairment.* Depreciation, amortization, and impairment expense was \$230.7 million in 2015, a 16.1% increase over \$198.7 million in 2014, primarily due to aircraft depreciation expense generated by new aircraft under financial

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leasing agreements, and higher aircraft maintenance tools and on board service equipment depreciation expense. Additionally, amortization of DEPRISA's office relocation project among higher amortizations of other corporate projects also contributed to the increase, partially offset by a decrease in maintenance deferred amortizations. In terms of unit cost per ASK, depreciation, amortization, and impairment expense increased 7.1% from 0.48 cents in 2014 to 0.52 cents in 2015.

*Air traffic.* Air traffic expense was \$203.0 million in 2015, a 1.5% decrease from \$206.2 million in 2014, primarily as a result of a reduction of penalties, lower interrupted flights and denied boarding compensation expenses. Additionally, there was a reduction of security costs, leases and buildings and contract labor expenses. These decreases were partially offset by an increase in miles promotion, airport facilities, communication systems and baggage claims expenses, and a 5.9% increase in departures and the addition of new routes and frequencies added to our network in 2015. In terms of unit cost per ASK, air traffic decreased 9.2% from 0.50 cents in 2014 to 0.46 cents in 2015.

*General, administrative and other.* General, administrative and other expenses were \$176.2 million in 2015, a 6.7% increase over \$165.2 million in 2014, primarily due to higher local tax expense and lower income related to the sale of assets, partially offset by lower communication system expense, specialized training, public services and electronic data processing expenses. In terms of unit cost per ASK, general, administrative and other expenses decreased 1.6% from 0.40 cents in 2014 to 0.40 cents in 2015.

*Passenger services .* Passenger services expense was \$149.3 million in 2015, a 3.3% decrease from \$154.5 million in 2014, primarily as a result of as a decrease in on board services expenses and flight attendant travel expenses. In terms of unit cost per ASK, passenger services expense decreased 10.9% from 0.38 cents in 2014 to 0.34 cents in 2015.

*Flight operations.* Flight operations expense was \$58.1 million in 2015, a 2.4% increase from \$56.7 million in 2014, primarily as a result of higher specialized training expense due to the introduction of the Boeing 787 Dreamliner, partially offset by the reduction of trainings for Airbus A320 and A330 crews as well as lower crew travel expenses. In terms of unit cost per ASK, flight operations expense decreased 5.5% from 0.14 cents in 2014 to 0.13 cents in 2015.

#### ***Operating profit and operating margin***

Our operating profit was \$218.8 million in 2015, a 21.7% decrease from \$279.5 million in 2014. Our operating margin decreased from 5.9% in 2014 to 5.0% in 2015 as a result of our revenues decreasing at a higher rate (7.3%), than our total operating expenses (6.4%), primarily due to lower fares and passenger yields, primarily due to increased competition and the depreciation of the Colombian peso against the U.S. dollar.

#### ***Interest expense, interest income, derivative instruments and foreign exchange***

*Interest expense.* Interest expense was \$169.4 million in 2015, a 26.4% increase from \$134.0 million in 2014, primarily as a result of an increase in new debt to acquire new aircraft as well as more corporate debt acquired primarily to finance spare engines and a new training facility, partially offset by a decrease of COP-denominated debt as consequence of principal payments of COP denominated bonds. The average interest rate of our debt slightly increased from 4.26% in 2014 to 4.27% in 2015.

*Interest income.* Interest income was \$19.0 million in 2015, an 11.2% increase from \$17.1 million in 2014, primarily as a result of a higher amount of deposits, partially offset by a decrease in the average interest rate on deposits at banks from 2.28% in 2014 to 2.01% in 2015.

*Derivative instruments.* Derivative instruments expense includes the net effect of changes in fair value of derivatives (financial instruments). In 2015 we recognized a \$0.6 million gain million gain in fair value of derivative instruments compared to a \$5.9 million gain in 2014, primarily as a result of negative variation in the market value of our fuel derivatives instruments.

*Foreign exchange.* We recorded a net loss on foreign exchange of \$177.5 million compared to a net gain of \$10.3 million in 2014, primarily as a result of the write-off of cash in Venezuela of \$236.7 million, partially offset by the 37.1% depreciation of the Colombian peso against the U.S. dollar, which produced a gain because our average Colombian peso-denominated liabilities exceed our average Colombian peso-denominated assets. The carrying amount of cash balances held in Venezuela as of December 31, 2015 was \$7.7 million classified in cash and cash equivalents and short-term and long-term restricted cash.

#### ***Provision for income tax expense***

Our current income tax expense was \$17.3 million in 2015, a 48.8% decrease compared to current income tax expense of \$33.8 million in 2014. Our deferred income tax expense was \$13.7 million in 2015, a 16.7% decrease from \$16.5 million in 2014.

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Our total effective tax rate decreased from 28.1% in 2014 to (28.6%) in 2015, primarily due to losses reported in 2015.

Additionally, in Colombia, the international flights income tax credit decreased by 83.5% from 2014 to 2015, mainly due to the decrease of profits and the netting of exempted income of Avianca S.A.

## Results of Operations for the Years Ended December 31, 2013 and December 31, 2014

The following table sets forth certain income statement data for the years indicated:

	Year Ended December 31,				<u>% Change 2013 to 2014</u>
	<u>2014(1)</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
	(in US\$ thousands)		(as a % of operating revenue)		
<b>Operating revenue:</b>					
Passenger	\$3,862,721	\$3,862,397	82.1%	83.8%	0.0%
Cargo and other(2)	840,850	747,207	17.9%	16.2%	12.5%
Total operating revenue	4,703,571	4,609,604	100.0%	100.0%	2.0%

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	Year Ended December 31,				<u>% Change 2013 to 2014</u>
	<u>2014(1)</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	
	(in US\$ thousands)		(as a % of operating revenue)		
<b>Operating expenses:</b>					
Flight operations(3)	56,695	82,872	1.2%	1.8%	(31.6)%
Aircraft fuel	1,345,755	1,325,763	28.6%	28.8%	1.5%
Ground operations(4)(5)	397,625	343,812	8.5%	7.5%	15.7%
Aircraft rentals	299,220	273,643	6.4%	5.9%	9.3%
Passenger services	154,464	143,512	3.3%	3.1%	7.6%
Maintenance and repairs(4)(5)	268,894	188,659	5.7%	4.1%	42.5%
Air traffic	206,151	180,140	4.4%	3.9%	14.4%
Sales and marketing(2)(4)	605,674	584,468	12.9%	12.7%	3.6%
General, administrative and other(3)(5)(6)	165,172	257,273	3.5%	5.6%	(35.8)%
Salaries, wages and benefits(3)(6)	725,793	674,951	15.4%	14.6%	7.5%
Depreciation, amortization, and impairment	198,660	169,580	4.2%	3.7%	17.1%
Total operating expenses	4,424,103	4,224,673	94.1%	91.6%	4.7%

Operating profit	279,468	384,931	5.9%	8.4%	(27.4)%
Interest expense	(133,989)	(113,330)	(2.8)%	(2.5)%	18.2%
Interest income	17,099	11,565	0.4%	0.3%	47.9%
Derivative instruments	5,924	(11,402)	0.1%	(0.2)%	152.0%
Foreign exchange	10,272	23,517	0.2%	0.5%	(56.3)%
Profit before income tax	178,774	295,281	3.8%	6.4%	(39.5)%
Total income tax expense	(50,280)	(46,460)	(1.1)%	(1.0)%	8.2%
Net profit for the year	\$ 128,494	\$ 248,821	2.7%	5.4%	(48.4)%

- (1) Beginning with the third quarter of 2014, we migrated our accounting platform to a new ERP (enterprise resource planning) platform. In connection with this change, the grouping of certain expenses and the related presentation of certain line items changed beginning in the third quarter of 2014, which affects the comparability of these line items against prior periods. The most significant of these changes are described in succeeding footnotes.
- (2) Prior to the third quarter of 2014, interline commissions related to code sharing were recognized in Cargo and other revenue. In the third quarter and fourth quarters of 2014, \$11.3 million of these commissions were reallocated as credits to Sales and marketing to offset interline commissions expenses instead of being recognized as Cargo and other revenue.
- (3) Prior to the third quarter of 2014, pilot, crew and ground staff travel and other expenses were recorded in Flight operations. In the third quarter and fourth quarters of 2014, \$24.1 million of these expenses were recorded primarily in Salaries, wages and benefits and to a lesser degree in General, administrative and other instead of being recorded in Flight operations.
- (4) Prior to the third quarter of 2014, courier service costs associated with our *DEPRISA* business unit were recorded in Ground operations. In the third quarter and fourth quarters of 2014, \$11.2 million of these expenses were recorded Sales and marketing and Maintenance and repairs instead of being recorded in Ground operations.
- (5) Prior to the third quarter of 2014, transportation of parts, buildings and rentals, electric energy service and ground equipment maintenance were recorded in Ground operations and General, administrative and other. In the third quarter and fourth quarters of 2014, \$14.8 million of these expenses were recorded in Maintenance and repairs instead of being recorded in Ground operations and General, administrative and other.
- (6) Prior to the third quarter of 2014, employee benefits were recorded in General, administrative and other. In the third quarter and fourth quarters of 2014, \$18.6 million of these expenses were recorded in Salaries, wages and benefits instead of being recorded in General, administrative and other.

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### *Net profit*

Our net profit for the year was \$128.5 million in 2014, a 48.4% decrease from \$248.8 million in 2013, primarily as a result of a 27.4%, or \$105.5 million, decrease in operating profit, as a consequence of the adjustment and transition process related to capacity rationalization in Venezuela and lower passenger and cargo yields resulting from a competitive environment in Latin American markets. We recorded a net gain on foreign exchange of \$10.3 million in 2014 compared to a net gain of \$23.5 million in 2013, primarily as a result of the average 7.1% depreciation of the Colombian peso against the U.S. dollar in 2014, which produced a gain in 2014 due to the fact that our average Colombian peso-denominated liabilities exceeded our Colombian peso-denominated assets, partially offset by losses related to the devaluation of the Venezuelan *bolivar*. During 2014, our net profit excluding foreign exchange translation adjustment loss and derivative instrument expense was \$112.3 million, a 52.6% decrease from \$236.7 million in 2013. Our operating

revenue per ASK (RASK) was 11.5 and 11.9 cents for the years ended December 31, 2014 and 2013, respectively.

### ***Operating revenue***

Our operating revenue was \$4,703.6 million in 2014, a 2.0% increase over \$4,609.6 million in 2013, as a result of a \$0.3 million increase in passenger revenue and a \$93.6 million increase in revenue from cargo and other revenues. Our operating revenue per ASK was 11.5 cents in 2014, a 3.4% decrease from 11.9 cents in 2013, primarily as a result of a 4.3% decrease in passenger yield and a 10.2% decrease in cargo yield due to increased price competition.

*Passenger revenue.* Our passenger revenue was \$3,862.7 million in 2014, a 0.0% increase over \$3,862.4 million in 2013, primarily as a result of a 6.5% increase in passengers carried in 2014, from 24.6 million in 2013 to 26.2 million in 2014, offset by a 6.0% decrease in average fare. Our passenger load factor decreased from 80.5% in 2013 to 79.4% in 2014 while our capacity increased 5.9% in 2014. Our passenger yield decreased 4.3% from 12.4 cents in 2013 to 11.8 cents in 2014. In addition, passenger revenue related to flight change fees increased 38.3% and revenue related to miles redemptions increase 83.8%, offset by decreases of 73.7% in service charges and 57.4% in passenger code share revenue.

*Cargo and other.* Our revenue from cargo and other was \$840.9 million in 2014, a 12.5% increase over \$747.2 million in 2013, primarily as a result of an 11.9% increase in cargo and courier revenues, from \$504.7 million in 2013 to \$564.9 million in 2014.

Our cargo revenues increased in 2014 despite a 10.2% decrease in cargo yields (from 0.49 cents in 2013 to 0.44 cents in 2014) which was more than offset by a 27.2% increase in traffic in terms of RTKs (from 867 million in 2013 to 1,104 million in 2014) and a 17.7% increase in our cargo capacity in terms of ATKs. As our usage grew at a higher rate than our capacity, our cargo load factor increased from 56.4% in 2013 to 61.0% in 2014.

Our other operating revenues were \$276.0 million in 2014, a 13.8% increase over \$242.5 million in 2013, primarily as a result of a \$10.7 million increase in ground operations and maintenance revenue related to an increase in major inspections and technical assistance. In 2014, *LifeMiles* revenues accounted for 51.2% of our total other operating revenues, air transport-related services provided to third parties accounted for 13.5%, aircraft leases accounted for 11.1% and other sources such as interline revenues, VIP lounges, duty free sales, vacation packages and other accounted for the remaining 24.1%.

### ***Operating expenses***

Operating expenses were \$4,424.1 million in 2014, a 4.7% increase over \$4,224.7 million in 2013, primarily as a result of a \$80.2 million increase in maintenance and repairs expense, a \$53.8 million increase in ground operations expense, a \$50.8 million increase in salaries, wages and benefits expense, a \$25.6 million increase in aircraft rentals expense and a \$20.0 million increase in aircraft fuel expense. As a percentage of operating revenue, operating expenses increased from 91.6% in 2013 to 94.1% in 2014.

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Our operating expenses excluding aircraft fuel cost increased 6.2% as our capacity in ASKs increased 5.9%. As a result, our CASK excluding fuel increased 0.3% in 2014. The breakdown of our operating expenses per ASK (CASK) is as follows:



	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>% Change</b>
	(in US cents)		
<b>Operating expenses per ASK (CASK):</b>			
Aircraft fuel	3.28	3.42	(4.2)%
Salaries, wages and benefits	1.77	1.74	1.5%
Sales and marketing	1.48	1.51	(2.2)%
	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>% Change</b>
	(in US cents)		
Ground operations	0.97	0.89	9.2%
Aircraft rentals	0.73	0.71	3.2%
Maintenance and repairs	0.66	0.49	34.6%
Air traffic	0.50	0.46	8.1%
Depreciation, amortization, and impairment	0.48	0.44	10.6%
General, administrative and other	0.40	0.66	(39.4)%
Passenger services	0.38	0.37	1.6%
Flight operations	0.14	0.21	(35.4)%
Total	10.78	10.90	(1.1)%
Total (excluding fuel)	7.50	7.48	0.3%

*Aircraft fuel.* Aircraft fuel expense was \$1,345.8 million in 2014, a 1.5% increase over \$1,325.8 million in 2013, primarily as a result of a 5.3% growth in fuel consumption during 2014 reflecting a 7.2% increase in our block hours, partially offset by a 3.8% decrease in our average “into-plane” fuel cost (fuel price plus taxes and distribution costs), which decreased from an average of \$3.27 per gallon in 2013 to an average of \$3.15 per gallon in 2014. Our higher aircraft fuel expense in 2014 was also partially attributable to losses of \$22.4 million in 2014, from settlements of our fuel hedge instruments. Because our capacity in ASKs increased at a higher rate (5.9%) than our aircraft fuel expense increased, our cost of fuel per ASK decreased 4.2% in 2014.

*Salaries, wages and benefits.* Salaries, wages and benefits expense was \$725.8 million in 2014, a 7.5% increase over \$674.9 million in 2013, primarily as a result of a 7.3% increase in total personnel, from 19,153 at December 31, 2013 to 20,545 at December 31, 2014, mainly related to growth of our operations during 2014, particularly as a result of the growth in our domestic Colombian operations, increases in temporary personnel due to relocation of some domestic routes within Colombia from *Puente Aéreo* domestic terminal in Bogotá to El Dorado International Airport and average salary adjustments based on inflation, as well as changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods (as described above). In terms of unit cost per ASK, salaries, wages and benefits increased by 1.5% from 1.74 cents in 2013 to 1.77 cents in 2014.

*Sales and marketing.* Sales and marketing expenses were \$605.7 million in 2014, a 3.6% increase over \$584.5 million in 2013, primarily as a result of an increase in travel agent costs, financial partners, incentives related to loyalty programs and other commissions due to an 6.5% increase in our passenger traffic, partially offset by a decrease in costs related to global publicity and distribution cost optimization initiatives, such as negotiated reduced fees for global distribution systems and increased direct sales. In terms of unit cost per ASK, selling expenses decreased 2.2% from 1.51 cents in 2013 to 1.48 cents in 2014.

*Ground operations.* Ground operations expense was \$397.6 million in 2014, a 15.7% increase over \$343.8 million in 2013, primarily as a result of an 11.2% increase in departures in 2014 compared to 2013, due to the introduction of new routes and frequencies during 2014. This increase also reflected price increases in navigation, ramp services and landing and parking rates, as well as changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods (as described above). In terms of unit cost per ASK, ground operations increased 9.2% from 0.89 cents in 2013 to 0.97 cents in 2014.

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*Aircraft rentals.* Aircraft rentals expense was \$299.2 million in 2014, a 9.3% increase over \$273.6 million in 2013, primarily as a result of our incorporation of nine new aircraft (two A320s, four A321s, two A330s and one B787) under operating leases in 2014, plus an operating lease for one B767 for use while the delivery of one B787 was delayed, which contributed to the total number of our aircraft under operating leases increasing from 73 as of December 31, 2013 to 81 as of December 31, 2014. In terms of unit cost per ASK, aircraft rentals increased 3.2% from 0.71 cents in 2013 to 0.73 cents in 2014.

*Maintenance and repairs.* Maintenance and repairs expense was \$268.9 million in 2014, a 42.5% increase from \$188.7 million in 2013, primarily as a result of higher return conditions expenses related to the retirement of our ATR42 fleet and one Airbus 330 and an increase in non-capitalized maintenance events and higher provisions for obsolescence of inventory corresponding to the phase-out of our Fokker 50 aircraft, as well as changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods (as described above). In terms of unit cost per ASK, maintenance and repairs increased 34.6% from 0.49 cents in 2013 to 0.66 cents in 2014.

*Air traffic.* Air traffic expense was \$206.2 million in 2014, a 14.4% increase over \$180.1 million in 2013, primarily as a result of an 11.2% increase in departures and the addition of new routes and frequencies added to our network in 2014, as well as changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods (as described above), partially offset by initiatives implemented to increase cost efficiency such as system standardization and airport facilities cost optimization. In terms of unit cost per ASK, air traffic increased 8.1% from 0.46 cents in 2013 to 0.50 cents in 2014.

*Depreciation, amortization, and impairment.* Depreciation, amortization, and impairment expense was \$198.7 million in 2014, a 17.1% increase over \$169.6 million in 2013, primarily due to maintenance events amortization of \$11.0 million and a \$12.0 million increase in aircraft depreciation as a result of the increase of the total number of our owned aircraft increasing from 98 as of December 31, 2013 to 112 as of December 31, 2014 related to our fleet modernization plan. In terms of unit cost per ASK, depreciation, amortization, and impairment expense increased 10.6% from 0.44 cents in 2013 to 0.48 cents in 2014.

*General, administrative and other.* General, administrative and other expenses were \$165.2 million in 2014, a 35.8% decrease from \$257.3 million in 2013, primarily due to an increase in gain on sale of assets of \$4.0 million in 2014 and changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods (as described above). In terms of unit cost per ASK, general, administrative and other expenses decreased 39.4% from 0.66 cents in 2013 to 0.40 cents in 2014.

*Passenger services .* Passenger services expense was \$154.5 million in 2014, a 7.6% increase over \$143.5 million in 2013, primarily as a result of a 6.5% increase in passengers carried and, to a lesser extent, improvements in on-board service and related equipment across our integrated route network and also includes changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods. In terms of unit cost per ASK, passenger services expense increased 1.6% from 0.37 cents in 2012 to 0.38 cents in 2014.

*Flight operations.* Flight operations expense was \$56.7 million in 2014, a 31.6% decrease from \$82.9 million in 2013, primarily as a result of cost optimization in transportation and feeding of operating personnel, a decrease in insurance costs as a result of lower negotiated rates for insurance at renewal due to economies of scale, safety track records and our improved bargaining position as a result of our larger size after the combination of Avianca and Taca and changes related to the grouping of certain expenses and the related presentation of certain line items which changed beginning in the third quarter of 2014 and affect the comparability of these line items against prior periods (as described above). In terms of unit cost per ASK, flight operations expense decreased 35.4% from 0.21 cents in 2013 to 0.14 cents in 2014.

#### ***Operating profit and operating margin***

Our operating profit was \$279.5 million in 2014, a 27.4% decrease from \$384.9 million in 2013. Our operating margin decreased from 8.4% in 2013 to 5.9% in 2014 as a result of our expenses increasing at a higher rate (4.7%), than our total operating revenues (2.0%), primarily due to an increase related to our growth in capacity measure in ASKs of 5.9%, an 11.2% increase in departures due to our offering of more frequencies and new flight destinations in 2014, and the increase in our fleet, combined with lower passenger and cargo yields.

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#### ***Interest expense, interest income, derivative instruments and foreign exchange***

*Interest expense.* Interest expense was \$133.9 million in 2014, an 18.2% increase from \$113.3 million in 2013, primarily as a result of \$25.8 million of interest related to \$250 million bonds issued in the reopening of our international bonds in 2014, and increase in new debt to acquire new aircraft, partially offset by a decrease in the average interest rate of our debt from 4.5% in 2013 to 4.3% in 2014, and a decrease of COP-denominated debt as consequence of payment of bonds in COP.

*Interest income.* Interest income was \$17.1 million in 2014, a 47.9% increase from \$11.6 million in 2013, primarily as a result of a higher amount of deposits, partially offset by a decrease in the average interest rate on deposits at banks from 2.4% in 2013 to 2.3% in 2014.

*Derivative instruments.* Derivative instruments expense includes the net effect of changes in fair value of derivatives (financial instruments). In 2014 we recognized a \$5.9 million gain in fair value of derivative instruments compared to a loss of \$11.4 million in 2013, primarily as a result of positive variation in the market value of our fuel derivatives instruments.

*Foreign exchange.* We recorded a net gain on foreign exchange of \$10.3 million compared to a net gain of \$23.5 million in 2013, primarily as a result of the 24.2% depreciation of the Colombian peso against the U.S. dollar at December 31, 2014 compared with the Colombian peso exchange rate at December 31, 2013, which produced a gain in 2014 due to the fact that our average Colombian peso-denominated liabilities exceeded our Colombian peso-denominated assets, partially offset by losses related to the devaluation of the Venezuelan bolivar.

#### ***Provision for income tax expense***

Our current income tax expense was \$33.8 million in 2014, a 16.2% decrease compared to current income tax expense of \$40.3 million in 2013. Our deferred income tax expense was \$16.5 million in 2014, a 167.7% increase from \$6.2 million in 2013.

Our total effective tax rate increased from 15.8% in 2013 to 28.1% in 2014, primarily due to the effect of certain non-deductible expenses in Colombia and the application of a net worth presumptive taxable base for our corporate income tax.

Additionally, in Colombia, the international flights income tax credit decreased by 25.7% from 2013 to 2014, mainly due to the decrease of profits and the netting of exempted income of Avianca S.A.

### Critical Accounting Policies

The preparation of our consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. We believe that our estimates and judgments are reasonable; however, actual results and the timing of recognition of such amounts could differ from those estimates.

Critical accounting policies and estimates are defined as those that are reflective of significant judgments and uncertainties and could potentially result in materially different results under different assumptions and conditions. For a discussion of these and other accounting policies, see Note 3 to our audited consolidated financial statements.

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Our consolidated financial statements for the years ended December 31, 2015 and 2014 include our accounts and the accounts of each of our subsidiaries, including:

Name of Subsidiary	Country of Incorporation	Ownership Interest %	
		2015	2014
Aerolíneas Galápagos, S.A. Aerogal	Ecuador	99.62%	99.62%
Aerovías del Continente Americano S.A.	Colombia	99.98%	99.98%
Avianca, Inc.	USA	100%	100%
Avianca Leasing, LLC	USA	0%	0%
Grupo Taca Holdings Limited	Bahamas	100%	100%
Latin Airways Corp.	Panama	100%	100%
LifeMiles B.V.	Curaçao	70%	100%
Líneas Aéreas Costarricenses, S.A.	Costa Rica	92.40%	92.40%
Taca International Airlines, S.A.	El Salvador	96.84%	96.84%
Tampa Cargo Logistics, Inc.	USA	99.98%	99.98%
Tampa Cargo S.A.S	Colombia	99.98%	99.98%
Technical and Training Services, S.A. de C.V.	El Salvador	99.00%	99.00%
Trans American Airlines S.A.	Peru	100.00%	100.00%
Vu-Marsat S.A.	Costa Rica	100.00%	100.00%

The financial statements of subsidiaries are included in our consolidated financial statements from the date that control commences until the date that control ceases. Control is established after assessing our ability to direct the relevant activities of the investee, our exposure and rights to variable returns, and our ability to use our power to affect the amount of the investee's returns. Accordingly we determine that we have control over Getcom International Investments, S.L, Avianca Leasing, LLC and Turbo Aviation Two, Limited.

The accounting policies of subsidiaries have been aligned when necessary with the policies adopted by us.

Our consolidated financial statements also include 52 special purpose entities that relate primary to our company's aircraft leasing activities. These special purpose entities are created in order to facilitate financing of aircraft with each SPE holding a single aircraft or asset. In addition, our consolidated financial statements include 95 entities that are mainly investment vehicles, personnel employers and service providers within the consolidated entities. We have consolidated these entities in accordance with IFRS 10.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing our consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### ***Business Combination***

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 "Business Combinations". We measure the consideration for an acquisition at acquisition date fair value of consideration transferred including the amount of any non-controlling interests in the acquiree. Acquisition costs are expensed as incurred and included in administrative expenses.

When we acquire a business, we measure at fair value the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

We measure goodwill initially at cost, being the excess of the aggregate of the consideration transferred to the seller, including the amount recognized for non-controlling interest over the fair value of identifiable assets acquired and liabilities assumed.

After the initial recognition, we measure goodwill at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of our cash-generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units.

We test goodwill for impairment annually as of the year end and when circumstances indicate that the carrying value of the cash generating unit to which it pertains may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of

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each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

### ***Intangibles***

We initially measured intangible assets acquired at cost in accordance with IAS 38 "Intangible Assets". The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the Consolidated Statement of Comprehensive Income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

We amortize intangible assets with finite lives over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. We reviewed the amortization period and the amortization method for an intangible asset with a finite useful life at least at the end of each reporting period. Changes in the expected useful life or in the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income within depreciation and amortization.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains and losses arising from the de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

#### ***Major maintenance and return conditions***

Our aircraft maintenance expense consists of aircraft repair and charges related to light and heavy maintenance of our aircraft and maintenance of components and materials. We account for engine overhaul expense by using the deferral method pursuant to which the actual cost of the overhaul is capitalized and then amortized, based on total estimated flying hours of each overhauled engine or based on the remaining months for the return of the engine according to the lease agreement. We record this amortization expense under the operating expenses line item “depreciation, amortization, and impairment.” Routine maintenance expenses of aircraft and engines are charged to expense as incurred.

For certain operating leases, we are contractually obligated to return aircraft in a defined condition. We accrue for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return conditions criteria and throughout the remaining duration of the lease. Restitution costs are based on the net present value of the estimated average costs of returning the aircraft and are recognized under the operating expenses line item “maintenance and repairs.” These costs are reviewed annually and adjusted as appropriate.

#### ***Maintenance deposits***

Maintenance deposits refer to payments we make to leasing companies to be used in future aircraft and engine maintenance work. We perform regular reviews of the recovery of maintenance deposits and believes that the values reflected in our consolidated statement of financial position are recoverable. These deposits are used to pay for maintenance performed, and might be reimbursed to us after termination of the contracts. Certain lease agreements establish that the existing deposits, in excess of maintenance costs are not refundable. Such excess occurs when the amounts used in future maintenance services are lower than the amounts deposited. Any excess amounts expected to be retained by the lessor upon the lease contract termination date, which are not considered material, are recognized as additional aircraft lease expense. Payments related to maintenance that we do not expect to perform are recognized when paid as additional rental expense. Some of the aircraft lease agreements do not require maintenance deposits.

#### ***Accounting for property and equipment***

We measure flight equipment, property and other equipment at cost less accumulated depreciation and accumulated impairment losses in accordance with IAS 16 “Property, Plant and Equipment”.

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Subsequent costs incurred for major maintenance of aircraft's fuselages and engines are capitalized and depreciated over the shorter period to the next scheduled maintenance or return of the asset. The depreciation rate is determined according to the asset's expected useful life based on projected cycles and flight hours. Routine maintenance expenses of aircraft and engines are charged to income as incurred.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in our consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of flight equipment, property and other equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Rotable spare parts for flight equipment are depreciated on the straight-line method, using rates that allocate the cost of these assets over the estimated useful life of the related aircraft. Land is not depreciated.

We review and adjust residual values, amortization methods and useful lives of the assets, if appropriate, at each reporting date.

### ***Lease accounting***

As of December 31, 2015, our fleet was comprised of 191 aircraft, 122 of which were owned and 69 were subject to long-term operating leases.

*Finance leases.* Leases in terms of which we assume substantially all the risks and rewards of ownership are classified as finance leases in accordance with IAS 17 "Leases". Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in interest (expense) income in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that we will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

*Operating leases.* We recognize our operating leases as an operating expense in our consolidated statement of comprehensive income on a straight-line basis over the lease term.

Gains or losses related to sale-leaseback transactions classified as an operating lease after the sale are accounted for as follows:

- (i) They are immediately recognized as other (expense) income when it is clear that the transaction is established at fair value;
- (ii) If the sale price is below fair value, any profit or loss is immediately recognized as other (expense) income, however, if the loss is compensated by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the contractual lease term; or

(iii) In the event of the sale price is higher than the fair value of the asset, the value exceeding the fair value is deferred and amortized during the period when the asset is expected to be used. The amortization of the gain is recorded as a reduction in lease expenses.

If the sale-leaseback transactions result in a financial lease, any excess proceeds over the carrying amount shall be deferred and amortized over the lease term.

### ***Deferred income tax***

Deferred tax is recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred tax assets are recognized to the extent that is probable that the temporary differences, the carry forward of unused tax credits and any unused tax losses can be utilized, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

### ***Derivative financial instruments***

We use derivative financial instruments such as forward currency contracts, interest rate contracts and forward commodity contracts to hedge our foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into. Subsequent to initial recognition, derivatives are carried at fair value as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with our expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly into the consolidation statement of comprehensive income, except for the effective portion of derivatives assigned as cash flow hedges, which is recognized in other comprehensive income.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:



The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the equity, while any ineffective portion of cash flow hedge related to operating and financing activities is recognized immediately in the consolidated statement of comprehensive income.

Amounts recognized as other comprehensive income are transferred to the consolidated statement of comprehensive income when the hedged transaction affects earnings, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecasted transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the consolidated statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

We use forward currency contracts and cross currency as hedges of our exposure to foreign currency risk in forecasted transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in commodity prices.

### ***Revenue recognition***

In accordance with IAS 18, we recognize revenue to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured. We measure revenue at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

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*Passenger and cargo transportation.* We recognize revenue from passenger and cargo transportation as earned when the service is rendered.

We are required to charge and collect certain taxes and fees on our passenger tickets. These taxes and fees include transportation taxes, airport passenger facility charges and arrival and departure taxes. These taxes and fees are legal assessments on the customer. As we have a legal obligation to act as a collection agent with respect to these taxes and fees, such amounts are not included within passenger revenue. We record a liability when the amounts are collected and derecognize the liability when payments are made to the applicable government agency or operating carrier.

A significant portion of our ticket sales are processed through major credit card companies, resulting in accounts receivable which are generally short-term in duration and typically collected prior to the recognition of revenue. Credit risk associated with these receivables is minimal.

Cargo is carried out in our dedicated freighter fleet and, to the extent of excess capacity, in the bellies of our passenger aircraft.

*Aircraft leasing.* We recognize aircraft operating lease income as other revenue in the consolidated statement of comprehensive income when it is earned, according to the terms of each lease agreement.

*Frequent flyer.* Our *LifeMiles* frequent flyer program is designed to retain and increase traveler's loyalty by offering incentives to travelers for their continued patronage. Under the *LifeMiles* program, miles are earned by flying on our airlines or our alliance partners and by using the services of program partners for such things as credit card use, hotel stays, car rentals, and other activities. Miles are also directly sold through different distribution channels.

Miles earned can be exchanged for flights or other products or services from alliance partners.

The fair value of consideration in respect of initial sale is allocated between the miles and other components of the sale, including breakage in accordance with IFRS Interpretations Committee 13 Customer loyalty programs. Revenue allocated to the reward credits is deferred within "Air traffic liability" until redemption. Components other than the fair value of gross billings are immediately recognized within "Revenue." These components correspond to an initial revenue recognition element, related to the marketing attributes of the miles sold. The amount of revenue deferred is measured by applying statistical techniques based on market approach using observable information in accordance with IFRS 13 Fair Value Measurements. Inputs to the models include assumptions based on management's expected redemption rates and customer preferences. The amount of revenue recognized related to breakage is based on the number of miles redeemed in a period in relation to the total number expected to be redeemed.

### ***Employee benefits***

We sponsor defined benefit pension plans, which require contributions to be made to separately administered funds. We have also agreed to provide certain additional post-employment benefits to senior employees in Colombia. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit cost method. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on Colombian Government bonds), and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are held by the Social Security Institute and private pension funds are not available to our creditors, nor can they be paid directly to us. Fair value is based on market price information and in the case of quoted securities on the published bid price. The value of any defined benefit asset recognized is restricted and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Under IAS 19 (issued in June 2011 and amended in November 2013), we determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. It takes into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. The net interest on the net defined benefit liability (asset) comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

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### ***New and Amended Standards and Interpretations***

We applied, for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The nature and the impact of each new standard or amendment is described below:

#### ***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age.

This amendment is effective for annual periods beginning on or after July 2014. This amendment was not relevant to us, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

#### ***Annual Improvements 2010–2012 Cycle***

With the exception of the improvement relating to IFRS 2 "Share-based Payment" applied to share-based payment transactions with a grant date on or after July 1, 2014, all other improvements are effective for accounting periods beginning on or after July 1, 2014. We have applied these improvements for the first time in these Consolidated Financial Statements. They include:

##### *IFRS 2 Share-based Payment*

The amendment defines 'performance condition' and 'service condition' to clarify various issues, including the following:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

The clarifications are consistent with how we have identified any performance and service conditions which are vesting conditions in previous periods. In addition, we have not granted any awards during the second half of 2014. Thus, these amendments did not impact our financial statements or accounting policies.

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This amendment is consistent with our accounting policy and, thus, this amendment did not impact our policy. Additionally, during 2015 we did not participate in any business combination.

##### *IFRS 8 Operating Segments*

The amendment is applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

We have not applied the aggregation criteria in IFRS 8.12. The Company has determined that it has two operating segment: air transportation and loyalty. No reconciliation of segment assets is required, because it is not reported to the chief operating decision maker.

#### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendments to IAS 16 and IAS 38 are applied retrospectively and clarify that the revaluation can be performed, as follows:

- Adjust the gross carrying amount of the asset to market value; or,

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- Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The amendments also clarify that accumulated depreciation/amortization is the difference between the gross and carrying amounts of the asset.

We have opted to adjust the gross carrying amount of the revaluated assets.

#### *IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for us as it does not receive any management services from other entities.

#### ***Annual Improvements 2011–2013 Cycle***

These improvements are effective from 1 July 2014 and the Company has applied these amendments for the first time in these Condensed Consolidated Financial Statements. They include:

#### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

We are not a joint arrangement, and thus this amendment is not relevant for the Company and its subsidiaries.

### *IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). We do not apply the portfolio exception in IFRS 13.

### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine whether the transaction is the purchase of an asset or business combination. This amendment has no impact on our financial statements, because the Company does not hold any investment property.

### **Standards Issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of our financial statements are disclosed below. We intend to adopt these standards, if applicable, when they become effective.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

We are evaluating the impact of IFRS 9 application, mainly regarding to the potential change in measurement and presentation of certain financial instruments, and the impact on the current hedge accounting strategy.

### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets.

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The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract

3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licenses of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted.

We are evaluating the impact of IFRS 15 application, and plans to adopt this new standard on the required effective date.

#### ***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation.

Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint interests in the joint operation must not be remeasured if the joint operator retains joint control.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

#### ***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

#### ***Amendments to IAS 27: Equity Method in Separate Financial Statements***

The amendments to IAS 27 “Separate Financial Statements” allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9 (or IAS 39) or
- Using the equity method

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The entity must apply the same accounting for each category of investment.

A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on our consolidated financial statements.

### ***Amendments to IAS 28 and IFRS 10: Sale or contribution of assets between an investor and its associate or joint venture***

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

### ***Amendments to IAS 1: Disclosures initiative***

The amendments to IAS 1 "Presentation of Financial Statements" clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Company is evaluating the impact of IAS 1, and plans to adopt this new standard on the required effective date.

### ***Annual Improvements 2012–2014 Cycle***

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

#### *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

#### *IFRS 7 Financial Instruments: Disclosures*

##### (i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

##### (ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

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The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

#### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

#### *IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Company.

#### *Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.



The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on us.

### ***IFRS 16 Leases***

IFRS 16 “Leases” (IFRS 16 or the new standard) was issued in January 2016 to replace IAS 17 “Leases”. Under the new standard lessees are required to initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments to be made over the lease term. The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs.

Lessees accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made. The related right-of-use asset is depreciated in accordance with the depreciation requirements of IAS 16 “Property, Plant and Equipment”. For lessees that depreciate the right-of-use asset on a straight-line basis, the aggregate of interest expense on the lease liability and depreciation of the right-of-use asset generally results in higher total periodic expense in the earlier periods of a lease. Lessees remeasure the lease liability upon the occurrence of certain events, such as a change in the lease term or a change in variable rents based on an index or rate; which is generally recognized as an adjustment to the right-of-use asset.

We have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## **B. Liquidity and Capital Resources**

Our primary sources of funds are cash provided by operations and cash provided by financing activities. Our primary uses of cash are for working capital, capital expenditures, operating leases and general corporate purposes. Historically, we have been able to fund our short-term capital needs with cash generated from operations. Our long-term capital needs generally result from our need to purchase aircraft. Our cash and cash equivalents were \$735.6 million as of December 31, 2013, \$640.9 million as of December 31, 2014 and \$479.4 million as of December 31, 2015.

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As of December 31, 2015, we had 14 unsecured revolving credit lines with financial institutions providing for working capital financing of up to \$146.8 million in the aggregate. Our outstanding borrowings under these unsecured revolving credit lines were \$94.0 million as of December 31, 2013, \$171.2 as of December 31, 2014 and \$80.9 million as of December 31, 2015. As of December 31, 2015 and 2014, we had an outstanding balance of short-term and long-term debt with different financial institutions amounting to \$482.4 million and \$273.3 million, respectively, for working capital purposes. See “Item 5. Operating and Financial Review and Prospects—Part B. Liquidity and Capital Resources—Debt and Other Financing Agreements.”

The average interest rate for all of our financial debt as of December 31, 2015 was approximately 4.3%.

In addition, we are a holding company and our ability to repay our indebtedness and pay dividends to holders of the ADSs, each of which represents eight preferred shares, is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Our Company—We are a holding company with no independent operations or assets, and our ability to repay our debt and pay dividends to holders of the ADSs is dependent on cash flow generated by our subsidiaries, which are subject to limitations on their ability to make dividend payments to us.” Covenants contained in Avianca’s Local Bonds (as defined below) restrict Avianca’s ability to make dividends and other payments to us. These restrictions are described in more detail in “—Debt and Other Financing Agreements—Series A, B and C Local Bonds.” Because of these restrictions, Avianca is currently unable to pay dividends to us. If Avianca were to continue to be unable to pay dividends to us it would severely impact our liquidity and our ability to pay dividends to holders of the ADSs.

We believe that the above-mentioned sources, including our revolving credit lines and the cash flow generated from operating activities, are sufficient for our present working capital requirements.

In addition, we do not expect our minimum dividend payment policy (15.0% of the distributable profits of each year) to have a significant impact on our liquidity. For 2016, we estimate that our dividend payment will have an effect of approximately \$5.7 million, or 1.2% of our total cash and cash equivalents as of December 31, 2015 of \$479.4 million. In 2014, the effect was \$38.9 million, or 6.1%, of 2014 total cash and cash equivalents and, in 2015 the effect was \$70.8 million, or 14.8%, of 2015 total cash and cash equivalents. In 2013, the effect of the dividend payment policy was \$36.9 million, or 5.0%, of 2013 total cash and cash equivalents.

#### ***Cash Flows provided by Operating Activities***

Our cash flow from operating activities is generated primarily from passenger and cargo sales less our payments for aircraft leases, fuel, maintenance, ground operations, payroll related expenses, marketing, income taxes and capital expenditures. We use our cash flows provided by operating activities to provide working capital for current and future operations.

In 2015, net cash flows provided by operating activities were \$363.0 million, a 41.2% increase from \$257.1 million in 2014, primarily due to the decrease in accounts receivable of \$112.3 million resulting from a decrease of days outstanding which contributed to an increase in operating cash flows because we received more cash from travel agencies selling our tickets, an increase in deposits and other assets of \$68.0 million, in addition, a decrease of prepaid expenses of \$19.7 million resulting from a decrease of days outstanding, and a \$23.4 increase in cash flow generated by expendable spare parts and supplies, air traffic liability, employee benefits and income tax paid, partially offset by our decrease in profitability as a result of a net loss of \$139.5 million in 2015 compared to a net profit of \$128.5 million in 2014. Net profit after non-cash items was \$463.0 million in 2015, a 1.6% decrease from \$470.4 million in 2014, primarily due to the impact of a \$342.2 million, or 7.3%, decrease in our operating revenues as a result of a 17.7% decrease in yield from 11.8 cents in 2014 to 9.7 cents in 2015 and the write-off of the cash balances held in Venezuela of \$236.7 million (the latter of which was partially offset in our cash flow from operations by currency translation adjustment of \$177.5 million). Also contributing to the change in our operational cash flow in 2015 compared to 2014 was the decrease in cash flow generated by accounts payable and accrued expenses of \$99.7 million resulting from a decrease of days payable outstanding (which contributed to a decrease in operating cash flow because we used more cash to pay accounts) and a \$10.6 million decrease in cash flow generated by provisions, resulting from provisions relating to return conditions payments of leased aircraft.

In 2014, net cash flows provided by operating activities were \$257.1 million, a 52.9% decrease from \$544.6 million in 2013, primarily due to a decrease in profitability as a result of a net profit of \$128.5 million in 2014 compared to a net profit of \$248.8 million in 2013. Net profit after non-cash items was \$470.4 million in 2014, a 14.5% decrease from \$549.9 million in 2013, primarily due to the impact of a \$199.4 million, or 4.7%, increase in our operating expenses compared to a \$94.0 million, or 2.0%, growth in total operating

revenues, primarily as a result of a 4.8% decrease in yield, a 0.9 percentage point decrease in load factor and a 5.9% increase in ASKs. Also contributing to the change in our operational cash flow in 2014 compared to 2013 was a decrease in cash flow generated by air traffic liability (liability related to tickets sold in the period but not flown in the period) of \$113.4 million, resulting from fewer advance ticket sales, and a decrease in cash flow generated from accounts receivable of \$108.1 million, resulting from the

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growth in our ticket sales, which resulted in incremental accounts receivable from travel agencies selling our tickets (which contributed to a decrease in operating cash because of the greater amount of accounts that had not been paid in cash), partially offset by an increase in cash flow from accounts payable and accrued expenses of \$97.6 million resulting from an increase of days payable outstanding (which contributed to an increase in operating cash flow because we used less cash to pay accounts), and a \$20.6 million increase in cash flow generated by provisions, resulting from provisions relating to return conditions payments of leased aircraft (the change in provisions was primarily the result of reimbursement of maintenance reserves, which contributed to increased operating cash because we received cash that was previously held in reserve).

### *Cash Flows used in Investing Activities*

Our investing activities primarily consist of capital expenditures related to aircraft, special projects and advance payments on aircraft purchase contracts. Additionally, we use cash for the purchase of spare parts and equipment related to expanding our aircraft fleet.

In 2015, cash flows used in investing activities were \$330.5 million, a 33.9% increase from cash flow used in investing activities of \$246.9 million in 2014, primarily as a result of an increase in acquisition of property and equipment and an increase in advance payments on aircraft purchase contracts in 2015.

In 2014, cash flows used in investing activities were \$246.9 million, a 48.9% decrease from cash flow used in investing activities of \$483.3 million in 2013, primarily as a result of a decrease in acquisition of property and equipment and a decrease in advance payments on aircraft purchase contracts in 2014.

### *Cash Flows (used in) provided by Financing Activities*

Our financing activities primarily consist of the financing of our fleet and working capital needs.

In 2015, cash flows provided by financing activities were \$18.1 million, a 134.2% increase from cash flows used in financing activities of \$52.8 million in 2014, primarily as a result of proceeds from the sale of a minority interest of *LifeMiles* of \$301.4 million, acquisition of new debt of \$459.0 (\$231.5 million in 2014), partially offset by principal payments of financial obligations of \$522.9 million (\$365.6 million in 2014), interest payments of \$148.5 million (\$131.8 million in 2014) and dividend payments of \$70.8 million (\$38.9 million in 2014). Also affecting cash flows provided by financing activities in 2014 were proceeds from the issuance of bonds of \$250.0 million.

In 2014, cash flows used in financing activities were \$52.8 million, a 118.3% decrease from cash flows provided by financing activities of \$289.3 million in 2013, primarily as a result of proceeds from the issuance in our initial public offering of American Depositary Shares representing shares of our preferred stock in November 2013. Also affecting cash flows provided by financing activities were proceeds from the issuance of bonds of \$250.0 million, compared to \$298.6 million in 2013, principal payments of financial obligations of \$365.6 million (\$292.6 million in 2013), and interest payments of \$131.8 million (\$98.7 million in 2013).

### *Debt and Other Financing Agreements*

Historically, we have been able to fund our short-term capital needs by way of cash generated from operations. Our long-term capital needs generally result from the need to purchase additional aircraft that are financed using finance leases (including export credit agency backed financing), commercial loans, operating leases or accessing the capital markets. We expect to meet all of our operating obligations as they become due through available cash and internally generated funds, supplemented as necessary by revolving credit lines and/or short term loan facilities.

As detailed further in the table below, as of December 31, 2015, our total outstanding debt was \$3,473.0 million, an increase of \$302.4 million over our total debt of \$3,170.6 million as of December 31, 2014. Total debt as of December 31, 2015 consisted of \$3,060.1 million in long-term debt and \$412.9 million in current installments of long-term debt and short-term borrowings. We had 14 unsecured revolving lines of credit with different financial institutions as of December 31, 2015, for a total of \$146.8 million. As of December 31, 2015, we had \$80.9 million outstanding under these lines of credit. The average interest rate paid per annum as of December 31, 2015 under all of our indebtedness was approximately 4.3%.

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<u>Type of Debt</u>	<u>Original Currency</u>	<u>% Fixed</u>	<u>% Variable</u>	<u>Balance in millions of US\$</u>	<u>Average Rate</u>
Aircraft	U.S. Dollars	89.0%	11.0%	2,313.4	3.12%
Aircraft	Euros	100.0%	0.0%	18.9	2.77%
Corporate	U.S. Dollars	62.5%	37.5%	479.2	3.85%
Corporate	Colombian Pesos	70.4%	29.6%	3.2	9.16%
Bonds	Colombian Pesos	22.9%	77.1%	109.8	12.30%
Bonds	U.S. Dollars	100.0%	0.0%	548.5	7.95%
Local leasing	Colombian Pesos	0.0%	100.0%	0.0	9.61%
Car Loan	Mexican Pesos	100.0%	0.0%	0.0	11.90%
<b>Total</b>		<b>85.0%</b>	<b>15.0%</b>	<b>3,473.0</b>	<b>4.27%</b>

### *Series B and C Local Bonds*

Our subsidiary Avianca has an aggregate principal amount outstanding of \$25.2 million of Series B bonds due 2016 and \$84.6 million of Series C bonds due 2019, which we refer collectively as the Local Bonds. Subject to certain exceptions, the Local Bonds restrict Avianca's ability to incur additional indebtedness, to make capital investments and to pay dividends to us.

Beginning on January 1, 2016, Avianca may pay dividends to us only if:

- there is no default or event of default under any of the Local Bonds;
- Avianca's debt service ratio (i.e., the ratio of Avianca's adjusted EBIDAR (net income + noncash (interest) expenses + financial expenses (depreciation and amortization) + leasing costs) to debt service obligations (interest and principal payment costs + leasing costs)) is equal or greater than 1.4 times;
- the amount of any such dividend does not exceed the sum (without duplication) of (i) Avianca's net income for the fiscal year prior to such payment and (ii) its retained earnings; and
- after giving effect to such dividend, Avianca's liquidity (i.e., its (i) cash and cash equivalents and (ii) cash investments (in the case of each of (i) and (ii), excluding amounts deposited in special

purpose liquidity, interest services or capital services accounts), less (iii) its operating cash flow) is at least 15.0% of its scheduled debt service projected for such fiscal year.

As of December 31, 2015, Avianca was not meeting the adjusted EBIDAR to debt service ratio for purposes of the Local Bonds. However, this failure does not give holders of the Local Bonds the ability to accelerate this debt.

The events of default under the Local Bonds include failure to timely pay principal or interest, litigation matters resulting in a material adverse effect not remedied within 75 days, liquidation, acceleration of debt not remedied within 30 days and breaches of covenants and other agreements.

Under the Local Bonds, Avianca is restricted from making certain additional investments (other than investments in Avianca's fleet) and incurring or guaranteeing additional debt during periods when the debt service ratio described above is less than 1.4 to 1 and a leverage ratio is greater than 4.5 to 1.

The terms above describe the Local Bonds as amended by Addendum No. 2 to the Local Bonds Prospectus, which was approved by the Colombian Financial Superintendency and the Bondholders Assembly on February 24, 2014 and on December 5, 2013, respectively. Addendum no. 2 primarily increased the flexibility of the covenants initially imposed on Avianca by, among other modifications:

- expanding the scope of permitted investments in affiliated airlines, by increasing the cap on said investments from 2.5% to 4.0% of the operational income of Avianca during the prior year;
- including a new exception to the prohibition to secure obligations of third parties, allowing Avianca to secure obligations of its affiliated airlines, provided that certain performance ratings are fulfilled;
- increasing the maximum amount of dividends that can be distributed (from 12.0% to 20.0% of the EBITDA for the prior year); and
- increasing the leverage ratio from 3.5x to 4.5x.

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### *Bank Loans and Export Credit Agency Guarantees*

We typically finance our aircraft through a mix of debt financing and sale-leaseback financings in which we sell an aircraft to a financial institution or leasing company immediately upon delivery from the manufacturer and lease the aircraft back under an operating agreement for a period of time, typically six to eight years. In the future, we may not be able to secure such financing on terms attractive to us or at all. To the extent we cannot secure such financing on terms acceptable to us or at all, we may be required to modify our aircraft acquisition plans, incur higher than anticipated financing costs or use more of our cash balances for aircraft acquisitions than we currently expect. See "Item 3. Key Information—Part D. Risk Factors—Risks Relating to Our Company—We may not be able to obtain the capital we need to finance our growth and modernization strategy."

As of December 31, 2015, our total fleet contained 191 aircraft (including three F100s aircraft we lease to OceanAir, three A319s and one A330F subleased to OceanAir and four inactive aircraft) comprised of 179 passenger aircraft and 12 cargo aircraft, 69 of which were subject to operating leases, and 122 which were owned. Of the 122 owned aircraft, 14 are owned outright, 78 have been financed using commercial loans with separate guarantees issued by export credit agencies, or ECAs in Europe or EXIMs in the United States, and 30 have been financed with loans without ECA/EXIM guarantees. During 2015, we financed the purchase of eight additional jet aircraft with the issuance of guaranteed notes and loans through a private placement

vehicle and four regional aircraft with loans provided by commercial lenders with the support of guarantees issued by ECAs for an aggregate amount of \$412.7 million. These loans mature in 2027.

Under the terms of our commercial bank loans with guarantees from ECAs, we currently obtain an 80.0% advance ratio. These loans are typically denominated in U.S. dollars and accrue interest at a variable interest rate linked to LIBOR. Typically aircraft are financed either through commercial debt with an export credit agency guarantee or through private placements in bundles of three to five aircraft to optimize legal fees and to obtain competitive prices. A bidding process is used for each package and the most competitive offer is selected. Our current fleet is financed with various top tier banks and private investors in the U.S. and Europe.

The following table shows our outstanding fleet financing debt by financial institution, ECA guaranteed loans and direct financial loans, as of December 31, 2015:

<u>Bank</u>	<u>ECA Guaranteed Loans</u>	<u>Eximbank Guaranteed Loans</u>	<u>BNDES Guaranteed Loans</u>	<u>Financial Loans</u> (in millions of US\$)	<u>Total Fleet Financing Debt</u>
Barclays	109.0	—	—	—	109.0
BNDES	—	—	81.8	—	81.8
BNP					
Paribas	243.5	164.6	—	96.0	504.2
Calyon	25.8	—	—	—	25.8
CFC	—	—	—	4.8	4.8
Citibank	197.2	—	—	—	197.2
PEFCO	—	4.1	—	—	4.1
JP					
Morgan	638.7	—	—	—	638.7
KFW	—	—	—	24.4	24.4
Natixis	109.3	—	—	44.0	153.2
HSBC	76.8	—	—	—	76.8
Textron					
Aviation	—	—	—	3.7	3.7
Other					
Investors	—	—	—	508.7	508.7
<b>Total</b>	<b>1,400.3</b>	<b>168.7</b>	<b>81.8</b>	<b>681.5</b>	<b>2,332.3</b>

Subsequent to the combination of Avianca and Taca, we agreed with the ECAs on a standard transaction structure, or the Avianca-ECA Structure, based on the then-current Avianca structure, to be used in all ECA-supported deliveries. The documentation for Avianca and Taca aircraft delivered prior to the combination was subsequently restructured to harmonize it with the agreed post-combination structure. In addition, with the exception of the structure used for the pre-combination Taca deliveries, these financings impose certain restrictions on us and require us to maintain compliance with certain financial covenants.

The agreed Avianca-ECA Structure, which applies to post-combination Avianca deliveries, post-combination Taca deliveries and pre-combination Avianca deliveries, requires us to maintain compliance with financial covenants. Under these covenants, we must maintain an EBITDAR coverage ratio of not less than 2.00 to 1.00. Additionally, these financial covenants require that we maintain a capitalization ratio of not more than 0.86 to 1.00 and a minimum cash level of \$350 million.

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Avianca anticipated and communicated to all related parties that it will likely fail to comply with the requirement to maintain a minimum EBITDAR Coverage Ratio of (i) 2.00:1.00 for the period commencing January 1, 2015 and ending December 31, 2015. The ECA facility agent, on behalf of the ECA lenders, agreed that any obligation of a guarantor under any ECA transaction document to ensure that the EBITDAR coverage ratio shall not be less than 2.00 to 1.00 for the year ending December 31, 2015 shall be waived strictly on the following condition:

- the EBITDAR Coverage Ratio for the year ending December 31, 2015 shall not be less than 1.45 to 1.00.

The Avianca-ECA Structure also imposes a negative pledge on us which prevents us from creating or permitting any security interest over any of our assets other than a security interest arising by operation of law in the ordinary course of business, a security interest in respect of less than fifty per cent (50.0%) of our issued capital stock (provided that such security interest is created in connection with the raising of finance for a member of the Avianca group), or any security interest created with the prior written consent of the relevant security trustee.

We also financed aircraft through commercial financings not supported by ECAs using documentation similar to the Avianca-ECA Structure. This structure also imposes financial covenants that mirror those from the ECA documentation.

### *Senior Notes*

On May 10, 2013, we completed a \$300,000,000 private offering of our Senior Notes under Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended. On April 8, 2014, we completed a \$250,000,000 private offering of additional Senior Notes first issued on May 10, 2013.

The Senior Notes are due in 2020 and bear interest at the rate of 8.375% per year, payable semi-annually in arrears on May 10 and November 10. Two of our subsidiaries, Taca and Avianca Leasing, LLC, are jointly and severally liable under the Senior Notes as co-issuers. The Senior Notes are fully and unconditionally guaranteed by three of our subsidiaries, Taca International Airlines, S.A., Líneas Aéreas Costarricenses, S.A., and Trans American Airlines, S.A. Avianca Leasing, LLC's obligations as a co-issuer of the Senior Notes are unconditionally guaranteed by our subsidiary Avianca in an amount equal to \$375,000,000.

The Senior Notes may be redeemed at our option, in whole or in part, at any time on or after May 10, 2017 at the redemption prices plus accrued and unpaid interest, if any, to the date of the redemption, as described in the offering memorandum document. In addition, prior to May 10, 2016, we may redeem up to 35.0% of the Senior Notes from the proceeds of certain qualifying equity offerings at a price of 108.375% of the principal amount thereof. The Senior Notes may also be redeemed in whole, but not in part, at 100.0% of their principal amount, plus accrued and unpaid interest upon the occurrence of specified events relating to tax laws and as described in the offering memorandum relating to the Senior Notes. In addition, we have the option to redeem some or all of the Senior Notes at a price equal to 100.0% of the principal amount, plus a "make-whole" premium, plus accrued and unpaid interest at any time prior to May 10, 2017.

### *Taca International Credit Agreement*

Taca International is party to a credit agreement, dated June 16, 2015, or the Taca International Credit Agreement, with Banco de Bogotá, Banco de Occidente and BAC International providing for borrowings of \$245,000,000. These borrowings accrue interest at three-month LIBOR plus 3.9% and are repayable in quarterly installments over a seven-year term, with two years grace period.

### *New Aircraft and Engine Purchases*

As of December 31, 2015, we had entered into several agreements to acquire up to 8 Boeing 787s for delivery between 2016 and 2019 and 141 Airbus A320 family aircraft for delivery between 2016 and 2025. We intend to meet our pre-delivery payment requirements for these new aircraft using cash generated from our operations and short- to medium-term commercial loans. These payments are due at signing, with additional payments due at 24, 18 and 12 months prior to delivery, according to each contractual obligation.

The following table sets forth our firm contractual deliveries currently scheduled through 2025:

<u>Aircraft Type</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Total</u>
Boeing 787	3	2	—	3	—	—	—	—	—	—	8
Airbus A319S	2	—	—	—	—	—	—	—	—	—	2
Airbus A320S	2	—	—	—	—	—	—	—	—	—	2

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<u>Aircraft Type</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>Total</u>
Airbus A321S	1	—	—	—	—	—	—	—	—	—	1
Airbus A319 neo	—	—	3	5	4	4	3	3	3	3	28
Airbus A320 neo	—	—	2	3	14	17	15	15	14	12	92
Airbus A321 neo	—	2	—	—	2	2	2	2	3	3	16
Total(1)	8	4	5	11	20	23	20	20	20	18	149

- (1) We also have purchase rights options to purchase up to 10 Boeing 787 Dreamliners and 15 ATR72s. In April 30, 2015, the Company signed a Purchase Contract for a total of 100 A320 New Engine Option (NEO) family aircraft with deliveries between 2019 and 2024, which are included in the contractual delivery schedule set above. In line with our initiatives directed towards enhancing profitability, achieving a leaner capital structure and reducing the current levels of debt, in April 2016, we negotiated with Airbus a significant reduction of our scheduled aircraft deliveries for 2016, 2017, 2018 and 2019 and certain changes to the type of aircraft (both upgrades and downgrades), but did not alter the total deliveries scheduled between 2016 and 2025.

The Company also has 8 firm orders for the acquisition of spare engines with deliveries between 2016 and 2020.

The following table sets forth our firm contractual engines deliveries currently scheduled through 2020:

<u>Engine Type</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Max Spare Trent 1000-D	—	1	—	—	—	1
CFM56-5B3	1	—	—	—	—	1
CFM56-5B4	—	1	—	—	—	1
LEAP-1A24	—	1	2	—	—	3
LEAP-1A26	—	—	—	1	1	2
Total(1)	1	3	2	1	1	8

### *Pension Liabilities*



We update the value of our pension plan liabilities at each reporting period based on an actuarial valuation prepared by the independent firm hired by us for such purposes, which includes the valuation of ordinary payments, additional payments, and financial assistance for funeral expenses that are borne by us, as applicable. As of December 31, 2015, we had outstanding retirement pension plan and employee benefits obligations in the amount of \$160.6 million, which according to Act 860 of 2003 will have a maximum period of payment until 2023 in the case of Avianca and Tampa.

See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to our Company—We may be liable for the potential under-funding of a pilot’s pension fund.”

#### ***Restrictions on Repatriation of Cash from Venezuela***

On December 31, 2015, we held \$18.3 million in assets located in Venezuela, of which 41.7% were cash and cash equivalents. On a consolidated basis, our cash and cash equivalents in Venezuela represented 1.6% of our total cash and cash equivalents, and our total assets in Venezuela represented approximately 0.3% of our total assets, in each case as of December 31, 2015. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Colombia, Peru, Venezuela, Central America and Other Countries in which We Operate—We recently recognized a significant loss related to cash balances in Venezuela and we still have significant local currency cash balances in Venezuela, which we may be unable to repatriate or exchange into U.S. dollars or any other currency.”

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### **C. Research and Development, Patents and Licenses**

#### **Intellectual Property**

We believe the *Avianca* brand is a household name in Colombia. We have registered the trademark *Avianca* with the trademark office in Colombia as well as in other countries, including the United States. We decided to register Avianca Holdings S.A. as the owner of the new figurative trade mark while Avianca S.A. remains the owner of AVIANCA’s trade mark.

Both, the figurative and the nominative trademark *Avianca*, are currently used to identify the business of all operating airlines in all the territories from the commercial standpoint, except for Brazil and Guatemala where some regulatory authorizations are pending.

We use the *DEPRISA* trademark under a license agreement with our Panamanian subsidiary company, International Trade Marks Agency Inc., to identify our Colombian courier services. We use *Avianca Express* trademark to identify international courier services from the United States to Colombia under a license agreement and we also have a franchise agreement by which we use the *Avianca Express* trademark to commercialize courier services from Spain to some Andean countries. We began the use of Avianca Cargo trademark to identify the international cargo services provided by the subsidiary companies Tampa Cargo S.A.S. and by the different airlines of Grupo Taca. We use the *LifeMiles* trademark, a registered trademark of our subsidiary Life Miles B.V., to identify our frequent flyer program. We license the new figurative trade mark and the *Avianca* trademark to OceanAir Linhas Aereas S.A., a Brazilian company. All of our material trademarks are registered with the trademark office in different jurisdictions as required by our commercial needs.

#### **Information Technology**

During 2010 to 2012 we completed the successful implementation of the first phase of our Enterprise Transformation Project (“ETP”). In this phase we standardized our commercial and passenger processes,

services and platforms. This effort included all of our airline subsidiaries which were certified under the industry leading suite “Amadeus Altea.” During 2013-14 we completed the second phase of our ETP which included call center consolidation as well as the implementation of our single commercial code. Additionally, our IT group completed the technical readiness requirements which enabled the company to incorporate the Boeing 787 into our fleet (e-enabling). During 2015 we implemented our unified MRO Next generation software solution. As part of our strategic planning for 2016, we are focused on the successful homogenization and implementation of our flight operations platforms, as well as continuing to deploy our new unified ERP.

#### **D. Trend Information**

During 2016, we currently expect to continue growing our passenger, cargo and loyalty business segments. However, we expect to continue to face competition, soft macroeconomic conditions in Latin America, and depreciated local currencies, which may put pressure on market yields. Furthermore, we expect our capacity for 2016 to increase between 3.0% to 5.0%, as the capacity deployed during 2015 to Europe and the Colombian domestic markets continue to mature. Our capacity, measured in ASKs, increased 8.4% during 2015 compared to 2014. In addition, our passenger traffic, measured in RPKs, grew 8.8%, reaching a consolidated load factor of 79.7%, surpassing the 2014 load factor by 0.3 percentage points. The latter was partially offset by a 17.7% decrease in yields when compared to 2014. As a result, total operating revenues for 2015 decreased 7.3% to \$4,361.3 million, mainly driven by a 10.5% decrease in passenger revenues that was partially offset by an increase of 7.4% in cargo and other revenues.

We also expect expenses to decrease over the course of the year compared to 2015, due to lower fuel costs and the cost control initiatives implemented during 2015. Moreover, cost controls will continue to be key within our adjustment process in order to ensure profitable long-term results. Over the next coming quarters, we plan to benefit from our brand new maintenance and training facilities, which we expect to have fully operational during the first half of 2016. We will continue to make our cost structure more efficient and to offset potential decreases in demand with more efficient asset utilization, and aim to enhance efficiency by streamlining our support processes to reduce commercial costs. In addition, we aim to increase operational and administrative productivity through the standardization of our technology platform, productivity improvements in airports and implementing additional new administrative cost optimization initiatives.

Fuel prices have remained volatile to date in 2016. In addition, geopolitical conflicts, especially between Saudi Arabia and Iran may put pressure on international fuel prices, which is significant to us because fuel costs represent approximately 24.0% of our total operating expenses. We intend to continue to seek to manage increases in fuel prices through our fuel-hedging policy and, to the extent permitted by competitive conditions, the use of pass-through mechanisms for both our passenger and cargo operations.

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In our loyalty business, we expect to continue to grow our member-base as we expand to other potential markets. Moreover, we will continue to enhance the value proposition for our customers as we continue to expand the range of products and services in which our members are able to earn and redeem their *LifeMiles*. Furthermore, during 2016 we expect to continue to consolidate the *LifeMiles* loyalty program as a leader in loyalty coalition programs in Latin America.

In our cargo business, we seek to continue to optimize the use of the capacity that we have already deployed over the past 12 months. In furtherance of that goal we anticipate further harmonizing our cargo network with Aerounion in Mexico as well as our commercial partnership in Brazil. We expect export flows from Latin America to continue to recover as the currency depreciation across the region continues to create a competitive advantage. We will continue to monitor the cargo market trends in order to explore new

opportunities as well as to react to potential changes in the business environment. Finally, we will continue to optimize the utilization of passenger aircraft bellies with the objective to maximize synergies associated to our integrated passenger cargo business model.

#### E. Off-Balance Sheet Arrangements

We have significant obligations for aircraft that are classified as operating leases and therefore are not recorded as liabilities on our balance sheet. As of December 31, 2015, 66 of the 180 aircraft in our operative fleet were subject to operating leases. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors. As of December 31, 2015, the balance of our aircraft off-balance sheet arrangements was \$981.8 million.

#### F. Contractual Obligations

Our non-cancelable contractual obligations (excluding contributions to benefit plans) as of December 31, 2015 included the following:

Contractual Obligations(1) (in \$ millions)	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Aircraft and engine purchase commitments(2)(3)	18,274.4	985.6	1,342.6	3,880.2	12,066.0
Aircraft operating leases	981.8	253.4	351.2	249.3	127.9
Engine operating leases	4.8	3.9	0.8	—	—
Aircraft debt(4)	2,332.3	260.3	539.5	507.5	1,025.0
Bonds	658.2	25.1	55.3	577.8	—
Other debt	482.4	127.5	107.4	117.9	129.6
Interest expense	672.7	148.8	254.1	172.1	97.7
Total	23,406.6	1,804.6	2,650.9	5,504.8	13,446.2

- (1) Future interest payments are calculated based on interest rates of current debt and projected interest payments at negotiated rates for projected future debt to meet our capital expenditure requirements.
- (2) Includes firm commitment obligations to purchase aircraft and aircraft engines under existing purchase contracts. Amounts based on aircraft and engine list prices. See “Item 5. Operating and Financial Review and Prospects—Part B. Liquidity and Capital Resources—New Aircraft and Engine Purchases” above for current firm commitments for aircraft and engine purchases.
- (3) In line with our initiatives directed towards enhancing profitability, achieving a leaner capital structure and reducing the current levels of debt, in April 2016, we negotiated with Airbus a significant reduction of our scheduled aircraft deliveries for 2016, 2017, 2018 and 2019 and certain changes to the type of aircraft (both upgrades and downgrades), but did not alter the total deliveries scheduled between 2016 and 2025.
- (4) Includes obligations under debt used to finance owned and finance leased aircraft.

In accordance with the agreements in effect, future commitments related to the acquisition of aircraft and engines are as follows:

- Airbus – We have 141 firm orders for the acquisition of A320 family aircraft with deliveries scheduled between 2016 and 2025. Under the terms of these agreements to acquire Airbus aircraft, we must make pre delivery payments to Airbus on predetermined dates.

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- Boeing – We have eight firm orders for the acquisition of B787 aircraft with deliveries scheduled between 2016 and 2019 as well as 10 purchase options.
- ATR – We have up to 15 purchase options.
- Other – We have eight firm orders for the acquisition of spare engines with deliveries between 2016 and 2020.

The value of the final purchase orders is based on the aircraft list price (excluding discounts and contractual credits granted by the manufacturers) and including estimated incremental costs. As of December 31, 2015, commitments acquired with manufacturers for the purchase of aircraft and advance payments are summarized above. Advance payments are subsequently applied to aircraft acquisition commitments.

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### **Item 6. Directors, Senior Management and Employees**

#### **A. Directors and Senior Management**

##### **Board of Directors**

Our board of directors is composed of 11 members. Our board of directors is focused on determining our overall strategic direction and as a result is responsible for establishing our general business policies and for appointing our chief executive officer and supervising its management.

Members of our board of directors are elected by our shareholders at our general shareholders' meetings and serve for a period of one year and may be reelected. We do not have a mandatory retirement age for our directors. Our board of directors currently meets on quarterly basis, or more frequently if needed, and may deliberate and act with the presence and votes of the majority of its members. Our board of directors is comprised of a majority of independent directors.

The current board of directors was elected at a shareholders' meeting held on March 31, 2016. Its term expires in March 2017. The table below lists our directors:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Nationality</u>
Germán Efromovich	Chairman of the Board of Directors	66	Brazilian and Colombian
Roberto José Kriete	Director	63	Salvadoran and Colombian
José Efromovich	Director	61	Brazilian and Colombian
Alexander Bialer	Director	69	Brazilian
Raul Campos	Director	69	Brazilian
Isaac Yanovich	Director	72	Colombian
Alvaro Jaramillo	Director	64	Colombian
Juan Guillermo Serna	Director	61	Colombian
Ramiro Valencia	Director	70	Colombian
Monica Aparicio Smith	Director	62	Colombian
Oscar Darío Morales	Director	63	Colombian

**Mr. Germán Efromovich** has been the Chairman of our board of directors since August 2013.

Mr. Efromovich has served as our director since February 2010 and has acted as a director of Avianca since

December 2004. He was appointed as Chairman of the board of directors in August 2013. Mr. Efromovich was appointed as our director by Synergy pursuant to an agreement entered into between the two principal holders of our common shares, Synergy and Kingsland, or the Shareholders' Agreement, which was replaced by the Joint Action Agreement effective November 5, 2013. Mr. Efromovich together with his brother José indirectly control Synergy, our largest shareholder. Synergy also indirectly controls other companies in the aerospace industry. Mr. Efromovich holds a Bachelor Degree in mechanical engineering from the University of Brazil, *FEI*, São Paulo. He also serves as director and executive officer of Synergy Group Corp. Mr. Germán Efromovich is Mr. José Efromovich's brother.

**Mr. Kriete** served as the Chairman of our board of directors from February 2010 to August 2013 and was a director of Taca from 1982 to February 2010 and CEO of Taca from 2001 to February 2010. Mr. Kriete was initially appointed as our director by Kingsland pursuant to the Shareholders' Agreement. Under the Joint Action Agreement, Kingsland has a right to appoint Mr. Kriete as our director so long as Kingsland holds at least 1.0% of our outstanding common stock. Mr. Kriete is the Chairman of Kingsland Holdings Limited, our second largest shareholder. Mr. Kriete holds a masters in business administration from Boston College and a degree in economics from the University of Santa Clara. Mr. Kriete currently serves as President of the Kriete Investment Company Group and President of the Gloria de Kriete Foundation as well as a member of the boards of *Teléfonos de México, S.A.B. de C.V.* and *Escuela Superior de Economica y Negocios (ESEN)*. He has extensive experience in the airline industry as founder and Member of the Board of Directors of Volaris in Mexico, and President of the Latin American and Caribbean Air Transport Association (ALTA).

**Mr. José Efromovich** has served as our director since February 2010 and was a director of Avianca from July 2005 to February 2010. Mr. Efromovich was appointed as our director by Synergy pursuant to the Shareholders' Agreement. Mr. Efromovich together with his brother Germán indirectly control Synergy, our largest shareholder. Synergy also indirectly controls other companies in the aerospace industry. For 35 years he has participated in the development and expansion of Synergy. Mr. Efromovich holds a degree in civil engineering from the Mackenzie Engineering School, São Paulo, Brazil. He also indirectly controls OceanAir in Brazil and serves as director and executive officer of Synergy Group Corp. Mr. José Efromovich is Mr. Germán Efromovich's brother.

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**Mr. Bialer** has served as our director since February 2010 and was a director of Avianca from December 2004 to February 2010. Mr. Bialer was appointed as our director by Synergy pursuant to the Shareholders' Agreement. Mr. Bialer holds a degree in mechanical engineering from *Instituto Tecnológico da Aeronáutica—ITA*, Brazil, and an MBA/LS in systems management from *Fundação Getúlio Vargas*. He spent most of his career at General Electric, as Director of Business Development in South America, until retiring in 2002. Mr. Bialer also serves on the Boards of *Companhia de Saneamento Basico do Estado de Sao Paulo (Sabesp)*, *Andritz Hydro Inepar*, and the GE Brasil pension fund (*Gebsaprev*). He has previously served on the Boards of Pacific Rubiales, Romi and Jereissati, as well as in a number of non-listed companies.

**Mr. Raul Campos** has served as our director since April 2015. Mr. Campos holds a degree from the Catholic University of Rio de Janeiro and a masters degree from The American University in Washington D.C., both in Economics. He did further post-graduate studies at the George Washington University, also in Washington D.C., with specialization in finance and development. He previously served as the Chief Financial Officer of Synergy Group and as the Investor Relations Manager for Petrobras. Mr. Campos currently serves as the Communications Executive Director of the Brazilian Institute of Investor Relations.

**Mr. Yanovich** has served as our director since February 2010 and was a director of Avianca from September 2007 to February 2010. Mr. Yanovich holds a degree in industrial engineering from *Universidad de los Andes* in Colombia and Pittsburgh University and a graduate degree in industrial management from Massachusetts

Institute of Technology. He was a founding member and director of *Banca de Inversión Betainvest S.A.*, Executive Vice-President of *Tecnoquímicas S.A.*, *Lloreda Grasas S.A.* from 1981 until 1986, *Invesa S.A.* from 1987 until 1997 and *Ecopetrol S.A.* from 2002 until 2006. Mr. Yanovich is a member of the board of directors of *Inversiones Mundial S.A.*, *Tecnoquímicas S.A.*, *Carvajal Internacional S.A.*, *Universidad Icesi* and *CTEEP*.

**Mr. Jaramillo** has served as our director since February 2010 and has been a director of Avianca during several periods of its history, the most recent from September 2007 to February 2010. Mr. Jaramillo obtained a degree in business administration from *Universidad del Norte* in Barranquilla. He is the founding partner of iQ Outsourcing, Colombia's largest BPO and was previously the chief executive officer of Avianca, *Banco de Colombia* and of several financial institutions in Colombia and Vice President of the Philadelphia National Bank from 1973 to 1981. He currently serves as a member of the board of *Constructora ConConcreto S.A.*, *PetroWorks S.A.* and *Tribeca Asset Management*.

**Mr. Serna** has served as our director since February 2010 and was a director of Avianca from September 2007 to February 2010. Mr. Serna obtained a degree in business administration and a masters in economics from *Universidad Nacional de Colombia* in Bogotá. He was the chief financial officer for *Organización Corona S.A.* from 1994 until 2001, and the chief executive officer for *Organización Terpel S.A.* from 2001 until 2006. Mr. Serna also served as a director of the *Fondo Nacional de Garantías Financieras—FOGAFIN*, economic secretary of the Presidency of Colombia, director of the Colombian National Budget, auditor of the Colombian Coffee Federation in New York, and Secretary of the Colombian Security and Exchange Commission. He serves as a member of the board of directors of *Inversiones GLP S.A.S.* (Vidagas SA) and *Oleoducto Central de Colombia S.A.*

**Mr. Valencia** has served as our director since February 2010 and was a director of Avianca from September 2007 to February 2010. Mr. Valencia holds a law degree from *Universidad Pontificia Bolivariana* in Medellín, Colombia. Mr. Valencia is currently the Executive President of *Camara Colombiana de Informática y Telecomunicaciones (CCIT)*. Mr. Valencia was formerly general manager of *Empresas Publicas de Medellín*, Colombia's Minister of Energy, Colombia's ambassador to New Zealand, the Governor of Antioquia, the general manager of *Licores de Antioquia*, the Mayor of Medellín, Colombia's Secretary of Education for the city of Medellín, the chairman of the board of *Comfamiliar-Camacol*, the chairman of the board of *Universidad de Antioquia* and member of the board of director of *Anato*, *Ecopetrol*, *Isa* and *Isagen*, among others.

**Ms. Aparicio** has served as our director since August 2013 and has been a director of Avianca since March 2010. Ms. Aparicio obtained a degree in economics from *Universidad de los Andes* in Bogotá. She is an independent consultant of multilateral organizations. She served as Executive Director of the *Fondo de Garantías de Instituciones Financieras* from July 2008 to March 2012, CEO and Country Head of Banco Santander Puerto Rico and Colombia, Monetary and International Vice President of *Banco de la República*, Representative of the Colombian government to the World Bank, Head of *Unidad de Inversiones Públicas del Departamento Nacional de Planeación*, Economist in the Office Counselor related to coffee matters of the National Government in the *Federación Nacional de Cafeteros*.

**Mr. Morales** has served as our director since April 2012. Mr. Morales obtained a degree in public accounting from *Javeriana University* in Cali with a specialty in finance. He was the Chief Executive Officer of the CARVAJAL Group from 2007 to April 2013. He was a managing partner of Deloitte & Touche Colombia, President of the Board of Deloitte Latin America (Colombia), and managing partner, Central America and the Caribbean, Costa Rica & Panama at Deloitte & Touche (2001—2007). He has served as a member of the board of *Propal*, *Assenda*, *Carpak*, *Integrar*, *Pensions y Cesantias Colpatria*, Cali Chamber of Commerce, *Andi*, *Ciamsa*, *Industrias Lehner*, among others.

## Executive Officers

We are managed by a board of directors and our executive officers. Our chief executive officer is appointed by our board of directors. The other executive officers are selected by the chief executive officer. On March 25, 2014, our Articles of Incorporation were amended to designate, as one of our executive officers, a vice-president of revenue who acts as Chief Revenue Officer. . In January 2016, Fabio Villegas Ramirez formalized his resignation as CEO of Avianca Holdings. The Board of Directors in a meeting held on January 12, 2016, appointed Mr. Alvaro Jaramillo as Interim Chief Executive Officer. Later, on March 31, 2016, the Company announced the appointment of Mr. Hernan Rincon as the new Chief Executive Officer (CEO), who officially assumed control of his position on April 4, 2016. The table below sets forth our executive officers:

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Nationality</u>
Hernán Rincón Lema	Chief Executive Officer	63	Colombian
Gerardo Grajales López	Executive Vice-President and Chief Financial Officer	53	Colombian
Estuardo Ortiz	Executive Vice-President and Chief Revenue Officer	45	Guatemalan
Santiago Andrés Diago Heilbron	Executive Vice-President and Chief Operating Officer	48	Colombian
Elisa Murgas	General Secretary, Vice-President of Legal Affairs	62	Colombian
Eduardo Asmar	Vice-President of Corporate Planning	51	Colombian
Ana María Rubio	Vice-President of Human Resources	44	Colombian
Milton Solano	Vice-President of Accounting Shared Services	53	Salvadoran
Matthew Vincett	Chief Executive Officer of LifeMiles B.V	44	Canadian

**Mr. Rincon** has served in companies of technology and telecommunications industries such as Microsoft, Ferag Americas, Codelco and Grupo Unysis. Mr. Rincón holds a Bachelor of Arts degree in Mathematics and Computer Science from the State University of New York and a Master of Science degree in Industrial Engineering from the Universidad de los Andes, in Colombia. Mr. Rincon also holds a Masters degree from Harvard's John F. Kennedy School of Government, where he was a member of the prestigious Edward S. Mason Fellowship.

**Mr. Grajales** has served as our Executive Vice-President and Chief Financial Officer since February 2010 and was Avianca's Chief Financial Officer from May 2002 to February 2010. He has a B.S. in business administration from *Universidad ICESI* in Cali and an M.S. in finance from Baltimore University. Prior to his service with us, Mr. Grajales was the treasurer of Gillette Colombia from 1991 to 1995. He joined Baxter Pharmaceutical as the chief financial officer in 1995 and acted also as that company's marketing director for the Andean countries of Ecuador, Peru and Venezuela. In 1998, he entered the electric power industry in Colombia acting as the chief financial officer for three power distribution companies owned by Houston Power and Light in Colombia and subsequently acted as chief executive officer for two thermal power plants located near Cartagena, Colombia operated by AES Corp.

**Mr. Ortiz** has served as our Chief Revenue Officer since November 2013. Prior to November 2013, he served as Executive Vice-President and Chief Operations Officer since February 2010, and was Taca's Executive Vice President and Chief Operating Officer from January 2009 to February 2010. Prior to 2009, Mr. Ortiz served as the Vice-President of Commercial Operations at Taca from 2006 to 2008 and as Vice-President of Sales at Taca from 2005 to 2006. He previously developed a successful international career for 11 years in Philip Morris International and Kraft Foods, serving in a variety of roles in Sales, Marketing and General Management; including Country Manager El Salvador, Business Unit Director Caribbean and Director Sales Strategy for Latin America & Canada. He has a degree in chemical engineering from the *Universidad Rafael Landivar* in Guatemala and an MBA from the *Universidad Francisco Marroquin* in Guatemala. He has completed executive programs at Kellogg School of Management, Darden School of Business and Harvard Business School.

**Mr. Diago** has served as our Executive Vice-President and Chief Operating Officer since January 2014, and was Vice President of Flight Operations at Avianca from May 2001 to May 2009. Prior to January 2014, Mr. Diago served as Executive President of OceanAir Linhas Aéreas S.A., which conducts business under the trade name Avianca on domestic flights within Brazil. He has a law degree with emphasis in SocioEconomic Sciences from the Javeriana University of Bogotá and is an A320 pilot.

**Ms. Murgas** has served as our General Secretary and Vice-President of Legal Affairs and has been working with Avianca since October 1986. She holds a degree in law and political science from the Universidad Santo Tomás and a master's degree in commercial law from the Pontificia Universidad Javeriana. Prior to her service at Avianca, Ms. Murgas was a lawyer at the Colombian Welfare and Protection Ministry, where she had different positions, including as a lawyer for the General Division of Labor Matters.

**Mr. Asmar** has served as our Vice-President of Corporate Planning since August 2010. He has a degree in systems engineering from the Universidad de Los Andes in Bogotá. Mr. Asmar served as our Vice-President of Planning from November 2005 to August 2010.

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From 2002 until 2005, Mr. Asmar served as our Director of Network Planning, after having served from 1995 until 2002 as our Chief of Network Planning.

**Ms. Rubio** has served as our Vice President, Human Resources since July 2015. She holds a Bachelor Degree in Business Administration and Finance from *Universidad de los Andes* in Bogotá, Colombia and has a post-graduate degree in human resources from the same university. Prior to her service in Avianca, Ms. Rubio served as Human Resources Director at Merck's KGaA for Latin America, where she was in charge of 21 countries from 2010 to 2015. Prior to that, she was the Human Resources Vice President of Copa Airlines Colombia from 2006 to 2010.

**Mr. Solano** has served as our Vice President of Accounting Shared Services (Principal Accounting Officer) since February 2010 and was Taca's Financial Services Director from 2001 to 2009. Prior to that, Mr. Solano served in several financial management positions in Taca from 1996 to 2001. Prior to joining Taca, he spent seven years as Finance Manager with British American Tobacco and previously had a successful career as Audit Manager in KPMG. Mr. Solano has a degree in Accounting and Auditing from the *Universidad Centroamericana José Simeón Cañas* in El Salvador and a post-graduate degree in Business Administration from the *Pontificia Universidad Católica de Chile*.

**Mr. Vincett** has served as Chief Executive Officer of *LifeMiles B.V.*, our loyalty business unit, since 2015. He was our Vice-President of our loyalty business unit since 2010, where he led the integration of the loyalty areas of Avianca and Taca, the creation and development of the *LifeMiles* program and the spin-off of our loyalty business unit. Prior to his tenure at Avianca, Mr. Vincett served as Commercial Vice President and Regional Airlines Vice President at Taca. He holds a Bachelor of Arts from the University of Western Ontario in Canada and a Masters in Business Administration from the *Institut Européen d'Administration des Affaires* (INSEAD) in France.

The business address for all of our directors and senior management is c/o Avianca, Avenida Calle 26, No. 59—15, Centro Administrativo, 10th Floor, Bogotá, Colombia.

## **B. Compensation**

In 2015, we paid approximately \$4.6 million in aggregate cash compensation to our executive officers. In addition, in 2015 we paid approximately \$1.3 million in aggregate to our board members for their service on



our board, and they and their spouses were entitled to travel free on our domestic and international flights. In addition, during 2015, pursuant to an agreement entered into in 2009 in anticipation of the combination of Avianca and Taca, we allowed members of the Efromovich and Kriete families to travel free on a total of 1,126 of our domestic and international flights. We anticipate allowing such family members a similar number of free flights in 2016. We have not set aside any funds for future payments to executive officers or directors.

We intend to continue to compensate non-management directors for their service on our board. We currently expect to pay each such director \$12,000 per year plus expenses incurred to attend our board of directors meetings. In addition, members of committees of the board of directors will receive \$1,000 for each committee meeting. All of the members of our board of directors and their spouses will also be entitled to travel free on our domestic and international flights each year.

We had accrued pension benefits and employee benefits of \$160.6 million, \$222.7 million and \$328.7 million as of December 31, 2015, December 31, 2014 and December 31, 2013, respectively.

### ***Compensation Plan***

On March 15, 2012, we adopted an executive compensation plan linked to the trading price of our preferred shares listed in the Colombian Stock Exchange, or the Compensation Plan, for the benefit of the members of our board of directors, our Chief Executive Officer, our Chief Financial Officer, our Executive Vice-President and Chief Operations Officer and our General Secretary, Vice-President of Legal Affairs as well as for the benefit of certain Vice Presidents and Division Directors of Avianca, Taca International, Taca Costa Rica, Trans American Airlines, Tampa Cargo, LACSA, Aerogal and Technical and Training Services, or the Beneficiaries. Payments due to the Beneficiaries under the Compensation Plan will be effected by an autonomous trust managed by *Fiduciaria Bogotá*, a Colombian trust company (*sociedad fiduciaria*).

One bonus trust unit is equivalent to one preferred share listed in the Colombian Stock Exchange. In the case that the holder redeems its bonus trust units, settlement will be in cash and no delivery of preferred shares to the bonus units holder will be made.

Bonus units have been distributed among the Beneficiaries in accordance with the following percentages:

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<b>Beneficiaries</b>	<b>Percentage</b>
Our board members (11 beneficiaries)	5.00%
President and Chief Executive Officer	4.30%
Executive Vice-President and Chief Financial Officer	2.03%
Executive Vice-President and Chief Revenue Officer	2.03%
Executive Vice-President and Chief Operations Officer	1.14%
Vice Presidents (20 beneficiaries)	20.94%
Division Directors (100 beneficiaries)	55.70%
Future officers reserve	8.86%
<b>Total</b>	<b>100.00%</b>

The Compensation Plan has a four-year term, starting as of March 15, 2012 and ending on March 15, 2016. The Compensation Plan includes four accreditation dates (March 15, 2013, March 15, 2014, March 15, 2015 and March 15, 2016) on which the Beneficiaries are given the right to redeem their bonus trust units. At each

accreditation date, the Beneficiaries will have a five-year term to redeem 25% of their respective bonus units. The first tranche vested on March 15, 2013, however, no rights have been redeemed as of December 31, 2015 because our stock had not reached the established strike price.

<u>Accreditation Dates</u>	<u>Redemption period</u>
March 15, 2013	From March 16, 2013 until March 15, 2018
March 15, 2014	From March 16, 2014 until March 15, 2019
March 15, 2015	From March 16, 2015 until March 15, 2020
March 15, 2016	From March 16, 2016 until March 15, 2021

The Compensation Plan participants have the option to redeem the vested portion of their respective rights for cash, with the payment being equal to the difference between the trading share price of the preferred shares of Avianca Holdings, S.A., as reported by the Colombia Stock Exchange during the 30 calendar days immediately preceding redemption and COP5,000.

On November 5, 2013, the Company listed its ADSs on the New York Stock Exchange. As a consequence, the terms of the Compensation Plan have been modified as follows: Starting on the effective date of the sale of ADSs in the market, the value of each award, as long as the result is positive, will be (i) the difference between the average quote of the ADSs representative of preferred shares of Avianca Holdings, S.A., as reported by the New York Stock Exchange during the 30 calendar days immediately prior to each vesting date of the Compensation Plan and \$15, and (ii) divided by eight, considering that each ADS represents eight preferred shares, and multiplying the resulting amount by the exchange rate of COP1,901.22 per \$1 (the exchange rate as of November 5, 2013 or the effective date of listing of the ADSs in the New York Stock Exchange). However, this modification does not affect the first tranche which vested on March 15, 2013.

Additionally, the Company issued 1,840,000 new awards, or the New Awards, to the Board of Directors and certain executives on November 6, 2013. These New Awards vest in four equal tranches and expire five years after the vesting date. The value of each New Award is determined in the same way as the modified terms of the Compensation Plans.

As of December 31, 2015, 18,026,158 awards were outstanding. A summary of the terms of the 1,840,000 New Awards is as follows:

<u>Vesting dates</u>	<u>Percentage vesting</u>	<u>Redemption period</u>
November 6, 2014	25%	From November 7, 2014 through November 6, 2019
November 6, 2015	25%	From November 7, 2015 through November 6, 2020
November 6, 2016	25%	From November 7, 2016 through November 6, 2021
November 6, 2017	25%	From November 7, 2017 through November 6, 2022

Participants who are terminated, or resigned, cease to participate in the Compensation Plan. The awards were only issued to board members and key management.

### **C. Board Practices**

Our board of directors is currently comprised of eleven members. The terms of each of our current directors will expire in March 2017. See “Item 6. Directors, Senior Management and Employees—Part A. Directors and Senior Management.” None of our directors has entered into any service contract with us.

#### **Committees of the Board of Directors**

The following is a brief description of certain of the committees of our board of directors.

##### ***Audit Committee***

Our audit committee consists of Mr. Oscar Dario Morales, Mr. Isaac Yanovich, Ms. Monica Aparicio Smith and Mr. Juan Guillermo Serna. All of the members of our Audit Committee are independent.

The audit committee provides assistance to our board of directors in monitoring the quality, reliability and integrity of our accounting policies and consolidated financial statements, overseeing our compliance with legal and regulatory requirements and reviewing the independence, qualifications and performance of our internal and independent auditors. The audit committee is also responsible for:

- the appointment, compensation, and oversight of our internal auditor;
- reviewing and approving the audit annual plan presented by our internal auditor;
- reviewing, on an annual basis, a report by the internal auditor describing the our internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the auditing firm, and all relationships between us and the internal auditor;
- discussing the annual audited and quarterly unaudited consolidated financial statements with management and the independent auditor;
- assessing the performance of our internal auditor,
- reporting to the board of directors with respect to (i) the quality and sufficiency of our consolidated financial statements, (ii) our compliance with legal and regulatory requirements, (iii) the performance and independence of our external auditor, and (iv) the performance of the internal auditor;
- reviewing and approving material related party transactions to address potential conflicts of interest;
- meeting periodically with the independent auditor, internal auditors and management;
- together with the independent auditor, reviewing any difficulty encountered by the internal audit team during the audit process;
- establishing policies regarding our hiring of employees or former employees of the independent auditor;
- annually reviewing and reassessing the adequacy of audit committee’s written charter and recommending any proposed changes to the board of directors;
- conducting an annual performance review and evaluation of the audit committee; and,
- handling other matters that are specifically delegated to the audit committee by the board of directors from time to time.

##### ***Compensation Committee***

Our compensation and human resource committee consists of Mr. Roberto Kriete, Mr. Ramiro Valencia Cossio, Ms. Monica Aparicio, Mr. Isaac Yanovich and Mr. José Efromovich. Our compensation committee provides assistance to our board of directors with respect to the compensation of our directors, executive officers and employees. Our compensation committee recommends to our board of directors the basic

compensation policies that it believes should be undertaken by us with respect to our executive officers and employees and also recommends the objectives that should be taken into account in connection with the compensation of our directors and executives officers.

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***Financial Committee***

Our financial committee consists of Mr. Roberto Kriete, Mr. Juan Guillermo Serna, Mr. Alvaro Jaramillo, Mr. Oscar Dario Morales and Mr. Alexander Bialer. This committee is responsible for setting our financial and risk management policies. Our financial committee is also empowered to provide recommendations to our board of directors with respect to our capital structure.

**D. Employees**

As of December 31, 2015, we had a total of 21,145 employees, including cooperative members that provide certain ordinary-course services. As of December 31, 2015, the cooperatives with which we had contractual arrangements had approximately 5,112 cooperative members in Colombia. These cooperative members are not employed by us, and our contractual obligations run to the cooperatives and not to their members.

Approximately 59.6% of our employees are located in Colombia, 7.2% in Peru, 4.8% in Ecuador, 15.5% in El Salvador, 5.6% in Costa Rica and 7.3% elsewhere. Our employees can be categorized as follows:

	<b>At December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Pilots	1,949	1,999	1,774	1,693	1,652
Flight attendants	3,348	3,179	2,818	2,782	2,427
Mechanics(1)(2)	2,148	2,159	1,681	1,971	1,855
Customer service agents, reservation agents, ramp and other(2)	8,337	9,303	8,662	6,730	6,997
Management and clerical(2)	5,363	3,905	4,218	4,895	4,429
<b>Total employees</b>	<b>21,145</b>	<b>20,545</b>	<b>19,153</b>	<b>18,071</b>	<b>17,360</b>

- (1) The number of our mechanics fluctuates based on the scheduling of our aircraft maintenance. We are able to optimize the number of mechanics serving us because of the short-term nature of their employment contracts.
- (2) Includes third-party contractors and cooperative members in the following amounts:

	<b>December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Mechanics	684	821	682	574	616
Customer service agents, reservation agents, ramp and other	4,090	3,476	3,576	3,243	3,298
Management and clerical	338	316	111	132	1,094
<b>Total cooperative members</b>	<b>5,112</b>	<b>4,613</b>	<b>4,369</b>	<b>3,949</b>	<b>5,008</b>

***Collective Bargaining Arrangements***

Typically, our collective bargaining agreements in Colombia, Argentina, Uruguay, Brazil, Ecuador, Peru and Mexico last two to five years. We provide an essential public service, and as a result strikes and work interruptions are forbidden by law. Nevertheless, slow-down or stoppage or any prolonged dispute with our employees who are represented by any of these unions, or any other sizable number of our employees, could have a material adverse impact on our operations.

We provide sponsor employee benefit plans and arrangements that provide bonuses, seniority and retirement benefits, partial medical benefits and disability coverage and other benefits to certain of our non-unionized employees and participating retirees. Many of these benefits are provided under various benefits plans, while others are provided on a voluntary basis as a means to recruit and retain valuable employees. Voluntary benefit plans cover pilots, flight attendants and ground personnel, and are scheduled to remain in effect. These plans may be subject to litigation especially during the time following significant plan changes.

### *Colombia*

In Colombia, approximately 20% of our 6,370 employees, including 39% of our 1,212 pilots, are unionized as of December 31, 2015. The remainder of our employees in Colombia are members of our voluntary benefits program. We believe we generally maintain good relations with our union and non-union employees, and have not experienced material work stoppages for the past nine years. There are currently eight unions covering our employees in Colombia: the National Workers Union of Avianca, the National Union of Aircraft Industry Workers, the Colombian Association of Flight Attendants, the Colombian Association of Civil Aviators,

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the Colombian Association of Aircraft Mechanics, the Colombian Association of Flight Engineers, the Colombian Union of Air Transportation Workers and the Association of Tampa Cargo Workers.

On October 8, 2013, we successfully concluded negotiations with our non-unionized Colombian pilots and reached an agreement to modify the terms of our voluntary benefits program with them. On October 25, 2013, the new voluntary benefits program went into effect. These non-unionized pilots represent approximately 62% of our pilots in Colombia. This agreement with the non-unionized Colombian pilots includes a system of variable compensation goals associated with productivity, fuel savings and on-time performance metrics. We estimate that this new compensation system will result in an approximately 11% increase in salaries for these pilots, which will be retroactive to March 2013, but if the variable compensation goals are achieved, we believe other cost savings will result that will contribute to offset the increased salary costs associated with such agreement.

Simultaneously with our negotiations with the non-unionized Colombian pilots, we offered an increase in extra-benefits in the terms of such voluntary benefits program to the Colombian Association of Civil Aviators, or ACDAC, in the context of our ongoing negotiation of the terms of a new collective bargaining agreement. On October 8, 2013, ACDAC stepped aside and terminated negotiations with us. The prior collective bargaining agreement we had with ACDAC expired in March 2013, so the collective bargaining agreement between us and this union was automatically extended to a six-month period by law. Pursuant to a judicial order, we were required to resume our suspended negotiations with ACDAC on March 21, 2014. No agreement was reached during these negotiations, which expired on April 10, 2014.

Pursuant to a recent judicial order, we were required to begin negotiations with the Colombian Union of Air Transportation Workers (SINTRATAC). In October 2014, we were negotiating a new collective bargaining agreement with SINTRATAC. On May 15, 2015, the Ministry of Labor denied SINTRATAC's request to go to arbitration. On September 24, 2015, SINTRATAC withdrew the terms of a new collective bargaining

agreement. On September 25, 2015, SINTRATAC submitted to Avianca the terms of a new collective bargaining agreement, but we were unable to reach an agreement and SINTRATAC has not yet submitted a new request to go to arbitration. We currently do not have a collective bargaining agreement in place with SINTRATAC and are awaiting confirmation of a binding arbitration award to resolve this dispute.

Meanwhile, on August 14, 2015, the National Workers Union of Avianca, the National Union of Aircraft Industry Workers and Avianca signed a new collective bargaining agreement which will remain in place for five years and we expect negotiations will resume in June 2020.

The Association of Tampa Cargo Workers (ASOTRATAMPA) and Tampa signed a new collective bargaining agreement, on November 19, 2015, which will remain in place for three years and we expect negotiations will resume in June 2018.

#### *Other Countries*

There are currently five unions in three different countries covering 5% of our 8,544 employees outside Colombia. Only two of them will be subject to negotiations in 2016, the Workers Union of Trans American Airlines –SINTAITRA, and the Pilots Union of Trans American Airlines, -SIPTRA. There are other unions, which we are only subject to industry negotiations. We believe we maintain generally good relations with our union and non-union employees, in all countries. We currently do not have any material labor claims and have not experienced material work stoppages for the past sixteen years.

Our non-union employees outside Colombia are also members of our voluntary benefits program and we also provide some of them with sponsor employee benefit plans and arrangements that provide bonuses, seniority and retirement benefits, partial medical benefits and disability coverage and other benefits.

#### *Employee Incentive Programs*

We have goal driven compensation incentive programs for our management and employees that utilize financial and operating goals, including a profit sharing program for our management based on goals set on a quarterly and annual basis. We also have employee incentives for the achievement of monthly on time performance goals. We believe that our management and employee incentive programs contribute to our success by rewarding the accomplishment of pre-defined financial and operating goals with variable compensation. Bonuses are usually paid two months after the end of each semester and can represent anywhere from 10% to 50% of an employee's total annual base salary. Typically, 50% of the bonus amount is based on corporate performance, and the remaining 50% is based on the achievement of individual goals, as determined for managers in each department. Although our incentive programs are designed to reward outstanding operations, financial performance and customer service, safety is our priority, included on key performance indicators dashboards for executives. See "Item 6. Directors, Senior Management and Employees—Part B. Compensation—Compensation Plan."

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### **E. Share Ownership**

Mr. Germán Efromovich and Mr. José Efromovich may be deemed to have beneficial ownership of shares in us held by Synergy and Mr. Roberto Kriete may be deemed to have beneficial ownership of shares in us held by Kingsland. See "Item 7. Major Shareholders and Related Party Transactions—Part A. Major Shareholders." As of March 31, 2016, each of the other members of our board of directors and our executive officers owns less than one percent of our preferred shares and of our common shares.

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders

#### Beneficial Ownership of our Capital Stock

The following table sets forth information relating to the beneficial ownership of our capital stock as of March 31, 2016.

	Beneficial ownership (as of March 31, 2016)			
	Common Shares	%	Preferred Shares(3)	%
Synergy Aerospace Corp(1)	516,000,000	78.1%	—	—
Kingsland Holdings Limited(2)	144,800,003	21.9%	—	—
Directors and officers	—	—	26,225	0.01%
Other	—	—	340,481,692	99.99%
Total	660,800,003	100.0%	340,507,917	100.0%

- (1) A company registered according to the laws of the Republic of Panama, 100% property of the Synergy Group Corp. a company also constituted in Panama. Mr. Germán Efromovich and Mr. José Efromovich have dispositive voting power of Synergy's shares. A majority of the common shares owned by Synergy have been pledged to secure loans from third parties.
- (2) Special purpose company incorporated according to the laws of the Bahamas, 100% indirect property of Atlantis Trust. Mr. Roberto Kriete and his family have dispositive voting power of Kingsland's shares.
- (3) Including 4,320,632 preferred shares held by Fidubogota on behalf of us.

Approximately 33.6% of our outstanding capital stock (not including preferred stock held by us) is represented by our preferred shares, including the preferred shares represented by the ADSs, and approximately 78.1% and 21.9% of our common shares are held by Synergy and Kingsland, respectively.

In May 2011, Synergy and Kingsland converted 15,000,000 and 42,600,000 common shares, respectively, into preferred shares in connection with the initial public offering of our preferred shares in Colombia.

In November 2013, Kingsland Holdings Limited, Inter Allied Holdings Two Corp. and Mr. A. Daniel Ratti converted 69,999,997, 2,800,000 and 2,800,000 common shares, respectively, into preferred shares in connection with the initial public offering of our ADSs in the United States.

On November 27, 2014, Synergy Aerospace Corp converted 5,000,000 common shares into preferred shares.

Synergy and its control persons own controlling interests in a number of other businesses, including OceanAir, a Brazilian airline, with which we have significant business transactions and agreements. For further information regarding our relationship with Ocean Air, see "Item 7. Major Shareholders and Related Party Transactions—Part B. Related Party Transactions." Mr. Germán Efromovich and his brother Mr. José Efromovich are the ultimate beneficial owners of Synergy.

Kingsland Holdings Limited is a special purpose Bahamian company organized for the purpose of holding our shares for the benefit of certain members of the Kriete family.

As of February 29, 2016, there were no record holders of our common shares in the United States. It is not practicable for us to determine the number of holders of our preferred shares in the United States.

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### **Joint Action Agreement with Synergy and Kingsland**

We and our controlling shareholders, Synergy and Kingsland, are parties to the Joint Action Agreement that became effective upon the consummation of our November 2013 U.S. initial public offering and gave Synergy and Kingsland veto power over certain strategic and operating transactions. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to the ADSs and our Preferred Shares—Our two principal shareholders have veto power over certain strategic and operating transactions, and their interests may differ significantly from the interests of other shareholders” and “Item 7. Major Shareholders and Related Party Transactions— Related Party Transactions—Joint Action Agreement.”

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### **B. Related Party Transactions**

We currently engage in, and expect from time to time in the future to engage in, financial and commercial transactions with “related parties” (within the meaning of the SEC rules) which comply with transfer pricing rules applicable in the corresponding jurisdictions and Corporate Governance Policies.

#### **Termination of Avianca’s option to acquire OceanAir and resulting debt owing to Avianca and subsidiaries.**

On January 1, 2009, our subsidiary Avianca entered into an agreement, or the Option Agreement, with Germán Efromovich, José Efromovich and *SpSYn Participações S.A.*, or SpSYn, the shareholders of *OceanAir Linhas Aereas S.A.*, or OceanAir. Synergy Group Corp., or Synergy Group, guaranteed the obligations of OceanAir and of its shareholders under the Option Agreement. Synergy Group is beneficially owned by Germán and José Efromovich and José Efromovich controls SpSYn. Under the Option Agreement, Avianca received an option to acquire all the outstanding shares of OceanAir and in exchange was obligated to provide the working capital required by OceanAir during the term of the Option Agreement in the form of loans, advances or capital contributions. The option exercise price was equal to the outstanding balance of the debt of OceanAir, its shareholders and their affiliates with Avianca and its subsidiaries at the exercise date of the option.

The Option Agreement provided that if Avianca did not exercise its option to acquire the shares of OceanAir during the term of the Option Agreement, Avianca would no longer have any obligation to provide working capital to OceanAir, and OceanAir would be obligated to repay all its debts owing to Avianca and its subsidiaries. This debt included debt arising out of the lease of certain aircraft leases to OceanAir by Aviation Leasing Services Investments S.A., a subsidiary of Avianca, and additional debt incurred by OceanAir as a result of Avianca’s obligation to provide working capital under the Option Agreement.

The initial one-year term of the Option Agreement was extended twice and expired on June 30, 2010. On December 30, 2010 the parties to the Option Agreement entered into an agreement to restructure the payment obligations to Avianca and its subsidiaries that became due and payable upon expiration of the Option Agreement. Pursuant to this restructuring agreement, SpSYn assumed OceanAir’s obligation to repay the full amount of its debt owing to Avianca and its subsidiaries (approximately \$60.7 million) as follows: \$5.0 million upon signing of the termination agreement, \$12.0 million on December 31, 2011, \$18.0 million on December 31, 2012 and \$25.7 million on December 31, 2013. The unpaid amount of such debt bore interest at a rate of three-month LIBOR plus 5.5%. Synergy Group, Germán Efromovich and José Efromovich each guaranteed SpSYn’s obligation to repay such debt. This payment schedule was amended initially on December 30, 2011 and again on February 28, 2012 so that the debt was payable as follows: \$6.6 million on



March 30, 2012, \$10.6 million on December 31, 2012, \$15.9 million on December 31, 2013 and \$22.6 million on December 31, 2014.

The \$6.6 million payment due on March 30, 2012 was paid on such date. On February 28, 2012, Avianca executed an agreement to purchase from Synergy Group a share of a real property in Bogotá, Colombia, which both parties had acquired jointly in 2007. Avianca agreed to offset the COP12,666 million purchase price of the share (approximately \$7.2 million) against the outstanding balance of the debt of SpSYn under the termination agreement. The balance of the \$10.6 million payment due on December 31, 2012 was paid on such date. On December 3, 2013 a public deed was granted which formalized the transfer to Avianca of the share on the real property previously owned by Synergy except with respect to one piece of land which is pending to be released from a foreclosure action by a third party. We continue advancing with the commercial efforts to achieve the consummation of the sale of this property.

On December 31, 2014, the \$22.6 million payment became due under the termination agreement but was not received. On March 24, 2015, we entered into an agreement with SpSYn and the other parties under the termination agreement whereby Synergy committed to make this payment (plus interest accruing at LIBOR plus 5.5%), with the dividends paid by Avianca on October 2015 and 2016. On October 23, 2015 Synergy made a total payment amounting to \$11.0 million, which includes \$1.2 million of accrued interest at the payment date. The remaining \$12.8 million will be paid in 2016 (plus interest accruing at LIBOR plus 5.5%).

#### **Compensation for Delay in Delivery of Aircraft**

In March 2015, we agreed with Synergy to receive a compensation payment for the delay in the delivery of an Airbus A330F aircraft in the amount of \$5.3 million (plus interests accruing at LIBOR plus 5.5%). On October 23, 2015 Synergy paid the agreed amount, including interest in the amount of \$0.4 million.

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#### **Licensing of Avianca name to OceanAir**

In December 2009, we entered into an agreement with OceanAir pursuant to which OceanAir uses our *Avianca* trademark in its operations. We believe that by using Avianca's trade name in Brazil, OceanAir increases our commercial presence in Brazil. In addition, since December 5, 2005, we have licensed Avianca's *Cóndor* trademark to OceanAir for use throughout Brazil. On February 20, 2014 there was an amendment to this licensing agreement in order to include the licensing of the new figurative trademark. This trademark arrangement may be terminated by either party on 60 days' notice, upon breach by either party or by mutual consent.

#### **Lease and sublease of aircraft to and from OceanAir**

As of December, 2015, we leased three Fokker-100s to OceanAir through several trusts administered by Wilmington Trust Company, of which our subsidiary, Aviation Leasing Services Investments S.A., or ALS, is the beneficial owner. These leases expired on April 15, 2016.

In addition, as of December 31, 2015, we subleased 3 Airbus 319s to OceanAir. The subleases are scheduled to expire on April 7, 2016, May 4, 2022 and July 2, 2020, respectively. OceanAir is required to make lease payments of \$363,893, \$327,000 and \$339,000 per month, respectively, for the three aircraft. In the event that OceanAir does not pay us the amounts per month described above, we remain liable for such payments to the lessor, as we are the primary obligor on each such lease. As of December 31, 2015, \$5.5 million of lease payments from OceanAir were past due. On March 24, 2015, we reached an agreement with OceanAir whereby OceanAir will pay us a total amount of \$6.5 million (plus interest accruing at LIBOR plus 5.5%), which includes the past due payments on leases and other services to settle these agreements. On October 23,

2015, OceanAir made a total payment amounting to \$6.8 million, which includes \$0.3 million of accrued interest at the payment date.

During the first half of 2014 we subleased an A330F to OceanAir and entered into a block space international cargo operations agreement and an intermediary commercial agreement for domestic cargo operations in which OceanAir is the operator in both the domestic and international markets.

#### **Passenger sales agency and code sharing agreements with OceanAir**

Since September 1, 2012, OceanAir Lihnas Aereas S.A. has been acting as a general sales agent for passenger transportation services for Avianca, Trans American Airlines S.A. and LACSA in Brazil. Under an agreement we have entered into with OceanAir, OceanAir has the capacity to promote and sell services of those companies and act as their representative for commercial purposes. OceanAir is paid a commission equivalent to 1.6% of the net flown revenue for each such company and has a minimum guaranteed payment of approximately \$2.8 million to cover its expenses. There are other ancillary services provided related to legal representation and management of passengers claims. OceanAir has been acting as general sales agent for passenger transportation services for Avianca since 2005. We believe the services provided under these agreements and the compensation therefor are consistent with market practices in all material respects. This agreement may be terminated by either party at any time on 60 days' notice.

Under an agreement effective March 15, 2010, our subsidiary Avianca Inc. acts as promotion and sales agent for passenger and cargo transportation services and as sales and purchase agent for aeronautical materials and services for OceanAir in the United States and Canada. Avianca Inc. is paid a commission of 1.0% of net sales made by travel agencies, OceanAir's web portal and Avianca Inc.'s ticket offices in the United States and Canada. In addition, Avianca Inc. is paid a fee equal to 3.0% of the operational and administrative expenses it incurs in performing its services as sales and purchase agent. This agreement automatically renews annually unless either party gives notice of termination 60 days in advance of the termination date.

We also have several code share agreements with OceanAir pursuant to which we may sell seats on OceanAir's São Paulo-Rio de Janeiro flights.

#### **Handling agreement with OceanAir**

Our subsidiary, Avianca Inc., also acts as OceanAir's agent for handling aeronautical equipment, such as spare parts, within the United States, and for final delivery thereof to Brazil under an agency agreement effective as of April 2, 2007. We believe the services provided under this agreement and the compensation therefor are consistent with market practices in all material respects.

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#### **Other arrangements with OceanAir**

We also have airport services agreements with OceanAir to support check in and dispatch of passengers at the different airports where Avianca, Trans American Airlines S.A. and LACSA operate.

#### **Arrangements with affiliated service providers**

We pay certain of our affiliates for services related to maintenance, cargo and courier services, hotel accommodation services, personnel ground transportation and other services. *Empresariales S.A.S.*, an affiliate of Synergy, provides ground transportation for our crew and other employees. *Transportadora del Meta S.A.S.*, an affiliate of Synergy, provides ground cargo and courier services in connection with our cargo and courier business. *Global Operadora Hotelera S.A.*, entity controlled by a foundation created by Germán

Efromovich, provides hotel accommodation services for our crew and other employees. *Aeromantenimiento S.A.*, an affiliate of Kingsland, provides us with maintenance services related to our fleet. All of these arrangements comply with transfer pricing rules applicable in the corresponding jurisdictions and were approved by a majority of our independent directors.

During the year ended December 31, 2015, our total expenses related to services provided by these affiliates was \$46.7 million.

### **Joint Action Agreement**

We are a party to a Joint Action Agreement with Synergy and Kingsland. The Joint Action Agreement provides Synergy and Kingsland each with the right to nominate a number of directors in proportion to their respective holdings of our common shares and obligates us to take the necessary actions to give effect to the provisions of the Joint Action Agreement. The Joint Action Agreement also provides that a majority of our directors will be independent under the rules and regulations of the NYSE.

Our operations are controlled by our management under the direction and supervision of our board of directors, however the Joint Action Agreement gives Synergy and Kingsland veto power over certain strategic and operating transactions including, among others:

- mergers and consolidations;
- certain acquisitions or investments in excess of \$30 million in any single instance and \$75 million in the aggregate during any fiscal year, except as already contemplated in our annual budget;
- our business plan and annual budget;
- capital expenditures in excess of \$120 million, except as already contemplated in our annual budget;
- changes to our charter and bylaws or other similar document;
- issuance of voting stock; and
- related party transactions.

In the event that Kingsland exercises any of its veto rights above, Synergy has the option to deliver a buyout notice with respect to 100 million of our common shares held by Kingsland, or if Kingsland owns less than 100 million common shares, all such common shares, or the Buyout Shares. After the issuance of a buyout notice, Kingsland and Synergy will attempt to come to a mutual agreement regarding the matter with respect to which Kingsland exercised its veto. If all necessary Board and stockholder approvals are obtained and the matter is not resolved prior to the later of the 21<sup>st</sup> day after of the issuance of the buyout notice or the third business day after the Board or stockholder approval, or the Buyout Determination Date, Synergy may purchase the Buyout Shares at a price per share equal to the weighted average price per preferred share (as derived from the price per ADS) during the 60 trading days immediately prior to the date on which Kingsland exercised its veto plus a premium. Synergy also has the option to withdraw the buyout notice within 120 days following delivery by Synergy to Kingsland of the buyout notice, and if Synergy fails to purchase the Buyout Shares within 180 days following delivery by Synergy to Kingsland of the buyout notice, Synergy will be obligated to pay Kingsland 10.0% of the fair value of the Buyout Shares. If Synergy purchases the Buyout Shares, Kingsland's veto is deemed withdrawn, we may consummate the matter, and Kingsland will lose its veto rights under the Joint Action Agreement.

In addition, under the Joint Action Agreement, certain transactions require the approval of a majority of the independent directors before being submitted to the full board for approval, including:

- commencement and/or settlement of litigation in excess of \$5 million;
- commencement of any bankruptcy or insolvency proceeding and/or dissolving or liquidating or agreeing to dissolve or liquidate;

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- certain incurrences of indebtedness;
- adoption or amending of any equity incentive plan;
- execution of certain material or long-term contracts and licenses;
- modification of our dividend policy; and
- other potentially significant strategic and operational actions affecting us.

In the event that Synergy sells to a buyer substantially all of its airline assets or undergoes a change of control, Kingsland will have the option, upon written notice, to require such buyer (and if such buyer fails to do so, Synergy) to purchase our shares from Kingsland.

In the event that the Chief Executive Officer or Chief Financial Officer position becomes vacant, a search firm (in the case of a Chief Executive Officer vacancy) or the Chief Executive Officer (in the case of a Chief Financial Officer vacancy) will put together a slate of candidates, and each of Kingsland and Synergy will have the right to veto up to one-third of such candidates before the remaining candidates are presented to the board of directors for approval and appointment.

Kingsland's veto rights will partially terminate when Synergy owns more than four times the amount of our common shares as Kingsland and Kingsland owns less than 16.5% of our common shares. Kingsland's and Synergy's veto rights and their rights to nominate directors will terminate when Synergy owns more than five and one half times the amount of our common shares as Kingsland. The Joint Action Agreement will also terminate if Kingsland undergoes a change in control or when Kingsland owns less than 3.0% of our common shares, but if the agreement terminates because of a decrease in Kingsland's common share ownership percentage Kingsland will continue to have the right to nominate Roberto Kriete as our director so long as it owns at least 1.0% of our common shares. The Joint Action Agreement can be terminated upon agreement by its parties.

### **Amendment to our articles of incorporation (*Pacto Social*)**

Upon the consummation of our November 2013 U.S. initial public offering, our articles of incorporation (*Pacto Social*) were amended to reflect the replacement of the Shareholders' Agreement with the Joint Action Agreement. On March 25, 2014, our articles of incorporation (*Pacto Social*) were further amended to reflect the appointment of a Vice-President of Operations who shall act as Chief Operating Officer of the Company.

### **Registration Rights Agreement**

We, Synergy and Kingsland are party to a registration rights agreement, which was amended upon the consummation of our November 2013 U.S. initial public offering, pursuant to which Synergy and Kingsland have certain registration rights, including the ability to require us to register their common shares, preferred shares or ADSs in a registered public offering (subject to certain restrictions and limitations). In connection with our November 2013 U.S. initial public offering, each of Synergy and Kingsland agreed with the underwriters to a lock-up period of 180 days. In addition, under the registration rights agreement, Synergy has agreed, for the benefit of Kingsland, not to sell or otherwise dispose of its common shares or preferred shares during the 360-day period beginning on November 5, 2013.

### **C. Interests of Experts and Counsel**

Not applicable.

## **Item 8. Financial Information**

### **A. Consolidated Statements and Other Financial Information**

See “Item 3. Key Information—Part A. Selected Financial Data,” “Item 18. Financial Statements” and our consolidated financial statements and the notes thereto beginning on page F-1.

### **Litigation**

Our subsidiaries are subject to several lawsuits regarding labor and civil actions in which an adverse decision may result in payment obligations of our subsidiaries. We intend to defend vigorously against these claims, but we cannot assure you that we will be successful. In the case of an adverse final decision in any of these lawsuits or in the event we are required to establish a reserve, our business, financial condition and ability to pay dividends or make other distributions would likely be materially and adversely

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affected. Out of the total claims and legal actions management has estimated a probable loss of \$13.4 million. See “Note 32—Provisions for legal claims” to our audited consolidated financial statements as of and for the year ended December 31, 2015.

### **Dividends and Dividend Policy**

The payment of dividends on our shares is subject to the discretion of our common shareholders. Under Panamanian law, we may pay dividends only out of retained earnings or capital surplus. So long as we do not default in our payments under our loan agreements, there are no covenants or other restrictions on Avianca Holdings S.A.’s ability to declare and pay dividends. Our articles of incorporation provide that all dividends declared by our general shareholders’ meeting will be paid equally with respect to all of the preferred shares and common shares. Our articles of incorporation also provide that our preferred shares have a right to a minimum preferred dividend that will be paid on a preferential basis over the dividend corresponding to our common stock. See “Item 10. Additional Information—Part B. Memorandum and Articles of Association—Description of Capital Stock—Preferred Shares—Minimum Preferred Dividend.”

Our shareholders have adopted a dividend policy that provides for the payment of annual dividends equal to at least 15% of our annual distributable profits (defined below). “Annual distributable profits” are defined in our by-laws as our annual profits (after taxes), *minus* amounts used to offset losses of previous fiscal periods, *minus* amounts necessary to fund legal and other reserves, if any. Panamanian law does not currently provide for a required legal reserve.

Holders of the preferred shares and ADSs are entitled to receive a minimum dividend to be paid preferentially over holders of common shares, so long as dividends have been declared by our shareholders at their annual meeting. If no dividends are declared, none of our shareholders will be entitled to any dividends. If dividends are declared and our annual distributable profits are sufficient to pay a dividend per share of at least COP50 per share to all our holders of preferred and common shares, such profits will be paid equally with respect to our preferred and common shares. However, if our annual distributable profits are insufficient to pay a dividend of at least COP50 per share to holders of our preferred and common shares, a minimum preferred dividend of COP50 per share will be distributed *pro rata* to the holders of our preferred shares, and any excess above such minimum preferred dividend will be distributed solely to holders of our common shares. See “Item 10. Additional Information—Part B. Memorandum and Articles of Association—Description of Capital Stock—Preferred Shares—Minimum Preferred Dividend.”

A majority of our common shareholders may, in their sole discretion and for any reason, amend or discontinue the dividend policy. Future dividends with respect to shares of our common stock, if any, will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that our board of directors may deem relevant. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to the ADSs and Our Preferred Shares—Our controlling shareholders have the ability to direct our affairs and their interests could conflict with those of our ADS holders.”

Avianca and certain of its subsidiaries are parties to bonds, leases and loan agreements that restrict their ability to pay dividends or make distributions to us. For a description of such restrictions, see “Item 5. Operating and Financial Review and Prospects—Part B. Liquidity and Capital Resources—Debt and Other Financing Agreements.”

On March 31, 2016, an annual dividend of COP50 per share was declared at our general shareholders meeting which is to be paid to shareholders of record in four equal installments of COP12.50 per share, no later than April 7, 2016, July 1, 2016, October 7, 2016 and December 16, 2016 and represents an aggregate dividend payment of approximately \$5.7 million (obtained by dividing the equivalent amount in Colombian pesos by the exchange rate of COP3,022.35 per US\$1.00 (the exchange rate as of March 31, 2016)), payable to the holders of the preferred, including the ADSs.

On April 17, 2015, an annual dividend of \$0.06691 per share was declared at our general shareholders meeting which is to be paid to shareholders of record no later than October 31, 2015 and represents an aggregate dividend payment of approximately \$67.1 million, payable to the holders of the preferred and common shares, including the ADSs.

On March 25, 2014, an annual dividend of COP75 (approximately \$0.04) per share was declared at our general shareholders meeting which was paid to shareholders of record on April 25, 2014 and represented an aggregate dividend payment of COP75,098 million (\$39.0 million), payable to the holders of the preferred and common shares, including the ADSs.

On March 21, 2013, an annual dividend of COP75 (approximately \$0.04) per share was declared at our general shareholders meeting which was paid to shareholders of record on April 28, 2013 and represented an aggregate dividend payment of COP67,598 million (\$36.9 million), payable to the holders of the preferred and common shares.

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On March 30, 2012, an annual dividend of COP50 (approximately \$0.03) per share was declared at our general shareholders meeting which was paid to shareholders of record on April 27, 2012 and represented in an aggregate dividend payment of COP45,064 million (\$25.6 million), payable to the holders of the preferred and common shares.

Prior to the March 2012 dividend payment, we had not paid a dividend since the combination of Avianca and Taca in 2010.

### **B. Significant Changes**

None.

### **Item 9. The Offer and Listing**

## A. Offer and Listing Details

### The ADSs

Our ADSs have been listed on The New York Stock Exchange since November 2013.

### Our Preferred Shares

Our preferred shares are currently registered in the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) kept by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and trade on the Colombian Stock Exchange (*Bolsa de Valores de Colombia*) under the symbol "PFAVH". On March 31, 2016, the closing price of our preferred shares on the Colombian Stock Exchange was COP1,900, or \$0.63 per share (based on the exchange rate on such date, which was COP3,022.35 per US\$1.00).

The following table sets forth for each year since our preferred shares began trading on May 11, 2011 and since our ADSs began trading on November 6, 2013 the high and low closing prices of our preferred shares on the Colombian Stock Exchange as reported by the Colombian Stock Exchange and of our ADSs on the NYSE.

	<u>Preferred Shares</u>		<u>ADSs</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(in COP/share)		(in US\$/share)	
2011 (beginning from the commencement of trading on May 11, 2011)	5,390	3,105	—	—
2012	4,705	3,290	—	—
2013 (in the case of the ADSs, beginning on November 6, 2013)	4,646	3,435	15.44	14.00
2014	4,485	3,205	18.39	10.46
2015	3,900	1,445	13.06	3.59

The following table sets forth for each quarter since January 1, 2014 the high and low closing prices of our preferred shares on the Colombian Stock Exchange as reported by the Colombian Stock Exchange and of our ADSs on the NYSE.

	<u>Preferred Shares</u>		<u>ADSs</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(in COP/share)		(in US\$/share)	
<b>2014:</b>				
First quarter	4,485	3,740	18.39	15.24
Second quarter	4,340	3,570	17.76	14.90
Third quarter	3,930	3,470	16.71	13.58
Fourth quarter	3,860	3,205	14.89	10.46
<b>2015:</b>				
First quarter	3,850	3,355	12.55	10.78
Second quarter	3,900	3,185	13.06	9.97
Third quarter	3,620	1,815	10.81	4.68
Fourth quarter	1,945	1,445	5.40	3.59
<b>2016:</b>				
First quarter	2,035	1,495	5.41	3.48

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The following table sets forth for each of the most recent six months in the case of our preferred shares and our ADSs the high and low closing prices of our preferred shares on the Colombian Stock Exchange as reported by the Colombian Stock Exchange and of our ADSs on the NYSE.

	<u>Preferred Shares</u>		<u>ADSs</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	(in COP/share)		(in US\$/share)	
October 2015	1,945	1,445	5.40	3.90
November 2015	1,725	1,480	4.54	3.90
December 2015	1,725	1,540	4.45	3.59
January 2016	1,695	1,495	4.14	3.48
February 2016	2,010	1,665	4.95	3.93
March 2016	2,035	1,880	5.41	4.64

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

Prior to 2001, there were three stock exchanges in Colombia: the Stock Exchange of Bogota created in 1928, the Stock Exchange of Medellin (1950) and the Stock Exchange of Occidente (1970).

After the limited economic growth during the 1980s, the economic expansion of the 1990s resulted in the Colombian capital markets growing at unprecedented rates, as indicated or measured by listed company's market capitalization, the total value traded in the stock markets and the total amount of outstanding domestic public and private bonds.

Such rapid growth has resulted in the increased regulation of the Colombian capital markets. In addition, such growth precipitated the merger of the Stock Exchanges of Bogota, Medellin and Occidente into the Colombian Stock Exchange in July 2001.

The Colombian Stock Exchange handles relatively minor trading and liquidity compared to stock exchanges in major financial centers. In addition, very few issuers represent a disproportionately large percentage of market capitalization and trading volume on the Colombian Stock Exchange. The Colombian Stock Exchange is subject to the inspection and supervision of the Colombian Financial Superintendency.

On November 22, 2010, the Colombian Stock Exchange completed its equity markets integration process of the Latin American Integrated Market (*Mercado Integrado Latinoamericano*), with the equity stock markets of Chile and Peru, which allows integrated trading and settlement. The Latin American Integrated Market is the leading market in terms of number of issuers (approximately 554 as of December 2012), the second in terms of market capitalization and the third in terms of volume in Latin America.

The total value of equities traded on the Colombian Stock Exchange during 2015 was COP39.7 trillion (including spot and repurchase and securities lending transactions). Spot transactions over equities traded during 2014 was COP39.7 trillion with a daily average of COP137.0 billion, representing a nominal decrease of 17.2% from the daily average value of equities traded in 2014. Both debt and equity securities are traded on the Colombian Stock Exchange, including stocks and bonds of private sector corporations, although the vast majority of securities traded are fixed income government debt securities.

The table below sets forth certain year-end information concerning equity securities listed on the Colombian Stock Exchange since 2007.



	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of listed companies	73	74	79	82	83	86	87	89	90
Market capitalization (in trillions of COP)	278	364	416	484	404	418	287	196	205

Source: *Colombian Stock Exchange*.

At December 31, 2015, the ten companies with the largest market capitalizations on the Colombian Stock Exchange represented approximately 91% of the total market capitalization of all companies listed and the ten most actively traded stocks on the Colombian Stock Exchange during the year 2015 represented 67% of the total trading volume during that period. Annual trading values of equity securities by exchange are set forth in the table below.

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<u>Annual Trading Values of Equity Securities (in trillions of COP) Year Ended December 31,</u>								
<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
40	40	49	71	68	54	40	40	32

Source: *Colombian Stock Exchange*.

Price movements in the Colombian equity market are reflected in the indices of equity securities traded on the Colombian Stock Exchange. The Colombian Stock Exchange has different market indices including: (i) the Stock Capitalization Index (COLCAP), (ii) the Stock Liquidity Index (COL20) and (iii) the General Index of the Colombian Stock Exchange (IGBC).

Our preferred shares are included on the COLCAP and IGBC indices.

The COLCAP is a capitalization index that reflects changes in the prices of the 20 most liquid shares of the Colombian Securities Exchange (BVC), where the weight of each share in the index is determined by the corresponding value of the adjusted market capitalization (company's float multiplied by the last price of its share). The selection function is the measure of liquidity used by the BVC to determine the shares that make up the COLCAP basket. Information on volume, turnover and frequency of each of the eligible shares is required to calculate this function. Recomposition of the index consists of the selection of shares that will make up the share basket of the index for the following year. During the recomposition process, the weight in the index of each share selected for the following quarter is also determined. The COLCAP recomposition is carried out after market closing on the last business day of October and will be in force from the first business day of November of the same year to the last business day of October of the following year. Index rebalancing consists of determining the weight of each share in the basket. COLCAP rebalancing is carried out on the last business day of the months of January, April and July each year. Rebalancing results in the adjustment of the weights of the shares that make up the index to reflect the changes in the adjusted market capitalization of each share. Under certain conditions, shares can be added to or removed from the index during a rebalancing period. Given its replicable index construction, the COLCAP has become the relevant benchmark for the Colombian stock market.

The IGBC is an index comprising stocks that meet certain frequency and turnover criteria. The weight of the shares in the index basket is determined by the amount of shares traded of each constituent. It has 7 sector

indices associated with its methodology (Agricultural, Retail, Financial, Industrial, Investment Companies, Public Services and Other Services).

## **Regulation of the Colombian securities market**

### ***Regulatory authorities***

The Colombian stock market is regulated by the Colombian Congress and by the Colombian government through the Ministry of Finance and Public Credit and the Colombian Superintendency of Finance. The Colombian government is responsible for the overall economic policy making in Colombia. Pursuant to Article 150(19)(d) of the Colombian Constitution, the Colombian Congress must determine the principles, criteria and objectives that the National Government of Colombia must observe when regulating all financial activities. Also, under Article 189(24) of the Colombian Constitution, the national government of Colombia must regulate, supervise and control institutions in the financial, insurance and securities industry.

The responsibilities of the Colombian government include the adoption of rules and regulations pertaining to, among other things, the public offering of securities; the operation and administration of the Integral Information System of the Securities Market, and the procedures for registration of securities, the establishment, operation and dissolution of infrastructure providers (such as central securities depositories and stock exchanges, among others), the disclosure obligations of periodic and relevant issuers of securities that are registered in the National Register of Securities and Issuers, regulation of market intermediaries, and establishing transparent criteria and best practices of negotiation.

On July 8, 2005, the Colombian Congress enacted the Colombian Securities Market Law (*Ley del Mercado de Valores*, Law 964 of 2005). Pursuant to Law 964 and Decree 663 of 1993, the Ministry of Finance and Public Credit is the governmental agency in charge of regulating the financial, insurance and securities markets. Direct supervisory authority of the financial, insurance and securities markets has been entrusted to the Colombian Superintendency of Finance.

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### ***Regulatory framework***

Law 964 of 2005 provides the principal legal framework that governs the Colombian securities market. The primary scope of Law 964 is to promote the efficiency, transparency and integrity and the development of the Colombian securities market. Law 964 also sets forth certain corporate governance standards for listed companies and issuers, such as the requirement that at least 25% of the board members be “independent” directors (as defined in Law 964), that the company maintain an audit committee with at least three board members, including all independent members, and that the company’s legal representatives adopt and implement internal control procedures and adequate mechanisms for disclosure of information and certify the truthfulness of the financial and other relevant information disclosed to the market.

In order to comply with the foregoing disclosure obligations, issuers must disclose relevant information through the Colombian Superintendency of Finance’s website as soon as the event to be disclosed has occurred or as soon as the issuer knows of its occurrence.

As a general rule, pursuant to Decree 2555, as amended, any transaction involving the sale of publicly traded stock in an amount of Colombian *pesos* equivalent or superior to 66,000 Units of Real Value (*Unidades de Valor Real*), an index calculated by the Central Bank of Colombia on a daily basis based on the monthly fluctuation of the consumer price index (*índice de precios al consumidor*) (equivalent to Ps.13,474,434.6 as of January 31, 2013), must be effected through transaction modules subject to the inspection and supervision of the Colombian Superintendency of Finance. Trading transactions of securities of non-Colombian companies

outside Colombia are generally exempt from this requirement. Stock transfers originated in operations different from buying or selling or conducted between two parties who are acting for the same beneficial owner are exempt as well, but must be informed to the Colombian Superintendency of Finance five days prior to the transaction. Decree 2555 expressly prohibits any issuer from registering such transactions which do not comply with these requirements in its share registry.

### **Regulation of the Colombian Stock Exchange**

Trading on the Colombian Stock Exchange is subject to specific private regulations issued by the Colombian Stock Exchange, particularly the General Rules of the Colombian Stock Exchange, as amended from time to time, the Regulation Letter (Circular Única de la Bolsa de Valores de Colombia), as amended from time to time, and Decree 2555 of 2010. These rules mainly govern listing and trading activities in the Colombian Stock Exchange. In particular, they include (i) listing requirements, (ii) suspension and/or cancellation of the securities listed with the Colombian Stock Exchange, and (iii) admission requirements for broker-dealers.

Prior to 1992, settlement procedures for trades on the Colombian Stock Exchange occurred through physical delivery of the securities and were regulated by the Colombian Stock Exchange. Deceval was established in 1992 as a centralized securities depository and clearing facility for securities of private issuers in charge of administering the transfer and registry of securities and facilitating the exercise of economic and political rights of securities holders. Deceval formally began operations in 1994 and its activities are regulated by Law 964 and Decree 2555, as amended. Settlement procedures could then be made either through physical delivery or in book-entry form. Except for some specific public auction procedures, since 2001 the settlement of securities transactions on the Colombian Stock Exchange is customarily made at T+3 through Deceval's book-entry system. There also exists in Colombia a limited clearing facility through the Colombian Central Bank for government-issued or government-guaranteed securities. In addition, by means of Resolution No. 0093 of 1995, in 1996 the Colombian Stock Exchange implemented an electronic system in order to access the information related to both the stocks and their issuers and the quantities and prices of each offering, demand and transactions traded on the exchanges (*Sistema Electrónico Transaccional*).

#### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

#### **F. Expenses of the Issue**

Not applicable.

### **Item 10. Additional Information**

#### **A. Share Capital**

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Not applicable.

## **B. Memorandum and Articles of Association**

We are principally engaged in the air transportation of passengers and cargo, although our articles of incorporation grant us general powers to engage in other lawful businesses as set forth in Article 2 of our articles of incorporation.

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#### **Description of Capital Stock**

##### ***General***

Our articles of incorporation authorize us to issue 4,000,000,000 shares of capital stock, par value of \$0.125 per share, which may be divided into common shares and shares with preferred dividend and limited voting rights, or our preferred shares.

As of December 31, 2015, we had 660,800,003 common shares and 340,507,917 preferred shares outstanding (including 4,320,632 preferred shares held by Fidubogota on behalf of us). Subject to certain exceptions, the number of preferred shares cannot exceed the number of common shares. If at any time preferred shares represent more than 75% of our capital stock, preferred shares may be issued upon the affirmative vote of holders of at least 70% of the outstanding common shares and holders of at least 70% of the outstanding preferred shares. Common shares may be freely converted into preferred shares upon the declaration of effectiveness of a registration statement associated with an ADR program of our preferred shares, *provided* that there shall be a minimum of 5 common shares at all times.

##### ***Preferred Shares***

Our preferred shares are currently registered in the Colombian National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*) kept by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and trade on the Colombian Stock Exchange. Pursuant to article 6.15.1.1.2 of Decree 2555 of 2010 issued by the Ministry of Credit and Public Finance of Colombia, or Decree 2555, subject to certain exceptions, all trades and sales of shares listed on the Colombian Stock Exchange must be made through the trading systems of the Colombian Stock Exchange. A holder of preferred shares must meet the requirements set forth by applicable Colombian regulations for the sale or transfer of the preferred shares to be a perfected interest and such sale or transfer must be properly registered in the Colombian centralized securities depository, or Deceval. Accordingly, any dispute that arises from the sale and purchase of preferred shares is subject to the Colombian laws and regulations and to the jurisdiction of Colombian courts.

The laws of Colombia govern any transfer or encumbrance of preferred shares except for matters that are governed by the laws of Panama or by our by-laws. Any claims brought against us by our shareholders shall be filed pursuant to the laws of Panama.

The holders of preferred shares are not entitled to receive notice of, attend to or vote at any general shareholder's meeting of holders of common shares except as described in our articles of incorporation or under "—Shareholders' Meetings."

##### ***Rights***

Each holder of preferred shares is entitled to, among other things:

- a minimum preferential dividend of COP50 per share. See "Item 10. Additional Information—Part B. Memorandum and Articles of Association—Preferred Shares—Minimum Preferred Dividend";

- subject to certain conditions, together with the holders of common shares a *pro rata* portion of our distributable profits;
- preferential reimbursement of its capital contributions once our other creditors are duly paid in the case of our dissolution or liquidation;
- exercise of certain tag along rights. See “Item 10. Additional Information—Part B. Memorandum and Articles of Association—Preferred Shares—Tag Along Rights”; and
- any other right granted by our by-laws to the holders of common shares, except for, subject to certain conditions: (i) pre-emptive rights of holders of common shares to subscribe capital stock different from preferred shares; (ii) the right to inspect our corporate books and records and (iii) right to participate and vote in a general shareholders meeting.

### ***Minimum Preferred Dividend***

Our articles of incorporation (*Pacto Social*) provide that holders of our preferred shares have a right to a minimum preferred dividend that will be paid on a preferential basis over the dividend corresponding to our common stock. If our annual distributable profits are sufficient to pay a dividend per share of at least COP50 per share to all our holders of preferred and common shares, such profits will be paid equally with respect to our preferred and common shares. However, if our annual distributable profits are not sufficient to pay a dividend of at least COP50 per share to holders of common shares and holders of preferred shares, a minimum

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preferred dividend of up to COP50 per share will be distributed *pro rata* to the holders of preferred shares, and any excess above such minimum preferred dividend will be distributed solely to holders of common shares.

Dividends must be paid in one or more installments, within the twelve (12) months following the date in which the dividend payment terms and conditions are approved by the general shareholders meeting. Dividends are payable to the holders that are registered in the book-entry system of Deceval as of the ex-dividend date established pursuant to Colombian law. Dividends are payable in Colombian pesos and, when the dividends are approved in a currency different than Colombian pesos, dividends will be converted to Colombian pesos using the current market exchange rate (*tasa representativa del mercado*), or TRM, in force in the previous business day in which payment must be made. All dividend payments of preferred shares shall be made through Deceval. Dividends paid to the holders of ADSs will be converted into U.S. dollars by the depository.

To the extent permitted by applicable law, our articles of incorporation and Deceval’s internal systems, we may either pay dividends outside Colombia to shareholders who are non-Colombian residents or, if possible, transfer the funds corresponding to the non-Colombian resident shareholders to an account held by Deceval outside Colombia. Thereafter, Deceval, on our behalf, will pay the dividends to the non-Colombian resident shareholders outside Colombia. In any case, payments of dividends will be conducted in accordance with foreign exchange regulations.

A majority of our shareholders may, in their sole discretion and for any reason, amend or discontinue the dividend policy.

### ***Liquidation Preference***

Upon liquidation, each holder of preferred shares, and consequently ADSs, will be entitled to a preferential reimbursement of its capital contribution (*aporte*) out of the surplus assets available for distribution to shareholders. This reimbursement, if any, is payable in Colombian pesos before any distribution or payment may be made to holders of common shares. Amounts in Colombian pesos will be converted by the depository into U.S. dollars and paid to the holders of ADSs, net of fees, expenses and any taxes. If, upon any liquidation, assets that are available for distribution among the holders of preferred shares and ADSs (in liquidation) are insufficient to pay in full their respective liquidation preferences, such assets will be distributed among those holders *pro rata*.

### ***Limited Voting Rights***

Each holder of preferred shares is entitled to vote at a general shareholders' meeting only in connection with the following matters, subject to certain conditions:

- our anticipated dissolution, merger or transformation or change of our corporate purpose;
- the suspension or cancellation of the registration of preferred shares at the Colombian Stock Exchange; and
- determination by the Colombian Financial Superintendency that there have been concealed or diverted benefits that decreased our distributable profits.

Also, each holder of preferred shares shall be entitled to one vote on all matters submitted to a vote at a general shareholders' meeting when the holders of preferred shares represent more than 75% of our capital stock.

### ***Tag Along Rights***

Holders of preferred shares are entitled to participate in any sale or transfer of common shares if Kingsland or Synergy sell or transfer a number of common shares, or the Shares Transfer, that would result in a change of control with respect to us, or the Tag Along Right. The Tag Along Right does not apply for sales or share transfers between Kingsland and Synergy and/or their respective affiliates.

If Kingsland or Synergy plans to enter into a Shares Transfer that would result in a change of control, such holder of common shares must send a written notification to our legal representative and a description of the main conditions of the Shares Transfer. Within five business days of receipt of the written notification, our legal representative shall publish the main conditions of the Share Transfer in a Colombian recognized newspaper and on the websites of the Colombian Financial Superintendency and Colombian Stock Exchange.

Any Tag Along Right provided herein does not oblige us, the holders of common shares or the buying third party to launch special transactions in the Colombian Stock Exchange.

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### ***Common Shares***

Each holder of common shares is entitled to, among other things, (i) one vote on all matters submitted to a vote at a general shareholders' meeting; (ii) share equally in dividends from sources legally available therefor as declared at our annual shareholders' meeting; (iii) convert its common shares into preferred shares; (iv) freely inspect the corporate books and records; and (v) any rights set forth in our articles of incorporation or Panamanian law.

Each holder of common shares is entitled to vote on all matters submitted to a vote at a general shareholders' meeting, including in connection with the following matters:

- any proposed amendment to our articles of incorporation;
- the issuance of common or preferred shares; and
- the sale, transfer or disposition of all or substantially all of our assets.

### ***Shareholders' Meetings***

General shareholders' meetings may be ordinary or extraordinary. Ordinary meetings occur at least once a year during the first three months following the end of the prior fiscal year. Extraordinary meetings may take place when duly summoned for a specified purpose or purposes.

At ordinary annual meetings of shareholders, the board of directors is elected and our annual consolidated financial statements, audit and management reports and any other issues required by applicable law or our by-laws are approved. Extraordinary meetings may be summoned by the chairman of our board of directors when deemed appropriate, or by our chief executive officer or by our auditors, or whenever a meeting is requested by shareholders representing at least 20% of holders of our common shares.

A notice of an extraordinary general shareholders' meeting, listing the matters to be addressed at such meeting, must be published in a newspaper of wide circulation in Colombia, at least five business days prior to the meeting.

For both ordinary and extraordinary general shareholders' meetings to be convened, a quorum represented by the presence of a plurality of shareholders representing at least 50% (plus one share) entitled to vote at the relevant meeting is required.

General shareholders meetings related to (i) any amendment that would impair the rights of the holders of preferred shares; (ii) the conversion of preferred shares into common shares; or (iii) the number of preferred shares would exceed the number of common shares, require the presence of the holders of at least 70% of the outstanding preferred shares.

Each holder of preferred shares is entitled to vote at a general shareholders' meeting only in connection with the following matters, subject to certain conditions: (i) our anticipated dissolution, merger or transformation or change of our corporate purpose; (ii) the suspension or cancellation of the registration of preferred shares at the Colombian Stock Exchange; and (iii) determination by the Colombian Financial Superintendency that there have been concealed or diverted benefits that decreased our distributable profits. Also, each holder of preferred shares shall be entitled to one vote on all matters submitted to a vote at a general shareholders' meeting when the holders of preferred shares represent more than 75% of our capital stock.

In the case of any shareholders' meeting to consider any of the significant corporate events above in respect of which holders of preferred shares may vote, notice of the shareholders' meeting must be given 15 business days in advance of the meeting date.

The Joint Action Agreement among Synergy, Kingsland and us contains several provisions relating to the rights of Synergy and Kingsland to approve certain corporate decisions at our shareholders' meetings. See "Item 7. Major Shareholders and Related Party Transactions—Part B. Related Party Transactions—Joint Action Agreement."

### ***Amendment to our articles of incorporation (Pacto Social)***

Upon the consummation of our November 2013 U.S. initial public offering, our articles of incorporation (*Pacto Social*) were amended to reflect the replacement of the Shareholders' Agreement with the Joint Action Agreement. On March 25, 2014, our articles of incorporation (*Pacto Social*) were further amended to reflect the appointment of a Vice-President of Operations who shall act as Chief Operating Officer of the Company.

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***Summary of Significant Differences between Shareholders' Rights and other Corporate Governance Matters under Panamanian Corporate Law and Delaware Corporate Law***

Avianca Holdings is a Panamanian corporation (*sociedad anónima*). The Panamanian corporation law was originally modeled after the Delaware General Corporation Law. As such, many of the provisions applicable to Panamanian and Delaware corporations are substantially similar, including (1) a director's fiduciary duties of care and loyalty to the corporation, (2) a lack of limits on the number of terms a person may serve on the board of directors, (3) provisions allowing shareholders to vote by proxy and (4) cumulative voting if provided for in the articles of incorporation. The following table highlights the most significant provisions that materially differ between Panamanian corporation law and Delaware corporation law.

Panama	Delaware
<b>Directors</b>	
<p><i>Conflict of Interest Transactions.</i> Transactions involving a Panamanian corporation and an interested director or officer are initially subject to the approval of the board of directors.</p> <p>At the next shareholders' meeting, shareholders will then have the right to disapprove the board of directors' decision and to decide to take legal actions against the directors or officers who voted in favor of the transaction.</p>	<p><i>Conflict of Interest Transactions.</i> Transactions involving a Delaware corporation and an interested director of that corporation are generally permitted if:</p> <p>(1) the material facts as to the interested director's relationship or interest are disclosed and a majority of disinterested directors approve the transaction;</p> <p>(2) the material facts are disclosed as to the interested director's relationship or interest and the stockholders approve the transaction; or</p> <p>(3) the transaction is fair to the corporation at the time it is authorized by the board of directors, a committee of the board of directors or the stockholders.</p>
<p><i>Terms.</i> Panamanian law does not set limits on the length of the terms that a director may serve. Staggered terms are allowed but not required.</p>	<p><i>Terms.</i> The Delaware General Corporation Law generally provides for a one-year term for directors. However, the directorships may be divided into up to three classes with up to three-year terms, with the years for each class expiring in different years, if permitted by the articles of incorporation, an initial by-law or a by-law adopted by the shareholders.</p>
<p><i>Number.</i> The board of directors must consist of a minimum of three members, which could be natural persons or legal entities.</p>	<p><i>Number.</i> The board of directors must consist of a minimum of one member.</p>



*Authority to take Actions.* In general, a simple majority of the board of directors is necessary and sufficient to take any action on behalf of the board of directors.

*Authority to take Actions.* The articles of incorporation or by-laws can establish certain actions that require the approval of more than a majority of directors.

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**Panama**

**Delaware**

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**Shareholder Meetings and Voting Rights**

*Quorum.* The quorum for shareholder meetings must be set by the articles of incorporation or the by-laws. If the articles of incorporation and the notice for a given meeting so provide, if quorum is not met a new meeting can be immediately called and quorum shall consist of those present at such new meeting.

*Quorum.* For stock corporations, the articles of incorporation or bylaws may specify the number to constitute a quorum but in no event shall a quorum consist of less than one-third of shares entitled to vote at a meeting. In the absence of such specifications, a majority of shares entitled to vote shall constitute a quorum.

*Action by Written Consent.* Panamanian law permits shareholder action without formally calling a meeting, but the decision must be adopted by Unanimous Written Consent of all the stockholders.

*Action by Written Consent.* Unless otherwise provided in the articles of incorporation, any action required or permitted to be taken at any annual meeting or special meeting of stockholders of a corporation may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action to be so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and noted.

**Other Shareholder Rights**

*Shareholder Proposals.* Shareholders representing 5% of the issued and outstanding capital of the corporation have the right to require a judge to call a general shareholders' meeting and to propose the matters for vote.

*Shareholder Proposals.* Delaware law does not specifically grant shareholders the right to bring business before an annual or special meeting. If a Delaware corporation is subject to the SEC's proxy rules, a shareholder who owns at least \$2,000 in market value, or 1% of the corporation's securities entitled to vote, may propose a matter for a vote at an annual or special meeting in accordance with those rules.

*Appraisal Rights.* Shareholders of Panamanian corporation do not have the right to demand payment in cash of the judicially determined fair value of their shares in connection with a merger or consolidation involving the corporation. Nevertheless, in a merger, the majority of shareholders could approve the total or

*Appraisal Rights.* Delaware law affords shareholders in certain cases the right to demand payment in cash of the judicially-determined fair value of their shares in connection with a merger or consolidation involving their corporation. However, no appraisal rights are available if, among other things and subject

partial distribution of cash, instead of shares, of the surviving entity.

to certain exceptions, such shares were listed on a national securities exchange or designated national market system or such shares were held of record by more than 2,000 holders.

*Shareholder Derivative Actions.* Any shareholder, with the consent of the majority of the shareholders, can sue on behalf of the corporation, the directors of the corporation for a breach of their duties of care and loyalty to the corporation or a violation of the law, the articles of incorporation or the by-laws.

*Shareholder Derivative Actions.* Subject to certain requirements that a shareholder make prior demand on the board of directors or have an excuse not to make such demand, a shareholder may bring a derivative action on behalf of the corporation to enforce the rights of the corporation against officers, directors and third parties. An individual may also commence a class action suit on behalf of himself and other similarly-situated stockholders if the requirements for maintaining a class action under the Delaware General Corporation Law have been met. Subject to equitable principles, a three-year period of limitations generally applies to such shareholder suits against officers and directors.

*Inspection of Corporate Records.* Shareholders representing at least 5% of the issued and outstanding shares of the corporation have the right to require a judge to appoint an independent auditor to examine the corporate accounting books, the background of the company's incorporation or its operation.

*Inspection of Corporate Records.* A shareholder may inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to a person's interest as a shareholder.

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<b>Panama</b>	<b>Delaware</b>
<b>Anti-takeover Provisions</b>	
Panamanian corporations may include in their articles of incorporation or by-laws classified board and super-majority provisions.	Delaware corporations may have a classified board, super-majority voting and shareholders' rights plan.
Panamanian securities law (article 150 unified text) hostile-takeover provisions apply only to companies that are (1) registered with the SMV for a period of six months before the public offering; (2) have over 3,000 shareholders, the majority of which reside outside of Panama; (3) have a permanent office in Panama with full time employees and investments in the country for more than \$1,000,000; and (4) the corporation is organized under the laws of the Republic of Panama or duly register as a foreign company in the Public Registry of Panama.	Unless Delaware corporations specifically elect otherwise, Delaware corporations may not enter into a "business combination," including mergers, sales and leases of assets, issuances of securities and similar transactions, with an "interested stockholder," or one that beneficially owns 15% or more of a corporation's voting stock, within three years of such person becoming an interested shareholder unless:
These provisions are triggered when a buyer makes a	(1) the transaction that will cause the person to

public offer to acquire 5% or more of any class of shares with a market value of at least \$5,000,000. In sum, the buyer must deliver to the corporation a complete and accurate statement that includes (1) the name of the company, the number of securities outstanding of the class which the buyer proposes to acquire and the number of the shares that the buyer intends to acquire and the purchase price; (2) the identity and background of the person acquiring the shares; (3) the source and amount of the funds or other goods that will be used to pay the purchase price; (4) the plans or project the buyer has once it has acquired the control of the company; (5) the number of shares of the company that the buyer already has or is a beneficiary of and those owned by any of its directors, officers, subsidiaries, or partners or the same, and any transactions made regarding the shares in the last 60 days; (6) contracts, agreements, business relations or negotiations regarding securities issued by the company in which the buyer is a party; (7) contract, agreements, business relations or negotiations between the buyer and any director, officer or beneficiary of the securities; and (8) any other significant information. If the offeror is a corporation, the information must extend to all shareholders, directors and other persons controlling the offeror or its controlling company. This declaration will be accompanied by, among other things, a copy of the buyer's financial statements.

become an interested shareholder is approved by the board of directors of the target prior to the transactions;

(2) after the completion of the transaction in which the person becomes an interested shareholder, the interested shareholder holds at least 85% of the voting stock of the corporation not including shares owned by persons who are directors and also officers of interested shareholders and shares owned by specified employee benefit plans; or

(3) after the person becomes an interested shareholder, the business combination is approved by the board of directors of the corporation and holders of at least 66.7% of the outstanding voting stock, excluding shares held by the interested shareholder.

If the board of directors believes that the statement does not contain all required information or that the statement is inaccurate, the board of directors must send the statement to the SMV within 45 days from the buyer's initial delivery of the statement to the SMV. The SMV may then hold a public hearing to determine if the information is accurate and complete and if the buyer has complied with the legal requirements. The SMV may also start an inquiry into the case, having the power to decide whether or not the offer may be made.

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**Panama**

Regardless of the above, the board of directors has the authority to submit the offer to the consideration of the shareholders. The board should only convene a shareholders' meeting when it deems the statement delivered by the offeror to be complete and accurate. If

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**Delaware**

convened, the shareholders' meeting should take place within the next 30 days. At the shareholders' meeting, two-thirds of the holders of the issued and outstanding shares of each class of shares of the corporation with a right to vote must approve the offer and the offer is to be executed within 60 days from the shareholders' approval. If the board decides not to convene the shareholders' meeting within 15 days following the receipt of a complete and accurate statement from the offeror, shares may then be purchased. In all cases, the purchase of shares can take place only if it is not prohibited by an administrative or judicial order or injunction.

The law also establishes some actions or recourses of the sellers against the buyer in cases the offer is made in contravention of the law.

### **Previously Acquired Rights**

In no event can the vote of the majority shareholders deprive the shareholders of a corporation of previously-acquired rights. Panamanian jurisprudence and doctrine has established that the majority shareholders cannot amend the articles of incorporation and deprive minority shareholders of previously-acquired rights nor impose upon them an agreement that is contrary to those articles of incorporation. No comparable provisions exist under Delaware law.

Once a share is issued, the shareholders become entitled to the rights established in the articles of incorporation and such rights cannot be taken away, diminished nor extinguished without the express consent of the shareholders entitled to such rights. If by amending the articles of incorporation, the rights granted to a class of shareholders is somehow altered or modified to their disadvantage, those shareholders will need to approve the amendment unanimously.

### **C. Material Contracts**

English translation of Irrevocable Administration Mercantile Trust Agreement, dated as of March 23, 2012, by and between Fiduciaria Bogotá S.A. and Avianca Holdings S.A. (formerly AviancaTaca Holding S.A.).

English translation of Temporary Bonus Plan adopted on March 6, 2012.

English translation of Lease Agreement No. OP-DC-CA-T2-0060-12, dated October 7, 2012, between Sociedad Concesionaria Operadora Aeroportuaria Internacional S.A.—Opain S.A. and Aerovias del Continente Americano S.A. Avianca, as amended.

English translation of Lease Agreement, dated as of July 30, 2004, between U.A.E. Aeronautica Civil and Aerovias Nacionales de Colombia S.A. Avianca, as amended.

English translation of Fuel Supply Contract, dated as of April 22, 2013, between Terpel S.A. and Aerovías del Continente Americano S.A. Avianca.

A320 Purchase Agreement, dated March 19, 1998, between Atlantic Aircraft Holding Limited and Airbus Industry relating to Airbus A320-Family, as amended.

A320 Purchase Agreement, dated April 16, 2007, between Aerovías del Continente Americano S.A. Avianca and Airbus S.A.S. relating to Airbus A320-Family, as amended

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Assignment, Assumption and Amendment Agreement dated as of May 18, 2012, entered into among Aerovías del Continente Americano S.A. Avianca, Synergy Aerospace Corp. and Airbus S.A.S. in respect of four (4) A330-200F of the thirteen (13) A330-200 and A330-200F under the Purchase Agreement dated September 5, 2011 (the A330-200F Purchase Agreement), as amended

A320 Family and A320 NEO Family Purchase Agreement dated as of December 27, 2011 between Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.) and Airbus S.A.S. relating to Airbus A320-Family and A320 NEO Family, as amended.

Purchase Agreement No. 3075, dated October 3, 2006, as amended and supplemented, between Aerovías del Continente Americano S.A. Avianca (The Company) and The Boeing Company, relating to the purchase and sale of ten (10) Boeing Model 787-859 aircraft, as amended.

Sale and Purchase Contract dated as of January 18, 2013, between Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.) and Avions de Transport Regional G.I.E. as amended and restated, relating to ATR 72-600 Aircraft, as amended.

Trent 700 General Terms Agreement, dated June 15, 2007, among Rolls Royce PLC, Rolls Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca, as amended.

General Terms Agreement 700 DEG 7308, dated June 1, 2012, between Rolls-Royce PLC, Rolls-Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca and Tampa Cargo S.A.

General Terms Agreement No. CFM-03-2007, dated as of March 29, 2007, between CFM International, Inc. and Aerovías del Continente Americano S.A. Avianca, as amended.

General Terms Agreement No. GE-1-1090789943, dated as of December 18, 2007, between General Electric Corporation, GE Engine Services and Atlantic Aircraft Holding, Ltd.

OnPoint Solutions Rate per Engine Flight Hour Engine Services Agreement, dated as of January 18, 2008, between GE Engine Services, Inc. and Aerovías del Continente Americano S.A. Avianca.

Rate Per Flight Hour Agreement for CFM56-5B Engine Shop Maintenance Services, dated as of February 6, 2013, between CFM International, Inc. and Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.).

General Terms Agreement No. CFM-1-2887169891, dated as of February 6, 2013, between CFM International, Inc. and Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.)

Rate Per Flight Hour Agreement for LEAP 1-A Engine Shop Maintenance Services, dated as of February 6, 2013, between CFM International, Inc. and Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.).

Amended and Restated V2500® General Terms of Sale, dated as of December 18, 2008, between IAE International Aero Engines AG and Atlantic Aircraft Holdings Limited, as amended

Amended and Restated V2500-A5 Fleet Hour Agreement, dated as of December 18, 2008, between IAE International Aero Engines AG and Atlantic Aircraft Holdings Limited.

Trent 1000 General Terms Agreement, dated June 15, 2007, among Rolls Royce PLC, Rolls Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca, as amended.

A320 NEO Family Purchase Agreement dated as of April 30, 2015, between Aerovias del Continente Americano S.A. Avianca, Grupo Taca Holdings S.A. and Airbus S.A.S. relating to Airbus A320 NEO Family.

#### **D. Exchange Controls**

In 1990, the Colombian government adopted a policy of gradual currency liberalization. Foreign exchange holdings abroad were permitted and, in a series of decrees, control of the exchange rate was shifted from the Colombian Central Bank to the commercial foreign exchange market (*mercado cambiario*).

Law 9 of 1991 and Resolution 8 of 2000 of the Central Bank establish two types of markets for foreign currency exchange: (1) the free market, which consists of all foreign currencies originated in sales of services, donations, remittances and all other inflows or outflows that do not have to be channeled through the FX market (as defined below), or the free market. The free market also includes assets and investments abroad, including its profits, owned by Colombian residents prior to September 1, 1990; and (2) the controlled market, or the FX market, which consists of (a) all foreign currencies originated in operations considered to be operations of the FX market, or the controlled operations, which may only be transacted through foreign exchange intermediaries or through the registered compensation accounts mechanism, or the compensation accounts, or (b) foreign currencies, which although not required to be bought from a foreign exchange, including the FX market, are voluntarily channeled through such market.

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Under Colombian FX regulations, foreign exchange intermediaries, or FX intermediaries, are authorized to enter into foreign exchange transactions, or FX transactions, to convert Colombian pesos into foreign currencies or foreign currencies into Colombian pesos. In addition, there are certain requirements and obligations established by law and by the board of directors of the Central Bank, in order to transfer currency into or out of Colombia. Colombian law provides that the Colombian Central Bank may intervene in the foreign exchange market in case the value of the Peso experiences significant volatility. The Colombian government and the Central Bank may also limit, on a temporary basis, the remittance of funds abroad by Colombian residents whenever the international reserves of Colombia fall below an amount equivalent to three months' worth of imports. Since the institution of the current foreign exchange regime in 1991, the Colombian government and the Colombian Central Bank have not limited the remittance of funds abroad. We cannot assure you that these authorities will not intervene in the future.

Transactions conducted through this foreign exchange market are made at market rates negotiated with FX intermediaries or the relevant counterparty if using a compensation account. Colombian residents, including Avianca and our other Colombian direct and indirect subsidiaries, are entitled to maintain foreign currency accounts abroad, which can be used for making and receiving payments in foreign currency transactions. Such accounts can either be (i) compensation accounts (*cuentas de compensación*), which may be used to conduct transactions to be mandatorily made through the foreign exchange market, among others, and which must comply with certain reporting requirements before the Colombian Central Bank and, in certain cases, the Colombian tax authorities or (ii) so-called "free market accounts," which may be used to effect any

transaction on the free market but cannot be used to conduct transactions of mandatory channel through the exchange market.

### **Registration of the ADR Program and Investment in our ADSs by non-residents of Colombia**

The International Investment Statute of Colombia as provided by Decree 2080 of 2000, as amended, regulates the manner in which foreign investors may participate in the Colombian securities markets and undertake other types of investments, prescribes registration with the Colombian Central Bank of certain foreign exchange transactions and specifies procedures under which certain types of foreign investments are to be authorized and administered.

The International Investment Statute provides specific procedures for the registration of ADR programs as a form of foreign portfolio investment, which is required for the preferred shares to be offered in the form of ADSs. Under these regulations, failure to register foreign exchange transactions relating to investments in Colombia with the Colombian Central Bank on a timely basis may prevent the investor from obtaining remittance payments, including for the payment of dividends, and constitute an exchange control violation and/or result in a fine.

Each individual investor who deposits preferred shares into the ADR facility for the purpose of acquiring ADSs will be required, as a condition to acceptance by a custodian of such deposit, to provide or cause to be provided certain information to enable it to comply with the registration requirements under the foreign investment regulations relating to foreign exchange. A holder of ADSs who withdraws preferred shares from the ADS deposit facility under certain circumstances may be required to comply directly with certain requirements under the foreign investment regulations. Under these regulations, the failure of a non-resident investor to report or register foreign exchange transactions relating to investments in Colombia with the Central Bank on a timely basis may prevent the investor from obtaining remittance payments, including for the payment of dividends, constitute an exchange control violation and/or result in a fine.

Under Colombian law, foreign investors receive the same treatment as Colombian citizens with respect to the ownership and voting of our ADSs and preferred shares.

### **Exchange Rates**

The Central Bank and the *Ministerio de Hacienda y Crédito Público* (Colombian Ministry of Finance and Public Credit, or MHCP) have, in recent years, adopted a set of measures intended to tighten monetary policy and control the fluctuation of the Colombian peso against the U.S. dollar. These measures include, among others, the following:

- a 50.0% non-interest bearing deposit requirement at the Central Bank, applicable to short-term portfolio investments in assets other than shares or convertible bonds or collective investment funds that only invest in shares or convertible bonds (together with certain exemptions thereto), which deposit was rescinded in 2008;
- restrictions on the repatriation of foreign direct investments; and
- interest-free deposits with the Central Bank applicable to the proceeds resulting from imports financings.

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The Colombian government and the Central Bank have considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, to affect the operations and financial performance of businesses. The Colombian government and the Central Bank may seek to

implement additional measures aimed at controlling further fluctuation of the Colombian peso against other currencies and fostering domestic price stability.

During 2011, the Colombian peso depreciated against the dollar by 1.5%. During 2012, the Colombian peso appreciated against the U.S. dollar by 9.0%. During 2013, the Colombian peso depreciated against the U.S. dollar by 9.0%. During 2014, the Colombian peso depreciated against the U.S. dollar by 24.2%. During 2015, the Colombian peso depreciated against the U.S. dollar by 31.6%. We cannot assure you that the Colombian Peso will not appreciate or depreciate relative to other currencies in the future. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Colombia, Peru, Venezuela, Central America and Other Countries in which We Operate—Our performance is heavily dependent on economic and political conditions in Colombia” and “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Colombia, Peru, Venezuela, Central America and Other Countries in which We Operate—Government policies and actions, and judicial decisions, in Colombia, Peru, Venezuela, Ecuador or Central America could significantly affect the local economy and, as a result, our results of operations and financial condition.” On March 31, 2016, the exchange rate for U.S. dollars was COP3,022.35 to US\$1.00.

The Federal Reserve Bank of New York does not report a rate for Pesos. The Colombian Central Bank establishes the parameters that must be observed in order to calculate the Representative Market Rate (*Tasa Representativa del Mercado*); then, the Colombian Financial Superintendency proceeds to compute and certify the Representative Market Rate based on the weighted averages of the buy/sell foreign exchange rates quoted daily by certain financial institutions for the purchase and sale of foreign currency.

Colombia has a free market for foreign exchange, and the Colombian government allows the Colombian peso to float freely against the U.S. dollar. There can be no assurance that the Colombian government will maintain its current policies with regard to the Colombian peso or that the Colombian peso will not depreciate or appreciate significantly in the future.

The following tables set forth, for the periods indicated, the low, high, average and period-end exchange rates expressed in Colombian pesos per U.S. dollar as certified by the SFC. The rates shown below are in nominal Colombian pesos and have not been restated in constant currency units. No representation is made that the Colombian peso amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>Period-End</u>
			(in COP)	
Year ended December 31, 2013	1,952.11	1,758.45	1,869.10	1,926.83
Year ended December 31, 2014	2,446.35	1,846.12	2,000.33	2,392.46
Year ended December 31, 2015	3,356.00	2,360.58	2,743.39	3,149.47
Year ended December 31, 2016 (through March 31)	3,434.89	3,022.35	3,249.04	3,022.35

Source:Colombian Central Bank

(1) Represents the average of the rates on each day in the period.

<u>Quarter</u>	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>Period-End</u>
			(in COP)	
First Quarter 2014	2,054.90	1,924.79	2,004.05	1,965.32
Second Quarter 2014	1,969.45	1,877.18	1,913.61	1,881.19
Third Quarter 2014	2,028.48	1,846.12	1,909.13	2,028.48
Fourth Quarter 2014	2,446.35	2,021.49	2,173.65	2,392.46
First Quarter 2015	2,677.97	2,361.54	2,469.33	2,576.05



Second Quarter 2015	2,623.66	2,360.58	2,501.05	2,585.11
Third Quarter 2015	3,238.51	2,598.68	2,935.60	3,121.94
Fourth Quarter 2015	3,356.00	2,819.63	3,058.97	3,149.47
First Quarter 2016	3,434.89	3,022.35	3,249.04	3,022.35

Source:Colombian Central Bank

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(1) Represents the average of the rates on each day in the period.

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>Period-End</u>
			(in COP)	
October 2015	3,086.75	2,855.74	2,929.47	2,897.83
November 2015	3,108.70	2,819.63	3,001.38	3,101.10
December 2015	3,356.00	3,131.95	3,244.20	3,149.47
January 2016	3,375.80	3,149.47	3,270.20	3,287.31
February 2016	3,434.89	3,287.31	3,354.96	3,306.00
March 2016	3,319.80	3,022.35	3,128.79	3,022.35

Source:Colombian Central Bank

(1) Represents the average daily exchange rates for each of the last six months.

## **E. Taxation**

### **Material U.S. Federal Income Tax Considerations**

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of our preferred shares and ADSs as of the date hereof. The discussion set forth below is applicable only to U.S. Holders (as defined below) that hold our preferred shares or ADSs as capital assets for U.S. federal income tax purposes. This summary does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our preferred shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;

- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for U.S. federal income tax purposes; or
- a person whose “functional currency” is not the U.S. dollar.

As used herein, “U.S. Holder” means a holder of our preferred shares or ADSs that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. In addition, this summary assumes that the deposit agreement and all other related agreements will be performed in accordance with their terms.

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If a partnership holds our preferred shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our preferred shares or ADSs, you should consult your tax advisors.

This summary does not contain a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the Medicare tax on net investment income, or the effects of any state, local or non-U.S. tax laws. If you are considering the purchase, ownership or disposition of our preferred shares or ADSs, you should consult your own tax advisors concerning the U.S. federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

### *ADSs*

If you hold ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying preferred shares that are represented by such ADSs. Accordingly, deposits or withdrawals of preferred shares for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

### *Taxation of Dividends*

The gross amount of distributions on the preferred shares or ADSs (including amounts withheld to reflect foreign withholding taxes) will be taxable as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income (including any withheld taxes) will be includable in your gross income as ordinary income on the day it is actually or constructively received by you, in the case of the preferred shares, or by the depository, in the case of the

ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate U.S. Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation generally is treated as a qualified foreign corporation with respect to dividends paid by that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs, which are listed on the NYSE, are readily tradable on an established securities market in the United States. There can be no assurance, however, that our ADSs will be considered readily tradable on an established securities market in later years. Moreover, we do not believe that dividends that we pay on our preferred shares that are not backed by ADSs will meet the conditions required for these reduced tax rates. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules to your particular circumstances.

The amount of any dividend paid in Pesos will equal the U.S. dollar value of the Pesos received calculated by reference to the exchange rate in effect on the date the dividend is received by you, in the case of preferred shares, or by the depository, in the case of ADSs, regardless of whether the Pesos are converted into U.S. dollars. If the Pesos received as a dividend are converted into U.S. dollars on the date they are received, you generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the Pesos received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a basis in the Pesos equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the Pesos will be treated as U.S. source ordinary income or loss.

Subject to certain conditions and limitations, foreign withholding taxes on dividends may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid to holders of the preferred shares or ADSs will be treated as income from sources outside the United States and will generally constitute passive category income. Furthermore, in certain circumstances, if you (i) have held preferred shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or (ii) are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the preferred shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the preferred shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the preferred shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange (as discussed below under “—Taxation of Capital Gains”). We do not

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intend to keep earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

### ***Passive Foreign Investment Company***

We do not believe that we are, for U.S. federal income tax purposes, a passive foreign investment company (a “PFIC”), and we expect to operate in such a manner so as not to become a PFIC. If, however, we are or become a PFIC, you could be subject to additional U.S. federal income taxes on gain recognized with respect to the preferred shares or ADSs and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

### ***Taxation of Capital Gains***

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale or exchange of preferred shares or ADSs in an amount equal to the difference between the amount realized for the preferred shares or ADSs and your tax basis in the preferred shares or ADSs. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate holders (including individuals) derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss. Consequently, you may not be able to use the foreign tax credit arising from any foreign tax imposed on the disposition of the preferred shares or ADSs unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

### ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of our preferred shares or ADSs and the proceeds from the sale, exchange or other disposition of our preferred shares or ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. A backup withholding tax may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders are required to report information relating to preferred shares or ADSs, subject to certain exceptions (including an exception for preferred shares or ADSs held in accounts maintained by certain financial institutions), by attaching a complete Internal Revenue Service Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold preferred shares or ADSs. You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the preferred shares or ADSs.

### **Panama**

The following is a discussion of the material Panamanian tax considerations to holders of our preferred shares or ADSs under Panamanian tax law, and is based upon the tax laws and regulations in force and effect as of the date hereof, which may be subject to change.

#### ***General principles***

Panama’s income tax regime is based on territoriality principles, which define taxable income only as that revenue which is generated from a source within the Republic of Panama, or for services rendered outside of Panama, but which, by their nature, are intended to directly benefit the local commercial activities of individuals or corporations which operate within its territory. Said taxation principles have governed the Panamanian fiscal regime for decades, and have been upheld through judicial and administrative precedent.

#### ***Taxation of dividends***

Distributions by Panamanian corporations, whether in the form of cash, stock or other property, are subject to a 10% withholding tax for the portion of the distribution that is attributable to Panamanian sourced income, as defined pursuant to the territoriality principles that govern Panamanian tax law, and to a withholding tax of 5% of the portion of the dividend that is

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attributable to foreign-sourced income. Currently Panama does not impose a withholding tax on dividends distributed by entities that do not earn income from Panamanian sources. Therefore, distributions on our preferred shares or ADSs being offered would not be subject to withholding taxes given that our company does not trigger Panamanian sourced income.

### *Taxation of capital gains*

If the preferred shares are issued by an entity that does not directly or indirectly receive Panama source income, Panamanian taxes on capital gains will not apply either to Panamanians or nationals of other countries in connection with the sale or disposition of the preferred shares.

If the preferred shares are issued by an entity that directly or indirectly receives Panama source income, Panamanian taxes on capital gains will apply to Panamanians or nationals of other countries in connection with the sale or disposition of the preferred shares, at a rate of 10 per cent on the capital gains realized, payable by a 5 per cent withholding on the purchase price by the purchaser, which can be considered as the final tax due. However, in the case of shares issued by an entity that are of economically invested assets both in Panama and offshore, the taxation of capital gains will be levied on the proportion belonging to Panamanian economically invested assets. If the preferred shares issued by an entity that directly or indirectly receives Panama source income are registered with the SMV and are sold through an organized market, Panamanian taxes on capital gains will not apply either to Panamanians or to nationals of other countries.

### *Other Panamanian taxes*

There are no estate, gift or other taxes imposed by the Panamanian government that would affect a holder of our preferred shares or ADSs, whether such holder were Panamanian or a national of another country.

## **Colombia**

The following is a summary of the material Colombian tax considerations to holders of ADSs under Colombian tax law, and is based upon the tax laws and regulations in force and effect as of the date hereof, which may be subject to change. This summary is not intended to be a comprehensive description of all Colombian tax considerations that may be relevant to a decision to purchase the ADSs. Prospective purchasers should consult their own tax advisors as to Colombian tax consequences of the purchase, ownership and sale of ADSs and or underlying preferred shares, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws.

### **1) Legal framework**

Colombian and non-Colombian individuals considered residents<sup>(1)</sup> in the country are subject to income tax and capital gain tax in respect to both Colombian and non-Colombian source income. On the other hand, Colombian and non-Colombian individuals without residence in the country are subject to income tax and capital gain tax but only with respect to Colombian source income.

Colombian companies are subject to income tax in respect to both, Colombian and non-Colombian source income. Moreover, non-Colombian companies are subject to income tax and capital gain tax in the country but only with respect to Colombian source income.

Dividends will be deemed Colombian source income when distributed by a Colombian company. On the other hand, income from the sale of shares will be deemed Colombian source if the respective company is deemed Colombian.

## 2) Income tax on dividend income

Dividends distributed by non-Colombian companies such as Avianca Holdings S.A. are not deemed Colombian source income. Consequently, non-resident individuals and non-Colombian companies, such as the depository or any non-resident or non-Colombian company acting as shareholder, will not be subject to income tax in Colombia with respect to dividend income earned from Avianca Holdings S.A.

In contrast, resident individuals and Colombian companies acting as shareholders will be subject to income tax in Colombia with respect to dividend income earned from Avianca Holdings S.A.

Resident individuals and Colombian companies subject to income tax in Colombia, who earned non-Colombian source dividends subject to tax in the country of origin, are entitled to credit the tax paid abroad from the amount of income tax plus the

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income tax for equality (CREE), including its surcharge in case the taxpayer is subject to this tax, as follows, in accordance with article 254 of the Colombian Tax Code:

- The amount of the tax credit should be equivalent to the result of multiplying the amount of the dividends by the income tax rate at which the profits that gave rise to the dividends were subject to;
- When the entity distributing the dividends that are subject to tax in Colombia, received in turn dividends of other companies located in the same or other jurisdictions, the amount of the tax credit should be equivalent to the result of multiplying the amount of the dividends received by the Colombian taxpayer, by the rate at which the profits that generated the dividends were subject to;

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- (1) Individuals will be considered Colombian residents for tax purposes if any of the following conditions are met: (1) If the individual stays continuously or discontinuously in the country for over 183 days during a period of 365 consecutive days including travel days, bearing in mind that if the 365 days period happens in more than one fiscal year, the individual shall be considered Colombian resident as of the second fiscal year; (2) If the individual is fully or partially exempted from income tax or capital gains tax in the foreign country where they reside, on account of their diplomatic relation to the Colombian State or to a diplomat of the Colombian State in application of the Vienna Conventions on Diplomatic and Consular Relations; (3) National individuals who, during the fiscal year, meet the following conditions: (a) Whose spouse, legal partner, underage children or dependent persons have a tax residence in Colombia, (b) That 50% or more of their income is considered Colombian-source, (c) That 50% or more of their properties are administered in Colombia, (d) That 50% or more of their assets are possessed in Colombia, (e) That having been notified by the Tax Authority, did not offer proof of their tax residence abroad, or (f) That have their tax residence in a place considered by the Colombian government as a tax haven. Individuals that according to this rules are not considered Colombian residents, must provide proof of their foreign residence to the Colombian Tax Authority by means of a tax residence certificate issued by the foreign Tax Authority.

(2) As of year 2013, (i) companies, legal entities and entities assimilated to these, subject to income tax and liable to file income tax returns, and (ii) non-Colombian companies and entities subject to income tax and liable to file income tax returns in Colombia with respect to Colombian source income earned through branches or permanent establishments, are subject to a new tax called income tax for equality, at a rate of 90%, applied on the highest base between the ordinary net income (which value can be different than the ordinary net income determined for income tax purposes) and the presumptive net income. In addition, from fiscal year 2015 to 2018, a new surcharge applies to CREE taxable income. These surcharge rates are 5% for 2015, 6% for 2016, 8% for 2017 and 9% for 2018.

- To be able to apply the tax credit referred to in paragraph a), the taxpayer must have a direct participation in the capital of the company from which it receives dividends or equity interest (excluding the shares without voting rights).

In the case of paragraph b), the taxpayer must have an indirect participation in the capital of the subsidiary or subsidiaries (excluding the shares without voting rights). The direct and indirect participations must be registered as fixed assets for the taxpayer in Colombia and should have been owned for a period of not less than two years;

- When the taxpayer receives taxable dividends –subject to tax in the country of origin- the tax credit will be increased by the amount of such tax, multiplied by a proportional formula established by law;
- In no case the tax credit referred to in this section may exceed the amount of the income tax plus the income tax for equality (CREE), when applicable, generated by such dividends in Colombia, multiplied by a proportional formula established by law;
- To be able to claim the tax credit referred to in paragraphs a), b) and d) of article 254 of the Colombian Tax Code, the taxpayer must prove the payment in each jurisdiction, providing tax payment certificates issued by the corresponding tax authorities or with other appropriate evidence;
- The rules set forth here for tax credits related to dividends paid from abroad will apply to dividends or equity interest which are paid as of January 1st, 2015, regardless of the taxable period or financial year to which the profits that generated them correspond. Tax credits related to dividends paid from abroad before January 1st, 2015, will be treated as stated on Law 1607 of 2012.

The income tax paid abroad may be used as a credit in the taxable year in which the payment is made or in any of the following four taxable years. In any case, the excess of tax credit to be claimed on any of the following four taxable periods is limited to the amount of the income tax, plus the CREE, generated in Colombia on the same income that gave rise to the tax credit, and cannot be combined with the excess of tax credits originated in other income taxed in Colombia in different taxable periods.

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Notwithstanding the above, bear in mind that the amount of the tax credit for taxes paid abroad cannot exceed the amount of the basic income tax to be paid in Colombia. Additionally, the amount of the income tax calculated after subtracting the tax credits, cannot be less than 75% of the tax determined under the presumptive income system before tax credits.

### **3) Income tax/capital gain tax on profit from the sale of ADRS or the underlying shares**

Profits arising from the disposal of any kind of assets, which have made part of the fixed assets<sup>(3)</sup> of the Colombian taxpayer (resident individual or company) for a term of two years or more, are considered capital gains. In contrast, profits arising from the disposal of assets that made part of the taxpayer's fixed assets for less than two years are not considered capital gains but net income.

The capital gain or the net income resulting from the sale of ADRs or shares is constituted by the difference between the transfer price and the cost of the asset sold. Please bear in mind that the transfer price is the market value made in cash or in kind. The market value is the one agreed by the parties, provided that does not differ considerably from the average market price for items of the same kind, at the date of disposal. It is understood that the value agreed by the parties differs considerably from the average, when it deviates by more than 25% of the prices established in trade for goods of the same kind and quality, at the date of disposal, taking into account the nature, condition and status of assets.

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(3) Fixed Assets are the movable or immovable tangible and intangible assets that are not sold in the ordinary course of business of the taxpayer.

The capital gain tax rate applicable to resident individuals and Colombian companies is 10%. On the other hand, the income tax and the income tax for equality (CREE) rates applicable to Colombian companies are 25% and 9% respectively. Moreover, resident individuals are subject to income tax at marginal rates of 0%, 19%, 28% and 33%.

Profits from the transfer of shares listed in the Colombian stock exchange earned by the same beneficial owner, not exceeding 10% of the outstanding shares of the respective company for a taxable year, will not be subject to income tax or capital gain tax in Colombia.

Accordingly, income resulting from the sale of ADRs or shares in Avianca Holdings SA will not be deemed Colombian source income. Consequently, non-resident individuals and non-Colombian companies, such as the depositary or any non-resident or non-Colombian company acting as investor or shareholder, will not be subject to income tax or capital gain tax in Colombia with respect to profits resulting from the sale of ADRs or shares in Avianca Holdings SA.

In contrast, resident individuals and Colombian companies acting as investors or shareholders will be subject to income tax or capital gain tax, as the case may be, with respect to profits resulting from the sale of ADRs or shares in Avianca Holdings SA. Even if the purchaser of the ADRs or the shares is a Colombian company, the seller will not be subject to tax withholdings in Colombia.

Resident individuals and Colombian companies subject to income tax or capital gain tax in Colombia, as the case may be, who earned non-Colombian source income subject to tax in the country of origin, are entitled to credit the tax paid abroad from the amount of income tax and capital gains tax in Colombia plus the income tax for equality in case the taxpayer is subject to such tax, provided that the tax credit does not exceed the amount of tax payable in Colombia for the same income.

The amount of the tax credit for taxes paid abroad cannot exceed the amount of the basic income tax to be paid in Colombia. Additionally, the amount of the income tax calculated after subtracting the tax credits, cannot be less than 75% of the tax determined under the presumptive income system before tax credits.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statements by Experts**

Not applicable

#### **H. Documents on Display**

We are subject to the information requirements of the Exchange Act, as amended. In accordance with these requirements, we file reports, including annual reports on Form 20-F and other information with the SEC.



These materials, including this annual report and the exhibits hereto, may be inspected and copied at the SEC's public reference rooms in Washington, D.C. Please call the SEC at

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1-800-SEC-0330 for further information on the public reference rooms. In addition, our SEC filings are also available to the public through the SEC's website at [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year.

**I. Subsidiary Information**

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

Given the nature of our business, we are exposed mainly to changes to the price of fuel, interest rates and foreign exchange.

***Fuel***

Our results of operations are affected by changes in the price of jet fuel. To mitigate the price risk, we use jet fuel options and futures agreements. Market risk is estimated as a hypothetical 1.0% increase in the December 31, 2015 cost per gallon of fuel. Based on our 2015 fuel consumption and, assuming the same for 2016, such an increase would result in an increase to our fuel expense of approximately \$10.1 million in 2016, not taking into account our derivative contracts. At December 31, 2015, we had hedged approximately 24.4% of our projected 2016 fuel requirements.

The following table sets forth our fuel swaps and options at market value as of December 31, 2015 and December 31, 2016.

	<u>Maturing before 1 Year</u>		<u>Maturing after 1 Year</u>		<u>Total</u>	
	<u>At December 31, 2014</u>	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>	<u>At December 31, 2015</u>	<u>At December 31, 2014</u>	<u>At December 31, 2015</u>
(in \$ thousands)						
Options	4,121.45	882,61	3,659.66	—	7,781.11	882,61
Swaps	(106,697.89)	—	—	—	(106,697.89)	—

Our fuel hedging strategy remained the same in 2014 and 2015 and any difference in the number of options and swaps is due to strategic internal decisions.

***Interest***

Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments and on interest income generated from our cash and investment balances. If interest rates are 1.0% higher on average in 2016 than they were during 2015, our interest expense

would increase by approximately \$8.8 million, and the fair value of our debt would decrease by approximately \$205.4 million. If interest rates are 10.0% lower on average in 2016 than they were in 2015, our interest income from cash equivalents would decrease by approximately \$0.7 million. These amounts are determined by considering the interest rates on our variable-rate debt and cash equivalent balances at December 31, 2015.

### ***Foreign Currencies***

Our foreign exchange risk is limited as a majority of our obligations, expenses and revenues are in U.S. dollars, creating a natural hedge. However we do have significant obligations, expenses and revenues in Colombian pesos and other currencies. During the year ended December 31, 2015, approximately 68.0% of our revenue and 64.2% of our operating expenses were denominated in, or linked to, U.S. dollars, and approximately 24.5% of our revenues and 22.7% of our operating expenses were denominated in the Colombian pesos. During times when our peso-denominated revenues exceed our peso-denominated expenses, the depreciation of the Colombian peso against the U.S. dollar could have an adverse effect on our results, because conversion of these amounts into U.S. dollars will decrease our net income. We estimate that a 1.0% increase or decrease in the average exchange rate of the Colombian peso to the U.S. dollar would have an effect in our annual operating profit of approximately \$1.4 million. In addition, because we conduct business in local currencies in other countries, we face the risk of variations in foreign currency exchange rates. A revaluation of the Peruvian *nuevo sol*, the Costa Rican *colón*, the Guatemalan *quetzal* and/or the Euro could have an adverse effect on us, as a portion of our revenues are denominated in such currencies. See “Item 3. Key Information—Part D. Risk Factors—Risks Relating to Colombia,

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Peru, Venezuela, Central America and Other Countries in which We Operate—We have significant local currency cash balances in Venezuela, which we may be unable to repatriate or exchange into U.S. dollars or any other currency.”

### **2015 and 2014 Revenues and Expenses Breakdown by Currency**

	<u>Revenue</u>		<u>Costs and Expenses</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
U.S. Dollar	68.0%	64.5%	64.2%	64.1%
Colombian Peso	24.5%	29.4%	22.7%	24.1%
Euro	4.3%	4.5%	2.6%	2.7%
Other	3.1%	1.6%	10.5%	9.1%

### **Item 12. Description of Securities Other than Equity Securities**

#### **A. Debt Securities**

Not applicable.

#### **B. Warrants and Rights**

Not applicable

### C. Other Securities

Not applicable

### D. American Depositary Shares

#### Fees and Expenses

<i>Persons depositing or withdrawing shares or ADS holders must pay:</i>	<i>For:</i>
<ul style="list-style-type: none"><li>• \$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</li></ul>	<ul style="list-style-type: none"><li>• The issuance of ADSs, including any issuance resulting from a distribution of shares or rights or other property</li></ul>
<ul style="list-style-type: none"><li>• \$.05 (or less) per ADS</li></ul>	<ul style="list-style-type: none"><li>• The cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates</li></ul>
<ul style="list-style-type: none"><li>• 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</li></ul>	<ul style="list-style-type: none"><li>• Any cash distribution to ADS holders</li></ul>
<ul style="list-style-type: none"><li>• \$.05 (or less) per ADSs per calendar year</li></ul>	<ul style="list-style-type: none"><li>• The distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS holders</li></ul>
<ul style="list-style-type: none"><li>• Registration or transfer fees</li></ul>	<ul style="list-style-type: none"><li>• Depository services</li></ul>
<ul style="list-style-type: none"><li>• Expenses of the depository</li></ul>	<ul style="list-style-type: none"><li>• The transfer and registration of shares on our share register to or from the name of the depository upon the deposit or withdrawal of shares</li></ul>
<ul style="list-style-type: none"><li>• Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes</li></ul>	<ul style="list-style-type: none"><li>• Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</li></ul>
<ul style="list-style-type: none"><li>• Any charges incurred by the depository or its agents for servicing the deposited securities</li></ul>	<ul style="list-style-type: none"><li>• Converting foreign currency to U.S. dollars</li></ul>
	<ul style="list-style-type: none"><li>• As necessary</li></ul>
	<ul style="list-style-type: none"><li>• As necessary</li></ul>

The depository 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 depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to

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pay the fees. The depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may collect any of its fees by deduction from any cash distribution payable to ADS holders that are obligated to pay those fees.

### **Payment of Taxes**

You will be responsible for any taxes or other governmental charges payable on your ADSs or on the deposited securities represented by any of your ADSs. The depository may refuse to register any transfer of your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depository sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to ADS holders any proceeds, or send to ADS holders any property, remaining after it has paid the taxes.

### **Past Fees and Payments**

From time to time, the depository may make payments to us to reimburse and/or share revenue from the fees collected from ADS holders, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the ADS program. In performing its duties under the deposit agreement, the depository may use brokers, dealers or other service providers that are affiliates of the depository and that may earn or share fees or commissions. During 2014, the Company did not receive any such payments or reimbursements from the depository.

## **PART II**

### **Item 13. Defaults, Dividends Arrearages and Delinquencies**

None.

### **Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

### **Item 15. Controls and Procedures**

#### **(a) Disclosure controls and procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of December 31, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that as of the date of our assessment, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such

information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

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### **(b) Management’s annual report on internal control over financial reporting**

Management of Avianca Holdings 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 of 1934, as amended. 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. Avianca Holdings’ internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Avianca Holdings;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of Avianca Holdings are being made only in accordance with authorizations of management and directors of Avianca Holdings; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Avianca Holdings’ assets that could have a material effect on the financial statements.

In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013 Framework). Based on this evaluation, management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2015, the Company’s internal control over financial reporting was effective. The Company’s internal control over financial reporting effectiveness as of December 31, 2015 had been audited by Ernst & Young Audit S.A.S., an independent registered public accounting firm, as stated in their report included herein.

### **(c) Attestation report of the independent registered public accounting firm**

Ernst & Young Audit S.A.S., the independent registered public accounting firm who audited the Company’s consolidated financial statements included in this Form 20-F, has issued a report on the Company’s internal control over financial reporting, which is included in the report of the independent registered public accounting firm included herein.

### **(d) Changes in internal control and remediation**

We have taken and are continuing to take actions to remediate and improve our internal control over financial reporting, including actions to address previously identified material weaknesses that no longer exist. The following actions were taken to remediate previously reported material weaknesses that no longer exist at December 31, 2015:

#### **IT General Controls**

Our annual report for the year ended December 31, 2014 on Form 20-F identified a material weakness with respect to our IT general controls (“ITGCs”) because we did not implement and maintain effective ITGCs over the general ledger systems and other related IT systems we use to process our accounting transactions.

We therefore were unable to properly implement and maintain effective controls intended to ensure that access to applications and data were adequately restricted to appropriate internal personnel.

Since December 31, 2014, we have implemented remediations to address the ITGC material weakness described above, including improvements made to the our ITGCs and the implementation of new ITGCs related to the monitoring of active users, which allows us to maintain effective ITGCs over the general ledger systems and other related IT accounting systems. Based on the foregoing and the results of our testing of the effectiveness of these controls, the previously reported material weakness no longer exists as of December 31, 2015.

### **Financial Statement Close Process**

Our annual report for the year ended December 31, 2014 on Form 20-F identified a material weakness with respect to our inability to execute a timely financial close and to properly perform and/or accumulate certain analyses and reconciliations in a timely manner, which delayed the Company's financial closing process, as a result of the implementation of our new ERP platform, throughout the second half of 2014.

Since December 31, 2014, we have implemented remediations to address the financial statement close process material weakness described above, including: (i) improvements made to our internal control process and the implementation of new internal

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controls related to our financial closing process; (ii) hiring of new and qualified personnel for key positions to manage internal controls for our financial closing process as well as a consulting firm to provide assistance on this matter; (iii) changes to our organizational structure related to our accounting division; (iv) the training of 647 employees involved in the implementation and monitoring of internal controls for financial reporting and 266 employees in accounting management and processing; and (v) the implementation of specific remediation initiatives related to the internal controls of accounting analysis, reconciliations and financial reporting. Based on the foregoing and the results of our testing of the effectiveness of these controls, the previously reported material weakness no longer exists as of December 31, 2015.

### **Item 16. Reserved**

#### **Item 16A. Audit Committee Financial Expert**

Our board of directors has designated Juan Guillermo Serna as an "audit committee financial expert" within the meaning of this Item 16.A. Mr. Serna is independent under applicable SEC and NYSE listing standards.

#### **Item 16B. Code of Ethics**

We have adopted a code of ethics and conduct, as defined in Item 16B of Form 20-F under the Exchange Act. Our code of ethics applies to our senior management as well as to other employees. Our code is freely available online at our website, [www.avianca.com/en](http://www.avianca.com/en), under the heading "Our company—Corporate Governance." Information found on this website is not incorporated by reference into this document.

#### **Item 16C. Principal Accountant Fees and Services**

The following table sets forth by category of service the total fees for services performed by our principal accountants during the fiscal years ended December 31, 2015 and 2014. Ernst & Young has been our principal accountant during the fiscal years ended December 31, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
	(in US\$ thousands)	
Audit Fees	2,680	3,564
Audit-Related Fees	—	—
Tax Fees	90	46
All Other Fees	—	—
<b>Total</b>	<b>2,770</b>	<b>3,610</b>

#### **Audit Fees**

Audit fees include the audit of our consolidated annual financial statements, review of our quarterly reports, required statutory audits, and fees for the preparation and issuance of comfort letters in connection with our offering of senior notes and ADSs.

#### **Audit-Related Fees**

There were no audit-related fees in 2015 or 2014.

#### **Tax Fees**

Tax fees include transfer pricing and tax advisory services provided by our principal accountant in 2015 and 2014.

#### **All Other Fees**

There were no other fees for services provided by our principal accountant in 2015 and 2014.

#### **Pre-Approval Policies and Procedures**

Our audit committee approves all audit, audit-related services and tax services provided by Ernst & Young. Any services provided by Ernst & Young that are not specifically included within the scope of the audit must be pre-approved by the audit

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committee in advance of any engagement. Pursuant to Rule 2-01 of Regulation S-X, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis* exception prior to the completion of an audit engagement. In 2015 and 2014, none of the fees paid to Ernst & Young were approved pursuant to the *de minimis* exception.

#### **Item 16D.Exemptions from the Listing Standards for Audit Committees**

None.

#### **Item 16E.Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

#### **Item 16F. Change in Registrant's Certifying Accountant**

None.

#### **Item 16G. Corporate Governance**

As a foreign private issuer, we are subject to different corporate governance requirements than a U.S. company with shares listed on the NYSE under the NYSE listing standards. With certain exceptions, foreign private issuers are permitted to follow home country practice standards.

We are registered in the Colombian National Registry of Securities and Issuers, and therefore we are required to comply with Colombian corporate governance practices for Colombian registered companies. Because we are not subject to Panamanian securities laws as we have not offered any securities in Panama and because general corporate law in Panama does not impose any meaningful restrictions on our corporate governance, a comparison to Panamanian corporate governance practices is not applicable. Additionally, we have adopted a set of additional corporate governance guidelines as contemplated by the Sarbanes-Oxley Act of 2002 and by our bylaws, which include the establishment of:

- principles and duties relating to the conduct of our management, including as with respect to confidentiality and conflicts of interest;
- internal accounting controls systems;
- an audit committee composed of the four independent members of our board of directors; and
- a code of business conduct and ethics.

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The following is a comparison between our corporate governance policies and those of the NYSE listing standards.

<b>NYSE Standards</b>	<b>Our Corporate Governance Practices</b>
<i>Director Independence.</i> A majority of board of directors must be independent, except in the case of a “controlled” foreign private issuer. §303A.01 of the NYSE Listed Company Manual	Our corporate governance standards provide that the board of directors must be composed of eleven directors, and that the majority of such full-time directors must be independent, provided that an additional independent director may be appointed (i) if required by applicable laws, or (ii) if the majority of our independent directors believes that such appointment is necessary for the protection of the rights and interests of a significant shareholder or group of shareholders. The criteria for determining independence under our corporate governance standards has been defined in accordance with NYSE rules.
<i>Executive Sessions.</i> Non-management directors must meet regularly in executive sessions without	Under our bylaws and applicable laws non-management directors are not required to meet in



management. Independent directors should meet alone in an executive session at least once a year. §303A.03 of the NYSE Listed Company Manual

executive sessions without management.

*Audit committee.* An audit committee satisfying the requirements of Rule 10A-3 under the Exchange Act. §303A.06 of the NYSE Listed Company Manual

We believe we are in compliance with Rule 10A-3 under the Exchange Act.

*Audit committee additional requirements.* §303A.07 of the NYSE Listed Company Manual requires that an audit committee must consist of at least three members, each of whom are financially literate and at least one of whom is a financial expert, and that the audit committee have a written charter outlining the committee's responsibilities.

Our audit committee consists of four members, all of whom are independent and financially literate and one of whom is a financial expert. Our audit committee has a written charter.

*Nominating/corporate governance committee.* A nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04 of the NYSE Listed Company Manual

We do not have a nominating/corporate governance committee. Our board of directors has the power to establish such a committee in the future on the terms that it deems fit.

*Compensation committee.* A compensation committee of independent directors is required. The committee must approve executive officer compensation and must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05 of the NYSE Listed Company Manual

We have a Human Talent and Compensation Committee (*Comité de Talento Humano y Compensación*). See "Committees of the Board of Directors—Description of Other Committees—Human Talent and Compensation Committee." However, this committee is not composed entirely of independent directors.

*Code of Ethics.* A code of business conduct and ethics are required, as is disclosure of any waiver for directors or executive officers. §303A.10 of the NYSE Listed Company Manual

We have adopted a code of business conduct and ethics, as contemplated by the NYSE. Our board of directors has the obligation to verify compliance with the provisions of such code.

#### **Item 16H. Mine Safety Disclosure**

Not applicable.

### **PART III**

#### **Item 17. Financial Statements**

See "Item 18—Financial Statements."

#### **Item 18. Financial Statements**

See our Consolidated Financial Statements beginning at page F-1.

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### Item 19. Exhibits

Pursuant to the rules and regulations of the SEC, we have filed certain agreements as exhibits to this annual report on Form 20-F. Documents filed as exhibits to this annual report:

<u>Exhibit Number</u>	<u>Item</u>
1.1*	English translation of Certificate of Incorporation.
1.2**	English translation of <i>Pacto Social</i> , as amended.
2.1*	English translation of Temporary Bonus Plan adopted on March 6, 2012.
2.2*	Amended and Restated Registration Rights Agreement, dated as of September 11, 2013, among the Registrant, Synergy Aerospace Corp. and Kingsland Holdings Limited.
2.3*	Joint Action Agreement, dated as of September 11, 2013, among the Registrant, Synergy Aerospace Corp. and Kingsland Holding Limited
3.1*	English translation of Irrevocable Administration Mercantile Trust Agreement, dated as of March 23, 2012, by and between Fiduciaria Bogotá S.A. and Avianca Holdings S.A. (formerly AviancaTaca Holding S.A.).
4.1*	English translation of Lease Agreement No. OP-DC-CA-T2-0060-12, dated October 7, 2012, between Sociedad Concesionaria Operadora Aeroportuaria Internacional S.A.—Opain S.A. and Aerovias del Continente Americano S.A. Avianca.
4.1.1*	English translation of Lease Agreement No. OP-DC-CA-T1-0028-12, dated October 29, 2012, between Sociedad Concesionaria Operadora Aeroportuaria Internacional S.A.—Opain S.A. and Aerovias del Continente Americano S.A. Avianca.
4.1.2*	English translation of Lease Agreement No. OP-DC-CA-T2-0061-12, dated October 29, 2012, between Sociedad Concesionaria Operadora Aeroportuaria Internacional S.A.—Opain S.A. and Aerovias del Continente Americano S.A. Avianca.
4.2*	English translation of Lease Agreement, dated as of July 30, 2004, between U.A.E. Aeronautica Civil and Aerovias Nacionales de Colombia S.A. Avianca.
4.2.1*	English translation of Amendment No. 1 to Lease Agreement, dated as of December 12, 2005.
4.2.2*	English translation of Amendment No. 2 to Lease Agreement, dated as of January 5, 2009.
4.2.3*	English translation of Amendment No. 3 to Lease Agreement, dated as of November 7, 2012.
4.2.4*	English translation of Amendment No. 4 to Lease Agreement, dated as of March 1, 2013.
4.3**	English translation of Fuel Supply Contract, dated as of April 22, 2013, between Terpel S.A. and Aerovías del Continente Americano S.A. Avianca.

- 4.4†\* A320 Purchase Agreement, dated March 19, 1998, between Atlantic Aircraft Holding Limited and Airbus Industry relating to Airbus A320-Family.
- 4.4.1†\* Amendment No. 1 dated as of September 9, 1998 to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S. (as successor to Airbus Industry).
- 4.4.2†\* Amendment No. 2 dated as of December 28, 1999, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.3†\* Amendment No. 3 dated as of December 29, 1999, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.4†\* Amendment No. 4 dated as of February 15, 2000, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.5†\* Amendment No. 5 dated as of April 6, 2001, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.6†\* Amendment No. 6 dated as of April 9, 2001, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.7†\* Amendment No. 7 dated as of September 6, 2001, to the A320 Purchase Agreement dated as of March 19, 1998, as

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Exhibit Number	Item
	amended and restated, between the Company and Airbus S.A.S.
4.4.8†*	Amendment No. 8 dated as of August 29, 2002, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
4.4.9†*	Amendment No. 9 dated as of December 6, 2002, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
4.4.10†*	Amendment No. 10 dated as of October 30, 2003, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
4.4.11†*	Amendment No. 11 dated as of November 18, 2004, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
4.4.12†*	Amendment No. 12 dated as of November 18, 2004, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
4.4.13†*	Amendment No. 13 dated as of November 18, 2004, to the A320 Purchase Agreement dated

as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S

- 4.4.14†\* Amendment No. 14 dated as of February 18, 2006, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.15†\* Amendment No. 15 dated as of June 22, 2007, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.16†\* Amendment No. 16 dated as of November 22, 2007, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.17†\* Amendment No. 17 dated as of April 14, 2008, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.18†\* Amendment No. 18 dated as of January 30, 2009, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.19†\* Amendment No. 19 dated as of April 28, 2009, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.20†\* Amendment No. 20 dated as of February 10, 2010, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.21†\* Amendment No. 21 dated as of April 29, 2011, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.22†\* Amendment No. 22 dated as of August 26, 2011, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.23†\* Amendment No. 23 dated as of October 25, 2011, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.24†\* Amendment No. 24 dated as of March 29, 2012, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.25†\* Amendment No. 25 dated as of March 29, 2012, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.26†\* Amendment No. 26 dated as of March 29, 2012, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.27†\* Amendment No. 27 dated as of November 30, 2012, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.28†\*\*\* Amendment No. 28 dated as of October 11, 2013, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.
- 4.4.29†\*\*\* Amendment No. 29 dated as of February 28, 2014, to the A320 Purchase Agreement dated as of March 19, 1998, as amended and restated, between the Company and Airbus S.A.S.

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<u>Exhibit Number</u>	<u>Item</u>
4.5†*	A320 Purchase Agreement, dated April 16, 2007, between Aerovías del Continente Americano S.A. Avianca and Airbus S.A.S. relating to Airbus A320-Family.
4.5.1†*	Amendment No. 1 dated as of June 16, 2007, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.2†*	Amendment No. 2 dated as of September 10, 2007, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.3†*	Amendment No. 3 dated as of November 27, 2007, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.4†*	Amendment No. 4 dated as of January 31, 2008, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.5†*	Amendment No. 5 dated as of July 16, 2008, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.6†*	Amendment No. 6 dated as of December 5, 2008, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.7†*	Amendment No. 7 dated as of July 6, 2009, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.8†*	Amendment No. 8 dated as of October 10, 2009, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.9†*	Amendment No. 9 dated as of March 12, 2010, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.10†*	Amendment No. 10 dated as of November 22, 2010, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.11†*	Amendment No. 11 dated as of August 26, 2011, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.12†*	Amendment No. 12 dated as of October 10, 2011, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.5.13†*	Amendment No. 13 dated as of June 13, 2012, to the A320 Family Purchase Agreement dated as of April 16, 2007, as amended and restated, between the Company and Airbus S.A.S.
4.6†*	Assignment, Assumption and Amendment Agreement dated as of May 18, 2012, entered into among Aerovías del Continente Americano S.A. Avianca, Synergy Aerospace Corp. and Airbus S.A.S. in respect of four (4) A330-200F of the thirteen (13) A330-200 and A330-200F under the Purchase Agreement dated September 5, 2011 (the A330-200F Purchase Agreement).

- 4.6.1†\* Amendment No. 1, dated as of August 16, 2012, to the A330-200F Purchase Agreement dated as of May 18, 2012, as amended and restated, between the Company and Airbus S.A.S.
- 4.7†\* A320 Family and A320 NEO Family Purchase Agreement dated as of December 27, 2011 between Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.) and Airbus S.A.S. relating to Airbus A320-Family and A320 NEO Family.
- 4.7.1†\* Amendment No. 1, dated as of February 28, 2013, to the A320 Family and A320 NEO Family Purchase Agreement dated as of December 27, 2011, between Avianca Holdings S.A. and Airbus S.A.S.
- 4.7.2† Cancellation Amendment dated as of April 30, 2015 to the A320 Family and A320 NEO Family Purchase Agreement dated as of December 27, 2011, among Avianca Holdings S.A., Aerovías del Continente Americano S.A. Avianca, Grupo Taca Holdings Limited and Airbus S.A.S.
- 4.8†\* Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, entered into among Aerovías del Continente Americano S.A. Avianca, Avianca Holdings S.A. and Airbus S.A.S. in respect of twenty six (26) A320 Family Aircraft and A320 NEO Family under the A320 Family and A320 NEO Family Purchase Agreement dated December 27, 2011.
- 4.8.1†\*\*\* Amendment No. 1, dated as of February 28, 2014, to the Assignment, Assumption and Amendment Agreement dated

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<b>Exhibit Number</b>	<b>Item</b>
	as of February 28, 2013, entered into among Aerovías del Continente Americano S.A. Avianca, Avianca Holdings S.A. and Airbus S.A.S.
4.8.2†***	Assignment, Assumption and Amendment Agreement dated as of December 31, 2014, entered into among Aerovías del Continente Americano S.A. Avianca, Avianca Holdings S.A. and Airbus S.A.S. (the Second Avianca Assignment).
4.8.3†***	Amendment No. 2, dated as of March 27, 2015 to the Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, entered into among Aerovías del Continente Americano S.A. Avianca, Avianca Holdings S.A. and Airbus S.A.S.
4.8.4†	Amendment No. 3, dated as of September 21, 2015, to the Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, between Aerovías del Continente Americano S.A. Avianca and Airbus S.A.S.
4.9†*	Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, entered into among Grupo Taca Holdings Limited, Avianca Holdings S.A. and Airbus S.A.S. in respect of twenty five (25) A320 Family and A320 NEO Family Aircraft under the A320

Family and A320 NEO Family Purchase Agreement dated December 27, 2011.

- 4.9.1†\*\*\* Amendment No. 1, dated as of March 31, 2014, to the Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, entered into among Grupo Taca Holdings Limited, Avianca Holdings S.A. and Airbus S.A.S.
- 4.9.2†\*\*\* Amendment No. 2, dated as of July 31, 2014, to the Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, entered into among Grupo Taca Holdings Limited, Avianca Holdings S.A. and Airbus S.A.S.
- 4.9.3†\*\*\* Assignment, Assumption and Amendment Agreement dated as of December 31, 2014, entered into among Grupo Taca Holdings Limited, Avianca Holdings S.A. and Airbus S.A.S. (the Second Taca Assignment).
- 4.9.4†\*\*\* Amendment No. 3, dated as of March 27, 2015, to the Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, entered into among Grupo Taca Holdings Limited, Avianca Holdings S.A. and Airbus S.A.S.
- 4.9.5† Amendment No. 4, dated as of September 21, 2015, to the Assignment, Assumption and Amendment Agreement dated as of February 28, 2013, between Grupo Taca Holdings Limited and Airbus S.A.S.
- 4.10†\* Purchase Agreement No. 3075, dated October 3, 2006, as amended and supplemented, between Aerovías del Continente Americano S.A. Avianca (The Company) and The Boeing Company, relating to the purchase and sale of ten (10) Boeing Model 787-859 aircraft.
- 4.10.1†\* Supplemental Agreement No. 1 dated as of March 28, 2007, to the Purchase Agreement No. 3075, dated October 3, 2006, as amended and supplemented, between the Company and The Boeing Company.
- 4.10.2†\* Supplemental Agreement No. 2 dated as of March 28, 2007, to the Purchase Agreement No. 3075, dated November 21, 2007, as amended and supplemented, between the Company and The Boeing Company.
- 4.10.3†\* Supplemental Agreement No. 3 dated as of September 26, 2012, to the Purchase Agreement No. 3075, dated November 21, 2007, as amended and supplemented, between the Company and The Boeing Company
- 4.10.4†\* Supplemental Agreement No. 4 dated as of January 11, 2013, to the Purchase Agreement No. 3075, dated November 21, 2007, as amended and supplemented, between the Company and The Boeing Company.
- 4.10.5†\*\*\* Supplemental Agreement No. 5 dated as of April 15, 2014, to the Purchase Agreement No. 3075, dated October 3, 2006, as amended and supplemented, between the Company and The Boeing Company.
- 4.11†\* Sale and Purchase Contract dated as of January 18, 2013, between Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.) and Avions de Transport Regional G.I.E. as amended and restated, relating to ATR 72-600 Aircraft.
- 4.12†\* Trent 700 General Terms Agreement, dated June 15, 2007, among Rolls Royce PLC, Rolls Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca.

- 4.12.1†\* Amendment No. 1 to General Terms Agreement, dated February 28, 2008.
- 4.12.2†\* Amendment No. 2 to General Terms Agreement, dated February 28, 2009.
- 4.12.3†\* Amendment No. 3 to General Terms Agreement, dated September 1, 2009.
- 4.12.4†\* Amendment No. 4 to General Terms Agreement, dated March 18, 2011.
- 4.13†\* General Terms Agreement 700 DEG 7308, dated June 1, 2012, between Rolls-Royce PLC, Rolls-Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca and Tampa Cargo S.A.
- 4.13.1†\*\*\* Amendment No. 1 to General Terms Agreement, dated May 17, 2013.

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<b>Exhibit Number</b>	<b>Item</b>
4.13.2†***	Amendment No. 2 to General Terms Agreement, dated October 23, 2014.
4.13.3†***	Amendment No. 3 to General Terms Agreement, dated December 30, 2014.
4.14†*	General Terms Agreement No. CFM-03-2007, dated as of March 29, 2007, between CFM International, Inc. and Aerovías del Continente Americano S.A. Avianca.
4.14.1†*	Amendment No. 1 to General Terms Agreement.
4.15†*	General Terms Agreement No. GE-1-1090789943, dated as of December 18, 2007, between General Electric Corporation, GE Engine Services and Atlantic Aircraft Holding, Ltd.
4.16†*	OnPoint Solutions Rate per Engine Flight Hour Engine Services Agreement, dated as of January 18, 2008, between GE Engine Services, Inc. and Aerovías del Continente Americano S.A. Avianca.
4.17†*	Rate Per Flight Hour Agreement for CFM56-5B Engine Shop Maintenance Services, dated as of February 6, 2013, between CFM International, Inc. and Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.).
4.17.1***	Amendment No. 1 to Rate Per Flight Hour Agreement dated 2014.
4.18†*	General Terms Agreement No. CFM-1-2887169891, dated as of February 6, 2013, between CFM International, Inc. and Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.)
4.19†*	Rate Per Flight Hour Agreement for LEAP 1-A Engine Shop Maintenance Services, dated as of February 6, 2013, between CFM International, Inc. and Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.).



- 4.20†\* Amended and Restated V2500® General Terms of Sale, dated as of December 18, 2008, between IAE International Aero Engines AG and Atlantic Aircraft Holdings Limited.
- 4.20.1†\* Amendment No. 1 to Amended and Restated V2500® General Terms of Sale, dated December 17, 2010.
- 4.20.2†\* Second Amended and Restated Side Letter, dated as of December 17, 2010.
- 4.21†\* Amended and Restated V2500-A5 Fleet Hour Agreement, dated as of December 18, 2008, between IAE International Aero Engines AG and Atlantic Aircraft Holdings Limited.
- 4.22†\*\* Trent 1000 General Terms Agreement, dated June 15, 2007, among Rolls Royce PLC, Rolls Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca.
- 4.22.1†\*\* Side Letter Number One dated June 15, 2007, to the Trent 1000 General Terms Agreement, dated June 15, 2007, among Rolls Royce PLC, Rolls Royce Total Care Services Limited and Aerovías del Continente Americano S.A. Avianca.
- 4.23†\*\*\* Assignment, Assumption and Amendment Agreement dated as of December 31, 2014, entered into among Aerovías del Continente Americano S.A. Avianca, Avianca Holdings S.A., Avianca Leasing, LLC and Airbus S.A.S. in respect of A320 Family Aircraft and A320 NEO Family under the A320 Family and A320 NEO Family Purchase Agreement dated December 27, 2011 (the First Avianca Leasing Assignment).
- 4.24† A320 NEO Family Purchase Agreement, dated as of April 30, 2015, between Aerovías del Continente Americano S.A. Avianca, Grupo Taca Holdings S.A. and Airbus S.A.S. relating to Airbus A320 NEO Family.
- 4.24.1† Letter Agreement No. 2.1, dated as of December 29, 2015, to the A320 NEO Family Purchase Agreement dated as of April 30, 2015, between Aerovías del Continente Americano S.A. Avianca, Grupo Taca Holdings Limited and Airbus S.A.S.
- 4.24.2† Letter Agreement No. 3.1, dated as of September 30, 2015, to the A320 NEO Family Purchase Agreement dated as of April 30, 2015, between Aerovías del Continente Americano S.A. Avianca, Grupo Taca Holdings Limited and Airbus S.A.S.
- 8 Subsidiaries of the Registrant.
- 12.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certifications of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certifications of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- \* Incorporated by reference to our registration statement, as amended, on Form F-1 (File No. 333-191258), filed on September 19, 2013, as amended on September 23, 2013, October 2, 2013, October 8, 2013, October 11, 2013, October 21, 2013, October 30, 2013 and November 4, 2013.
- \*\* Incorporated by reference to our Form 20-F for the year ended December 31, 2013.
- \*\*\* Incorporated by reference to our Form 20-F for the year ended December 31, 2014.
- † Portions of the exhibit omitted pursuant to a request for confidential treatment.

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**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.

**Avianca Holdings S.A.**

By: /s/ Gerardo Grajales

Name: Gerardo Grajales

Title: Chief Financial Officer

Dated: April 29, 2016

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**AVIANCA HOLDINGS S.A.  
AND SUBSIDIARIES**

(Republic of Panama)

**Consolidated Financial Statements**

As of December 31, 2015 and 2014 and  
for each of the years in the three-year period ended  
December 31, 2015

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

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### Report of Independent Registered Public Accounting Firm

To The Board of Directors and Shareholders of Avianca Holdings S.A.

We have audited the accompanying consolidated statements of financial position of Avianca Holdings S.A. and subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Avianca Holdings S.A. and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the for each of the three years in the period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Avianca Holdings S.A. and its subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission "(2013 framework)" and our report dated April 28, 2016 expressed a unqualified opinion thereon.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Avianca Holdings S.A.

We have audited Avianca Holdings S.A. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission “(2013 framework)” (the COSO criteria). Avianca Holdings S.A. and subsidiaries' 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 Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Avianca Holdings S.A. and subsidiaries' 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, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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, Avianca Holdings S.A. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Avianca Holdings S.A. and subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2015 and our Report dated April 28, 2016 expressed an unqualified opinion thereon.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

**Consolidated Statement of Financial Position**

(In USD thousands)

	Notes	As of December 31, 2015	As of December 31, 2014
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	7	\$ 479,381	\$ 640,891
Restricted cash	7	5,397	1,987
Available-for-sale securities	6	—	1,218
Accounts receivable, net of provision for doubtful accounts	8	279,620	355,168
Accounts receivable from related parties	9	23,073	27,386
Expendable spare parts and supplies, net of provision for obsolescence	10	68,768	65,614
Prepaid expenses	11	45,708	56,065
Assets held for sale	12	3,323	1,369
Deposits and other assets	13	130,724	174,128
		<hr/>	<hr/>
Total current assets		1,035,994	1,323,826
<b>Non-current assets:</b>			
Available-for-sale securities	6	793	237
Deposits and other assets	13	246,486	218,010
Accounts receivable, net of provision for doubtful accounts	8	59,713	42,407
Accounts receivable from related parties	9	—	11,247
Intangible assets	15	413,766	416,070
Deferred tax assets	31	5,847	35,664
Property and equipment, net	14	4,599,346	4,128,051
		<hr/>	<hr/>
Total non-current assets		5,325,951	4,851,686
		<hr/>	<hr/>
<b>Total assets</b>		<b>\$ 6,361,945</b>	<b>\$ 6,175,512</b>
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See accompanying notes to Consolidated Financial Statements

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Consolidated Statement of Financial Position (In USD thousands)

	Notes	As of December 31, 2015	As of December 31, 2014
<b>Liabilities and equity</b>			
<b>Current liabilities:</b>			
Current portion of long-term debt	17	\$ 412,884	\$ 458,679
Accounts payable	18	480,592	547,494
Accounts payable to related parties	9	9,449	13,797
Accrued expenses	19	118,192	138,262
Provisions for legal claims	32	13,386	14,157
Provisions for return conditions	20	52,636	61,425
Employee benefits	21	32,876	49,193
Air traffic liability	22	433,575	461,118
Other liabilities	23	12,691	127,496
Total current liabilities		1,566,281	1,871,621
<b>Non-current liabilities:</b>			
Long-term debt	17	3,060,110	2,711,898
Accounts payable	18	3,599	21,167
Provisions for return conditions	20	109,231	70,459
Employee benefits	21	127,720	173,460
Deferred tax liabilities	31	13,475	15,760
Air traffic liability	22	93,519	85,934
Other liabilities non-current	23	15,375	8,466
Total non-current liabilities		3,423,029	3,087,144
Total liabilities		4,989,310	4,958,765
<b>Equity:</b>			
Common stock	25	82,600	82,600
Preferred stock		42,023	42,023
Additional paid-in capital on common stock		234,567	234,567
Additional paid-in capital on preferred stock		469,273	469,273
Retained earnings		507,132	355,671
Revaluation and other reserves		18,394	24,550
Total equity attributable to the Company		1,353,989	1,208,684
Non-controlling interest		18,646	8,063
Total equity		1,372,635	1,216,747

<b>Total liabilities and equity</b>	<b>\$ 6,361,945</b>	<b>\$ 6,175,512</b>
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See accompanying notes to Consolidated Financial Statements

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

**Consolidated Statement of Comprehensive Income**  
(In USD thousands, except share and per share data)

	Notes	For the year ended December 31,		
		2015	2014	2013
<b>Operating revenue:</b>				
Passenger	26	\$3,458,017	\$3,862,721	\$3,862,397
Cargo and other	26	903,324	840,850	747,207
<b>Total operating revenue</b>		<b>4,361,341</b>	<b>4,703,571</b>	<b>4,609,604</b>
<b>Operating expenses:</b>				
Flight operations		58,069	56,695	82,872
Aircraft fuel		1,006,792	1,345,755	1,325,763
Ground operations		412,382	397,625	343,812
Aircraft rentals		317,505	299,220	273,643
Passenger services		149,292	154,464	143,512
Maintenance and repairs		309,719	268,894	188,659
Air traffic		202,980	206,151	180,140
Sales and marketing		612,775	605,674	584,468
General, administrative and other		176,195	165,172	257,273
Salaries, wages and benefits		666,084	725,793	674,951
Depreciation, amortization, and impairment	14,15	230,732	198,660	169,580
<b>Total operating expenses</b>		<b>4,142,525</b>	<b>4,424,103</b>	<b>4,224,673</b>
<b>Operating profit</b>		<b>218,816</b>	<b>279,468</b>	<b>384,931</b>
Interest expense		(169,407)	(133,989)	(113,330)
Interest income		19,016	17,099	11,565
Derivative instruments		626	5,924	(11,402)
Foreign exchange		(177,529)	10,272	23,517
<b>(Loss) profit before income tax</b>		<b>(108,478)</b>	<b>178,774</b>	<b>295,281</b>
Income tax expense – current	31	(17,280)	(33,781)	(40,296)
Income tax expense – deferred	31	(13,748)	(16,499)	(6,164)

Total income tax expense	(31,028)	(50,280)	(46,460)
<b>Net (loss) profit for the year</b>	<b>\$ (139,506)</b>	<b>\$ 128,494</b>	<b>\$ 248,821</b>

See accompanying notes to Consolidated Financial Statements.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Consolidated Statement of Comprehensive Income (In USD thousands, except share and per share data)

	Notes	For the year ended December 31,		
		2015	2014	2013
<b>Net (loss) profit for the year</b>		<b>\$(139,506)</b>	<b>\$ 128,494</b>	<b>\$248,821</b>
<b>Other comprehensive income (loss):</b>				
Items that will not be reclassified to profit or loss in future periods:				
Revaluation of administrative property	14	(6,156)	(4,307)	3,439
Actuarial gains	21	541	16,439	66,277
Income tax	31	3,410	(2,239)	(14,525)
		(2,205)	9,893	55,191
Items that will be reclassified to profit or loss in future periods:				
Effective portion of changes in fair value of hedging instruments	25	77,308	(113,249)	10,654
Net change in fair value of available-for-sale securities	25	3,098	(1,527)	2,028
Income tax	31	(13,358)	14,819	(1,852)
		67,048	(99,957)	10,830
<b>Other comprehensive income (loss), net of income tax</b>		<b>64,843</b>	<b>(90,064)</b>	<b>66,021</b>
<b>Total comprehensive income (loss) net of income tax</b>		<b>\$ (74,663)</b>	<b>\$ 38,430</b>	<b>\$314,842</b>
Profit (loss) attributable to:				
Equity holders of the parent		\$(155,388)	\$ 129,270	\$257,493
Non-controlling interest		15,882	(776)	(8,672)
<b>Net (loss) profit</b>		<b>\$(139,506)</b>	<b>\$ 128,494</b>	<b>\$248,821</b>
Total comprehensive income (loss) attributable to:				



Equity holders of the parent		\$ (90,545)	\$ 39,206	\$323,514
Non-controlling interest		15,882	(776)	(8,672)
<b>Total comprehensive income</b>		<b>\$ (74,663)</b>	<b>\$ 38,430</b>	<b>\$314,842</b>
<b>Basic and diluted (loss) earnings per share</b>	16			
Common stock		\$ (0.14)	\$ 0.13	\$ 0.27
Preferred stock		\$ (0.14)	\$ 0.13	\$ 0.27

See accompanying notes to Consolidated Financial Statements.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

(Republic of Panama)

#### Consolidated Statement of Changes in Equity (In USD thousands, except share and per share data)

	Notes	Common stock		Preferred stock		Additional paid-in capital		Revaluation and other reserves	Retained earnings and OCI reserves	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
		Shares	Amount	Shares	Amount	Common stock	Preferred stock					
Balance as of January 1, 2013		741,400,000	92,675	155,784,429	19,473	263,178	270,061	\$ 25,418	\$ 68,153	\$ 738,958	\$ 13,144	\$ 752,102
Net profit		—	—	—	—	—	—	—	257,493	257,493	(8,672)	248,821
Other comprehensive income for the period	25	—	—	—	—	—	—	3,439	62,582	66,021	—	66,021
Dividends paid	25	—	—	—	—	—	—	—	(36,921)	(36,921)	—	(36,921)
Purchase of treasury stock	25	—	—	(197,141)	(25)	—	(452)	—	—	(477)	—	(477)
Preferred stock issuance		—	—	100,000,000	12,500	—	171,053	—	—	183,553	—	183,553
Conversion of common stock to preferred stock	25	(75,599,97)	(9,450)	75,599,97	9,450	(26,836)	26,836	—	—	—	—	—
Other		—	—	—	—	—	—	—	(205)	(205)	1,852	1,647

<b>Balance at December 31, 2013</b>		<b>665,800,003</b>	<b>83,225</b>	<b>331,187,285</b>	<b>41,398</b>	<b>236,342</b>	<b>467,498</b>	<b>28,857</b>	<b>351,102</b>	<b>1,208,422</b>	<b>6,324</b>	<b>1,214,746</b>
Net profit		—	—	—	—	—	—	—	129,270	—	(776)	128,494
Other comprehensive income for the period	25	—	—	—	—	—	—	(4,307)	(85,757)	(90,064)	—	(90,064)
Dividends paid	25	—	—	—	—	—	—	—	(38,944)	(38,944)	—	(38,944)
Increase in non-controlling interest	25	—	—	—	—	—	—	—	—	—	2,515	2,515
Conversion of common stock to preferred stock	25	(5,000,000)	(625)	5,000,000	625	(1,775)	1,775	—	—	—	—	—
<b>Balance at December 31, 2014</b>		<b>660,800,003</b>	<b>82,600</b>	<b>336,187,285</b>	<b>42,023</b>	<b>234,567</b>	<b>469,273</b>	<b>24,550</b>	<b>355,671</b>	<b>1,208,684</b>	<b>8,063</b>	<b>1,216,747</b>
Net loss		—	—	—	—	—	—	—	(155,388)	(155,388)	15,882	(139,506)
Other comprehensive income for the period	25	—	—	—	—	—	—	(6,156)	70,999	64,843	—	64,843
Dividends paid	25	—	—	—	—	—	—	—	(67,088)	(67,088)	(3,750)	(70,838)
Sale of minority shareholding	25	—	—	—	—	—	—	—	302,938	302,938	(1,549)	301,389
<b>Balance at December 31, 2015</b>		<b>660,800,003</b>	<b>82,600</b>	<b>336,187,285</b>	<b>42,023</b>	<b>234,567</b>	<b>469,273</b>	<b>18,394</b>	<b>507,132</b>	<b>1,353,989</b>	<b>18,646</b>	<b>1,372,635</b>

See accompanying notes to Consolidated Financial Statements.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

**Consolidated Statement of Cash Flows**

(In USD thousands)

	For the year ended December 31,		
	2015	2014	2013
<b>Cash flows from operating activities:</b>			
Net (loss) profit for the year	\$(139,506)	\$ 128,494	\$ 248,821
Adjustments for:			
Depreciation, amortization and impairment	230,732	198,660	169,580
Share-based payment income	(1,121)	(2,540)	(355)
Loss (gain) on disposal of assets	8,670	(6,528)	(2,555)
Fair value adjustment of financial instruments	5,327	(4,616)	9,688
Interest income	(19,016)	(17,099)	(11,565)
Interest expense	169,407	133,989	113,330
Deferred tax	13,748	16,499	6,164
Current tax	17,280	33,781	40,296
Currency translation adjustment	177,529	(10,272)	(23,517)
Changes in:			
Accounts receivable	(39,043)	(151,391)	(43,769)
Expendable spare parts and supplies	(3,154)	(12,456)	(4,362)
Prepaid expenses	10,357	(9,321)	6,592
Deposits and other assets	181	(67,849)	(11,543)
Accounts payable and accrued expenses	(25,969)	73,755	(23,801)
Air traffic liability	(23,879)	(17,554)	95,820
Provision for return conditions	32,217	42,786	22,203
Employee benefits	(11,996)	(27,878)	(25,207)
Income tax paid	(38,762)	(43,330)	(21,178)
<b>Net cash provided by operating activities</b>	<b>363,002</b>	<b>257,130</b>	<b>544,642</b>
<b>Cash flows from investing activities:</b>			
Available-for-sale securities	7,043	—	19,460
Restricted cash	(10,815)	21,551	(16,991)
Interest received	9,009	13,384	10,070
Advance payments on aircraft purchase contracts	(220,920)	(169,284)	(320,289)
Acquisition of property and equipment	(156,655)	(130,313)	(264,700)
(Investment in) redemption of investment in certificates of bank deposits	(32,087)	(9,248)	29,619

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**  
(Republic of Panama)

**Consolidated Statement of Cash Flows**  
(In USD thousands)

	For the year ended December 31,		
	2015	2014	2013
Acquisition of intangible assets	\$ (16,856)	\$ (29,682)	\$ (26,728)
Net cash flow on acquisition of subsidiary	—	(9,968)	—
Proceeds from sale of property and equipment	90,625	65,985	83,938

Proceeds from sale of investments	165	686	2,362
<b>Net cash used in investing activities</b>	<b>(330,491)</b>	<b>(246,889)</b>	<b>(483,259)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from loans and borrowings	451,973	231,510	238,639
Proceeds from issuance of bonds	—	250,000	298,626
Repayments of loans and borrowings	(515,927)	(365,605)	(292,640)
Payments of financial lease liabilities	—	—	(4,410)
Dividends paid	(70,838)	(38,944)	(36,921)
Purchase of treasury stock	—	—	(477)
Issuance of preferred stock	—	—	183,553
Increase in non-controlling interest	—	2,000	—
Interest paid	(148,518)	(131,781)	(98,723)
Sale of minority shareholding	301,389	—	—
Other	—	—	1,647
<b>Net cash provided by (used in) financing activities</b>	<b>18,079</b>	<b>(52,820)</b>	<b>289,294</b>
Net increase (decrease) in cash and cash equivalents	50,590	(42,579)	350,677
Net foreign exchange difference	(212,100)	(52,107)	(18,097)
Cash and cash equivalents at beginning of year	640,891	735,577	402,997
<b>Cash and cash equivalents at end of year</b>	<b>\$ 479,381</b>	<b>\$ 640,891</b>	<b>\$ 735,577</b>

See accompanying notes to Consolidated Financial Statements.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

(Republic of Panama)

#### Notes to Consolidated Financial Statements

(In USD thousands)

##### (1) Reporting entity

Avianca Holdings S.A. (the “Company” or “Avianca Holdings S.A.”), a Panamanian corporation whose registered address is at Calle Aquilino de la Guardia No. 8 IGRA Building, Panama City, Republic of Panama, was incorporated on October 5, 2009 under the name SK Holdings Limited and under the laws of the Commonwealth of the Bahamas. Subsequently, on March 10, 2010 the Company changed its corporate name to AviancaTaca Limited, and, on January 28, 2011 the Company changed its name to AviancaTaca Holding, S.A and thereafter on March 3, 2011 the Company changed its registered offices to Panama. In 2011 AviancaTaca listed its shares in the Bolsa de Valores de Colombia (“BVC”) and was listed as PFAVTA: CB. On March 21, 2013 the Company changed its legal name from AviancaTaca Holding S.A. to Avianca Holdings S.A. and its listing name to PFAVH: CB. On November 6, 2013, the Company listed its shares on the New York Stock Exchange (NYSE) and is listed under the symbol AVH.

The Company through its subsidiaries is a provider of domestic and international, passenger and cargo air transportation, both in the domestic markets of Colombia, Ecuador, Costa Rica, Nicaragua and Peru and international routes serving North, Central and South America, Europe, and the Caribbean. The Company has entered into a number of bilateral code share alliances with other airlines (whereby selected seats on one

carrier's flights can be marketed under the brand name and commercial code of the other), expanding travel choices to customers worldwide. Marketing alliances typically include: joint frequent flyer program participation; coordination of reservations, ticketing, passenger check in and baggage handling; transfer of passenger and baggage at any point of connectivity, among others. The code share agreements include Air Canada, United Airlines, Aeromexico, Copa Airlines, Satena, Sky Airlines, OceanAir Linhas Aéreas, S.A., Iberia, Lufthansa, All Nippon Airways and Turkish Airlines. Avianca and Taca International (as well as Taca affiliates) are members of Star Alliance which give customers access to the routes, destinations and services of the Star Alliance network.

Cargo operations are carried out by the Company's subsidiaries and affiliates, including Tampa Cargo S.A.S. The Company also undertakes cargo operations through the use of hold space on passenger flights and dedicated freight aircraft. In certain of airport hubs, the Company performs ground operations for third-party airlines.

The Company operates a loyalty program, including LifeMiles, the frequent flyer program for the airline subsidiaries of Avianca Holdings S.A. LifeMiles is designed to retain customers and increase loyalty by offering incentives to passengers traveling on the participating airline partners for their continued preference. Under the LifeMiles program, customers earn miles by flying through the Company's air partners, including Star Alliance and by using the services of non-air program partners such as credit cards, hotels, car rentals and other. The miles earned can be exchanged for flights with the Company or other partners' products or services. Customers may redeem their awards and earn miles through airline members of Star Alliance, which give customers of the Company access to the routes, destinations and services of the Star Alliance network.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

#### **Notes to Consolidated Financial Statements**

(In USD thousands)

As of December 31, 2015 and 2014, Avianca Holdings S.A. had a total fleet consisting of:

Aircraft	2015			2014		
	Owned/ Financial Lease	Operating Lease	Total	Owned/ Financial Lease	Operating Lease	Total
Airbus A-318	—	10	10	—	10	10
Airbus A-319	22	13	35	20	17	37
Airbus A-320	34	27	61	31	27	58
Airbus A-321	5	7	12	3	6	9
Airbus A-330	1	8	9	1	11	12
Airbus A330F	6	—	6	6	—	6
Airbus A300F-B4F	4	—	4	4	—	4
Boeing 787	5	2	7	3	1	4
ATR 42	4	—	4	4	5	9
ATR 72	15	—	15	14	—	14
Boeing 767	—	—	—	—	1	1
Boeing 767F	2	—	2	2	1	3
Cessna Grand Caravan	11	—	11	9	—	9
Embraer E-190	10	2	12	10	2	12
Fokker 100	3	—	3	5	—	5

122	69	191	112	81	193
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## (2) Basis of preparation

### (a) Statement of compliance

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Consolidated Financial Statements of the Company were authorized for issue by the Board of Directors on February 24, 2016.

### (b) Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except certain assets and liabilities, which are measured at fair value, as set out in the specific accounting policy for such assets and liabilities.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

#### **Notes to Consolidated Financial Statements**

**(In USD thousands)**

##### *(c) Functional and presentation currency*

These Consolidated Financial Statements are presented in US dollars, which is the Company’s functional currency. All financial information presented has been rounded to the nearest thousands, except when otherwise indicated.

##### *(d) Use of estimates and judgments*

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are critical judgments used in applying accounting policies that may have the most significant effect on the amounts recognized in the Consolidated Financial Statements:

- The Company has entered into operating lease contracts with respect to 69 aircraft. The Company has determined, based on the terms and conditions of the arrangements, that the significant risks and rewards of ownership of all these leased aircraft have not been transferred from the lessor, so it accounts for these lease contracts as operating leases.
- The Company recognizes revenue from tickets that are expected to expire unused based on historical data and experience. Defining expected breakage requires management to make informed estimates about, among other things, the extent to which historical experience is an indication of the future customer behavior. Annually, or more frequently as the experience data suggests, management reassesses the historical data and makes required adjustments.

- The Company operates certain aircraft under a financing structure which involves the creation of structured entities that acquire aircraft with bank and third-party financing. This relates to 67 aircraft from the A320, A330, ATR and B787 families. The Company has determined, based on the terms and conditions of the arrangements, that the Company controls these special purpose entities (“SPE”) and therefore, SPEs are consolidated by the Company and these aircraft are shown in the Consolidated Statement of Financial Position as part of Property and Equipment with the corresponding debt shown as a liability.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

#### **Notes to Consolidated Financial Statements**

**(In USD thousands)**

The following assumptions and estimates may have the most significant effect on the amounts recognized in the Consolidated Financial Statements within the next financial year:

- The Company believes that the tax positions taken are reasonable. However, tax authorities by audits proceedings may challenge the positions taken resulting in additional liabilities for taxes and interest that may become payable in future years. Tax positions involve careful judgment on the part of management and are reviewed and adjusted to account for changes in circumstances, such as lapse of applicable statutes of limitations, conclusions of tax audits, additional exposures derived from new legal issues or court decisions on a particular tax matter. The Company establishes provisions, based on its estimation on feasibility of a negative decision derived from an audit proceeding by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and different interpretations of tax regulations by the taxable entity and the responsible tax authority. Actual results could differ from estimates.
- Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized and the tax rates used, based upon the likely timing and the level of future taxable profits together with future tax planning strategies, and the enacted tax rates in the jurisdictions in which the entity operates.
- The Company measures administrative land and buildings primarily in Bogota, San Jose, and San Salvador at revalued amounts with changes in fair value being recognized in other comprehensive income. The Company engaged independent valuation specialists to determine the fair value of these assets as of December 31, 2015 and 2014. The valuation techniques used by these specialists require estimates about market conditions at the time of the report.
- The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and indefinite-lived intangible assets are tested for impairment annually and at other times when such indicators exist. Impairment analysis requires the Company to estimate the value in use of the cash generating units to which goodwill is assigned.
- The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in

the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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#### **Notes to Consolidated Financial Statements**

(In USD thousands)

In determining the appropriate discount rate for pension plans in Colombia, management refers to market yields on Colombian Government bonds, since it is management's judgment that there is no deep local market for high quality corporate bonds.

The mortality rate is based on publicly available mortality tables in Colombia. Future salary increases and pension increases are based on expected future inflation rates in Colombia.

- The Company estimates the fair value of miles awarded under the LifeMiles program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences. Breakage represents the sale of miles that are expected to expire unused based on historical data and experience. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns.
- Aircraft lease contracts establish certain conditions in which aircraft shall be returned to the lessor at the end of the contracts. To comply with return conditions, the Company incurs costs such as the payment to the lessor of a rate in accordance with the use of components through the term of the lease contract, payment of maintenance deposits to the lessor, or overhaul costs of components. In certain contracts, if the asset is returned in a better maintenance condition than the condition at which the asset was originally delivered, the Company is entitled to receive compensation from the lessor. The Company accrues a provision to comply with return conditions at the time the asset does not meet the return condition criteria based on the conditions of each lease contract. The recognition of return conditions require management to make estimates of the costs of return conditions and use inputs such as hours or cycles flown of major components, estimated hours or cycles at redelivery of major components, projected overhaul costs and overhaul dates of major components. At redelivery of aircraft, any difference between the provision recorded and actual costs is recognized in the Consolidated Statement of Comprehensive Income.

#### **(3) Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by all the Company's entities.

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## AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

(Republic of Panama)

### Notes to Consolidated Financial Statements

(In USD thousands)

(a) *Basis of consolidation*

Subsidiaries are entities controlled by Avianca Holdings S.A. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Control is established after assessing the Company's ability to direct the relevant activities of the investee, its exposure and rights to variable returns, and its ability to use its power to affect the amount of the investee's returns. The accounting policies of subsidiaries have been aligned when necessary with the policies adopted by the Company.

The following are the significant subsidiaries included within these financial statements:

Name of Subsidiary	Country of Incorporation	Ownership Interest%	
		2015	2014
Aerolíneas Galápagos, S.A. Aerogal	Ecuador	99.62%	99.62%
Aerovías del Continente Americano S.A.	Colombia	99.98%	99.98%
Avianca, Inc.	USA	100%	100%
Avianca Leasing, LLC	USA	0%	0%
Grupo Taca Holdings Limited	Bahamas	100%	100%
Latin Airways Corp.	Panama	100%	100%
LifeMiles B.V.	Curaçao	70%	100%
Líneas Aéreas Costarricenses, S.A.	Costa Rica	92.40%	92.40%
Taca International Airlines, S.A.	El Salvador	96.84%	96.84%
Tampa Cargo Logistics, Inc.	USA	99.98%	99.98%
Tampa Cargo S.A.S	Colombia	99.98%	99.98%
Technical and Training Services, S.A. de C.V.	El Salvador	99%	99%
Trans American Airlines S.A.	Peru	100%	100%
Vu-Marsat S.A.	Costa Rica	100%	100%

On April 19, 2013, Avianca Leasing, LLC was formed as a limited liability company in the State of Delaware, United States. On May 10, 2013, Avianca Holdings S.A. completed a \$300,000 private offering of Senior Notes under Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended. Two subsidiaries of Avianca Holdings, Grupo Taca Holdings, Limited and Avianca Leasing, LLC, are jointly and severally liable under the Senior Notes as co-issuers. Avianca Leasing, LLC will not engage in any material business activity other than purchasing, leasing or otherwise acquiring and/or financing aircraft for use by Avianca, S.A. and its subsidiaries, the incurrence of obligations in connection therewith, including the notes, and activities incidental or ancillary thereto. Avianca S.A. is the sole member of Avianca Leasing, LLC. Therefore, the Company has consolidated the entity in accordance with IFRS 10.

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## AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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**Notes to Consolidated Financial Statements**  
**(In USD thousands)**

On October 21, 2014, Avianca Holdings S.A. indirectly acquired 25% of the voting rights as well as 92.72% of the economic rights in the Mexican airfreight carrier Aero Transporte de Carga Unión, S.A. de C.V. (“Aerounion”).

The Consolidated Financial Statements also include 52 special purpose entities that relate primarily to the Company’s aircraft leasing activities. These special purpose entities are created in order to facilitate financing of aircraft with each SPE holding a single aircraft or asset. In addition the Consolidated Financial Statements includes 95 entities that are mainly investment vehicles, personnel employers and service providers within the consolidated entities. The Company has consolidated these entities in accordance with IFRS 10.

*(b) Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

*(c) Foreign currency*

*Foreign currency transactions*

These Consolidated Financial Statements are presented in US dollars, which is the Company’s functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the respective spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*Foreign operations*

Assets and liabilities of foreign operations included in the Consolidated Statement of Financial Position are translated using the closing exchange rate on the date of the Consolidated Statement of Financial Position. The revenues and expenses of each income statement account are translated at monthly average rates; and all the resultant exchange differences are shown as a separate component in other comprehensive income.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**  
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**Notes to Consolidated Financial Statements**  
**(In USD thousands)**

*(d) Business combinations*

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 “Business Combinations”. The consideration for an acquisition is measured at acquisition date fair value of consideration transferred including the amount of any non-controlling interests in the acquiree. The purchase

consideration amount under this concept was \$35.4 million in 2014. Acquisition costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it measures at fair value the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred to the seller, including the amount recognized for non-controlling interest over the fair value of identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

*(e) Revenue recognition*

In accordance with IAS 18, revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

(i) Passenger and cargo transportation

The Company recognizes revenue from passenger and cargo transportation as earned when the service is rendered.

The Company is required to charge and collect certain taxes and fees on its passenger tickets. These taxes and fees include transportation taxes, airport passenger facility charges and arrival and departure taxes. These taxes and fees are legal assessments on the customer. As the Company has a legal obligation to act as a collection agent with respect to these taxes and fees, such amounts are not included within passenger revenue. The Company records a liability when the amounts are collected and derecognizes the liability when payments are made to the applicable government agency or operating carrier.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements**

**(In USD thousands)**

A significant portion of the ticket sales are processed through major credit card companies, resulting in accounts receivable which are generally short-term in duration and typically collected prior to the recognition of revenue. Credit risk associated with these receivables is minimal.

Cargo is carried out in a dedicated freighter fleet and, to the extent of excess capacity, in the bellies of passenger aircraft.

(ii) Aircraft operating leases

Aircraft operating lease income is recognized as other revenue in the Consolidated Statement of Comprehensive Income when it is earned, according to the terms of each lease agreement.

(iii) Frequent flyer

The Company operates a frequent flyer loyalty program known as “LifeMiles” which is designed to retain and increase travelers’ loyalty by offering incentives to travelers for their continued patronage. Under the LifeMiles program, miles are earned by flying on the Company’s airlines or its alliance partners and by using the services of program partners for such things as credit card use, hotel stays, car rentals, and other activities. Miles are also directly sold through different distribution channels. Miles earned can be exchanged for flights or other products or services from alliance partners.

The fair value of consideration in respect of initial sale is allocated between the miles and other components of the sale including breakage in accordance with IFRS Interpretations Committee 13 Customer loyalty programs. Revenue allocated to the reward credits is deferred within “Air traffic liability” (see Note 22) until redemption. Components other than the fair value of Gross Billings are immediately recognized within “Revenue”. These components correspond to an initial revenue recognition element, related to the marketing attributes of the miles sold. The amount of revenue deferred is measured by applying statistical techniques based on market approach using observable information in accordance with IFRS 13 “Fair Value Measurements”. Inputs to the models include assumptions based on management’s expected redemption rates and customer preferences. The amount of revenue recognized related to breakage is based on the number of miles redeemed in a period in relation to the total number expected to be redeemed.

(f) *Air traffic liability*

Passenger revenue is recognized when transportation is provided rather than when a ticket is sold. Revenue from the sale of passenger tickets that have not been used, or the amount of revenue attributable to the unused portion of a ticket sold, is deferred, and the respective amount is reflected as “Air traffic liability” in the Consolidated Statement of Financial Position. Air traffic liability also includes deferred revenue from loyalty program reward credits as described in note 3(e)(iii).

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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(In USD thousands)

Fares for unused tickets that are expected to expire are recognized as revenue based on historical data and experience. The Company performs periodic evaluations of this liability, and any resulting adjustments, which can be significant, are recorded in the Consolidated Statement of Comprehensive Income. These adjustments relate primarily to the differences arising from actual events and circumstances such as historical fare sale activity and customer travel patterns which may result in refunds, exchanges or forfeited tickets differing significantly from estimates. The Company evaluates its estimates and assumptions and adjusts air traffic liability and passenger revenues as necessary.

(g) *Income tax*

Income tax expense comprises current and deferred taxes and is accounted for in accordance with IAS 12 “Income Taxes”.

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity or in other comprehensive income is recognized in the Consolidated Statement of Changes in Equity or Consolidated Statement of Comprehensive Income, respectively. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred tax is recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized to the extent that it is probable that the temporary differences, the carry forward of unused tax credits and any unused tax losses can be utilized, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax laws enacted or substantively enacted at the reporting date.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**  
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**Notes to Consolidated Financial Statements**  
(In USD thousands)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognized outside profit or loss is recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Company intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(h) *Property and equipment*

(i) Recognition and measurement

Flight equipment, property and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses in accordance with IAS 16 “Property, Plant and Equipment”.

Property, operating equipment, and improvements that are being built or developed for future use by the Company are recorded at cost as under-construction assets. When under-construction assets are ready for use, the accumulated cost is reclassified to the respective property and equipment category.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gain and losses on disposal of an item of flight equipment, property and equipment are determined by comparing the proceeds from disposal with the carrying amount.

(ii) Subsequent costs

The costs incurred for major maintenance of an aircraft's fuselage and engines are capitalized and depreciated over the shorter period to the next scheduled maintenance or return of the asset. The depreciation rate is determined according to the asset's expected useful life based on projected cycles and flight hours. Routine maintenance expenses of aircraft and engines are charged to income as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements**

**(In USD thousands)**

Depreciation is recognized in the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of flight equipment, property and other equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Rotable spare parts for flight equipment are depreciated on the straight-line method, using rates that allocate the cost of these assets over the estimated useful life of the related aircraft. Land is not depreciated.

Estimated useful lives are as follows:

	<u>Estimated useful life (years)</u>
Flight equipment:	
Short and medium-haul aircraft	2 – 30
Long-haul aircraft	13 – 30
Aircraft components and engines	Useful life of fleet associated with component or engines
Aircraft major repairs	4 – 12
Leasehold improvements	Lesser of remaining lease term and estimated useful life of the leasehold improvement
Property	15 – 20
Administrative buildings	50
Vehicles	4 – 10
Machinery and equipment	4 – 10

Residual values, amortization methods and useful lives of the assets are reviewed and adjusted, if appropriate, at each reporting date.

The carrying value of flight equipment, property and other equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable and the carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The Company receives credits from manufacturers on acquisition of certain aircraft and engines that may be used for the payment of maintenance services, training, acquisition of spare parts and others. These credits are recorded as a reduction of the cost of acquisition of the related aircraft and engines and against other accounts receivable. These amounts are then charged to expense or recorded as an asset, when the credits are used to purchase additional goods or services. These credits are recorded within other liabilities in the Consolidated Statement of Financial Position when awarded by manufacturers.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

#### **Notes to Consolidated Financial Statements**

(In USD thousands)

(iv) Revaluation and other reserves

Administrative property in Bogota, El Salvador, and San Jose is recorded at fair value less accumulated depreciation on buildings and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. A revaluation reserve is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the income statement, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(i) *Leased assets*

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases in accordance with IAS 17 "Leases". Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in interest (expense) income in the Consolidated Statement of Comprehensive Income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

Gains or losses related to sale-leaseback transactions classified as an operating lease after the sale are accounted for as follows:

- (i) They are immediately recognized as other (expense) income when it is clear that the transaction is established at fair value;

- (ii) If the sale price is below fair value, any profit or loss is immediately recognized as other (expense) income, however, if the loss is compensated by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the contractual lease term;

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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#### **Notes to Consolidated Financial Statements**

(In USD thousands)

- (iii) In the event of the sale price is higher than the fair value of the asset, the value exceeding the fair value is deferred and amortized during the period when the asset is expected to be used. The amortization of the gain is recorded as a reduction in lease expenses.

If the sale-leaseback transactions result in financial lease, any excess proceeds over the carrying amount shall be deferred and amortized over the lease term. During the years ended December 31, 2015 and 2014, the Company recognized net gains of \$2,894 and \$602 related to sale-and-leaseback transactions, which are recognized in the Statement of Comprehensive Income. All sale-and-leaseback transactions resulted in operating leasebacks.

*(j) Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets in accordance with IAS 23 "Borrowing Costs". All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

*(k) Intangible assets*

Intangible assets acquired separately are initially measured at cost in accordance with IAS 38 "Intangible Assets". The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the Consolidated Statement of Comprehensive Income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or in the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the Consolidated Statement of Comprehensive Income within depreciation and amortization.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**  
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(In USD thousands)

Gains and losses arising from the de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Consolidated Statement of Comprehensive Income when the asset is derecognized.

The Company's intangible assets include the following:

(i) Software

Acquired computer software licenses are capitalized on the basis of cost incurred to acquire, implement and bring the software into use. Costs associated with maintaining computer software programs are expensed as incurred. In case of development or improvement to systems that will generate probable future economic benefits, the Company capitalizes software development costs, including directly attributable expenditures on materials, labor, and other direct costs.

Acquired software cost is amortized on a straight-line basis over its useful life, with a maximum of five years.

Licenses and software rights acquired by the Company have finite useful lives and are amortized on a straight-line basis over the term of the contract. Amortization expense is recognized in the Consolidated Statement of Comprehensive Income.

(ii) Routes and trademarks

Routes and trademarks are carried at cost, less any accumulated amortization and impairment. The useful life of intangible assets associated with routes and trademark rights are based on management's assumptions of estimated future economic benefits. The intangible assets are amortized over their useful lives of between two and thirteen years. Certain routes and trademarks have indefinite useful lives and therefore are not amortized, but tested for impairment at least at the end of each reporting period. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(iii) Contract-based intangible assets

The useful life of intangible assets associated with contract rights and obligations is based on the term of the contract and are carried at cost, less accumulated amortization and related impairment.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**  
(Republic of Panama)

**Notes to Consolidated Financial Statements**  
(In USD thousands)

(1) *Financial instruments – initial recognition and subsequent measurement*

(i) Financial assets

Financial assets within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified into one of the following categories upon initial recognition: (a) financial assets at fair value through profit or loss, (b) loans and receivables, (c) held-to-maturity investments, (d) available-for-sale financial assets.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

*Subsequent measurement*

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available for sale financial assets

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including those designated as hedging instruments in hedge relationships are also classified as fair value through profit or loss except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which take place into account any dividend income, are recognized in the Consolidated Statement of Comprehensive Income as financial income or financial costs.

The Company does not hold or issue derivative instruments for trading purposes, however, certain derivative contracts are not designated as hedges for accounting purposes. Such derivative instruments are designated as financial instruments at fair value through profit or loss.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements**

**(In USD thousands)**

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest rate method, less a provision for impairment, if any.

Loans and receivables comprise cash and cash equivalents, deposits and trade and other receivables.

*Held-to-maturity financial assets*

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, such assets are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and included within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the Consolidated Statement of Comprehensive Income.

#### (ii) Impairment of financial assets

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, the asset is grouped with other financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment are not included in a collective assessment of impairment.

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If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate ("EIR").

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the Consolidated Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for purpose of measuring the impairment loss. The interest income is recorded as part of financial income in the Consolidated Statement of Comprehensive Income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed with the amount of the reversal recognized in the Consolidated Statement of Comprehensive Income.

#### *Available-for-sale financial assets*

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously. Changes in

cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in the Consolidated Statement of Comprehensive Income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

#### *Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.

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- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Company's continuing involvement in it.

In that case, an associated liability is also recognized. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations which have been retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to be repay.

#### (iii) Financial liabilities

Financial liabilities within the scope of IAS 39 are measured at amortized cost using the effective interest method, except for liabilities classified as financial liabilities at fair value through profit or loss, loan commitments, and financial guarantee contracts. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value including directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, derivative financial instruments and finance lease obligations.

#### Subsequent measurement

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the Consolidated Statement of Comprehensive Income.

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The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

#### *Loans and borrowings carried at amortized cost*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the Consolidated Statement of Comprehensive Income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest expense in the Consolidated Statement of Comprehensive Income.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Consolidated Statement of Comprehensive Income.

#### (i) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

#### (ii) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

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##### *(m) Derivative financial instruments and hedge accounting*

The Company uses derivative financial instruments such as forward currency contracts, interest rate contracts and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into. Subsequent to initial recognition, derivatives are carried at fair value as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly into the Consolidated Statement of Comprehensive Income, except for the effective portion of derivatives assigned as cash flow hedges, which is recognized in other comprehensive income.

##### *Cash flow hedges*

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the equity, while any ineffective portion of cash flow hedge related to operating and financing activities is recognized immediately in the Consolidated Statement of Comprehensive Income.

Amounts recognized as other comprehensive income are transferred to the Consolidated Statement of Comprehensive Income when the hedged transaction affects earnings, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

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If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to the Consolidated Statement of Comprehensive Income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Company uses forward currency contracts and cross currency swaps as hedges of its exposure to foreign currency risk in forecasted transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. Refer to Note 28 for more details.

#### *Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a non-current portion only if a reliable allocation can be made.

#### *(n) Expendable spare parts and supplies*

Expendable spare parts relating to flight equipment are measured at the lower of average cost and net realizable value. Net realizable value is the estimated base stock cost reduced by the allowance for obsolescence.

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## AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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#### *(o) Impairment of non-financial assets*

The Company assesses in accordance with IAS 36 “Impairment of Assets” at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (“CGU”) fair value less costs to sell and its value

in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the Consolidated Statement of Comprehensive Income in those expense categories consistent with the nature of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill is tested for impairment annually as of the year end and when circumstances indicate that the carrying value of the cash generating unit to which it pertains may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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Management has considered the impact of greater than forecasted variations in relevant assumptions in assessing the CGU's recoverable amount. As a result of the analysis performed a reasonably possible change in key assumptions would not cause the CGU's carrying amount to exceed its recoverable amount.

##### *(p) Cash and cash equivalents*

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash at banks and on hand and short-term deposits with original maturity of three months or less, which are subject to an insignificant risk of change in value.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts, if any.



*(q) Maintenance deposits*

Maintenance deposits correspond to deposits paid to lessors based on cycles, flight hours, or fixed monthly amounts, depending on the specific nature of each provision. Rates used for the calculation and monthly amounts are specified in each lease agreement. Certain maintenance deposits paid to aircraft lessors are recorded within "Deposits and other assets" to the extent that such amounts are expected to be used to fund future maintenance activities. Deposits that are not probable of being used to fund future maintenance activities are expensed as incurred.

The maintenance deposits refer to payments made by the Company to leasing companies to be used in future aircraft and engine maintenance work. Management performs regular reviews of the recovery of maintenance deposits and believes that the values reflected in the Consolidated Statement of Financial Position are recoverable. These deposits are used to pay for maintenance performed, and might be reimbursed to the Company after termination of the contracts. Certain lease agreements establish that the existing deposits, in excess of maintenance costs are not refundable. Such excess occurs when the amounts used in future maintenance services are lower than the amounts deposited. Any excess amounts expected to be retained by the lessor upon the lease contract termination date, which are not considered material, are recognized as additional aircraft lease expense. Payments related to maintenance that the Company does not expect to perform are recognized when paid as additional rental expense. Some of the aircraft lease agreements do not require maintenance deposits.

*(r) Security deposits for aircraft and engines*

The Company must pay security deposits for certain aircraft and engine lease agreements. Reimbursable aircraft deposits are stated at cost.

Deposits that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Such assets are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate.

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*Deposits for guarantee and collateral for lease agreements*

Deposits for guarantee and collateral are represented by amounts deposited with lessors, as required at the inception of the lease agreements. The deposits are typically denominated in U.S. Dollars, do not bear interest and are reimbursable to the Company upon termination of the agreements.

*(s) Provisions*

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Provisions are set up for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, available case law, the most recent court decision and their relevance in the legal system, as well as the assessment of legal counsel.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial cost.

For certain operating leases, the Company is contractually obligated to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return conditions criteria and throughout the remaining duration of the lease. Restitution costs are based on the net present value of the estimated average costs of returning the aircraft and are recognized in the Consolidated Statement of Comprehensive Income in "Maintenance and repairs." These costs are reviewed annually and adjusted as appropriate.

(t) *Employee benefits*

The Company sponsors defined benefit pension plans, which require contributions to be made to separately administered funds. The Company has also agreed to provide certain additional post-employment benefits to senior employees in Colombia. These benefits are unfunded. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit cost method. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in other comprehensive income.

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The defined benefit asset or liability comprises the present value of the defined benefit obligation (using a discount rate based on Colombian Government bonds), and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are held by the Social Security Institute and private pension funds are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value is based on market price information and in the case of quoted securities on the published bid price. The value of any defined benefit asset recognized is restricted and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Under IAS 19 (issued in June 2011 and amended in November 2013), the Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) at the beginning of the annual period. It takes into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. The net interest on the net defined benefit liability (asset) comprises:

- interest income on plan assets.
- interest cost on the defined benefit obligation; and
- interest on the effect of the asset ceiling

Additionally the Company offers the following employee benefits:

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the Consolidated Statement of Comprehensive Income when they are due.

(ii) Termination benefits

Termination benefits are recognized as an expense at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

*(u) Share based payments*

Since March 2012, the Company has operated a share based payments plan (the “Share Based Plan”) whereby eligible participants receive cash payments if certain market and non–market vesting conditions are met. The Company accounts for the Share Based Plan as a cash–settled share based payment in accordance with the provisions of IFRS 2 “Share–based payments”, whereby the Company accrues a liability at the end of each reporting period based on the estimated fair value of the awards expected to be redeemed, as determined using the Turnbull–Wakeman pricing model.

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*(v) Prepaid expenses*

(i) Prepaid commissions

Commissions paid for tickets sold are recorded as prepaid expenses and expensed when the tickets are used.

(ii) Prepaid rent

Prepaid rent for aircraft corresponds to prepaid contractual amounts that will be applied to future lease payments over a term of less than one year.

*(w) Interest income and interest expense*

Interest income comprises interest income on funds invested (including available–for–sale financial assets), changes in the fair value of financial assets at fair value through the Consolidated Statement of Comprehensive Income and gains on interest rate hedging instruments that are recognized in the Consolidated Statement of Comprehensive Income. Interest income is recognized as accrued in the Consolidated Statement of Comprehensive Income, using the effective interest rate method.

Interest expense comprises interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through the Consolidated Statement of Comprehensive Income, and losses on interest rate hedging instruments that are recognized in the Consolidated Statement of Comprehensive Income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the Consolidated Statement of Comprehensive Income using the effective interest method.

**(4) New and amended standards and interpretations**

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015. The nature and the impact of each new standard or amendment are described below:

***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions***

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. IAS 19 requires such contributions that are linked to service to be attributed to periods of service as a negative benefit. The amendments clarify that, if the amount of the contributions is

independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. Examples of such contributions include those that are a fixed percentage of the employee's salary, a fixed amount of contributions throughout the service period, or contributions that depend on the employee's age.

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This amendment is effective for annual periods beginning on or after July 2014. This amendment was not relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

#### *Annual Improvements 2010–2012 Cycle*

With the exception of the improvement relating to IFRS 2 “Share-based Payment” applied to share-based payment transactions with a grant date on or after July 1, 2014, all other improvements are effective for accounting periods beginning on or after July 1, 2014. The Company has applied these improvements for the first time in these Consolidated Financial Statements. They include:

#### *IFRS 2 Share-based Payment*

The amendment defines ‘performance condition’ and ‘service condition’ to clarify various issues, including the following:

- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

The clarifications are consistent with how the Company has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Company had not granted any awards during the second half of 2014. Thus, these amendments did not impact the Company's financial statements or accounting policies.

#### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities or assets arising from a business combination must be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This amendment is consistent with the Company's accounting policy and, thus, this amendment did not impact the Company's policy. Additionally, during 2015 the Company did not participate in any business combination.

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##### *IFRS 8 Operating Segments*

The amendment is applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Company has not applied the aggregation criteria in IFRS 8.12. The Company has determined that it has two operating segment: air transportation and loyalty. No reconciliation of segment assets is required, because it is not reported to the chief operating decision maker.

##### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendments to IAS 16 and IAS 38 are applied retrospectively and clarify that the revaluation can be performed, as follows:

- Adjust the gross carrying amount of the asset to market value; or,
- Determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value.

The amendments also clarify that accumulated depreciation/amortization is the difference between the gross and carrying amounts of the asset.

The Company has opted to adjust the gross carrying amount of the revaluated assets.

##### *IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Company as it does not receive any management services from other entities.

##### *Annual Improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and the Company has applied these amendments for the first time in these Condensed Consolidated Financial Statements. They include:

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### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Company is not a joint arrangement, and thus this amendment is not relevant for the Company and its subsidiaries.

### *IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Company does not apply the portfolio exception in IFRS 13.

### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, not the description of ancillary services in IAS 40, is used to determine whether the transaction is the purchase of an asset or business combination. This amendment has no impact on Company financial statements, because the Company does not hold any investment property.

### **Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company is evaluating the impact of IFRS 9 application, mainly regarding to the potential change in measurement and presentation of certain financial instruments, and the impact on the current hedge accounting strategy.

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##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognize revenue. The core principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licenses of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage.

Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalizes their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Company is evaluating the impact of IFRS 15 application, and plans to adopt this new standard on the required effective date.

#### ***Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation.

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Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization***

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

***Amendments to IAS 27: Equity Method in Separate Financial Statements***

The amendments to IAS 27 “Separate Financial Statements” allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9 (or IAS 39) or
- Using the equity method

The entity must apply the same accounting for each category of investment.

A consequential amendment was also made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company’s consolidated financial statements.

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**(In USD thousands)**

***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.



### ***Annual Improvements 2012-2014 Cycle***

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

#### ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

#### ***IFRS 7 Financial Instruments: Disclosures***

##### ***(i) Servicing contracts***

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

##### ***(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements***

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

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##### ***IAS 19 Employee Benefits***

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

##### ***IAS 34 Interim Financial Reporting***

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Company.

##### ***Amendments to IAS 1 Disclosure Initiative***

The amendments to IAS 1 “Presentation of Financial Statements” clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.

- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Company is evaluating the impact of IAS 1, and plans to adopt this new standard on the required effective date.

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##### ***Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception***

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

##### ***IFRS 16 Leases***

IFRS 16 “Leases” (IFRS 16 or the new standard) was issued in January 2016 to replace IAS 17 “Leases”. Under the new standard lessees are required to initially recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments to be made over the lease term. The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs.

Lessees accrete the lease liability to reflect interest and reduce the liability to reflect lease payments made. The related right-of-use asset is depreciated in accordance with the depreciation requirements of IAS 16 “Property, Plant and Equipment”. For lessees that depreciate the right-of-use asset on a straight-line basis, the aggregate of interest expense on the lease liability and depreciation of the right-of-use asset generally results in higher total periodic expense in the earlier periods of a lease. Lessees remeasure the lease liability upon the

occurrence of certain events, such as a change in the lease term or a change in variable rents based on an index or rate; which is generally recognized as an adjustment to the right-of-use asset.

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#### **Notes to Consolidated Financial Statements**

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IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Company is evaluating the impact of IFRS 16 application, and plans to adopt this new standard on the required effective date.

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

#### **(5) Segment information**

The Company reports information by segments as established in IFRS 8 “Operating Segments”. For management purposes, the Company has two reportable segments, as follows:

**Air transportation:** Corresponds to Passenger and Cargo operating revenues on scheduled flights and freight transport, respectively, including flights operated by other airlines under code-sharing agreements.

**Loyalty:** Corresponds to the coalition loyalty program, including the frequent flyer program for the airline subsidiaries of Avianca Holdings S.A.

No operating segments have been aggregated to form the above reportable operating segments.

Starting July 31, 2015, the Board of Directors has monitored the operating results of the Company’s business units separately for the purpose of making decisions about resource allocation and performance assessment. Furthermore, in August 2015, Avianca Holdings S.A. and Advent International (“Advent”), signed a definitive agreement pursuant to which Advent acquired a minority shareholding interest in the loyalty segment (see note 25). Previously, all operations were evaluated as a single segment; therefore, no comparative segment information is presented for the year ended December 31, 2014.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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The Company’s revenues by business segment for the years ended December 31, 2015 are as follows:

	<b>For the year ended December 31, 2015</b>			
	<b>Air transportation</b>	<b>Loyalty</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Revenue (1)</b>				
External customers	\$ 4,203,159	\$158,182	\$ —	\$4,361,341
Inter-segment	161,006	41,894	(202,900)	—
<b>Total revenue</b>	<b>4,364,165</b>	<b>200,076</b>	<b>(202,900)</b>	<b>4,361,341</b>
Cost of loyalty rewards	121,166	102,632	(114,570)	109,228
Operating expenses	3,795,550	14,401	(7,386)	3,802,565
Depreciation, amortization and impairment	230,732	8,077	(8,077)	230,732
Interest expense	171,132	50	(1,775)	169,407
Interest income	(18,918)	(1,873)	1,775	(19,016)
Derivative instruments	(626)	—	—	(626)
Foreign exchange	177,518	11	—	177,529
Income tax expense	30,007	1,021	—	31,028
<b>Net (loss) profit for the period</b>	<b>\$ (142,396)</b>	<b>\$ 75,757</b>	<b>\$ (72,867)</b>	<b>\$ (139,506)</b>
<b>Total Assets</b>	<b>\$ 6,357,961</b>	<b>\$203,280</b>	<b>\$ (199,296)</b>	<b>\$6,361,945</b>
<b>Total Liabilities</b>	<b>\$ 4,904,681</b>	<b>\$181,017</b>	<b>\$ (96,388)</b>	<b>\$4,989,310</b>

(1) Loyalty revenue for miles redeemed is allocated to passenger revenue and, other loyalty revenue is recorded in other revenue.

The results, assets and liabilities allocated to the loyalty segment reportable correspond to those attributable directly to the subsidiary LifeMiles B.V., and exclude assets, liabilities, income and expenses of the loyalty program recognized by the Company's Subsidiaries.

Inter-segment revenues are eliminated upon consolidation and reflected in the "eliminations" column.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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#### **Notes to Consolidated Financial Statements (In USD thousands)**

The Company's revenues by geographic area for the years ended December 31, 2015, 2014 and 2013 are as follows:

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
North America	\$ 653,452	\$ 673,824	\$ 650,374
Central America and the Caribbean	592,947	528,683	619,851

Colombia	1,840,597	2,129,000	1,841,984
South America (ex-Colombia)	918,956	1,042,368	1,167,728
Other	355,389	329,696	329,667
<b>Total operating revenue</b>	<b>\$4,361,341</b>	<b>\$4,703,571</b>	<b>\$4,609,604</b>

The Company allocates revenues by geographic area based on the point of origin of the flight. Non-current assets are composed primarily of aircraft and aeronautical equipment, which are used throughout different countries and are therefore not assignable to any particular geographic area.

## (6) Financial risk management

The Company has exposure to different risks from its use of financial instruments, namely credit risk, liquidity risk, and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

### (a) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established mechanisms for developing and monitoring the Company's risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### (b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment in securities. The Company is also exposed to credit risk from its financing activities, including deposits with banks and financial institutions, and foreign exchange transactions.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with counterparties with which the Company has signed "International Swaps and Derivatives Association Master Agreements". Given their high credit ratings, management does not expect any counterparty to fail to meet its contractual obligations.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period is as follows:

	Notes	December 31, 2015	December 31, 2014
Available-for-sale securities	6	\$ 793	\$ 1,455
Accounts receivable, net of provision for doubtful accounts	8	339,333	397,575
Cash and cash equivalents	7	479,381	640,891
Current restricted cash	7	5,397	1,987
Non-current restricted cash	13	6,545	21,025
Fair value of derivative instruments-assets	13	972	4,204
<b>Total</b>		<b>\$ 832,421</b>	<b>\$ 1,067,137</b>

*(c) Receivables, net*

The Company's exposure to credit risk is influenced by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

Additionally, the Company is not exposed to significant concentrations of credit risk since most accounts receivable arise from sales of airline tickets to individuals through travel agencies in various countries, including virtual agencies and other airlines. These receivables are short term in nature and are generally settled shortly after the sales are made through major credit card companies.

Cargo-related receivables present a higher credit risk than passenger sales given the nature of processing payment for these sales. The Company is continuing its implementation of measures to reduce this credit risk for example by reducing the payment terms and affiliating cargo agencies to the IATA Cargo Account Settlement Systems ("CASS"). CASS is designed to simplify the billing and settling of accounts between airlines and freight forwarders. It operates through an advanced global web-enabled e-billing solution.

There are no significant concentrations of credit risk at the Consolidated Statement of Financial Position date. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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*(d) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments. Amounts under the "Years" columns represent the contractual undiscounted cash flows of each liability.

**As of December 31, 2015**

	Years						
	Carrying amount	Contractual cash flows	One	Two	Three	Four	Five and thereafter
Short-term borrowings	\$ 89,368	\$ 90,721	\$ 90,721	\$ —	\$ —	\$ —	\$ —
Long-term Debt	2,725,390	3,158,362	387,046	386,407	406,795	374,325	1,603,789
Bonds	658,236	896,607	83,895	83,203	79,971	76,479	573,059
<b>Total debt</b>	<b>3,472,994</b>	<b>4,145,690</b>	<b>561,662</b>	<b>469,610</b>	<b>486,766</b>	<b>450,804</b>	<b>2,176,848</b>
Accounts payable	484,191	484,191	480,592	3,599	—	—	—
<b>Contractual maturities</b>	<b>\$3,957,185</b>	<b>\$4,629,881</b>	<b>\$1,042,254</b>	<b>\$473,209</b>	<b>\$486,766</b>	<b>\$450,804</b>	<b>\$2,176,848</b>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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(In USD thousands)

As of December 31, 2014

	Years						
	Carrying amount	Contractual cash flows	One	Two	Three	Four	Five and thereafter
Short-term borrowings	\$ 133,009	\$ 134,676	\$ 134,676	\$ —	\$ —	\$ —	\$ —
Long-term debt	2,311,833	2,675,714	363,968	329,531	307,189	300,955	1,374,071
Bonds	725,735	1,027,219	95,277	92,157	92,409	88,907	658,469
<b>Total debt</b>	<b>3,170,577</b>	<b>3,837,609</b>	<b>593,921</b>	<b>421,688</b>	<b>399,598</b>	<b>389,862</b>	<b>2,032,540</b>
Accounts payable	568,661	568,661	547,494	21,167	—	—	—
<b>Contractual maturities</b>	<b>\$3,739,238</b>	<b>\$4,406,270</b>	<b>\$1,141,415</b>	<b>\$442,855</b>	<b>\$399,598</b>	<b>\$389,862</b>	<b>\$2,032,540</b>

#### Sensitivity analysis

As of December 31, 2015 and 2014 an average increase of 1% in interest rates on long-term debt would be expected to decrease the Company's income by \$8,833 and \$5,459 respectively.

Interest rates for interest-bearing financial obligations are as follows:

	<u>December 31, 2015</u>	
	<u>Weighted average interest rate</u>	<u>Total</u>
Short-term borrowings	3.70%	\$ 89,368
Long-term debt and financial leases	3.23%	2,725,390
Bonds – Colombia	12.30%	109,760
Bonds – Luxembourg	7.95%	548,476
<b>Total</b>		<b>\$3,472,994</b>

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES** (Republic of Panama)

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	<u>December 31, 2014</u>	
	<u>Weighted average interest rate</u>	<u>Total</u>
Short-term borrowings	2.65%	\$ 133,009
Long-term debt and financial leases	3.06%	2,311,833
Bonds – Colombia	9.69%	177,641
Bonds – Luxembourg	7.95%	548,094
<b>Total</b>		<b>\$3,170,577</b>

#### *(e) Market risk*

Market risk is the risk that changes in market prices, such as foreign currency rates, interest rates and equity prices will affect the Company's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Company enters into derivative contracts, and also incurs financial liabilities, in order to manage market risk. The market risk associated with commodity-price and interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

#### *(f) Commodity risk*

The Company maintains a commodity-price-risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by commodity-price volatility. The operations of the Company require a significant volume of jet fuel purchases. Price fluctuations of oil, which are directly related with price fluctuations of jet fuel, cause market values of jet fuel to differ from its cost and cause the actual purchase price of jet fuel to differ from the anticipated price.

All such transactions are carried out within the guidelines set by the Risk Management Committee.



The Company enters into derivative financial instruments using heating oil and jet fuel to reduce the exposure to jet fuel price risks. Such financial instruments are deemed to be highly effective hedge because changes in their fair value are closely correlated with variations in jet fuel prices. The Company determines fair value of the contracts based on the notional future curves as observed in the market; gain or loss of hedge instruments are recognized directly in net equity, through other comprehensive income (OCI), based on Hedge Accounting procedures.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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#### **Notes to Consolidated Financial Statements**

(In USD thousands)

##### *Sensitivity analysis*

A change of 1% in jet fuel prices would have increased/decreased profit or loss for the year by \$10,068 (2014: \$13,458). This calculation assumes that the change occurred at the reporting date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables remain constant and considers the effect of changes in jet fuel price and underlying hedging contracts. The analysis is performed on the same basis for 2014.

##### *(g) Foreign currency risk*

The gain or loss in foreign currency is derived primarily from the appreciation or depreciation of the Colombian Peso against the US Dollar, which is the Company's functional currency, and the changes in the foreign exchange mechanisms enacted by the Venezuelan government. For the years ended December 31, 2015 and 2014, the Company recognized a net (loss) gain from currency exchanges of \$(177,529) and \$10,272, respectively.

The Company has liabilities denominated in Colombian Pesos, such as its pension plans and bonds. For the year ended December 31, 2015, the Company recognized a net gain related to currency exchanges of its liabilities of \$45,134, primarily as a result of the depreciation of the Colombian Peso against the US Dollar of 31.6% when compared to the exchange rate as of December 31, 2014.

For the year ended December 31, 2014, the Company recognized a net gain related to currency exchanges of its liabilities of \$60,549, primarily as a result of the liquidation of net monetary assets denominated in Colombian Pesos. As of December 31, 2014, the Colombian Peso depreciated 24.2% against the US Dollar when compared to December 31, 2013.

The Company has significant outstanding cash balances in Bolivares that are subject to foreign currency exchange controls by the Venezuelan government. There are different exchange rates at which Bolivares can be value: the official exchange rate of 6.3 VEF per 1.00 USD; SICAD, which is exclusively applicable for non-essential goods and services at which 1.00 USD is equivalent to 13.5 VEF; and, SIMADI, consisting of a mechanism from which both businesses and individuals are allowed to purchase and sell foreign currency at the price set by the market.

On February 17, 2016 the Venezuelan government devalued its official and most preferential exchange rate to 10 VEF per 1.00 USD, which will continue to be used for purchases of certain essential goods and services. The Venezuelan government also announced it will eliminate the SICAD rate of 13.5 VEF, and beginning on February 18, 2016 the SIMADI exchange rate will be allowed to float freely.

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As of December 31, 2015 given the lack of repatriations at the official exchange rates, the Company valued its cash balances held in Venezuela at the SIMADI exchange rate of 198.7 VEF per 1.00 USD, which is the exchange rate available for the Company at the reporting date, resulting in a total loss of \$236,732. Accordingly, as of December 31, 2015 the carrying amount of cash balances held in Venezuela of \$7,660 have been classified as follows: \$417 as cash and cash equivalents, which is expected to be used over the next three months as part of the normal operations in Venezuela; \$698 as short-term restricted cash, which is expected to be used in the following 9 months; and, \$6,545 as long-term restricted cash, which the Company expects to use after the next 12 months.

As of December 31, 2014 cash balances held in Venezuela were valued at the official exchange rate of 6.30 VEF per 1.00 USD for the remittances requested in 2013, and at the SICAD exchange rate of 13.5 VEF per 1.00 USD for remittances requested in 2014. As of December 31, 2014 the carrying amount of cash balances held in Venezuela consisted of \$281,285 and were all classified as cash and cash equivalents.

The Company has available-for-sale instruments in Venezuela denominated in US Dollars that are expected to be paid in Bolivares at the official exchange rate of 6.3 VEF per 1.00 USD. Once the bonds are paid, the Company is expected to request conversion of these funds at the current official rate. As of December 31, 2015, a net gain of \$2,634 has been recorded related with the exchange rate changes and the maturity of available-for-sale instruments. In addition, as of December 31, 2015 and 2014, a net fair value gain of \$3,098 and net fair value loss \$1,527 have been recognized in other comprehensive income. As of December 31, 2015, the balance of the remaining available-for-sale securities amounts to \$793, including \$43 of accrued interest, recorded within non-current assets. As of December 31, 2014 the balance of these available-for-sale securities amount to \$1,218 recorded within current assets, and \$237 within non-current assets.

During the years ended December 31, 2015 and 2014, the Company recorded total losses due to exchange rate changes in Venezuela of \$233,987 and \$36,977 respectively.

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(In USD thousands)

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company based on its risk management policy was as follows:

December 31, 2015						
USD	Colombian Pesos	Venezuelan Bolivares	Argentinean Pesos	Brazilian Reals	Other	Total

Cash and cash equivalents	\$ 385,843	\$ 28,155	\$ 7,660	\$ 16,023	\$ 10,788	\$ 30,912	\$ 479,381
Available-for-sale securities	—	—	793	—	—	—	793
Accounts receivable, net of provision for doubtful accounts	174,109	99,138	3,810	4,307	8,193	49,776	339,333
Secured debt and bonds	(2,464,261)	(109,764)	—	—	—	(18,925)	(2,592,950)
Unsecured debt	(876,828)	(3,216)	—	—	—	—	(880,044)
Accounts payable	(230,772)	(174,418)	(3,421)	(4,166)	(9,201)	(62,213)	(484,191)
<b>Net financial position exposure</b>	<b>\$(3,011,909)</b>	<b>\$(160,105)</b>	<b>\$ 8,842</b>	<b>\$ 16,164</b>	<b>\$ 9,780</b>	<b>\$ (450)</b>	<b>\$(3,137,678)</b>

#### Sensitivity analysis

Change of 1% in exchange rate

Effect on profit of the year

\$ (1,601) \$ 88 \$ 162 \$ 98

December 31, 2014

	USD	Colombian Pesos	Venezuelan Bolivares	Argentinean Pesos	Brazilian Reals	Other	Total
Cash and cash equivalents	\$ 253,874	\$ 43,792	\$ 279,767	\$ 20,493	\$ 8,532	\$ 34,433	\$ 640,891
Available-for-sale securities	—	—	1,455	—	—	—	1,455
Accounts receivable, net of provision for doubtful accounts	170,323	118,631	2,461	7,033	30,573	68,554	397,575
Secured debt and bonds	(2,165,627)	(226,089)	—	—	—	(21,809)	(2,413,525)
Unsecured debt	(742,266)	(14,786)	—	—	—	—	(757,052)
Accounts payable	(271,403)	(193,424)	(5,164)	(6,128)	(16,600)	(75,942)	(568,661)
<b>Net financial position exposure</b>	<b>\$(2,755,099)</b>	<b>\$(271,876)</b>	<b>\$ 278,519</b>	<b>\$ 21,398</b>	<b>\$ 22,505</b>	<b>\$ 5,236</b>	<b>\$(2,699,317)</b>

#### Sensitivity analysis

Change of 1% in exchange rate

Effect on profit of the year

\$ (2,719) \$ 2,785 \$ 214 \$ 225

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The Company manages its exposure to foreign currency risk through hedging selected balances using forward exchange contracts and cross currency swaps.

*Sensitivity analysis*

The calculations in the table above assume that the change occurred at the reporting date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables remain constant and considers the effect of changes in the exchange rate, which is the rate that could materially affect the Company's Consolidated Statement of Comprehensive Income.

*(h) Interest rate risk*

The Company incurs interest rate risk mainly on financial obligations with banks and aircraft lessors. Interest rate risk is managed through a mix of fixed and floating rates on loans and lease agreements, combined with interest rate swaps.

The Company assesses interest rate risk by monitoring and identifying changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate risk attributable to both the Company's outstanding or forecasted debt obligations.

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments is:

Carrying amount – asset/(liability)	December 31, 2015	December 31, 2014
<b>Fixed rate instruments</b>		
Financial assets	\$ 54,180	\$ 77,667
Financial liabilities	(2,953,306)	(2,454,570)
Interest rate swaps	(3,679)	(5,893)
<b>Total</b>	<b>\$(2,902,805)</b>	<b>\$(2,382,796)</b>
<b>Floating rate instruments</b>		
Financial assets	\$ 546,329	\$ 352,149
Financial liabilities	(519,688)	(716,007)
<b>Total</b>	<b>\$ 26,641</b>	<b>\$ (363,858)</b>

The interest rate risk is originated mainly from long term aircraft lease payments. These long term loan payments at floating interest rates expose the Company to cash flow risk. Interest rate risk is managed through a mix of fixed and floating rates on loans and lease agreements, combined with interest rate swaps and options.

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At December 31, 2015, the interest rates vary from 0.07% to 12.39% (December 31, 2014: 0.00% to 11.40%) and the main floating rate instruments are linked to LIBOR plus a spread according to the terms of each contract.

**Capital management**

The Company's capital management policy is to maintain a sound capital base in order to safeguard the Company's ability to continue as a going concern, and in doing so, face its current and long-term obligations, provide returns for its shareholders, and maintain an optimal capital structure to reduce the cost of capital. The Company monitors capital on the basis of the debt-to-capital ratio. Debt is calculated as net debt, which consists of total borrowings (including current and non-current borrowings as shown in the Consolidated Statement of Financial Position) less cash, cash equivalents and restricted cash. Total capital is calculated as the sum of total equity attributable to the Company as shown in the Consolidated Statement of Financial Position plus total net debt.

Following is a summary of the debt-to-capital ratio of the Company:

	December 31, 2015	December 31, 2014
Debt	\$ 3,472,994	\$ 3,170,577
Less: cash and cash equivalents and restricted cash	(484,778)	(642,878)
<b>Total net debt</b>	<b>2,988,216</b>	<b>2,527,699</b>
Total equity attributable to the Company	1,353,989	1,208,684
<b>Total Capital</b>	<b>\$ 4,342,205</b>	<b>\$ 3,736,383</b>
<b>Net debt-to-capital ratio</b>	<b>69%</b>	<b>68%</b>

There were no changes in the Company's approach to capital management during the year.

**(7) Cash and cash equivalents and restricted cash**

Cash and cash equivalents and restricted cash as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Cash on hand and bank deposits	\$ 437,951	\$ 627,040
Demand and term deposits	41,430	13,851
<b>Cash and cash equivalents</b>	<b>479,381</b>	<b>640,891</b>
Restricted cash	5,397	1,987
<b>Cash and cash equivalents and restricted cash</b>	<b>\$ 484,778</b>	<b>\$ 642,878</b>

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As of December 31, 2015 and 2014, cash equivalents amounted to \$41,430 and \$13,851, respectively. The use of the term deposits depends on the cash requirements of the Company. As of December 31, 2015, term deposits bear annual interest rates ranging between 1.22% and 2.00% for balances in US dollars, and between 4.08% and 6.01% for balances in Colombian pesos. As of December 31, 2014, term deposits bear annual interest rates, between 0.07% and 1.01% for balances in US dollars and between 2.61% and 4.00% for balances in Colombian pesos.

As of December 31, 2015, cash balances held in Venezuela in the amount of \$417 and \$698 are classified within cash and cash equivalents, and restricted cash, respectively. As of December 31, 2014, cash balances held in Venezuela are classified within cash and equivalents (see note 6(g)).

#### (8) Accounts receivables, net of provision for doubtful accounts

Receivables as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Trade	\$ 187,836	\$ 254,846
Indirect tax credits	136,775	143,374
Manufacturer credits	10,393	2,207
Employee advances (1)	4,797	5,011
Other	12,846	5,459
	<u>\$ 352,647</u>	<u>\$ 410,897</u>
Less provision for doubtful accounts	(13,314)	(13,322)
<b>Total</b>	<b>\$ 339,333</b>	<b>\$ 397,575</b>
	<u>279,620</u>	<u>355,168</u>
Net current	279,620	355,168
Net non-current	59,713	42,407
<b>Total</b>	<b>\$ 339,333</b>	<b>\$ 397,575</b>

(1) Employee advances mainly relate to per diem allowances provided to crew prior to traveling.

Changes during the year in the allowance for doubtful accounts are as follows:

	December 31, 2015	December 31, 2014
Balance at beginning of year	\$ 13,322	\$ 14,109

Bad debt expense	7,281	8,409
Write-off against the allowance	(7,289)	(9,196)
Balance at end of year	<u>\$ 13,314</u>	<u>\$ 13,322</u>

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The aging of accounts receivables at the end of the reporting period that were not impaired is as follows:

	December 31, 2015	December 31, 2014
Neither past due nor impaired	\$ 300,858	\$ 318,498
Past due 1–30 days	28,962	30,779
Past due 31–90 days	5,658	28,273
Past due 91 days	17,169	33,347
<b>Total</b>	<u>\$ 352,647</u>	<u>\$ 410,897</u>
Provision for doubtful accounts	(13,314)	(13,322)
<b>Net accounts receivable</b>	<u>\$ 339,333</u>	<u>\$ 397,575</u>

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**(9) Balances and transactions with related parties**

The following is a summary of related party transactions for the years ended December 31, 2015, 2014 and 2013:

Company	Country	December 31, 2015				December 31, 2014				December 31, 2013	
		Receiva	Payab	Reven	Expens	Receiva	Payabl	Reven	Expens	Reven	Expens





The receivables balance with SP SYN Participações S.A. as of December 31, 2015 amounting to \$13,000 corresponding to \$12,854 of principal and \$146 of accrued interest. The debt bears an interest equal to 90 days LIBOR plus 550 basis points. The deadline for payment of the obligation, principal and accrued interest is on October 31, 2016.

Receivable balances as of December 31, 2015 from OceanAir Linhas Aéreas, S.A., include an amount of \$5,546 past due which relates to payments from aircraft leases and other services.

On October 23, 2015 the Company received payments from SP SYN Participações S.A., OceanAir Linhas Aéreas, S.A. and Synergy Aerospace Corp., amounting to \$10,959, \$6,832 and \$5,709, respectively, according to the “Memorandum of Understanding” signed on March 24, 2015, which includes accrued interest at the payment date.

The Company has not recognized any expense or provision for doubtful accounts since it is expected that the balances will be recovered completely.

All related parties are companies controlled by the same ultimate shareholder that controls Avianca Holdings S.A. The following is a description of the nature of services provided by and to related parties. These transactions include:

<u>Related party</u>	<u>Nature of Services</u>
Synergy Aerospace Corp.	The receivables amount corresponds to aircraft engine reserves and maintenance contracts. The payable amount originates in payments executed by Synergy Aerospace Corp. on behalf of Latin Airways Corp. Avianca Holdings S.A. agreed to sign purchase agreement assignments and take delivery of certain aircraft which were originally purchased by Synergy Group. This agreement originates in certain obligations signed on December 30, 2010 and amended subsequently on December 30, 2011 and on February 28, 2012.
SP SYN Participações S.A.	Avianca, S.A. (“Avianca”) and SP SYN Participações S.A. (“SP SYN”) signed a novation of the receivables from OceanAir Linhas Aéreas, S.A. (“OceanAir”) whereby SP SYN would be the new debtor.

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<u>Related party</u>	<u>Nature of Services</u>
OceanAir Linhas Aéreas, S.A.	The Company provides to and receives from OceanAir logistic services, marketing and advertising, maintenance services, and training services. The Company has entered into a licensing agreement with OceanAir for the use of the Avianca trademark in Brazil. Additionally, the Company leases aircraft to OceanAir (see Note 33). On November 4, 2014, Tampa Cargo

S.A.S., entered into a Block Space Agreement with OceanAir Linhas Aéreas, S.A., acquiring priority rights and a minimum guaranteed cargo capacity on certain flights of the carrier.

Empresariales S.A.S.	Transportation services for Avianca, S.A.'s employees.
Aeromantenimiento, S.A.	Aircraft maintenance company which provides aircraft overhaul services to the Company.
Transportadora del Meta S.A.S.	Provides road transportation services for cargo / courier deliveries to Avianca, S.A.
Corporación Hotelera Internacional S.A. Hotelera Los Pozos, S.A.	Accommodation services for crew and employees of the Company.
Aerovias Beta Corp.	The accounts receivables balance relates to amount owed to Latin Airways Corp. arising from the Aerovias Beta Corp. spinoff, which gave rise to Latin Airways Corp.

#### Key management personnel compensation expense

Key management personnel compensation expense recognized within "Salaries, wages, and benefits" in the Consolidated Statement of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013 amounted to \$28,506, \$31,365 and \$31,456, respectively.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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#### Notes to Consolidated Financial Statements

(In USD thousands)

#### (10) Expendable spare parts and supplies, net of provision for obsolescence

Expendable spare parts and supplies as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Expendable spare parts	\$ 59,153	\$ 56,376
Supplies	9,615	9,238
<b>Total</b>	<b>\$ 68,768</b>	<b>\$ 65,614</b>

For the years ended December 31, 2015 and 2014 expendable spare parts and supplies in the amount of \$60,220 and \$65,649, respectively, were recognized as maintenance expense.

### (11) Prepaid expenses

These primarily relate to advance commission payments to travel agencies for future services, prepayments for aircraft rentals and prepaid insurance. As of December 31, 2015 and 2014 prepaid balances are as follows:

	December 31, 2015	December 31, 2014
Prepaid commissions	\$ 14,175	\$ 12,712
Advance payments on operating aircraft leases	12,776	12,401
Premiums for insurance policies	1,414	1,545
Other	17,343	29,407
<b>Total</b>	<b>\$ 45,708</b>	<b>\$ 56,065</b>

### (12) Assets held for sale

Assets held for sale consist of fixed assets for which management has committed to a plan to sell, the completion of the sale is highly probable, and the sale is expected to take place over the next 12 months. As of December 31, 2015 and 2014 the assets held for sale are as follows:

	December 31, 2015	December 31, 2014
Aircraft and flight equipment	\$ 2,868	\$ 1,117
Machinery and other equipment	455	252
<b>Total</b>	<b>\$ 3,323</b>	<b>\$ 1,369</b>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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#### Notes to Consolidated Financial Statements

(In USD thousands)

### (13) Deposits and other assets

Deposits and other assets as of December 31, 2015 and 2014 are as follows:

	Notes	December 31, 2015	December 31, 2014
Short term:			
Deposits with lessors (1)		\$ 47,204	\$ 79,098
Short term investments		68,927	41,631
Margin call deposits		—	37,718
Guarantee deposits (2)		12,346	9,777

Others (4)		1,275	1,700
<b>Sub-Total</b>		<b>129,752</b>	<b>169,924</b>
Fair value of derivative instruments	27,28	972	4,204
<b>Total</b>		<b>\$ 130,724</b>	<b>\$ 174,128</b>
		<b>December 31,</b>	<b>December 31,</b>
		<b>2015</b>	<b>2014</b>
Long term:			
Deposits with lessors (1)		\$ 171,065	\$ 144,949
Long term investments – restricted		16,734	11,943
Guarantee deposits (2)		6,518	13,207
Restricted cash (3)		6,545	21,025
Others (4)		45,624	26,886
<b>Total</b>		<b>\$ 246,486</b>	<b>\$ 218,010</b>

- (1) Deposits with lessors refer mainly to maintenance deposits in connection with leased aircraft. These deposits are applied to future maintenance event costs, and are calculated on the basis of a performance measure, such as flight hours or cycles. They are specifically intended to guarantee maintenance events on leased aircraft.

Maintenance deposits paid do not transfer the obligation to maintain aircraft or the cost associated with maintenance activities.

Maintenance deposits are reimbursable to the Company upon completion of the maintenance event in an amount equal to the lesser of (a) the amount of the maintenance deposits held by the lessor associated with the specific maintenance event or (b) the qualifying costs related to the specific maintenance event. During the 12 months ended December 31, 2015 the Company has paid lessors \$5,902 (December 31, 2014: \$45,429) in maintenance deposits, net of reimbursements.

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- (2) Guarantee deposits correspond mainly to amounts paid to suppliers in connections with leasehold of airport facilities, among other service agreements.
- (3) Restricted cash as of December 31, 2015, corresponds to cash held in Venezuela, which is subject to future changes due to the economic instability in Venezuela, with the possibility of new limitations in the repatriation of funds by CADIVI or even sanctions by the Venezuelan government to restrict the cash repatriation (see note 6 (g)). Restricted cash as of December 31, 2014, corresponds to long term bank investments.
- (4) Others include compensations for return conditions and other deferred charges.

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**Notes to Consolidated Financial Statements****(In USD thousands)****(14) Property and equipment, net**

Flight equipment, property and other equipment as of December 31, 2015 and 2014 is as follows:

	Flight equipment	Capitalized maintenanc e	Rotable spar e parts	Aircraft predelivery payments	Administrativ e property	Other	Total
<b>Gross:</b>							
December 31, 2013	2,813,210	\$ 209,755	\$ 139,090	\$ 409,314	\$ 95,714	\$ 229,713	\$ 3,896,796
Additions	763,349	87,341	46,517	169,284	—	71,773	1,138,264
Acquisitions through Business Combinat ion	3,851	—	59	—	—	445	4,355
Transfers	314,127	—	—	(314,127)	—	—	—
Revaluation	—	—	—	—	(4,307)	—	(4,307)
Disposals	(43,886)	(18,919)	(7,989)	—	(3,971)	(53,469)	(128,234)
<b>December 31, 2014</b>	<b>3,850,651</b>	<b>\$ 278,177</b>	<b>\$ 177,677</b>	<b>\$ 264,471</b>	<b>\$ 87,436</b>	<b>\$ 248,462</b>	<b>\$ 4,906,874</b>
Additions	360,204	128,174	11,644	220,920	—	69,330	790,272
Transfers	154,704	—	(12,125)	(149,010)	—	6,431	—
Revaluation	—	—	—	—	(6,156)	—	(6,156)
Disposals	(26,736)	(20,308)	(14,783)	(56,699)	(540)	(24,025)	(143,091)
<b>December 31, 2015</b>	<b>4,338,823</b>	<b>\$ 386,043</b>	<b>\$ 162,413</b>	<b>\$ 279,682</b>	<b>\$ 80,740</b>	<b>\$ 300,198</b>	<b>\$ 5,547,899</b>

**Accumulated  
depreciation:**

December 31, 2013	\$ 396,034	\$ 152,738	\$ 16,676	\$ —	\$ 7,104	\$ 90,886	\$ 663,438
Additions	102,278	56,142	9,641	—	1,890	15,226	185,177
Disposals	(21,063)	(18,609)	(2,935)	—	—	(27,185)	(69,792)
<b>December 31, 2014</b>	<b>\$ 477,249</b>	<b>\$ 190,271</b>	<b>\$ 23,382</b>	<b>\$ —</b>	<b>\$ 8,994</b>	<b>\$ 78,927</b>	<b>\$ 778,823</b>
Additions	119,924	58,900	7,093	—	1,675	23,980	211,572
Disposals	(18,911)	(8,406)	(4,789)	—	—	(9,736)	(41,842)
<b>December 31, 2015</b>	<b>\$ 578,262</b>	<b>\$ 240,765</b>	<b>\$ 25,686</b>	<b>\$ —</b>	<b>\$ 10,669</b>	<b>\$ 93,171</b>	<b>\$ 948,553</b>
<b>Net balances:</b>							
December 31, 2013	2,417,176	\$ 57,017	\$ 122,414	\$ 409,314	\$ 88,610	138,827	3,233,358
December 31, 2014	3,373,402	\$ 87,906	\$ 154,295	\$ 264,471	\$ 78,442	169,535	4,128,051
December 31, 2015	3,760,561	\$ 145,278	\$ 136,727	\$ 279,682	\$ 70,071	207,027	4,599,346

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As of December 31, 2015 and 2014, certain aircraft with a net carrying value of \$3,481,131 and \$2,665,718, respectively, have been pledged to secure long-term debt.

As of December 31, 2015 and 2014, the Company capitalized borrowing costs amounting to \$19,549 and \$9,249, respectively.

As of December 31, 2015, a total amount of \$61,750 has been recognized as property and equipment in the course of construction.

Of this, a total amount of \$27,560 recognized as of December 31, 2015 corresponds to an aviation center project consisting of hangars and aircraft component repair facilities as well as premises for aircraft taxi, parts and replacements warehouses, and training classrooms being built adjacent to the José María Córdova International Airport. The project, with an estimated cost of \$50,100, has due date for completion is set for the first half of 2016. The disbursement schedule consists of a 30.0% upfront payment, monthly consecutive

installments of \$2,364 equal to 65.0% of the total investment and a final payment for the remaining 5.0% of project value.

As of December 31, 2015, also within the total amount of property and equipment in the course of construction \$34,174 corresponds to the Center of Operational Excellence Building (CEO), located near Bogota's El Dorado International Airport. This new facility will serve as an educational training center for pilots, flight attendants and technicians, as well as employees from different administrative areas. The project, with an estimated cost of \$41,553, will be approximately 23,700 square meters and is currently scheduled to be in operation by 2016. As of December 31, 2015, the Company had future commitments related to the completion of the construction of the CEO in the amount of \$7,379.

#### *Administrative property*

The Company uses the revaluation model to measure its land and buildings which are composed of administrative properties. Management determined that this constitutes one class of asset under IAS 16, based on the nature, characteristics and risks of the property. The fair values of the properties were determined by using market comparable methods. This means that valuations performed by the appraisals are based on active market prices, adjusted for difference in the nature, location or condition of the specific property. The Company engaged accredited independent appraisals, to determine the fair value of its land and buildings. Land and buildings were revaluated at December 31, 2015 and 2014.

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If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Cost	\$ 68,515	\$ 68,515
Accumulated depreciation	(4,727)	(3,899)
<b>Net carrying amount</b>	<b>\$ 63,788</b>	<b>\$ 64,616</b>

#### **(15) Intangible assets**

Intangible assets as of December 31, 2015 and 2014 are follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Routes	\$ 40,911	\$ 43,115
Trademarks	3,938	3,938
Software and webpages	59,480	58,656
Other intangible rights	1,403	2,327

<b>Subtotal</b>	105,732	108,036
Goodwill	308,034	308,034
<b>Total Intangible Assets</b>	<b>\$ 413,766</b>	<b>\$ 416,070</b>

In 2015 after the acquisition of the voting and economic rights in Aerounion, and due to the consolidation of the cargo operations, the Company re-evaluated its CGU structure. As a result the Tampa and Aerounion CGUs that were previously evaluated separately were merged into a single CGU. Goodwill acquired through business combinations and intangibles with indefinite lives has been allocated to three Cash Generating Units (“CGU”):

- Aerolíneas Galápagos Aerogal, S.A. (“Aerogal”)
- Grupo Taca Holdings Limited
- Tampa Cargo S.A.S.

The carrying amount of goodwill and intangibles allocated to each of the CGUs:

	<u>Aerogal</u>		<u>Grupo Taca Holdings Limited</u>		<u>Tampa Cargo S.A.S.</u>	
	2015	2014	2015	2014	2015	2014
Goodwill	\$32,979	\$32,979	\$234,779	\$234,779	\$40,276	\$40,276
Routes	17,448	19,652	—	—	23,463	23,463
Trademarks	—	—	—	—	3,938	3,938

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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The Company performed its annual impairment test in December 2015 and 2014. The Company considers the relationship between the value in use of the CGU and its book value, among other factors, when reviewing for indicators of impairment on the goodwill or any of its intangible assets. As of December 31, 2015 and 2014, the Company did not identify potential impairment of goodwill or intangible assets.

#### Aerogal CGU

The recoverable amount of Aerogal CGU, \$256,092 as of December 31, 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the estimated demand for services and costs to operate. The pre-tax discount rate applied to cash flow projections is 9.93% and cash flows beyond the five-year period are extrapolated using a 3.70% growth rate that is the same as the long-term average growth rate for Ecuador, where the Company has its base of operation. It was concluded that no impairment charge is necessary as the value in use exceeds book value.

#### Grupo Taca Holdings Limited CGU

The recoverable amount of Grupo Taca Holdings Limited CGU, \$3,081,972 as of December 31, 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets



approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the estimated demand for services and costs to operate. The pre-tax discount rate applied to cash flow projections is 9.39% and cash flows beyond the five-year period are extrapolated using a 2.80% growth rate that is the same as the long-term average growth rate for Latin America. It was concluded that no impairment charge is necessary as the value in use exceeds book value.

#### **Tampa Cargo S.A.S. CGU**

The recoverable amount of Tampa Cargo S.A.S. CGU, \$1,663,511 as of December 31, 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The projected cash flows have been updated to reflect the estimated demand for services and costs to operate. The pre-tax discount rate applied to cash flow projections is 9.06% and cash flows beyond the five-year period are extrapolated using a 2.80% growth rate that is the same as the long-term average growth rate for Latin America. It was concluded that no impairment charge is necessary as the value in use exceeds book value.

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#### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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#### **Notes to Consolidated Financial Statements**

(In USD thousands)

##### *Assumptions*

The calculation of value in use for the CGUs is most sensitive to the following assumptions:

- Jet fuel price per gallon
- Discount rates
- Revenue growth
- CAPEX expenditure
- Growth rates used to extrapolate cash flows beyond the forecast period
- Working capital

Jet fuel price per gallon – Estimates are obtained from published data relating to the specific commodity. Forecast figures are used if data is publicly available, otherwise past actual price movements are used as an indicator of future price movements.

Discount rates – Discount rates represent the current market assessment of the risks of the holding company of each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the company and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The beta factors are evaluated annually based on publicly available market data.

Revenue growth – Management evaluates its estimates on passenger growth or cargo growth. Management expects the Company to have a stable growth over the forecast period.

CAPEX expenditure – Management estimates investment in CAPEX including aircraft, maintenance, and sale of assets, among others to estimate debt free cash flows.

Growth rate estimates – Rates are based on published forecasts for the regions or countries where the CGUs operate.

Working capital – Management evaluates the working capital needs of each CGU in accordance with its needs for investments to continue operations.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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The following is a rollforward of intangibles assets from December 31, 2015 and 2014:

	<u>Goodwill</u>	<u>Routes</u>	<u>Trade- marks</u>	<u>Software &amp; Webpages</u>	<u>Others</u>	<u>Total</u>
<b>Cost:</b>						
Balance at December 31, 2013	\$301,814	\$ 29,018	\$ —	\$ 53,283	\$ 4,238	\$388,353
Acquisitions through Business Combination	9,367	23,463	3,938	—	—	36,768
Other Acquisitions/ Internally developed	—	—	—	29,322	360	29,682
<b>Balance at December 31, 2014</b>	<b>311,181</b>	<b>52,481</b>	<b>3,938</b>	<b>82,605</b>	<b>4,598</b>	<b>454,803</b>
Other Acquisitions/ Internally developed	—	—	—	16,429	427	16,856
<b>Balance at December 31, 2015</b>	<b>\$311,181</b>	<b>\$ 52,481</b>	<b>\$3,938</b>	<b>\$ 99,034</b>	<b>\$ 5,025</b>	<b>\$471,659</b>
<b>Accumulated Amortization and Impairment Losses:</b>						
Balance at December 31, 2013	\$ (3,147)	\$ (6,795)	\$ —	\$ (13,854)	\$ (1,454)	\$ (25,250)
Amortization for the year	—	(2,571)	—	(10,095)	(817)	(13,483)
<b>Balance at December 31, 2014</b>	<b>(3,147)</b>	<b>(9,366)</b>	<b>—</b>	<b>(23,949)</b>	<b>(2,271)</b>	<b>(38,733)</b>
Amortization for the year	—	(2,204)	—	(15,605)	(1,351)	(19,160)
<b>Balance at December 31, 2015</b>	<b>\$ (3,147)</b>	<b>\$(11,570)</b>	<b>\$ —</b>	<b>\$ (39,554)</b>	<b>\$(3,622)</b>	<b>\$(57,893)</b>
<b>Carrying Amounts:</b>						
At December 31, 2013	\$298,667	\$ 22,223	\$ —	\$ 39,429	\$ 2,784	\$363,103
At December 31, 2014	\$308,034	\$ 43,115	\$3,938	\$ 58,656	\$ 2,327	\$416,070
At December 31, 2015	\$308,034	\$ 40,911	\$3,938	\$ 59,480	\$ 1,403	\$413,766

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**Notes to Consolidated Financial Statements****(In USD thousands)****(16) Earnings per Share**

The calculation of basic (loss) earnings per share at December 31, 2015, 2014 and 2013 is as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Net (loss) profit attributable to Avianca Holdings S.A.	\$ (139,506)	\$ 128,494	\$ 248,821
<b>Weighted average number of shares</b> <i>(in thousands of shares)</i>			
Common stock	660,800	665,383	728,800
Preferred stock	336,187	331,604	184,854
<b>Earnings per share</b>			
Common stock	\$ (0.14)	\$ 0.13	\$ 0.27
Preferred stock	\$ (0.14)	\$ 0.13	\$ 0.27

There are no dilutive shares as the Company has no convertible preferred shares, convertible debentures or equity-linked awards.

**(17) Long-term debt**

Loans and borrowings, measured at amortized cost, as of December 31, 2015 and 2014 are summarized as follows:

	Notes	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>Current:</b>			
Short-term borrowings and current portion of long-term debt		\$ 387,828	\$ 425,915
Bonds		25,056	32,764
	30	<u>\$ 412,884</u>	<u>\$ 458,679</u>

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	Notes	December 31, 2015	December 31, 2014
Non-current:			
Long-term debt		\$ 2,426,930	\$ 2,018,927
Bonds		633,180	692,971
	30	<u>\$ 3,060,110</u>	<u>\$ 2,711,898</u>

Terms and conditions of the Company's outstanding obligations for years ended December 31, 2015 and 2014 are as follows:

	December 31, 2015			
	Due through	Weighted average interest rate	Face Value	Carrying Amount
Short-term borrowings	2016	3.70%	\$ 89,812	\$ 89,368
Long-term debt	2027	3.23%	3,937,097	2,725,390
Bonds-Colombia	2019	12.30%	134,943	109,760
Bonds-Luxembourg	2020	7.95%	550,000	548,476
<b>Total</b>			<u>\$4,711,852</u>	<u>\$3,472,994</u>

	December 31, 2014			
	Due through	Weighted average interest rate	Face Value	Carrying Amount
Short-term borrowings	2015	2.65%	\$ 133,009	\$ 133,009
Long-term debt	2026	3.06%	3,298,991	2,311,833
Bonds-Colombia	2019	9.69%	177,641	177,641
Bonds-Luxembourg	2020	7.95%	550,000	548,094
<b>Total</b>			<u>\$4,159,641</u>	<u>\$3,170,577</u>

The majority of interests bearing liabilities are denominated in US dollars except for bonds and certain financing liabilities for working capital which are denominated in Colombian Pesos, and debt related to one aircraft denominated in Euros.

## **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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The outstanding long term debt balance of the Company as of December 31, 2015 and 2014 were \$2,332,326 and \$2,171,535, respectively. These outstanding balances of long-term debt include borrowings from various financial institutions to finance aircraft acquisitions. Most of these are loans guaranteed by Export Credit Agencies. Additionally, the Company had an outstanding balance of short-term borrowings and long-term debt with various financial institutions for working capital purposes amounting to \$482,432 and \$273,307, respectively.

During 2015, the Company obtained loans amounting to \$412,679 in order to finance the purchase of two A321, three A320, one A319, two B787, two CESSNA and two ATR 72 aircraft. This includes \$379,160 under a private placement vehicle distributed amongst the issuance of guaranteed notes and loans. The Company also obtained \$304,112 for general working capital purposes.

During 2014 the Company obtained financing up to \$846,527 in order to purchase of two A330, two A321, six A319, three B787 and eleven ATR 72 aircraft. The latter includes \$152,850 obtained through the issuance of guaranteed notes under a private placement vehicle. The Company also obtained \$156,860 for general working capital purposes.

On May 10, 2013, the Company issued \$300,000 of Senior Notes in an offering exempt from registration under Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended. The Senior Notes are due in 2020 and bear interest at the rate of 8.375% per year, payable semi-annually in arrears on May 10 and November 10, beginning on November 10, 2013.

On Apr 8, 2014, the Company completed a second issuance of \$250,000 of Senior Notes in an offering exempt from registration under Rule 144A and Regulation S under the U.S. Securities Act of 1933, as amended. The Senior Notes are due in 2020 and bear interest at the rate of 8.375% per year, payable semi-annually in arrears on May 10 and November 10, beginning on May 10, 2014. The placement price for the second issuance was 104.50%.

As of December 31, 2015 and 2014, the Company and the subsidiaries Grupo Taca Holdings Limited, and Avianca Leasing, LLC are jointly and severally liable under the Senior Notes as co-issuers on \$550,000 in aggregate principal amount.

The Senior Notes are fully and unconditionally guaranteed by three of our subsidiaries: Taca International Airlines S.A., Líneas Aéreas Costarricenses, S.A., and Trans American Airlines S.A. Avianca Leasing LLC's obligations as a co-issuer of the Senior Notes are unconditionally guaranteed by the subsidiary Aerovías del Continente Americano S.A.-Avianca, in an amount equal to \$375,000. The Senior Notes and guarantees are senior unsecured obligations of the co-issuers and the guarantors, respectively, and rank equally in right of payments with all of their other respective present and future unsecured obligations that are not expressly subordinated in right of payment to the Senior Notes or the guarantees.

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The Company, Avianca Leasing, LLC and Grupo Taca Holdings, Limited as co-issuers, listed the Senior Notes on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market of the Luxembourg Stock Exchange. As of December 31, 2015 and 2014, the Senior Notes outstanding and the corresponding balances are as follows:

<u>Issuing entities</u>	<u>Original currency</u>	<u>Total placed in original currency</u>	<u>Balance as of December 31,</u>	
			<u>2015</u>	<u>2014</u>
Avianca Holdings S.A., Avianca Leasing, LLC and Grupo Taca Holdings Limited	USD	550,000	\$548,476	\$548,094
			<b>\$548,476</b>	<b>\$548,094</b>

Issuers: Avianca Holdings S.A., Avianca Leasing, LLC, and Grupo Taca Holdings Limited

Guarantors: Líneas Aéreas Costarricenses, S.A., Trans American Airlines S.A., and Taca International Airlines, S.A. fully and unconditionally guarantee the total Notes. Aerovías del Continente Americano – Avianca, S.A. unconditionally guarantee the obligations of Avianca Leasing, LLC under the Senior Notes in an amount equal to \$375 million.

Notes offered: \$550,000 aggregate principal amount of 8.375% Senior Notes due 2020.

Initial Issue Price: 98.706%

Initial Issue Date: May 10, 2013

Issue Amount: \$300 million

Interest: The Senior Notes bear interest at a fixed rate of 8.375% per year. The first issuance is payable semiannually in arrears on May 10 and November 10 of each year, commencing on November 10, 2013. Interest accrues from May 10, 2013. The second issuance is payable semiannually in arrears on May 10 and November 10 of each year, commencing on May 10, 2014.

Second Issue Price: 104.50%

Second Issue Date: April 8, 2014

Maturity Date: The Senior Notes will mature on May 10, 2020.

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**(In USD thousands)**

As of December 31, 2015 and 2014, bonds issued and the corresponding balances are as follows:

Issuing entity	Issue	Original currency	Total placed in original currency	Balance as of December 31,			
				2015		2014	
				Original currency	In US Dollars	Original currency	In US Dollars
Avianca	Series A	Colombian Pesos	75,000 million	—	\$ —	—	\$ —
Avianca	Series B	Colombian Pesos	158,630 million	79,315 million	25,184	158,630 million	66,304
Avianca	Series C	Colombian Pesos	266,370 million	266,370 million	84,576	266,370 million	111,337
<b>Total</b>					<b>\$109,760</b>		<b>\$177,641</b>

On August 25, 2009 a bond issue was completed on the Colombian stock exchange, which is collateralized by Credibanco and Visa credit cards ticket sales in Colombia.

The specific conditions of the 2009 bond issue in Colombia are as follows:

Representative of bondholders: Helm Trust, S.A.

Amount of issue: \$500,000 million Colombian Pesos

Managing agent: Fiduciaria Bogota, S.A.

Series: Series A: Authorized issue \$100,000 million Colombian Pesos  
 Series B: Authorized issue \$200,000 million Colombian Pesos  
 Series C: Authorized issue \$300,000 million Colombian Pesos

Coupon: Series A: Indexed to Colombian consumer price index  
 Series B: Indexed to Colombian consumer price index  
 Series C: Indexed to Colombian consumer price index  
 Interest is payable at quarter-end

Term: Series A: 5 years  
 Series B: 7 years  
 Series C: 10 years

Repayment of capital: Series A: At the end of 5 years  
 Series B: 50% after 6 years and 50% after 7 years  
 Series C: 33% after 8 years, 33% after 9 years and 34% after 10 years

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As of December 31, 2015 and 2014, the Company had unsecured revolving lines of credit with different financial institutions in the aggregate amounts of \$146,817, and \$196,857, respectively. As of December 31, 2015 and 2014, there were \$65,967, and \$25,651 unused credit line balances, respectively, under these facilities. These revolving lines of credit are preapproved by the financial institutions and the Company may withdraw funds if it has working capital requirements.

Future payments on long-term debt for the years ended December 31, 2015 and 2014 are as follows:

	Years					Total
	One	Two	Three	Four	Five and thereafter	
December 31, 2015	\$298,460	\$307,629	\$339,272	\$318,511	\$1,461,518	\$2,725,390
December 31, 2014	\$292,906	\$266,723	\$252,878	\$255,062	\$1,244,264	\$2,311,833

Future payments on bonds for the years ended December 31, 2015 and 2014 are as follows:

	Years					Total
	One	Two	Three	Four	Five and thereafter	
December 31, 2015	\$25,056	\$27,544	\$27,804	\$27,804	\$550,028	\$658,236
December 31, 2014	\$32,764	\$32,764	\$36,725	\$36,725	\$586,757	\$725,735

During 2015 and 2014, the Company did not comply with certain debt covenants. However these breaches did not accelerate the due date for the repayment of the debt. As of December 31, 2015, the Company obtained waivers adjusting its EBITDAR Coverage Ratio threshold to levels at which the covenants are met. The most significant commitments related to financial ratios assumed by the Company and its subsidiaries are as follows:

#### Avianca, S.A. and Subsidiaries

The consolidated financial statements of Avianca, S.A. and Subsidiaries must comply with the following financial covenants as of December 31, 2015:

- (1) EBITDAR Coverage Ratio: Should be greater than or equal to 1.4 at the end of each period; and
- (2) Leverage Ratio: Should be less than or equal to 4.5 at the end of each reporting period

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## AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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As of December 31, 2015, the Company did not comply with the EBIDAR coverage ratio and leverage ratio. However, the Company did not require waivers from financial institutions since the breached covenants have no possible consequences on acceleration of debt. As of December 31, 2014, the Company did not comply with the applicable financial covenants.

#### Avianca Holdings S.A. and Subsidiaries

The consolidated financial statements of Avianca Holdings and Subsidiaries must comply with the following financial covenants:

- (1) EBITDAR Coverage Ratio: Should be not less than 2.0 to 1.00 for some obligations and 1.50 to 1.00 for other obligations at the end of December 31, 2015. The Company obtained waivers from financial institutions to reduce the EBITDAR Coverage Ratio from 2.0 to 1.0, to 1.45 to 1.0 and complied with the revised threshold.
- (2) Capitalization Ratio: Should not be greater than 0.86 to 1.00 at the end of each reporting period.
- (3) Cash reserves held or controlled or otherwise available to the guarantor or its subsidiaries should be at least \$350 million at all times until the Relevant Testing Date in respect of the period ending December 31, 2015. Relevant Testing Date means the date on which the Avianca Holdings S.A. and Subsidiaries audited financial statements prepared in accordance with IFRS are delivered to the Security Trustee, no later than 180 days of the end of the financial period.

As of December 31, 2015 and 2014 the Company complied with the financial covenants applicable at each annual reporting date for Avianca Holdings S.A. and Subsidiaries.

#### (18) Accounts payable

Accounts payable as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Trade accounts payable	\$ 340,043	\$ 345,342
Non-income taxes collected in advance	68,651	131,177
Payroll taxes (1)	53,746	55,944
Other payables	18,152	15,031
<b>Current</b>	<b>\$ 480,592</b>	<b>\$ 547,494</b>
Trade accounts payable	\$ —	\$ 18,329
Payroll taxes (1)	3,599	2,838
<b>Non-current</b>	<b>\$ 3,599</b>	<b>\$ 21,167</b>

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## AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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- (1) Represent payroll taxes and contributions based on salaries and compensation paid to employees of the Company in the various jurisdictions in which it operates.

#### (19) Accrued expenses

Accrued expenses as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Operating expenses	\$ 75,950	\$ 83,823
Vacation and other employee accruals	22,364	24,708
Other accrued expenses	19,878	29,731
<b>Total</b>	<b>\$ 118,192</b>	<b>\$ 138,262</b>

#### (20) Provisions for return conditions

For certain operating leases, the Company is contractually obligated to return the aircraft in a predefined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return conditions criteria and throughout the remaining duration of the lease.

Provisions for return conditions as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Current	\$ 52,636	\$ 61,425
Non – current	109,231	70,459
<b>Total</b>	<b>\$ 161,867</b>	<b>\$ 131,884</b>

Changes in provisions for return conditions as of December 31, 2015 and 2014 are as follows:

	December 31, 2015	December 31, 2014
Balances at beginning of year	\$ 131,884	\$ 89,098
Provisions made	73,203	51,596
Provisions used	(43,220)	(8,810)
Balances at end of year	<b>\$ 161,867</b>	<b>\$ 131,884</b>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

##### (21) Employee benefits

The Company has a defined benefit plan which requires contributions to be made to separately administered funds. The Company has also agreed to provide post-employment benefits to its retirees that consist primarily of medical benefit plans as well as certain other benefits, including scholarships, tickets, seniority and retirement. These other benefits are unfunded.

Accounting for pensions and other post-employment benefits involves estimating the benefit cost to be provided well into the future and attributing that cost over the time period in which each employee works for the Company. This requires the use of extensive estimates and assumptions about inflation, investment returns, mortality rates, turnover rates, medical cost trends and discount rates, among other information. The Company has two distinct pension plans, one for pilots and the other for ground personnel. Both plans have been closed to new participants, and therefore there are a fixed number of beneficiaries covered under these plans as of December 31, 2015 and 2014.

	December 31, 2015	December 31, 2014
Fair value of plan assets	\$ (140,517)	\$ (175,620)
Present value of the obligation	301,113	398,273
<b>Total employee benefit liability</b>	<b>\$ 160,596</b>	<b>\$ 222,653</b>

The following table summarizes the components of net benefit expense recognized in the Consolidated Statement of Comprehensive Income and the funded status and amounts recognized in the Consolidated Statement of Financial Position for the respective plans:

Net benefit expense – year ended December 31, 2015 (recognized in Salaries, wages and benefits)	Defined benefit plan	Other benefits
Current service cost	\$ 1,564	\$ 1,947
Interest cost on net benefit obligation	17,788	4,478
<b>Total employee benefit liability</b>	<b>\$ 19,352</b>	<b>\$ 6,425</b>

Net benefit expense – year ended December 31, 2014 (recognized in Salaries, wages and benefits)	Defined benefit plan	Other benefits
Current service cost	\$ 3,777	\$ 3,281
Interest cost on net benefit obligation	21,078	5,046
<b>Total employee benefit liability</b>	<b>\$ 24,855</b>	<b>\$ 8,327</b>

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Changes in the present value of defined benefit obligation as of December 31, 2015 are as follows:

	<b>Defined benefit Obligation</b>	<b>Other benefits</b>	<b>Total</b>
Benefit obligation as of December 31, 2014	\$ 320,450	\$ 77,823	\$ 398,273
Period cost	19,352	6,425	25,777
Benefits paid by employer	(18,290)	(3,737)	(22,027)
Actuarial (gains) losses recognized in other comprehensive income	(9,830)	4,811	(5,019)
Exchange differences	(78,036)	(16,958)	(94,994)
Others	(897)	—	(897)
<b>Benefit obligation as of December 31, 2015</b>	<b>232,749</b>	<b>68,364</b>	<b>301,113</b>
Fair value of plan assets	(140,517)	—	(140,517)
<b>Total employee benefit liability</b>	<b>\$ 92,232</b>	<b>\$ 68,364</b>	<b>\$ 160,596</b>
Current	\$ 28,407	\$ 4,469	\$ 32,876
Non-current	63,825	63,895	127,720
<b>Total</b>	<b>\$ 92,232</b>	<b>\$ 68,364</b>	<b>\$ 160,596</b>

Changes in the fair value of plan assets are as follows:

	<b>Defined benefit plan</b>
Fair value of assets at December 31, 2014	\$ 175,620
Interest income on plan assets	10,962
Employer contributions	19,919
Benefits paid	(16,032)
Return on plan assets adjustment	(4,478)
Exchange differences	(45,474)
<b>Fair value of plan assets at December 31, 2015</b>	<b>\$ 140,517</b>

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Changes in the present value of defined benefit obligation for the year ended December 31, 2014 are as follows:

	<u>Defined benefit Obligation</u>	<u>Other benefits</u>	<u>Total</u>
Benefit obligation as of December 31, 2013	\$ 398,315	\$ 91,359	\$ 489,674
Benefit obligation acquired in business combinations	—	455	455
Period cost	24,855	8,327	33,182
Benefits paid by employer	(22,666)	(3,131)	(25,797)
Actuarial gains recognized in other comprehensive income	(4,349)	(1,406)	(5,755)
Exchange differences	(75,705)	(17,781)	(93,486)
Benefit obligation as of December 31, 2014	<u>320,450</u>	<u>77,823</u>	<u>398,273</u>
Fair value of the plan assets	(175,620)	—	(175,620)
<b>Total employee benefit liability</b>	<u>\$ 144,830</u>	<u>\$ 77,823</u>	<u>\$ 222,653</u>
Current	<u>\$ 45,072</u>	<u>\$ 4,121</u>	<u>\$ 49,193</u>
Non-current	99,758	73,702	173,460
<b>Total</b>	<u><u>\$ 144,830</u></u>	<u><u>\$ 77,823</u></u>	<u><u>\$ 222,653</u></u>

Change in the fair value of plan assets are as follows:

	<u>Defined benefit plan</u>
Fair value of assets at December 31, 2013	\$ 160,998
Interest income on plan assets	9,635
Employer contributions	43,120
Benefits paid	(17,483)
Return on plan assets adjustment	10,684
Exchange differences	(31,334)
Fair value of plan assets at December 31, 2014	<u><u>\$ 175,620</u></u>

**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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For the year ended December 31, 2015, 2014 and 2013, actuarial gains of \$541, \$16,439 and \$66,277, respectively were recognized in other comprehensive income.

	<b>December 31, 2015</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Actuarial gains recognized in other comprehensive income	\$ 5,019	\$ 5,755	\$ 73,331
Return on plan assets adjustment	(4,478)	10,684	(7,054)
<b>Amount recognized in other comprehensive income</b>	<b>\$ 541</b>	<b>\$ 16,439</b>	<b>\$ 66,277</b>

The Company expects to contribute \$32,876 to its defined benefit plan and other benefits in 2016.

Plan assets correspond to net funds transferred to Caxdac, which is responsible for the administration of the pilots' pension plan. The assets held by Caxdac are segregated into separate accounts corresponding to each contributing company. Additionally the plan assets included a portion relating to pension plan of ground personnel.

The principal assumptions (inflation-adjusted) that are used in determining pension and post-employment medical benefit obligations for the Company's plans are shown below:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Discount rate on all plans	7.50%	7.00%
Price inflation	3.00%	3.00%
Future salary increase		
Pilots	3.75%	3.75%
Cabin crew	3.50%	3.50%
Other employees	4.00%	4.00%
Future pension increase	3.00%	3.00%
Healthcare cost increase	4.00%	4.00%
Ticket cost increase	3.00%	3.00%
Education cost increase	3.00%	3.00%

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The major categories of plan assets as a percentage of the fair value of the total plan assets are as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Equity securities	45%	45%
Debt securities	51%	51%
Other	4%	4%

Equity securities comprise investments in Colombian entities with credit rating between AAA and BBB. Debt securities include investments in Colombian government bonds, banks and public and private Colombian entities.

#### **Pension plans for ground personnel**

In 2008, the Company entered into a commutation agreement with Compañía Aseguradora de Vida Colseguros S.A. (Insurance Company) in connection with the pension liability of two of the Company's pension plans.

As of December 31, 2015 and 2014, there are 9 and 7 beneficiaries, respectively, which have not been commuted. Consequently, the Company estimates through an actuarial calculation the pension liability of these beneficiaries.

#### **Pension plans for flight personnel**

Due to local regulations for two of the Company's pension plans, the Company has to make contributions to a fund which is externally administrated. The amount of the annual contribution is based on the following:

- Basic contribution for the year: equal to the expected annual pension payments.
- Additional contribution for the year (if necessary): equal to the necessary amount to match the actuarial liability under local accounting rules and the plan assets as of year 2023 (determined with an actuarial calculation).

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(In USD thousands)

#### **Sensitivity Analysis**

The calculation of the defined benefit obligation is sensitive to the aforementioned assumptions. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions:

	<u>0.5% increase</u>	<u>0.5% decrease</u>
<b>Discount rate</b>	(12,152)	13,381
<b>Pension increase</b>	14,640	(13,366)
<b>Mortality table</b>	3,933	—
	<u>1% increase</u>	<u>1% decrease</u>

<b>Medical cost</b>	1,571	1,647
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**(22) Air traffic liability**

Air traffic liability as of December 31, 2015 and 2014 is as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Advance ticket sales	\$ 363,026	\$ 396,292
Miles deferred revenue	70,549	64,826
<b>Current</b>	<b>\$ 433,575</b>	<b>\$ 461,118</b>
Miles deferred revenue	\$ 93,519	\$ 85,934
<b>Non-current</b>	<b>\$ 93,519</b>	<b>\$ 85,934</b>

**(23) Other liabilities**

Other liabilities as of December 31, 2015 and 2014 are as follows:

	Notes	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Derivative instruments	27, 28	\$ 3,769	\$ 116,555
Other		24,297	19,407
<b>Total</b>		<b>\$ 28,066</b>	<b>\$ 135,962</b>
Current		\$ 12,691	\$ 127,496
Non-current		15,375	8,466
<b>Total</b>		<b>\$ 28,066</b>	<b>\$ 135,962</b>

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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**Notes to Consolidated Financial Statements**

(In USD thousands)

**(24) Share based payments**



The Company authorized the implementation of an incentive plan (the “Share Based Plan”) on January 27, 2012 whereby eligible recipients, including directors, officers, certain employees, receive a special cash payout if certain redemption conditions are met.

The Share Based Plan participants have the option to redeem the vested portion of their respective rights for cash, with the payment being equal to the difference between the trading share price of the preferred shares of Avianca Holdings S.A., as reported by the Colombian Stock Exchange during the 30 calendar days immediately preceding redemption, and COP\$5,000.

18,026,158 awards were issued on March 15, 2012, and will vest in equal tranches over a 4 year period, with the first tranche vesting on March 15, 2013, and subsequent tranches vesting on each subsequent anniversary date. Upon vesting, each tranche must be redeemed within 5 years and no later than March 2021.

On November 5, 2013, the Company listed its American Depositary Shares (“ADS”) in the New York Stock Exchange. As a consequence, the terms of the Share Based Plan were modified as follows: Starting on the effective date of the sale of ADSs in the market, the value of each award, as long as the result is positive, will result from: i) calculating the difference between the average quote of the ADSs representative of preferred shares of Avianca Holdings S.A., as reported by the New York Stock Exchange during the 30 calendar days immediately prior to each vesting date of the Share Based Plan and the price of \$15, and ii) dividing the latter calculation by eight, considering that each ADS represents eight preferred shares and applying the resulting amount by the exchange rate of COP\$1,901.22 per \$1, (the exchange rate as of November 5, 2013 or the effective date of listing of the ADSs in the New York Stock Exchange). However, this modification does not affect Tranche 1.

Additionally, the Company issued 2,000,000 new awards (“New Awards”) for the Board of Directors and C Levels on November 6, 2013. These New Awards vest in four equal tranches and expire five year after the vesting date. The value of each New Award is determined in the same way as the modified terms of the Share Based Plan. On March 11, 2014, the Company revised the New Awards and reduced them to 1,840,000 units.

As of December 31, 2015, active beneficiaries have been awarded with 11,692,519 units out of 18,026,158 initially approved and issued, and have redeemed 480,025 units, corresponding to the vesting periods March 15, 2012–2013 and March 15, 2013–2014. Total awards to be redeemed as of December 31, 2015 are equal to 11,212,494.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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A summary of the terms of the awards excluding the 1,840,000 New Awards is as follows:

<u>Vesting dates</u>	<u>Percentage vesting</u>	<u>Redemption period</u>
March 15, 2013	25%	From March 16, 2013 through March 15, 2018
March 15, 2014	25%	From March 16, 2014 through March 15, 2019
March 15, 2015	25%	From March 16, 2015 through March 15, 2020
March 15, 2016	25%	From March 16, 2016 through March 15, 2021

A summary of the terms of the 1,840,000 New Awards is as follows:

<u>Vesting dates</u>	<u>Percentage vesting</u>	<u>Redemption period</u>
November 6, 2014	25%	From November 7, 2014 through November 6, 2019
November 6, 2015	25%	From November 7, 2015 through November 6, 2020
November 6, 2016	25%	From November 7, 2016 through November 6, 2021
November 6, 2017	25%	From November 7, 2017 through November 6, 2022

Participants who are terminated, or resigned, cease to be part of the Share Based Plan. The awards were only issued to board members and key management.

The Company has determined the fair value of the outstanding awards as of December 31, 2015 and 2014 using the Turnbull–Wakeman model, which is a variation of the Black–Scholes model and was deemed to be an appropriate valuation model given the requirement that the share price be above a certain threshold for 30 days prior to redemption.

For the valuation as of December 31, 2015, the Turnbull–Wakeman model uses several inputs including:

- Expected term of 1.10 to 4.35 years
- Time in averaging period of 0.08 years
- Stock price of COP\$1,695 in the Colombian Stock Exchange and \$4.27 in the New York Stock Exchange
- Strike price of COP\$5,000 for tranche 1 and \$15 for tranches 2, 3, 4, and for the New Awards in all tranches
- Risk free rate of 1.01% to 6.49%
- Dividend yield of 2.95%
- Volatility of 31.65% to 38.13%

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES** (Republic of Panama)

#### **Notes to Consolidated Financial Statements** (In USD thousands)

For the valuation as of December 31, 2014, the Turnbull–Wakeman model uses several inputs including:

- Expected term of 1.60 to 5.35 years
- Time in averaging period of 0.08 years
- Stock price of COP\$3,420 in the Colombian Stock Exchange and \$11.73 in the New York Stock Exchange
- Strike price of COP\$5,000 for tranche 1 and \$15 for tranches 2, 3, 4, and for the New Awards in all tranches

- Risk free rate of 0.80% to 5.10%
- Dividend yield of 2.19%
- Volatility of 25.22% to 29.73%

Since Avianca Holdings S.A. has a public traded history of approximately four and a half years for the preferred shares, which is shorter than all the expected terms except for Tranche 1–3 of the original Share Based Plan and Tranche 1 and 2 of the New Awards, the Company used data for guideline public companies similar to Avianca Holdings S.A. to estimate its equity volatility.

Based on the aforementioned assumptions, the Company determined that the income of the Share Based Plan Awards for the period ended December 31, 2015 and 2014 was \$1,121 and \$2,540, respectively which has been recognized within operating profit. As of December 31, 2015 and 2014, \$10 and \$1,256, respectively, is reflected as a current liability on the Consolidated Statement of Financial Position.

## **(25) Equity**

### **Common and preferred stock**

On November 5, 2013, the Company issued 12,500,000 American Depositary Shares, or ADSs, each representing 8 preferred shares. Net proceeds from this offering amounted to approximately \$183,553 million (net of issuance costs amounting to \$3,956). Preferred stock has no voting rights and cannot be converted to common stock. Holders of the preferred shares and ADSs are entitled to receive a minimum dividend to be paid preferentially over holders of common shares, so long as dividends have been declared by our shareholders at their annual meeting. If no dividends are declared, none of the Company's shareholders will be entitled to any dividends. If dividends are declared and the Company's annual distributable profits are sufficient to pay a dividend per share of at least COP 50 per share to all the Company's holders of preferred and common shares, such profits will be paid equally with respect to the Company's preferred and common shares. However, if the Company's annual distributable profits are insufficient to pay a dividend of at least COP 50 per share to all our holders of preferred and common shares, a minimum preferred dividend of COP 50 per share will be distributed pro rata to the holders of the Company's preferred shares, and any excess above such minimum preferred dividend will be distributed solely to holders of our common shares.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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**(In USD thousands)**

In connection with that offering, the common shareholders ("selling shareholders") converted 75,599,997 common shares to preferred shares, representing 14,734,910 ADSs. As a consequence, the number of common shares was reduced to 665,800,003; the number of preferred shares increased in 75,599,997 to 331,187,285 preferred shares. The Company did not receive any of the net proceeds from the sale of ADS by the selling shareholders.

As of December 31, 2013, the Company purchased 197,141 of its outstanding preferred shares, for this reason, outstanding preferred stock was decreased by \$25 and additional paid-in capital on preferred stock was decreased by \$452.

On November 28, 2014, the common shareholders (“selling shareholders”) converted 5,000,000 common shares to preferred shares. As a consequence, the number of common shares was reduced to 660,800,003 and the number of preferred shares increased in 5,000,000 to 336,187,285 preferred shares.

The following is a summary of authorized, issued and paid shares:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Authorized shares	4,000,000,000	4,000,000,000
Issued and paid common stock	660,800,003	660,800,003
Issued and paid preferred stock	336,187,285	336,187,285

### Sale of minority shareholding

In August 2015 Avianca Holdings S.A. and Advent International (“Advent”), a global private equity investor, signed a definitive agreement pursuant to which Advent acquired 3,000 common shares of LifeMiles B.V., representing a 30% minority shareholding interest in LifeMiles B.V. In connection with this transaction the Company recognized a total amount of \$301,389 recorded directly to equity, net of related transaction costs.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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### Notes to Consolidated Financial Statements

(In USD thousands)

#### Other Comprehensive Income (“OCI”) Reserves

Other comprehensive income as of December 31, 2015 and 2014 is as follows:

	<u>Income tax reserves relating to (4)</u>							
	Hedging reserves (1)	Fair valu e reserves (2)	Reserves relat ing to actuarial gai ns and losses (3)	Hedging reserves	Fair valu e reserves	Reserve relating to actuarial gai ns and losses	Revaluation of administrativ e property (5)	Total OCI Reserves
<b>As of</b>								
<b>December</b>		(1,571		(1,755				(2,965
<b>31, 2013</b>	\$ 14,351	\$ )	\$ (52,827)	\$ )	\$ 297	\$ 9,683	\$ 28,857	\$ )
Other								
comprehen sive income								
(loss) in	(113,24	)				)	)	(90,06
the period	9	(1,527	16,439	14,433	386	(2,239	(4,307	4
<b>As of</b>								
<b>December</b>		)	)	)				(93,02
<b>31, 2014</b>	\$ (98,898	\$ (3,098	\$ (36,388	\$ 12,678	\$ 683	\$ 7,444	\$ 24,550	\$ 9

Other comprehensive income (loss) in the period	77,308	3,098	541	(12,678)	(680)	3,410	(6,156)	64,843
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<b>As of December 31, 2015</b>	<b>\$ (21,590)</b>	<b>\$ —</b>	<b>\$ (35,847)</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$ 10,854</b>	<b>\$ 18,394</b>	<b>\$ 6</b>
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(1) Hedging Reserves

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows (See Note 27).

(2) Fair value reserves

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognized or impaired.

(3) Reserve relating to actuarial gains and losses

It comprises actuarial gains or losses on defined benefit plans and post-retirement medical benefits recognized in other comprehensive income.

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**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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(In USD thousands)

(4) Income tax on other comprehensive income

Whenever an item of other comprehensive income gives rise to a temporary difference, a deferred income tax asset or liability is recognized directly in other comprehensive income

(5) Revaluation of administrative property

Revaluation of administrative property is related to the revaluation of administrative buildings and property in Colombia, Costa Rica, and El Salvador. The revaluation reserve is adjusted for increases or decreases in fair values of such property.

The following provides an analysis of items presented net in the statement of profit or loss and other comprehensive income which have been subject to reclassification, without considering items remaining in OCI which are never reclassified to profit of loss:

	2015	2014	2013
Cash flow hedges:			
Reclassification during the year to profit or loss	\$144,372	\$ 8,864	\$ 8,410
Effective valuation of cash flow hedged	(67,064)	(122,113)	2,244

	\$ 77,308	\$(113,249)	\$10,654
Fair value reserves:			
Reclassification during the year to profit or loss	\$ —	\$ —	\$ 1,116
Valuations of available-for-sale investments	3,098	(1,527)	912
	\$ 3,098	\$ (1,527)	\$ 2,028
Income tax on other comprehensive income:			
Reclassification during the year to profit or loss	\$ (13,358)	\$ 15,068	\$ (186)
Temporary differences within OCI	—	(249)	(1,666)
	\$ (13,358)	\$ 14,819	\$ (1,852)

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

##### Dividends

The following dividends were paid by the Company during the years ended December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Dividend—Ordinary shared	\$ 44,215	\$ 25,865
Dividend—Preferred shared	22,873	13,079
<b>Total</b>	<b>\$ 67,088</b>	<b>\$ 38,944</b>

Dividends of COP\$50 per share were declared in March 2016, and will be paid in four equal installments of COP\$12.50 per share. The first installment was paid on April 7, 2016. The remaining three installments will be paid no later than July 1, 2016, October 7, 2016 and December 16, 2016, based on retained earnings as of December 31, 2015.

Dividends of \$67,088 (approximately 6.7 cents per share) were declared in April 2015 and paid in October 2015 based on profits for the year 2014. Dividends of 75/0.04 COP\$/US\$ per share were declared in March 2014 and paid in April 2014 based on profits for the year 2013.

Additionally, on December 16, 2015 the company paid dividends corresponding to the minority shareholding of LifeMiles B.V. in the amount of \$3,750.

##### (26) Operating revenue

The Company had no major customers which represented more than 10% of revenues in 2015 and 2014. The Company tracks its segmented gross revenue information by type of service rendered and by region, as follows:

*By type of service rendered*

	Year ended December 31, 2015	Percentage	Year ended December 31, 2014	Percentage	Year on Year Variation
<b>Domestic</b>					
Passenger	\$ 1,363,285	31%	\$ 1,071,254	23%	\$ 292,031
Cargo and mail	234,362	5%	240,134	5%	(5,772)
	<u>1,597,647</u>	<u>36%</u>	<u>1,311,388</u>	<u>28%</u>	<u>286,259</u>
<b>International</b>					
Passenger	2,094,732	48%	2,791,467	59%	(696,735)
Cargo and mail	390,163	9%	324,728	7%	65,435
	<u>2,484,895</u>	<u>57%</u>	<u>3,116,195</u>	<u>66%</u>	<u>(631,300)</u>
<b>Other (1)</b>	<u>278,799</u>	<u>7%</u>	<u>275,988</u>	<u>6%</u>	<u>2,811</u>
<b>Total operating revenues</b>	<u><b>\$ 4,361,341</b></u>	<u><b>100%</b></u>	<u><b>\$ 4,703,571</b></u>	<u><b>100%</b></u>	<u><b>\$(342,230)</b></u>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

	Year ended December 31, 2014	Percentage	Year ended December 31, 2013	Percentage	Year on Year Variation
<b>Domestic</b>					
Passenger	\$ 1,071,254	23%	\$ 1,031,299	23%	\$ 39,955
Cargo and mail	240,134	5%	196,062	4%	44,072
	<u>1,311,388</u>	<u>28%</u>	<u>1,227,361</u>	<u>27%</u>	<u>84,027</u>
<b>International</b>					
Passenger	2,791,467	59%	2,831,098	61%	(39,631)
Cargo and mail	324,728	7%	308,677	7%	16,051

	3,116,195	66%	3,139,775	68%	(23,580)
<b>Other (1)</b>	<b>275,988</b>	<b>6%</b>	<b>242,468</b>	<b>5%</b>	<b>33,520</b>
<b>Total operating revenues</b>	<b>\$ 4,703,571</b>	<b>100%</b>	<b>\$ 4,609,604</b>	<b>100%</b>	<b>\$ 93,967</b>

#### (1) Other operating revenue

Other operating revenue for the years ended December 31, 2015, 2014 and 2013 is as follows:

	December 31, 2015	December 31, 2014	December 31, 2013
Frequent flyer program	\$ 139,524	\$ 141,402	\$ 142,252
Ground operations (a)	19,545	20,756	20,423
Leases	30,144	30,744	24,181
Maintenance	8,963	16,624	6,228
Interline	1,831	1,565	5,421
Other	78,792	64,897	43,963
	<b>\$ 278,799</b>	<b>\$ 275,988</b>	<b>\$ 242,468</b>

(a) Company provides services to other airlines at main hub airports.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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#### Notes to Consolidated Financial Statements

(In USD thousands)

#### (27) Derivatives recognized as hedging instruments

Financial instruments recognized as hedging instruments at fair value through other comprehensive income as of December 31, 2015 and 2014 are the following:

	Notes	December 31, 2015	December 31, 2014
Cash flow hedges – Assets			
Fuel price hedges	13	\$ 882	\$ 4,204
<b>Total</b>		<b>\$ 882</b>	<b>\$ 4,204</b>
Cash flow hedges – Liabilities			
Fuel price hedges	23	\$ —	\$ 110,084
Interest Rate	23	1,635	—



<b>Total</b>	<b>\$ 1,635</b>	<b>\$ 110,084</b>
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Financial assets and liabilities at fair value through other comprehensive income reflect the change in fair value of fuel price derivative contracts designated as cash flow hedges. Hedged items are designated future purchases deemed as highly probable forecast transactions.

Cash flow hedges liabilities are recognized within Other Liabilities in the Consolidated Statement of Financial Position.

The Company purchases jet fuel on an ongoing basis as its operating activities require a continuous supply of this commodity. The increased volatility in jet fuel prices has led the Company to the decision to enter into commodity contracts. These contracts are expected to reduce the volatility attributable to fluctuations in jet fuel prices for highly probable forecast jet fuel purchases, in accordance with the risk management strategy outlined by the Board of Directors. The contracts are intended to hedge the volatility of the jet fuel prices for a period between three and twelve months based on existing purchase agreements.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, and the fair values of the related hedging instruments.

	<u>Fair Value</u>	<u>1-12 months</u>
<b>Fuel price</b>		
Assets	\$ 882	\$ 882
<b>Interest Rate</b>		
Liabilities	\$ 1,635	\$ 1,635

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES** (Republic of Panama)

#### **Notes to Consolidated Financial Statements** (In USD thousands)

The terms of the foreign currency forward contracts have been negotiated for the expected highly probable forecast transactions to which hedge accounting has been applied. As of December 31, 2015 and 2014, a net gain (loss) relating to the hedging instruments of \$77,308 and \$(113,249), respectively is included in other comprehensive income (see Note 25).

#### **(28) Derivative financial instruments**

Derivative financial instruments at fair value through profit or loss as of December 31, 2015 and 2014 are the following:

	<u>Notes</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
<b>Derivatives not designated as hedges – Assets</b>			
Derivative contracts of interest rate	13	\$ 90	\$ —

<b>Total</b>		<b>\$ 90</b>	<b>\$ —</b>
Derivatives not designated as hedges – Liabilities			
Derivative contracts of foreign currency	23	\$ —	\$ 578
Derivative contracts of interest rate	23	2,134	5,893
<b>Total</b>		<b>\$ 2,134</b>	<b>\$ 6,471</b>

Financial instruments through profit or loss are derivative contracts not designated as hedges for accounting purposes that are intended to reduce the levels of risk of foreign currency and interest rates.

Liabilities on derivatives not designated as hedges are recognized within Other Liabilities in the Consolidated Statement of Financial Position.

#### *Foreign currency risk*

Certain foreign currency forward contracts are measured at fair value through profit or loss and are not designated as hedging instruments for accounting purposes. The foreign currency forward contract balances vary with the level of expected foreign currency sales and purchases and changes in foreign currency forward rates.

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## **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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### **Notes to Consolidated Financial Statements**

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#### *Interest rate risk*

The Company incurs interest rate risk primarily on financial obligations to banks and aircraft lessors. Certain financial derivative instruments are recognized at fair value through profit or loss and are not designated as hedging instruments for accounting purposes. The interest rate contracts vary according to the level of expected interest payable and changes in interest rates of financial obligations. Interest rate risk is managed through a mix of fixed and floating rates on loans and lease agreements, combined with interest rate swaps and options. Under these agreements, the Company pays a fixed rate and receives a variable rate.

#### **(29) Offsetting of Financial Instruments**

The Company has derivative instruments that could meet the offsetting criteria in paragraph 42 of IAS 32 given that the Company has signed with its counterparties enforceable master netting arrangements. Consequently, when derivatives signed with the same counterparty and for the same type of notional result in gross assets and liabilities, the positions are set off resulting in the presentation of a net derivative. As of December 31, 2015 and 2014, the Company has not set off derivative instruments because it has not had gross assets and liabilities with the same counterparty for the same type of notional.

#### **(30) Fair value measurements**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statement of Financial Position as of December 31, 2015 are as follows:

	Notes	December 31, 2015	
		Carrying amount	Fair value
<b>Financial assets</b>			
Available-for-sale securities	6	\$ 793	\$ 793
Derivative instruments	27, 28	972	972
		<b>\$ 1,765</b>	<b>\$ 1,765</b>
<b>Financial liabilities</b>			
Short term borrowings and long-term debt	17	\$3,472,994	\$3,296,534
Derivative instruments	23	3,769	3,769
		<b>\$3,476,763</b>	<b>\$3,300,303</b>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Consolidated Statement of Financial Position as of December 31, 2014 are as follows:

	Notes	December 31, 2014	
		Carrying amount	Fair value
<b>Financial assets</b>			
Available-for-sale securities	6	\$ 1,455	\$ 1,455
Derivative instruments	27,28	4,204	4,204
		<b>\$ 5,659</b>	<b>\$ 5,659</b>
<b>Financial liabilities</b>			
Short term borrowings and long-term debt	17	\$3,170,577	\$3,200,729
Derivative instruments	23	116,555	116,555
		<b>\$3,287,132</b>	<b>\$3,317,284</b>

The fair value of the financial assets and liabilities corresponds the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Management assessed that cash and cash equivalents, account receivable, account payable and other current liabilities approximate their carrying amount largely due to the short-term maturities of these instruments.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

- (a) The fair value of available-for-sale financial assets is determined by reference to the present value of future principal and interest cash flows, discounted at a market based interest rate at the reporting date.
- (b) The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate contracts, foreign currency forward contracts and commodity contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign currency spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- (c) The fair value of short-term borrowings and long-term debt, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at a market based interest rate at the reporting date. For finance leases, the market rate is determined by reference to similar lease agreements.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

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- (d) The Company uses the revaluation model to measure its land and buildings which are composed of administrative properties. Management determined that this constitutes one class of asset under IAS 16, based on the nature, characteristics and risks of the property. The fair values of the properties were determined by using market comparable methods. This means that valuations performed by the appraisals are based on active market prices, adjusted for difference in the nature, location or condition of the specific property. The Company engaged accredited independent appraisals, to determine the fair value of its land and buildings.
- (e) The Frequent flyer liability is included in the Consolidated Statement of Financial Position within Air traffic liability. The Company estimates the fair value of miles awarded under the LifeMiles program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates, the mix of products that will be available for redemption in the future and customer preferences.

#### **Fair values hierarchy**

All financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

**Level 2** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or

**Level 3** inputs are unobservable inputs for the asset or liability.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

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#### Notes to Consolidated Financial Statements

(In USD thousands)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of December 31, 2015:

#### Quantitative disclosures of fair value measurement hierarchy for assets:

<u>Assets measured at fair value</u>	<u>Fair value measurement using</u>			<u>Total</u>
	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Derivative financial assets (Note 27 and 28)				
Aircraft fuel hedges	—	882	—	882
Interest rate derivatives	—	90	—	90
Available-for-sale securities (Note 6)	—	793	—	793
Assets held for sale (Note 12)	—	3,323	—	3,323
Revalued administrative property (Note 14)	—	70,071	—	70,071

#### Quantitative disclosures of fair value measurement hierarchy for liabilities:

<u>Liabilities measured at fair value</u>	<u>Fair value measurement using</u>			<u>Total</u>
	<u>Quoted prices in active markets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>	
Derivative financial liabilities (Note 27 and 28)				
Interest rate derivatives	—	3,769	—	3,769
Frequent flyer liability (Note 22)	—	164,068	—	164,068
<b>Liabilities for which fair values are disclosed</b>				
Short-term borrowings and	—	3,296,534	—	3,296,534

[Table of Contents](#)**AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

**Notes to Consolidated Financial Statements****(In USD thousands)**

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of December 31, 2014:

**Quantitative disclosures of fair value measurement hierarchy for assets:**

<b>Assets measured at fair value</b>	<b>Fair value measurement using</b>			<b>Total</b>
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	
Derivative financial assets (Note 27 and 28)				
Aircraft fuel hedges	—	4,204	—	4,204
Available-for-sale securities (Note 6)	—	1,455	—	1,455
Assets held for sale (Note 12)	—	1,369	—	1,369
Revalued administrative property (Note 14)	—	78,442	—	78,442

**Quantitative disclosures of fair value measurement hierarchy for liabilities:**

<b>Liabilities measured at fair value</b>	<b>Fair value measurement using</b>			<b>Total</b>
	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	
Derivative financial liabilities (Note 27 and 28)				
Aircraft fuel hedges	—	110,084	—	110,084
Foreign currency derivatives	—	578	—	578
Interest rate derivatives	—	5,893	—	5,893
Frequent flyer liability (Note 22)	—	150,760	—	150,760
<b>Liabilities for which fair values are disclosed</b>				
Short-term borrowings and long-term debt (Note 17)	—	3,200,729	—	3,200,729

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

##### (31) Income tax expense

The major components of income tax expense for the years ended December 31, 2015, 2014 and 2013 are:

##### Consolidated statement of comprehensive income

	December 31, 2015	December 31, 2014	December 31, 2013
<b>Current income tax:</b>			
Current income tax charge	\$ 19,491	\$ 33,781	\$ 41,223
Adjustment in respect of current income tax of previous year	(2,211)	—	(927)
<b>Deferred tax expense:</b>			
Relating to origination and reversal of temporary differences	13,748	16,499	6,164
<b>Income tax expense reported in the income statement</b>	<b>\$ 31,028</b>	<b>\$ 50,280</b>	<b>\$ 46,460</b>

##### Consolidated statement of other comprehensive income

Hedging reserves	(12,678)	14,433	(1,755)
Fair value reserves	(680)	386	(97)
Reserves relating to actuarial gains and losses	3,410	(2,239)	(14,525)
<b>Income tax charged directly to other comprehensive income</b>	<b>\$ (9,948)</b>	<b>\$12,580</b>	<b>\$(16,377)</b>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

A reconciliation between tax expense and the product of accounting profit multiplied by domestic tax rate for the years ended December 31, 2015, 2014 and 2013 is as follows:

	December 31, 2015		December 31, 2014		December 31, 2013	
Accounting (loss) profit after income tax	<b>\$(139,506)</b>		<b>\$128,494</b>		<b>\$248,821</b>	
Total income tax expense	31,028		50,280		46,460	
<b>(Loss) profit before income tax</b>	<b>\$(108,478)</b>		<b>\$178,774</b>		<b>\$295,281</b>	
Income tax at Colombian statutory rate	39.0%	(42,306)	34.0%	60,783	34.0%	100,396
Tax credit (1)	2.6%	(2,816)	(9.5%)	(17,049)	(10.8%)	(32,025)
Productive fixed assets special deduction	47.0%	(51,003)	(0.6%)	(1,142)	(1.9%)	(5,711)
Permanent differences (2)	47.7%	(51,769)	(1.8%)	(3,241)	(0.9%)	(2,737)
Non-deductible taxes	(2.7%)	2,893	1.0%	1,785	0.8%	2,174
Effect of tax exemptions and tax rates in foreign jurisdictions	(24.9%)	27,030	3.8%	6,852	4.6%	13,462
Non recognized deferred tax assets	(94.5%)	102,553	0.00%	—	0.0%	—
Exchange rate differences	37.3%	(40,483)	(3.3%)	(5,924)	(5.0%)	(14,639)
Prior year expenses	(0.8%)	878	0.6%	1,135	1.0%	2,965
Changes in tax rates	(79.3%)	86,051	3.9%	7,081	(5.9%)	(17,425)
	<b>(28.6%)</b>	<b>\$ 31,028</b>	<b>28.1%</b>	<b>\$ 50,280</b>	<b>15.8%</b>	<b>\$ 46,460</b>

- (1) Airline companies in Colombia are entitled to a tax credit or discount for income tax purposes based on the proportion between the international flights income and total income of the Company during the year. The legislative purpose of this tax provision is to limit the Company's exposure to double taxation on their worldwide income in Colombia, therefore limiting the tax expense to local Colombian source income.

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

(Republic of Panama)

#### Notes to Consolidated Financial Statements

(In USD thousands)

- (2) This item includes various permanent differences for Corporate Income Tax purposes in Colombia. These permanent differences include non taxable gains and losses on the sale of property, plant and equipment, non taxable revenues and other items.

Below we show an analysis of the Company's deferred tax assets and liabilities:

Assets (liabilities)	Consolidated Statement of Financial Position				
	December 31, 2015	December 31, 2014	December 31, 2013	Variation	
				December 31, 2015	December 31, 2014
Accounts payable	\$ 4,470	\$ 15,970	\$ 107	\$ (11,500)	\$ 15,863



Inflation adjustments	(23)	759	839	(782)	(80)
Deposits and other assets	(157)	(3,551)	(8,340)	3,394	4,789
Aircraft maintenance	787	(5,410)	1,876	6,197	(7,286)
Pension liabilities	(19,541)	(20,514)	30,982	973	(51,496)
Provisions	48,561	46,834	24,038	1,727	22,796
Loss carry forwards	31,035	736	792	30,299	(56)
Functional Currency					
Differences	(57,913)	—	—	(57,913)	—
Intangible assets	(12,582)	(12,582)	(5,556)	—	(7,026)
Other	(2,265)	(2,338)	(1,785)	73	(553)
<b>Net deferred tax assets / (liabilities)</b>	<b>\$ (7,628)</b>	<b>\$ 19,904</b>	<b>\$ 42,953</b>	<b>\$ (27,532)</b>	<b>\$ (23,049)</b>

Reflected in the statement of financial position as follows:

Deferred tax assets	\$ 5,847	\$ 35,664	\$ 50,893
Deferred tax liabilities	(13,475)	(15,760)	(7,940)
<b>Deferred tax assets (liabilities) net</b>	<b>\$ (7,628)</b>	<b>\$ 19,904</b>	<b>\$ 42,953</b>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES (Republic of Panama)

#### Notes to Consolidated Financial Statements (In USD thousands)

	December 31, 2015	December 31, 2014
<b>Reconciliation of deferred tax assets net</b>		
Opening balance as of January 1,	\$ 19,904	\$ 42,953
Tax income during the period recognized in profit or loss	(13,748)	(16,499)
Tax income during the period recognized in other comprehensive income	(9,948)	12,580
Deferred taxes acquired in business combinations	—	(8,568)
Exchange differences	(3,836)	(10,562)
<b>Closing balance as of December 31</b>	<b>\$ (7,628)</b>	<b>\$ 19,904</b>

#### Income Tax

At December 31, 2015, the Company's subsidiaries have tax loss carry forwards of approximately \$561,813, which are available to offset future taxable income in the relevant jurisdictions, if any, where appropriate. The tax losses in the tax jurisdictions of Colombia and Chile can be carried forward indefinitely and the excess of presumptive tax income in Colombia can be carried forward up to year 2020.

The Company has potential deferred tax assets corresponding to the aforementioned tax losses for \$138,748. However, given the uncertainty over the Company's ability to generate taxable income in the short and medium term, and considering the Company's loss in 2015, deferred tax assets have only been recognized by an amount equal to the projected future reversal of deferred tax liabilities.

Because Avianca S.A. and Tampa Cargo S.A.S. control the dividend policies of their subsidiaries they can control when the temporary difference related to their investments in such subsidiaries are reversed. As the group has determined that subsidiary profits will not be distributed in the foreseeable future, the related deferred tax liability, which would amount to \$23,583, has not been recognized.

#### *Tax reform*

On December 23, 2014 a new tax reform program, effective from January 1, 2015, was enacted in Colombia. Main amendments are as follows:

- A new net worth tax for taxpayers presenting a net equity, as of January 1, 2015, greater than COP\$1,000 million.
- An income tax for equality ("CREE"), establishing, permanently, a rate of 9%, while introducing modifications to its former structure and compensation.
- A surcharge to CREE at increasing rates for the years 2015, 2016, 2017 and 2018.
- New mechanisms against tax evasion and modifications to tax rates applicable to financial transactions were introduced, as well as other income tax amendments.

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### **AVIANCA HOLDINGS S.A. AND SUBSIDIARIES**

(Republic of Panama)

#### **Notes to Consolidated Financial Statements**

(In USD thousands)

#### **(32) Provisions for legal claims**

As of December 31, 2015 and 2014, the Company is involved in various claims and legal actions arising in the ordinary course of business. Out of the total claims and legal actions Management has estimated a probable loss of \$13,386 and \$14,157, respectively. These claims have been accrued for in the Consolidated Statement of Financial Position within "Provisions for legal claims".

Certain proceedings are considered possible obligations. Based on the plaintiffs' claims, as of December 31, 2015 and 2014, these contingencies amount to a total of \$73,504 and \$74,567, respectively. Certain losses which may result from those proceedings will be covered either by insurance companies or with funds provided by third parties. The proceedings that will not be settled using the aforementioned forms of payment are estimated at \$43,514 as of December 31, 2015 and \$35,316 as of December 31, 2014.

In accordance with IAS 37, proceedings that the Company considers to represent a remote risk are not accrued in the Consolidated Financial Statements.

### (33) Future aircraft leases payments

The Company has 67 aircraft under operating leases with an average remaining lease term of 42 months. Operating leases may be renewed in accordance with management's business plan. Future operating lease commitments are as follows:

	<u>Aircraft</u>
Less than one year	\$253,372
Between one and five years	600,538
More than five years	127,902
	<u>\$981,812</u>

The Company has seven spare engines under operating leases for its E190 and A320 family aircraft. Future operating lease commitments are as follows:

	<u>Engines</u>
Less than one year	\$3,934
Between one and five years	828
	<u>\$4,762</u>

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

(Republic of Panama)

#### Notes to Consolidated Financial Statements

(In USD thousands)

As of December 31, 2015, the Company had three Airbus A319, one Airbus A330F, and three Fokker 100 under operating lease to OceanAir Linhas Aéreas, S.A. Future minimum income from these lease agreements is as follows:

	<u>Aircraft</u>
Less than one year	\$ 20,388
Between one and five years	72,464
More than five years	61,939
	<u>\$154,791</u>

### (34) Acquisition of aircraft

In accordance with the agreements in effect, future commitments related to the acquisition of aircraft and engines are as follows:

*Airbus* – The Company has 141 firm orders for the acquisition of A320 family aircraft with deliveries scheduled between 2016 and 2024.

Under the terms of these agreements to acquire Airbus aircraft, the Company must make pre-delivery payments to Airbus on predetermined dates.

*Boeing* – The Company has eight firm orders for the acquisition of B787-8 aircraft with deliveries scheduled between 2016 and 2019 as well as 10 purchase options.

*ATR* – The Company has up to 15 purchase options.

*Other* – The Company has eight firm orders for the acquisition of spare engines with deliveries between 2016 and 2020.

The value of the final purchase orders is based on the aircraft price list (excluding discounts and contractual credits granted by the manufacturers) and including estimated incremental costs. As of December 31, 2015, commitments acquired with manufacturers for the purchase of aircraft and advance payments are summarized below. Advance payments are subsequently applied to aircraft acquisition commitments.

	<u>Year one</u>	<u>Year two</u>	<u>Year three</u>	<u>Year four</u>	<u>Thereafter</u>	<u>Total</u>
Advance payments	\$131,944	\$ 221,275	\$ 201,150	\$ 196,346	\$ 663,347	\$ 1,414,062
Aircraft acquisition commitments	\$944,654	\$1,431,245	\$1,726,876	\$2,239,846	\$9,551,035	\$15,893,656

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### AVIANCA HOLDINGS S.A. AND SUBSIDIARIES

(Republic of Panama)

#### Notes to Consolidated Financial Statements

(In USD thousands)

In line with Avianca Holdings S.A.'s initiatives directed towards enhancing profitability, achieving a leaner capital structure as well as reducing the current levels of debt; in April 2016, the Company negotiated a significant reduction of its scheduled aircraft deliveries in 2016, 2017, 2018 and in 2019 and changed some aircraft type, both upgrades and downgrades, with Airbus SAS without altering the total deliveries scheduled between 2016 and 2025, which modifies the advanced payments and aircraft acquisition commitments as follows:

	<u>Year one</u>	<u>Year two</u>	<u>Year three</u>	<u>Year four</u>	<u>Thereafter</u>	<u>Total</u>
Advance payments	\$ 43,328	\$ 97,974	\$133,823	\$ 210,693	\$ 1,007,394	\$ 1,493,212
Aircraft acquisition commitments	\$942,295	\$620,547	\$490,256	\$1,320,912	\$13,407,233	\$16,781,243

#### (35) Accounts classification

Starting July 1, 2014, the Company implemented the first phase of its new ERP System (Enterprise Resource Planning System). This change harmonized and improved the chart of accounts across the organization, which allows the Company to better monitor and allocate its operational costs. The new chart of accounts resulted in

the reclassification of certain line items within operating expenses and was applied retrospectively from January 1, 2014. The necessary information to reclassify 2013 operating expenses under the new chart of accounts was not available.

These reclassifications had no material impact on the key line items in the Company's income statements such as operating revenue, operating profit, profit before tax or net profit.

**(36) Subsequent events**

In April 2016, the Company signed a delivery rescheduling document with Airbus for the A320 family aircraft. (See Note 34)

\*\*\*\*

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[\*\*\*] AMENDMENT

AMONG

AVIANCA HOLDINGS S.A.

AEROVIAS DEL CONTINENTE AMERICANO S.A., AVIANCA

GRUPO TACA HOLDINGS LIMITED

AVIANCA LEASING L.L.C.

AND

AIRBUS S.A.S

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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This [\*\*\*] Amendment (the “**Amendment**”), is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2015,

among

AVIANCA HOLDINGS S.A., legal successor of AVIANCATACA HOLDING S.A., a company created and existing under the laws of Panama and having its principal office at Calle Aquilino de la Guardia No.8, Ciudad de Panama, Republica de Panama (“**Avianca Holdings**”);

AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA, a company created and existing under the laws of Colombia having its registered office at Avenida Calle 26 No. 59-15 Bogota, Colombia (“**Avianca**”);

GRUPO TACA HOLDINGS LIMITED, created and existing under the laws of the Commonwealth of The Bahamas and having its principal office at Winterbotham Place, Marlborough and Queen Streets. P.O. Box N-3026 Nassau, the Bahamas (“**GTH**”);

AVIANCA LEASING L.L.C., a company created and existing under the laws of Delaware, having its registered office at National Registered Agents Inc., 160 Greentree Drive, Suite 101, City of Dover, County of Kent, DE 19904, U.S.A. (“**Avianca Leasing**”);

(Avianca, and GTH being jointly and severally referred to as the “**Buyer**”),

and

AIRBUS S.A.S., a *société par actions simplifiée*, created and existing under French law and 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 (hereinafter referred to as the “**Seller**”)

## WHEREAS

- (A) Avianca Holdings, Avianca, GTH and Avianca Leasing and the Seller have entered into, respectively, the 2011 Agreement, Avianca Agreement, GTH Agreement and Avianca Leasing Agreement (the “**Agreements**”), to cover, inter alia, the sale and purchase of [\*\*\*] Aircraft comprised of [\*\*\*]Ceo Aircraft and [\*\*\*]Neo Aircraft, as described and defined in Schedule 1 hereto;
- (B) Under the terms and conditions set forth herein and subject to, *inter alia*, signature of the 2015 Agreement (as defined below), Avianca, GTH and the Seller wish to:
- (1) [\*\*\*]
  - (2) [\*\*\*];
- (C) Concurrently with and as a condition precedent to the signature of this Amendment, the Buyer and the Seller, wish to enter into an A320neo Aircraft Family Purchase Agreement, to cover, *inter alia*, the

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purchase by the Buyer and the sale by the Seller of [\*\*\*] A320neo family aircraft which includes [\*\*\*] Neo Aircraft (as this term is defined in Schedule 1 hereto (the “**2015 Agreement**”));

## NOW THEREFORE IT IS AGREED AS FOLLOWS:

### 0 DEFINED TERMS

Capitalized terms used herein and not otherwise expressly defined in this Amendment shall have the meanings assigned thereto in the 2011 Agreement, the Avianca Agreement or the GTH Agreement, as relevant.

### 1 [\*\*\*] NEO AIRCRAFT

#### 1.1 [\*\*\*] Neo Aircraft

Subject to the conditions precedent set forth in Clause 3 hereof, the 2011 Agreement, the Avianca Agreement and the GTH Agreement are [\*\*\*]

#### 1.2 [\*\*\*] Predelivery Payments and [\*\*\*]

##### 1.2.1 [\*\*\*]

### 2 [\*\*\*] CEO AIRCRAFT

2.1 Except as provided under Clause 3 below, all the terms and conditions of the 2011 Agreement shall continue to apply so far as they relate to Ceo Aircraft.

2.2 All the terms and conditions of the Avianca Agreement, the [\*\*\*] shall continue to apply so far as they relate to Ceo Aircraft.

### 3 CUSTOMER SUPPORT SERVICES

3.1 The reference to “[\*\*\*] Aircraft” in Appendix A to Clause 16 of the 2011 Agreement is hereby replaced with a reference to “[\*\*\*]”.

3.2 [\*\*\*] [\*\*\*]:

QUOTE

5 [\*\*\*]

Subject to the Buyer and/or any of its Subsidiaries not being in material default under any of their respective agreements with the Seller and/or any of its Affiliates, the Seller shall grant to the Buyer, at Delivery of each Aircraft, [\*\*\*] 6 [\*\*\*]

Subject to the Buyer and/or any of its Subsidiaries not being in material default under any of their respective agreements with the Seller and/or any of its

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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Affiliates, the Seller shall grant to the Buyer, at Delivery of each Aircraft [\*\*\*] 7 [\*\*\*]

Subject to the Buyer and/or any of its Subsidiaries not being in material default under any of their respective agreements with the Seller and/or any of its Affiliates, [\*\*\*] [\*\*\*] UNQUOTE

### 5 BUYER REPRESENTATIONS

The Buyer and Avianca Holdings warrant and represent the following:

- (i) the Buyer and the Seller have entered into the 2015 Agreement and it remains in full force and effect;
- (ii) Neither the Buyer, Avianca Holdings nor Avianca Leasing are in breach of any of their obligations under any of the Agreements, the 2015 Agreement or other agreement(s) with the Seller and/or any of its Affiliates (each, an “**Other Agreement**”), and
- (iii) to the best of each of Avianca Holdings’ Avianca Leasing’s and the Buyer’s knowledge and belief, no termination event or event of default under any of the Agreements, the 2015 Agreement or Other Agreement has occurred and is continuing.

### 6 MISCELLANEOUS

6.1 The relevant Agreements will be deemed amended to the extent herein provided, and, except as specifically amended hereby, will continue in full force and effect in accordance with their original terms.

6.2 This Amendment will constitute an integral, nonseverable part of the Agreements and be governed by its provisions, except that if the Agreements and this Amendment have specific provisions that are inconsistent, the specific provisions contained in this Amendment will govern.

6.3 Except as otherwise provided by the terms and conditions hereof, this Amendment contains the entire



agreement of the parties with respect to the subject matter hereof and supersedes all other prior understandings, commitments, agreements, representations and negotiations whatsoever, oral and written, and may not be varied except by an instrument in writing of even date herewith or subsequent hereto executed by the duly authorized representatives of both parties.

- 6.4 This Amendment (and its existence) shall be treated by each party as confidential and shall not be released or revealed in whole or in part to any third party without the prior written consent of the other party. In particular, each party agrees not to make any press release or public filing concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior written consent of the other party

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- 6.5 Notwithstanding any other provision of this Amendment or of the Agreements, this Amendment will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of this provisions will be void and of no force or effect.
- 6.6 This Amendment may be executed by the parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 6.7 THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

IT IS AGREED THAT THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS WILL NOT APPLY TO THIS AMENDMENT

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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IN WITNESS WHEREOF this Amendment was entered into the day and year above written.

**AVIANCA HOLDINGS S.A.**

Name:

Title:

Signature:

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA**

Name:

Title:

Signature:

**GRUPO TACA HOLDINGS LIMITED**

Name:

Title:

Signature:

**AVIANCA LEASING L.L.C.**

Name:

Title:

Signature:

**AIRBUS S.A.S.**

Name:

Title:

Signature:

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Schedule 1

- (A) On December 27th, 2011, Avianca Holdings and the Seller entered into an A320ceo Family and A320neo Family Purchase Agreement (the “**2011 Agreement**”), as amended and supplemented from time to time, to cover, *inter alia*, the purchase by Avianca Holdings and the sale by the Seller of [\*\*\*]
- (B) On February 28th, 2013, Avianca Holdings and the Seller entered into an Amendment N°1 to the

2011 Agreement to amend certain provisions (the “**Amendment N°1 to the 2011 Agreement**”).

- (C) On February 28th, 2013, concurrently with the execution of the Amendment No1 to the 2011 Agreement, pursuant to the terms of [\*\*\*] of the 2011 Agreement, Avianca Holdings, Avianca and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**First Avianca Assignment**”), whereby Avianca Holdings partially transferred and assigned to Avianca its rights, title, benefits and interests and its obligations and liabilities under the 2011 Agreement so far as they relate to [\*\*\*] Aircraft and [\*\*\*] Aircraft.

The 2011 Agreement as partially transferred and assigned by Avianca Holdings to Avianca pursuant to the First Avianca Assignment, and as amended and supplemented from time to time, is hereinafter referred to as the “**Avianca Agreement**”.

- (D) On February 28th, 2013, concurrently with the execution of the Amendment No1 to the 2011 Agreement, pursuant to the terms of the [\*\*\*] of the 2011 Agreement, Avianca Holdings, GTH and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**First GTH Assignment**”), whereby Avianca Holdings partially transferred and assigned to GTH its rights, title, benefits and interests and its obligations and liabilities under the 2011 Agreement so far as they relate to [\*\*\*] Aircraft and [\*\*\*] Aircraft.

The 2011 Agreement as partially transferred and assigned by Avianca Holdings to GTH pursuant to the First GTH Assignment, and as amended and supplemented from time to time, is hereinafter referred to as the “**GTH Agreement**”.

- (E) On February 28th, 2014, Avianca and the Seller, with the consent of Avianca Holdings, have entered into an Amendment N°1 to the Avianca Agreement (the “**Amendment N°1 to the Avianca Agreement**”) to [\*\*\*] Aircraft bearing rank [\*\*\*] into [\*\*\*] Aircraft.
- (F) On March 31st, 2014, GTH and the Seller, with the consent of Avianca Holdings, have entered into an Amendment N°1 to the GTH Agreement (the “**Amendment N°1 to the GTH Agreement**”) to [\*\*\*] Aircraft bearing rank [\*\*\*] into [\*\*\*] Aircraft and [\*\*\*] Aircraft bearing rank [\*\*\*] into [\*\*\*] Aircraft.
- (G) On December 31st, 2014, Avianca Holdings, Avianca and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**Second Avianca Assignment**”), whereby Avianca partially transferred and assigned back to Avianca Holdings its rights, title, benefits and interests and

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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its obligations and liabilities under the Avianca Agreement so far as they relate to [\*\*\*] Aircraft bearing rank [\*\*\*];

- (H) On December 31st, 2014, Avianca Holdings, GTH and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**Second GTH Assignment**”), whereby GTH partially transferred and assigned back to Avianca Holdings its rights, title, benefits and interests and its obligations and liabilities under the GTH Agreement so far as they relate to [\*\*\*] Aircraft bearing rank [\*\*\*];
- (I) On December 31st, 2014, concurrently with the execution of the Second Avianca Assignment and the Second GTH Assignment, Avianca Holdings, Avianca Leasing and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**First Avianca Leasing Assignment**”), whereby Avianca Holdings partially transferred and assigned to Avianca Leasing its rights, title,

benefits and interests and its obligations and liabilities under the 2011 Agreement so far as they relate to [\*\*\*] Aircraft bearing rank [\*\*\*];

The 2011 Agreement as partially transferred and assigned by Avianca Holdings to Avianca Leasing pursuant to the First Avianca Leasing Assignment, and as may be amended and supplemented from time to time, is hereinafter referred to as the “**Avianca Leasing Agreement**”.

- (J) On December 31st, 2014, the Buyer, Avianca Leasing and the Seller entered into a Memorandum of Understanding (the “**MOU**”), to cover, *inter alia*, the purchase by the Buyer and the sale by the Seller of [\*\*\*]
- (K) On March 27th, 2015, Avianca and the Seller, with the consent of Avianca Holdings, have entered into an amendment N°2 to the Avianca Agreement (the “**Amendment N°2 to the Avianca Agreement**”) to [\*\*\*] Aircraft bearing rank [\*\*\*] into [\*\*\*] Aircraft.
- (L) On March 27th, 2015, GTH and the Seller, with the consent of Avianca Holdings, have entered into an amendment N°2 to the GTH Agreement (the “**Amendment N°2 to the GTH Agreement**”) to [\*\*\*] Aircraft bearing rank [\*\*\*] into [\*\*\*] Aircraft, and [\*\*\*] Aircraft bearing rank [\*\*\*] into [\*\*\*] Aircraft.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Cancellation Amendment

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**AMENDMENT N° 3**  
**TO THE PURCHASE AGREEMENT**  
**BETWEEN**  
**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**  
**AND**  
**AIRBUS S.A.S.**

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment No 3 to the Avianca Agreement

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This Amendment N°3 to the Avianca Agreement (as defined below) (hereinafter referred to as the “**Amendment N°3**”) is made as of the 21st day of September, 2015, between

**AIRBUS S.A.S.**, a *société par actions simplifiée*, created and existing under French law and 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 (hereinafter referred to as the “**Seller**”); and

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA**, created and existing under the laws of the Colombia and having its principal office at Avenida Calle 26 No. 59-15 Bogota, Colombia (hereinafter referred to as the “**Buyer**”).

The Buyer and the Seller being together referred to as the “**Parties**” and each a “**Party**”.

**WHEREAS**

- (A) On December 27th, 2011, Avianca Holdings S.A., legal successor of AviancaTaca Holdings S.A (“**Avianca Holdings**”) and the Seller entered into an A320ceo Family and A320neo Family Purchase Agreement (the “**2011 Agreement**”), as amended and supplemented from time to time, to cover, *inter alia*, the purchase by Avianca Holdings and the sale by the Seller of eighteen (18) A320ceo family aircraft (individually or collectively the “**Ceo Aircraft**”) and thirty-three (33) A320neo family aircraft (individually or collectively the “**Neo Aircraft**”); Ceo Aircraft and Neo Aircraft being individually or collectively “**Aircraft**”)
- (B) On February 28th, 2013, Avianca Holdings and the Seller entered into an Amendment N°1 to the 2011 Agreement to amend certain provisions (the “**Amendment N°1 to the 2011 Agreement**”).
- (C) On February 28th, 2013, concurrently with the execution of the Amendment No1 to the 2011 Agreement, pursuant to the terms of the Letter Agreement N°9 of the 2011 Agreement, Avianca Holdings, Avianca and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**First Avianca Assignment**”), whereby Avianca Holdings partially transferred and assigned to Avianca its rights, title, benefits and interests and its obligations and liabilities under the

2011 Agreement so far as they relate to \*\*\*.

The 2011 Agreement as partially transferred and assigned by Avianca Holdings to Avianca pursuant to the First Avianca Assignment, and as amended and supplemented from time to time, is hereinafter referred to as the “**Avianca Agreement**”.

- (D) On February 28th, 2014, Avianca and the Seller, with the consent of Avianca Holdings, entered into an Amendment N°1 to the Avianca Agreement (the “**Amendment N°1 to the Avianca Agreement**”) to convert \*\*\*.
- (E) On December 31st, 2014, Avianca Holdings, Avianca and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**Second Avianca Assignment**”), whereby Avianca partially transferred and assigned back to Avianca Holdings its rights, title, benefits and interests and its obligations and liabilities under the Avianca Agreement so far as they relate to \*\*\*;

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment No 3 to the Avianca Agreement

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- (F) On March 27th, 2015, Avianca and the Seller, with the consent of Avianca Holdings, entered into an Amendment N°2 to the Avianca Agreement to convert \*\*\*.
  - (G) On April 30th, 2015, Avianca, Avianca Holdings and the Seller entered into a \*\*\* Amendment, for, inter alia, the \*\*\* under the Avianca Agreement.
  - (H) Avianca and the Seller, with the consent of Avianca Holdings, wish to enter into this Amendment N°3 to the Avianca Agreement to \*\*\*.

#### **NOW THEREFORE IT IS AGREED AS FOLLOWS:**

Capitalized terms used herein and not otherwise expressly defined in this Amendment N°2 shall have the meanings assigned thereto in the Avianca Agreement.

#### **1 DELIVERY SCHEDULE**

The delivery schedule set out in Clauses 9.1.1.1 of the Avianca Agreement is hereby replaced with the delivery schedule set out below: \*\*\*

#### **2 PREDELIVERY PAYMENTS**

As a result of \*\*\* and in accordance with \*\*\* the Seller \*\*\*

#### **3 CUSTOMISATION OF THE \*\*\* AIRCRAFT**

3.1 It shall be the Buyer’s sole responsibility to ensure, without any intervention necessary from the Seller, that all of its BFE suppliers are aware of and accept the \*\*\* without such change affecting the Seller in any way, including but not limited to, the Seller incurring any delays, costs, losses, expenses, obligations, penalties, damages or liabilities of any kind by reason of the \*\*\* and the Buyer shall indemnify and hold the Seller harmless against any and all such delays, costs, losses, expenses, obligations, penalties, damages or liabilities so incurred by the Seller.

3.2 The Buyer shall enter into discussions directly with the Propulsion Systems Manufacturer to amend

the relevant propulsion systems agreement(s), if necessary, in order to reflect the \*\*\* and shall indemnify and hold the Seller harmless against any delays, costs, losses, expenses, obligations, penalties, damages or liabilities suffered or otherwise incurred by the Seller in the event the Buyer fails to perform its obligations as set out under this Clause 3.2.

#### **4 MISCELLANEOUS**

4.1 The Avianca Agreement will be deemed amended to the extent herein provided, and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment No 3 to the Avianca Agreement

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4.2 This Amendment N°3 will constitute an integral, nonseverable part of the Avianca Agreement and be governed by its provisions, except that if the Avianca Agreement and this Amendment N°3 have specific provisions that are inconsistent, the specific provisions contained in this Amendment N°3 will govern.

4.3 Except as otherwise provided by the terms and conditions hereof, this Amendment N°3 contains the entire agreement of the Parties with respect to the subject matter hereof and supersedes all other prior understandings, commitments, agreements, representations and negotiations whatsoever, oral and written, and may not be varied except by an instrument in writing of even date herewith or subsequent hereto executed by the duly authorized representatives of both Parties.

4.4 This Amendment N°3 (and its existence) shall be treated by each Party as confidential and shall not be released or revealed in whole or in part to any third party without the prior written consent of the other Party. In particular, each Party agrees not to make any press release or public filing concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior written consent of the other Party

4.5 Notwithstanding any other provision of this Amendment N°3 or of the Avianca Agreement, this Amendment N°3 will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of this provisions will be void and of no force or effect.

4.6 This Amendment N°3 may be executed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.

4.7 THIS AMENDMENT N°3 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

4.8 IT IS AGREED THAT THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS WILL NOT APPLY TO THIS AMENDMENT N°3.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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IN WITNESS WHEREOF this Amendment N°3 was entered into the day and year above written.

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA    AIRBUS S.A.S.**

Name:

Name:

Title:

Title:

Signature:

Signature:

Witnessed and acknowledged by

**AVIANCA HOLDINGS S.A.**

Name:

Title:

Signature:

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment No 3 to the Avianca Agreement



**AMENDMENT N° 4**  
**TO THE PURCHASE AGREEMENT**  
**BETWEEN**  
**GRUPO TACA HOLDINGS LIMITED,**  
**AND**  
**AIRBUS S.A.S.**

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Amendment N° 4 to the GTH Agreement

CT1004409

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This Amendment N°4 to the GTH Agreement (as defined below) (hereinafter referred to as the “**Amendment N°4**”) is made as of the 21st day of September, 2015, between

**AIRBUS S.A.S.**, a *société par actions simplifiée*, created and existing under French law and 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 (hereinafter referred to as the “**Seller**”); and

**GRUPO TACA HOLDINGS LIMITED**, created and existing under the laws of the Commonwealth of the Bahamas and having its principal office at Winterbotham Place, Marlborough and Queen Streets. P.O. Box N-3026 Nassau, Bahamas (hereinafter referred to as the “**Buyer**”).

The Buyer and the Seller being together referred to as the “**Parties**” and each a “**Party**”.

**WHEREAS**

- (A) On December 27th, 2011, Avianca Holdings S.A., legal successor of AviancaTaca Holdings S.A (“**Avianca Holdings**”) and the Seller entered into an A320ceo Family and A320neo Family Purchase Agreement (as amended and supplemented from time to time, the “**2011 Agreement**”), to cover, *inter alia*, the purchase by Avianca Holdings and the sale by the Seller of eighteen (18) A320ceo family aircraft (individually or collectively the “**Ceo Aircraft**”) and thirty-three (33) A320neo family aircraft (individually or collectively the “**Neo Aircraft**”); Ceo Aircraft and Neo Aircraft being individually or collectively “**Aircraft**”)
- (B) On February 28th, 2013, Avianca Holdings and the Seller entered into an Amendment N°1 to the 2011 Agreement to amend certain provisions (the “**Amendment N°1 to the 2011 Agreement**”).
- (C) On February 28th, 2013, concurrently with the execution of the Amendment N°1 to the 2011 Agreement, pursuant to the terms of the Letter Agreement N°9 of the 2011 Agreement, Avianca Holdings, GTH and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**First GTH Assignment**”), whereby Avianca Holdings partially transferred and assigned to GTH its rights, title, benefits and interests and its obligations and liabilities under the 2011 Agreement so far as they relate to \*\*\*.

The 2011 Agreement as partially transferred and assigned by Avianca Holdings to GTH pursuant to the First GTH Assignment, and as amended and supplemented from time to time, is hereinafter referred to as the “**GTH Agreement**”.

- (D) On March 31st, 2014, GTH and the Seller, with the consent of Avianca Holdings, entered into an Amendment N°1 to the GTH Agreement to convert \*\*\*.
- (E) On July 31st, 2014, GTH and the Seller entered into an Amendment N°2 to the GTH Agreement in relation to flight test to be carried out by the Seller on one A321 Ceo Aircraft prior to Delivery.
- (F) On December 31st, 2014, Avianca Holdings, GTH and the Seller entered into an Assignment, Assumption and Amendment Agreement (the “**Second GTH Assignment**”), whereby GTH partially

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment N° 4 to the GTH Agreement

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transferred and assigned back to Avianca Holdings its rights, title, benefits and interests and its obligations and liabilities under the GTH Agreement so far as they relate to \*\*\*

- (G) On March 27th, 2015, GTH and the Seller, with the consent of Avianca Holdings, entered into an Amendment N°3 to the GTH Agreement to convert \*\*\*.
- (H) On April 30th, 2015, GTH, Avianca Holdings and the Seller entered into a \*\*\* Amendment, for, inter alia, \*\*\*.
- (I) GTH and the Seller, with the consent of Avianca Holdings, wish to enter into this Amendment N°4 to the GTH Agreement to \*\*\*.

**NOW THEREFORE IT IS AGREED AS FOLLOWS:**

Capitalized terms used herein and not otherwise expressly defined in this Amendment N°4 shall have the meanings assigned thereto in the GTH Agreement.

**1 DELIVERY SCHEDULE**

The delivery schedule set out in Clauses 9.1.1.1 of the GTH Agreement is hereby replaced with the delivery schedule set out below: \*\*\*

**2 PREDELIVERY PAYMENTS**

As a result of \*\*\* and in accordance with \*\*\*, the Seller

**3 CUSTOMISATION OF \*\*\* AIRCRAFT**

- 3.1 It shall be the Buyer’s sole responsibility to ensure, without any intervention necessary from the Seller, that all of its BFE suppliers are aware of and accept the \*\*\* without such change affecting the Seller in any way, including but not limited to, the Seller incurring any delays, costs, losses, expenses, obligations, penalties, damages or liabilities of any kind by reason of the \*\*\* and the Buyer shall indemnify and hold the Seller harmless against any and all such delays, costs, losses, expenses, obligations, penalties, damages or liabilities so incurred by the Seller.

- 3.2 The Buyer shall enter into discussions directly with the Propulsion Systems Manufacturer to amend the relevant propulsion systems agreement(s), if necessary, in order to reflect the \*\*\* and shall indemnify and hold the Seller harmless against any delays, costs, losses, expenses, obligations, penalties, damages or liabilities suffered or otherwise incurred by the Seller in the event the Buyer fails to perform its obligations as set out under this Clause 3.2.

#### **4 MISCELLANEOUS**

- 4.1 The GTH Agreement will be deemed amended to the extent herein provided, and, except as specifically amended hereby, will continue in full force and effect in accordance with its original terms.
- 4.2 This Amendment N°4 will constitute an integral, nonseverable part of the GTH Agreement and be governed by its provisions, except that if the GTH Agreement and this Amendment N°4 have

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Amendment N° 4 to the GTH Agreement

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specific provisions that are inconsistent, the specific provisions contained in this Amendment N°4 will govern.

- 4.3 Except as otherwise provided by the terms and conditions hereof, this Amendment N°4 contains the entire agreement of the Parties with respect to the subject matter hereof and supersedes all other prior understandings, commitments, agreements, representations and negotiations whatsoever, oral and written, and may not be varied except by an instrument in writing of even date herewith or subsequent hereto executed by the duly authorized representatives of both Parties.
- 4.4 This Amendment N°4 (and its existence) shall be treated by each Party as confidential and shall not be released or revealed in whole or in part to any third party without the prior written consent of the other Party. In particular, each Party agrees not to make any press release or public filing concerning the whole or any part of the contents and/or subject matter hereof or of any future addendum hereto without the prior written consent of the other Party
- 4.5 Notwithstanding any other provision of this Amendment N°4 or of the GTH Agreement, this Amendment N°4 will not be assigned or transferred in any manner without the prior written consent of the Seller, and any attempted assignment or transfer in contravention of this provisions will be void and of no force or effect.
- 4.6 This Amendment N°4 may be executed by the Parties hereto in separate counterparts, each of which when so signed and delivered will be an original, but all such counterparts will together constitute but one and the same instrument.
- 4.7 THIS AMENDMENT N°4 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.
- 4.8 IT IS AGREED THAT THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS WILL NOT APPLY TO THIS AMENDMENT N°4.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment N° 4 to the GTH Agreement

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IN WITNESS WHEREOF this Amendment N°4 was entered into the day and year above written.

**GRUPO TACA HOLDINGS LIMITED**

**AIRBUS S.A.S.**

Name:

Name:

Title:

Title:

Signature:

Signature:

Witnessed and acknowledged by

**AVIANCA HOLDINGS S.A.**

Name:

Title:

Signature:

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

Amendment N° 4 to the GTH Agreement

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**A320neo FAMILY**  
**PURCHASE AGREEMENT**  
**AMONG**  
**AIRBUS S.A.S.**  
**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**  
**and**  
**GRUPO TACA HOLDINGS S.A.**

**Execution Version**

**Reference :** CT1307579

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[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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A320neo Family PA – March 2015

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This A320neo Family Purchase Agreement (the “**Agreement**”) is made on April 30th, 2015,

among

**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

- (i) **AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA**, a company created and existing under the laws of Colombia having its registered office at Avenida Calle 26 No. 59-15 Bogota, Colombia (“**Avianca**”);
- (ii) **GRUPO TACA HOLDINGS LIMITED**, a company created and existing under the laws of the Commonwealth of the Bahamas and having its principal office at Winterbotham Place, Marlborough and Queen Streets. P.O. Box N-3026 Nassau, the Bahamas (“**GTH**”); and

Avianca and GTH being hereinafter together jointly and severally referred to as the “**Buyer**”.

**WHEREAS** subject to the terms and conditions of this Agreement, the Seller desires to sell the Aircraft to the Buyer and the Buyer desires to purchase the Aircraft from the Seller.

**NOW THEREFORE IT IS AGREED AS FOLLOWS:**

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## 0 DEFINITIONS

For all purposes of this Agreement, except as otherwise expressly provided, the following terms will have the following meanings:

<u>2011 Agreement</u>	The purchase agreement between Avianca Holdings and the Seller, dated December 27, 2011, as subsequently amended assumed and partially assigned to the Buyer
<u>A319 Aircraft</u>	An Airbus A319neo aircraft delivered or to be delivered under this Agreement, including the Airframe, the Propulsion Systems, and any part, component, furnishing or equipment installed in or on the Aircraft on Delivery
<u>A319 Standard Specification</u>	The A319-100N standard specification document [***], published by the Seller, a copy of which is annexed to Exhibit A
<u>A319 Specification</u>	The A319 Standard Specification as amended by the Specification Change Notices (“SCN”) listed in Part 1 of Appendix 3; and as may be further amended pursuant to Clause 2.2
<u>A320 Aircraft</u>	An Airbus A320neo aircraft delivered or to be delivered under this Agreement, including the Airframe, the Propulsion Systems, and any part, component, furnishing or equipment installed in or on the Aircraft on Delivery
<u>A320 Standard Specification</u>	The A320-200N standard specification document [***], published by the Seller, a copy of which is annexed to Exhibit A;
<u>A320 Specification</u>	The A320 Standard Specification as amended by the Specification Change Notices (“SCN”) listed in Part 2 of Appendix 3; and as may be further amended pursuant to Clause 2.2
<u>A321 Aircraft</u>	An Airbus A321neo aircraft delivered or to be delivered under this Agreement, including the Airframe, the Propulsion Systems, and any part, component, furnishing or equipment installed in or on the Aircraft on Delivery
<u>A321 Standard Specification</u>	the A321-200N standard specification document [***], published by the Seller, a copy of which is annexed to Exhibit A
<u>A321 Specification</u>	The A321 Standard Specification as amended by the Specification Change Notices (“SCN”) listed in Part 3 of

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended



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	Appendix 3; and as may be further amended pursuant to Clause 2.2
<u>Affiliate</u>	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
<u>AirbusWorld</u>	As defined in in Clause 14.10.1
<u>Aircraft</u>	Individually or collectively the A319 Aircraft, the A320 Aircraft and/or the A321 Aircraft purchased or to be purchased under this Agreement
<u>Aircraft Training Services</u>	means all training courses, flight training, line training, flight assistance, line assistance, maintenance support, maintenance training (including Practical Training) or training support performed on Aircraft and provided to the Buyer pursuant to this Agreement
<u>Aircraft Type</u>	With respect to any one Aircraft, its type: either A319, A320 or A321, as set forth in Clause 9.1.1
<u>Airframe</u>	Any Aircraft, excluding the Propulsion Systems therefor
<u>Airframe Price Revision Formula</u>	As set forth in Part 1 of Exhibit C
<u>Air N@v Family</u>	As set forth in Clause 14.9.1
<u>AOG</u>	As set forth in Clause 15.1.4
<u>Authorized Officer</u>	As set forth in Clause 20.6
<u>Avianca Holdings</u>	The Buyer's Affiliate AVIANCA HOLDINGS S.A., legal successor of AviancaTaca Holding S.A., a company created and existing under the laws of Panama having its registered office at Aquilino de la Guardia Calle No. 8, Ciudad de Panamá, República de Panamá.
<u>Aviation Authority</u>	When used with respect to any jurisdiction, the government entity that, under the laws of such jurisdiction, has control over civil aviation or the registration, airworthiness or operation of civil aircraft in such jurisdiction
<u>Balance of the Final Price</u>	As set forth in Clause 5.4

<u>[***] Base Price</u>	As set forth in Clause 3.1 with respect to any Aircraft, Airframe, SCNs or Propulsion Systems
<u>Bill of Sale</u>	As set forth in Clause 9.2.2
<u>Business Day</u>	With respect to any action to be taken hereunder, a day other than a Saturday, Sunday or other day designated as a holiday in the [***] <u>Buyer Furnished Equipment</u> or <u>BFE</u> as set forth in Clause 18.1.1

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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A320neo Family PA – March 2015

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<u>BFE Data</u>	As set forth in Clause 14.3.2.1
<u>Buyer's Inspectors</u>	As set forth in Clause 6.2.1
<u>Certificate</u>	As set forth in Clause 16.4.4
<u>Certificate of Acceptance</u>	As set forth in Clause 8.3
<u>CFM</u>	The Propulsion Systems Manufacturer CFM INTERNATIONAL
<u>CFM Price Revision Formula</u>	Price revision formula applicable to the Reference Price of CFM Propulsion Systems, as set forth in Part 2 of Exhibit C
<u>Change in Law</u>	As set forth in Clause 7.3.1
<u>Clause 19 Indemnitee</u>	As set forth in Clause 19.3
<u>Clause 19 Indemnitor</u>	As set forth in Clause 19.3
<u>COC Data</u>	As set forth in Clause 14.8
<u>Commitment Fee</u>	As set forth in Clause 5.2
<u>Contractual Definition Freeze</u> or <u>CDF</u>	As set forth in Clause 2.4.2
<u>Customization Milestones</u> <u>Chart</u>	As set forth in 2.4.1
<u>Declaration of Design and</u>	The documentation provided by an equipment manufacturer

<u>Performance or DDP</u>	guaranteeing that the corresponding equipment meets the requirements of the Specification, the interface documentation as well as all the relevant certification requirements.
<u>Delivery</u>	As set forth in Clause 9.2.2
<u>Delivery Date</u>	The date on which Delivery occurs
<u>Delivery Location</u>	The facilities of the Seller at the location of final assembly of the Aircraft in Europe, the United States [***] <u>Delivery Period</u> As set forth in Clause 11.1
<u>Development Changes</u>	As set forth in Clause 2.2.2
<u>EASA</u>	European Aviation Safety Agency or any successor thereto
<u>Excusable Delay</u>	As set forth in Clause 10.1
<u>Export Certificate of Airworthiness</u>	An export certificate of airworthiness issued by the Aviation Authority of the Delivery Location.
<u>FAA</u>	The U.S. Federal Aviation Administration, or any successor thereto
<u>Failure</u>	As set forth in Clause 12.2.1
<u>Final Price</u>	As set forth in Clause 3.2
<u>Fleet Serial Number</u>	As set forth in Clause 14.2.1

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<u>Goods and Services</u>	Any goods and services that may be purchased by the Buyer from the Seller or its designee, excluding the Aircraft or any other aircraft
<u>Ground Training Services-</u>	All training courses performed in classrooms (classical or Airbus CBT courses), full flight simulator sessions, fixed base simulator sessions and any other services provided to the Buyer on the ground pursuant to this Agreement and which are not Aircraft Training Services
<u>In-house Warranty</u>	As set forth in Clause 12.1.7.1

<u>In-house Warranty Labor Rate</u>	As set forth in Clause 12.1.7.5
<u>Interface Problem</u>	As set forth in Clause 12.4.1 of this Agreement
<u>Item</u>	As set forth in Clause 12.2.1
<u>Losses</u>	As set forth in Clause 19.1
<u>Manufacture Facilities</u>	The various manufacture facilities of the Seller, its Affiliates or any subcontractor, where the Airframe or its parts are manufactured or assembled
<u>Manufacturer Specification Change Notice (MSCN)</u>	As set forth in Clause 2.2.2.1
<u>Material</u>	As set forth in Clause 1.2 of Exhibit H
<u>NFF</u>	As set forth in Clause 12.1.6.7
<u>Non-Excusable Delay</u>	As set forth in Clause 11.1
<u>Other Items</u>	As set forth in Clause 13.1.3
<u>Paris Convention</u>	As set forth in Clause 13.1.1.(ii).(2)
<u>PEP</u>	As set forth in Clause 14.13.1
<u>Practical Training</u>	As set forth in Clause 16.8.2
<u>Predelivery Payment or PDP</u>	Any of the payments determined in accordance with Clause 5.3
<u>Predelivery Payment Reference Price or PDPRP</u>	As set forth in Clause 5.3.1
<u>Propulsion Systems</u>	As set forth in Clause 2.3
<u>Propulsion Systems Base Price</u>	As defined in Clause 3.1.2
<u>Propulsion Systems Manufacturer</u>	The manufacturer of the Propulsion Systems as set forth in Clause 2.3
<u>Propulsion Systems Price Revision Formula</u>	The PW Price Revision Formula or the CFM Price Revision Formula, as applicable
<u>PW</u>	The Propulsion Systems Manufacturer PRATT & WITHNEY

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<u>PW Price Revision Formula</u>	Price revision formula applicable to the Reference Price of PW Propulsion Systems, as set forth in Part 3 of Exhibit C
<u>Ready for Delivery</u>	With respect to any Aircraft, the time when (i) the Technical Acceptance Process has been completed in accordance with Clause 8 and (ii) all technical conditions required for the issuance of the Export Certificate of Airworthiness have been satisfied
<u>Reference Price</u>	The Reference Price of a set of Propulsion Systems as set out in Part 2 or Part 3 of Exhibit C, as applicable
<u>Revision Service Period</u>	As set forth in Clause 14.5
<u>Scheduled Delivery Month</u>	As set forth in Clause 9.1.2
<u>Scheduled Delivery Period</u>	as defined in Clause 9.1.1
<u>Scheduled Delivery Quarter</u>	As set forth in Clause 9.1.2
<u>Seller's Representatives</u>	The representatives of the Seller referred to in Clause 15
<u>Seller's Representatives Services</u>	The service provided by the Seller to the Buyer and from the Buyer to the Seller pursuant to Clause 15.4
<u>Seller Service Life Policy</u>	As set forth in Clause 12.2
<u>Seller's Training Center</u>	As set forth in Clause 16.3.1
<u>Spare Parts</u>	The items of equipment and material that may be provided pursuant to Exhibit H
<u>Specification</u>	With respect to A319 Aircraft, A320 Aircraft and A321 Aircraft, respectively the A319 Specification, the A320 Specification and the A321 Specification
<u>Specification Change Notice</u> or <u>SCN</u>	As set forth in Clause 2.2.1
<u>Standard Specification</u>	With respect to A319 Aircraft, A320 Aircraft and A321 Aircraft, respectively the A319 Standard Specification, the A320 Standard Specification and the A321 Standard Specification

<u>Subsidiary</u>	When in relation to the Buyer, any corporation or company that is partially or wholly owned or controlled by Avianca Holdings; when in relation to the Seller, any corporation or company that is partially or wholly owned or controlled by the Seller
<u>Supplier</u>	Any supplier of Supplier Parts
<u>Supplier Part</u>	As set forth in Clause 12.3.1.2
<u>Supplier Product Support Agreement</u>	As set forth in Clause 12.3.1.3.
<u>Technical Acceptance Process</u>	As set forth in Clause 8.1.1

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<u>Technical Acceptance Flight</u>	As set forth in Clause 8.1.2
<u>Technical Data</u>	As set forth in Clause 14.1
<u>Termination</u>	As set forth in Clause 20.2
<u>Termination Event</u>	As set forth in Clause 20.1
<u>Third Party Entity</u>	As set forth in Clause 12.8
<u>Total Loss</u>	As set forth in Clause 10.4
<u>Training Conference</u>	As set forth in Clause 16.1.3
<u>Training Course Catalogue</u>	As set forth in Clause 16.4.1
<u>Type Certificate</u>	As set forth in Clause 7.1
<u>USD</u>	United States Dollar
<u>Warranty Claim</u>	As set forth in Clause 12.1.5
<u>Warranted Part</u>	As set forth in Clause 12.1.1
<u>Warranty Period</u>	As set forth in Clause 12.1.3

The definition of a singular in this Clause 0 will apply to plurals of the same words and vice versa.

References in this Agreement to an exhibit, schedule, article, section, subsection or clause refer to the appropriate exhibit or schedule to, or article, section, subsection or clause in this Agreement.

Each agreement defined in this Clause 0 will include all appendixes, exhibits and schedules thereto. If the prior written consent of any person is required hereunder for an amendment, restatement, supplement or other modification to any such agreement and the consent of each such person is obtained, references in this Agreement to such agreement shall be to such agreement as so amended, restated, supplemented or modified.

References in this Agreement to any statute will be to such statute as amended or modified and in effect at the time any such reference is operative.

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.

The term “including” when used in this Agreement means “including without limitation” except when used in the computation of time periods.

The terms “herein,” “hereof” and “hereunder” and other words of similar import refer to this Agreement, and not a particular Clause thereof.

Technical and trade terms not otherwise defined herein will have the meanings assigned to them as generally accepted in the aircraft manufacturing industry.

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## **1 SALE, PURCHASE AND AGENCY**

### **1.1 SALE AND PURCHASE**

- The Seller shall sell and deliver to the Buyer, and the Buyer shall purchase and take delivery of one hundred thirty three (133) Aircraft from the Seller on the applicable Delivery Date at the Delivery Location, subject to the terms and conditions contained in this Agreement.
- [\*\*\*]

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## **2 SPECIFICATION**

### **2.1 Aircraft Specification**

2.1.1 A319 Aircraft shall be manufactured in accordance with the A319 Specification;  
A320 Aircraft shall be manufactured in accordance with the A320 Specification;  
A321 Aircraft shall be manufactured in accordance with the A321 Specification.

2.1.2 Part [\*\*\*], Part [\*\*\*] and Part [\*\*\*] of Appendix 3 shall include SCNs to increase the design weights set forth in the applicable Standard Specification to at least the design weights (Maximum Take-off Weight (“**MTOW**”) Maximum Landing Weight (“**MLW**”) and Maximum Zero Fuel Weight (“**MZFW**”)) set forth in the table below:

	<u>MTOW</u>	<u>MLW</u>	<u>MZFW</u>
<b>A319 Aircraft</b>	[***]	[***]	[***]
<b>A320 Aircraft</b>	[***]	[***]	[***]
<b>A321 Aircraft</b>	[***]	[***]	[***]

2.1.3 [\*\*\*] 2.2 Specification Amendment

The Specification may be further amended following the execution of the Agreement in accordance with the terms of this Clause 2.2

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 Part [\*\*\*] of Appendix B, 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 [\*\*\*]. An SCN may result in an adjustment of the Base Price of the Aircraft, 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 Agreement (“**Development Changes**”), as set forth in this Clause 2.2.2.

2.2.2.1 Manufacturer Specification Changes Notices

2.2.2.1.1 The Specification may be amended by the Seller through a Manufacturer Specification Change Notice (“**MSCN**”), which shall be substantially in the form set out in Exhibit B 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

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performance, weight, Base Price, Delivery Date of the Aircraft affected thereby and interchangeability or replaceability requirements under the Specification.

2.2.2.1.2 Except when the MSCN is necessitated by an Aviation Authority directive or by equipment obsolescence, in which case the MSCN shall be accomplished without requiring the Buyer’s consent, if the MSCN adversely affects the performance, weight, Base Price, Delivery Date of the Aircraft affected thereby or the interchangeability or replaceability requirements under the Specification, the Seller shall notify the Buyer of a reasonable period of time during which the Buyer must accept or reject such MSCN. If the Buyer does not notify the Seller of the rejection of the MSCN within such period, the MSCN shall be deemed accepted by the Buyer and the corresponding modification shall be accomplished.

2.2.2.2 In the event of the Seller revising the Specification to incorporate Development Changes which have



no adverse effect on any of the elements as set forth in 2.2.2.1 above, such revision shall be performed by the Seller without the Buyer’s consent. In such cases, the Buyer shall have access to the details of such changes through the relevant application in AirbusWorld.

2.2.2.3 [\*\*\*].

2.2.2.4 The Seller shall provide the Buyer with a milestone chart reflecting, in terms of minimum lead-times prior to delivery of the first Aircraft of a type, the dates when a mutual agreement shall be reached by way of execution of an SCN to integrate the Buyer specific features into the industrial process.

2.3 Propulsion Systems

2.3.1 The Airframe shall be equipped with either (i) a set of two (2) CFM INTERNATIONAL (“CFM”) LEAP Propulsion Systems or (ii) a set of two (2) PRATT & WHITNEY (“PW”) PW1100G-JM Propulsion Systems (the “**Propulsion Systems**”), as detailed below:

Aircraft	CFM	PW
A319 Aircraft	LEAP[***]	PW[***]
A320 Aircraft	LEAP[***]	PW[***]
A321 Aircraft	LEAP[***]	PW[***]

AET means Airbus Equivalent Thrust

2.3.2 Propulsions Systems shall be selected not later than [\*\*\*] prior to the [\*\*\*] of the Scheduled Delivery Period of the first Aircraft.

2.4 Milestones

2.4.1 Customization Milestones Chart

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Within a reasonable period following signature of the Agreement, the Seller shall provide the Buyer with a customization milestones chart (the “**Customization Milestone Chart**”), setting out how far in advance of the Scheduled Delivery Month of the first Aircraft of each type, SCNs must be executed in order to integrate into the Specification any items requested by the Buyer from the Seller’s catalogues of Specification change options (the “**Option Catalogues**”).

2.4.2 Contractual Definition Freeze

The Customization Milestone Chart shall in particular define the date(s) by which the contractual definition of the Aircraft must be finalized and all SCNs need to have been executed by the Buyer (the “**Contractual Definition Freeze**” or “**CDF**”) in order to enable their incorporation into the manufacturing of the Aircraft and Delivery of the Aircraft in the Scheduled Delivery Month. Each such date shall be referred to as a “**CDF Date**”.

2.5 Propulsion Systems and BFE Concessions

Concessions which may be provided by the applicable Propulsion Systems Manufacturer and BFE Suppliers shall be negotiated directly between the Buyer and such Propulsion Systems Manufacturer and BFE Suppliers.

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### 3 PRICES

#### 3.1 Base Price of the Aircraft

The Base Price of each Aircraft is the sum of:

- (i) the Base Price of the Airframe as defined in Clause 3.1.1 below, and
- (ii) the Base Price of the Propulsion Systems as defined in Clause 3.1.2 below.

##### 3.1.1 Base Price of the Airframe

The Base Price of the Airframe is the sum of the following base prices:

- (i) the base price of the Airframe as defined in the Standard Specification, excluding BFE, but including the increased design weights set forth in Clause 2.1.2, which is

USD [\*\*\*] for an A319 Aircraft  
([\*\*\*]USD);

USD [\*\*\*] for an A320 Aircraft  
([\*\*\*]);

USD [\*\*\*] for an A321 Aircraft  
([\*\*\*]USD); and

- (ii) the agreed price for the Specification Change Notices (SCNs) listed in Part [\*\*\*], Part [\*\*\*] or Part [\*\*\*] of Appendix 3, as applicable, [\*\*\*], which is respectively:

USD [\*\*\*] for an A319 Aircraft  
([\*\*\*]USD)

USD [\*\*\*] for an A320 Aircraft  
([\*\*\*]USD)

USD [\*\*\*] for an A321 Aircraft  
([\*\*\*]USD)

and

- (iii) the base price of the master charge, which is applicable if CFM LEAP Propulsion Systems are selected (the “**Master Charge**”), which is:

USD [\*\*\*] ([\*\*\*]USD)

The Base Price of the Airframe has been established in accordance with the [\*\*\*] and corresponding to a theoretical delivery [\*\*\*] (the “**Base Period**”) and is subject to adjustment in accordance with the Airframe Price Revision Formula.

##### 3.1.2 Base Price of the Propulsion Systems

3.1.2.1 The Base Prices for a set of two (2) CFM Propulsion Systems are:

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CFM LEAP- [***]	USD [***] ([***]USD)
CFM LEAP- [***]:	[***] ([***]USD)
CFM LEAP[***]:	USD [***] ([***]USD)
CFM LEAP[***]:	USD [***] ([***]USD)

These Base Prices have been established in accordance with the delivery conditions prevailing in [\*\*\*] and have been calculated from the Reference Prices of the Propulsion Systems indicated by CFM as set forth in Part [\*\*\*] of Exhibit C.

3.1.2.2 The Base Prices for a set of two (2) PW Propulsion Systems are:

PW[***]:	USD [***] ([***]USD)
PW[***]:	USD [***] ([***] USD)
PW[***]:	USD [***] ([***] USD)
PW[***]:	USD [***] ([***] USD)
PW[***]:	USD [***] ([***]USD)

These Base Prices have been established in accordance with the delivery conditions prevailing in [\*\*\*] and have been [\*\*\*] of the Propulsion Systems indicated by PW as set forth in Part 3 of Exhibit C.

3.1.2.3. It is understood that the above-mentioned Base Prices as well as the Propulsion Systems Manufacturer Price Revision Formulas are based upon information received from the respective Propulsion Systems Manufacturers and remain subject to any modification that might be imposed by the Propulsion Systems Manufacturers on the Seller and/or the Buyer.

### 3.2 Final Price

The Final Price of each Aircraft shall be the sum of:

- (i) the relevant Base Price of the Airframe as revised as of the Delivery Date in accordance with Clause 4.1; plus
- (ii) the aggregate of all increases or decreases to the Base Price of the Airframe as agreed in any Specification Change Notice or part thereof applicable to the Airframe subsequent to the date of this Agreement as adjusted to the Delivery Date in accordance with Clause 4.1; plus
- (iii) [\*\*\*]
- (iv) the applicable Propulsion Systems' Reference Price as revised as of the Delivery Date in accordance with Clause 4.2; plus

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- (v) the aggregate of all the prices of SCNs or part thereof applicable to the Propulsion Systems subsequent to the date of this Agreement as revised as of the Delivery Date in accordance with Clause 4.2; plus
  - (vi) any other amount due by the Buyer to the Seller pursuant to this Agreement and/or any other written agreement between the Buyer and the Seller relating to the Aircraft.

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#### **4 PRICE REVISION**

##### **4.1 Airframe Price Revision Formula**

The Base Price of the Airframe is subject to revision up to and including the Delivery Date in accordance with the Airframe Price Revision Formula.

##### **4.2 Propulsion Systems Price Revision**

- 4.2.1 The Propulsion Systems Reference Price is subject to revision up to and including the Delivery Date in accordance with the applicable Propulsion Systems Price Revision Formula.
- 4.2.2 The Propulsion Systems Reference Prices, the prices of any related equipment, the Propulsion Systems designation(s) and the Propulsion Systems Price Revision Formula are based on information received from the Propulsions Systems Manufacturers and are subject to amendment by the Propulsion Systems Manufacturers at any time prior to Delivery. If a Propulsion Systems Manufacturer makes any such amendment, the amendment shall be deemed to be automatically incorporated into this Agreement and the Propulsion Systems Reference Prices, the prices of the related equipment, the Propulsion Systems designation(s) and the Propulsion Systems Price Revision Formula shall be adjusted accordingly. The Seller agrees to notify the Buyer as soon as the Seller receives notice of any such amendment from a Propulsion Systems Manufacturer.

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#### **5 PAYMENT TERMS**

##### **5.1 Seller's Account**

The Buyer shall pay the Predelivery Payments (PDPs), the Balance of the Final Price and any other amount due by the Buyer to the following account of the Seller:

Beneficiary Name: AIRBUS  
Account identification: [\*\*\*]  
Bank: [\*\*\*] SWIFT: [\*\*\*]  
ABA: [\*\*\*]

or to such other account as may be designated by the Seller.

## 5.2 Commitment Fee

The Seller acknowledges that it has received from the Buyer the sum of [\*\*\*] USD (USD [\*\*\*]), which represents a non-refundable commitment fee of [\*\*\*] USD (USD [\*\*\*]) (the “**Commitment Fee**”) [\*\*\*]. The Commitment Fee shall be credited against the Predelivery Payment [\*\*\*] upon execution of this Agreement.

## 5.3 Predelivery Payments

5.3.1 The Buyer shall pay Predelivery Payments to the Seller \*\*\* of each Aircraft. \*\*\* of an Aircraft scheduled for Delivery in a year T is determined by the following formula:

[\*\*\*]

5.3.2 Such Predelivery Payments shall be made in accordance with the following schedule:

PDP number	Due date	Amount
(1)	[***]	[***]
(2)	[***]	

In the event of the above schedule resulting in any Predelivery Payment falling due prior to the date of the Agreement, such Predelivery Payments shall be made upon signature of this Agreement.

5.3.3 The Seller shall be entitled to hold and use any Predelivery Payment as absolute owner thereof, subject only to the obligation [\*\*\*] to deduct an amount equal to such Predelivery Payment from the Final Price of an Aircraft when calculating the Balance of the Final Price of such Aircraft . The Seller shall be under no obligation to segregate any Predelivery Payment, or any amount equal thereto, from the Seller’s funds generally.

5.3.4 [\*\*\*]

5.3.5 [\*\*\*]

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## 5.4 Balance of the Final Price

5.4.1 For each Aircraft, the Buyer shall pay to the Seller at the time set forth in Clause 9.2.1. an amount equal to (a) the Final Price less (b) the amount of Predelivery Payments received by the Seller for such Aircraft on or before the Delivery Date (the “**Balance of the Final Price**”).

5.4.2 The Seller’s receipt of the full amount of all PDPs and the Balance of the Final Price and any other

amounts due under the Agreement, are a condition precedent to the Seller's obligation to deliver such Aircraft.

5.5 Other Charges

Unless expressly stipulated otherwise, any other amounts due under this Agreement other than those set out in Clauses 5.2, 5.3 and 5.4 shall be paid by the Buyer at the same time as payment of the Balance of the Final Price or, if invoiced after the Delivery Date, within [\*\*\*] after the invoice date.

5.6 Method of Payment; Payment in Full

5.6.1 All payments provided for in this Agreement shall be made in United States Dollars (USD) in immediately available funds.

5.6.2 All payments due to the Seller hereunder shall be made in full, without set-off, counterclaim, deduction, recoupment or withholding of any kind. Consequently, the Buyer shall procure that the sums received by the Seller under this Agreement shall be equal to the full amounts expressed to be due to the Seller hereunder, without deduction or withholding on account of and free from any and all taxes, levies, imposts, dues or charges of whatever nature. If the Buyer is compelled by law to make any such deduction or withholding the Buyer shall pay such additional amounts as may be necessary in order that the net amount received by the Seller after such deduction or withholding shall be equal to the amounts which would have been received in the absence of such deduction or withholding and pay to the relevant taxation or other authorities within the period for payment permitted by applicable law, the full amount of the deduction or withholding.

5.7 Overdue Payments

If any payment due to the Seller under this Agreement including but not limited to any Predelivery Payment, Commitment Fee for the Aircraft as well as any payment due to the Seller for any spare parts, data, documents, training and services, is not received on the due date, without prejudice to the Seller's other rights under this Agreement and at law, [\*\*\*]

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5.8 Taxes

5.8.1 The amounts stated in this Agreement to be payable by [\*\*\*]

5.8.2 [\*\*\*] shall pay all other taxes, duties or similar charges of any nature [\*\*\*].

5.8.3 [\*\*\*] shall bear the costs of and pay any and all taxes, duties or similar charges of any nature [\*\*\*]

5.9 Proprietary Interest

The Buyer shall not, by virtue of anything contained in this Agreement (including, without limitation, any Commitment Fee or Predelivery Payments hereunder, or any designation or identification by the Seller of a particular aircraft as an Aircraft to which any of the provisions of this Agreement refers) acquire any proprietary, insurable or other interest whatsoever in any Aircraft before Delivery of and payment for such Aircraft, as provided in this Agreement.

5.10 Set-Off

The Seller may set-off any matured obligation owed by the Buyer to the Seller and/[\*\*\*]

5.11 [\*\*\*]

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## 6 MANUFACTURE PROCEDURE—INSPECTION

### 6.1 Manufacture Procedures

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 authorized 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 (each an “**Inspection**”) on the following terms and conditions;

- (i) any Inspection shall be conducted pursuant to the Seller’s system of inspection and the relevant Airbus procedures, as developed under the supervision of the relevant Aviation Authority;
- (ii) the Buyer’s Inspector(s) shall have access to such relevant technical data as is reasonably necessary for the purpose of the Inspection;
- (iii) any Inspection and any related discussions with the Seller and other relevant personnel by the Buyer’s Inspector(s) shall be at reasonable times during business hours and shall take place in the presence of the relevant inspection department personnel of the Seller, [\*\*\*];
- (iv) the Inspections shall be performed in a manner not to unduly delay or hinder the manufacture or assembly of the Aircraft or the performance of this Agreement by the Seller or any other work in progress at the Manufacture Facilities.

### 6.2.2 Location of Inspections

The Buyer’s Inspector(s) shall be entitled to conduct any such Inspection at the relevant Manufacture Facility of the Seller or the Affiliates and where possible at the Manufacture Facilities of the sub-contractors provided that if access to any part of the Manufacture Facilities where the Airframe manufacture is in progress or materials or parts are stored are restricted for security or confidentiality reasons, the Seller shall be allowed reasonable time to make the relevant items available elsewhere.

### 6.3 Seller’s Service for Buyer’s Inspector(s)

For the purpose of the Inspections, and starting from a mutually agreed date until the Delivery Date, the Seller shall [\*\*\*].

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## 7 CERTIFICATION

Except as set forth in this Clause 7, the Seller shall not be required to obtain any certificate or approval with respect to the Aircraft.

### 7.1 Type Certification

The Aircraft has been type certificated under EASA procedures for certification in the transport category. The Seller shall obtain or cause to be obtained an FAA type certificate (the “**Type Certificate**”) to allow the issuance of the Export Certificate of Airworthiness.

### 7.2 Export Certificate of Airworthiness

[\*\*\*] the Aircraft shall be delivered to the Buyer with an Export Certificate of Airworthiness and in a condition enabling the Buyer to obtain at the time of Delivery a Standard Airworthiness Certificate issued pursuant to Part 21 of the US Federal Aviation Regulations and a Certificate of Sanitary Construction issued by the U.S. Public Health Service of the Food and Drug Administration. However, the Seller shall have no obligation to make and shall not be responsible for any costs of alterations or modifications to such Aircraft to enable such Aircraft to meet FAA or U.S. Department of Transportation requirements for specific operation on the Buyer’s routes, whether before, at or after Delivery of any Aircraft.

If the FAA requires additional or modified data before the issuance of the Export Certificate of Airworthiness, the Seller shall provide such data or implement the required modification to the data, in either case, at the Buyer’s cost.

### 7.3 Specification Changes before Aircraft Ready for Delivery

7.3.1 If, any time before the date on which the Aircraft is Ready for Delivery, any law, rule or regulation is enacted, promulgated, becomes effective and/or an interpretation of any law, rule or regulation is issued by the EASA that requires any change to the Specification for the purposes of obtaining the Export Certificate of Airworthiness (a “**Change in Law**”), the Seller shall make the required modification and the parties hereto shall sign an SCN or MSCN in connection with such modification.

7.3.2 The Seller shall as far as practicable, but at its sole discretion and without prejudice to Clause 7.3.3(ii), take into account the information available to it concerning any proposed law, rule or regulation or interpretation that could become a Change in Law, in order to minimize the costs of changes to the Specification as a result of such proposed law, regulation or interpretation becoming effective before the applicable Aircraft is Ready for Delivery.

7.3.3 The cost of implementing the required modifications referred to in Clause 7.3.1 shall be:

[\*\*\*]

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## 8 TECHNICAL ACCEPTANCE

### 8.1 Technical Acceptance Process



8.1.1 Prior to Delivery, the Aircraft shall undergo a technical acceptance process developed 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 no fewer than [\*\*\*] after the date of the Seller’s notice under Clause 9.1.3
- (ii) take place at the Delivery Location,
- (iii) be carried out by the personnel of the Seller, and
- (iv) include a technical acceptance flight that [\*\*\*] (the “**Technical Acceptance Flight**”).

## 8.2 Buyer’s Attendance

8.2.1 The Buyer shall be entitled to attend the Technical Acceptance Process.

8.2.2 If the Buyer elects to attend the Technical Acceptance Process, the Buyer:

- (i) shall comply with the reasonable requirements of the Seller, with the intention of completing the Technical Acceptance Process [\*\*\*], and
- (ii) may have [\*\*\*] of its representatives (no more [\*\*\*] of whom shall have access to the cockpit at any one time) accompany the Seller’s representatives on the Technical Acceptance Flight, during which the Buyer’s representatives shall comply with the instructions of the Seller’s representatives.

8.2.3 If the Buyer does not attend or fails to cooperate 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 that the Technical Acceptance Process has been satisfactorily completed, in all respects.

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## 8.3 Certificate of Acceptance

Following 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**”).

8.4 [\*\*\*]

## 8.5 Aircraft Utilization

The Seller shall, without payment or other liability, be entitled to use the Aircraft before Delivery as may be necessary to obtain the certificates required under Clause 7. Such use shall not relieve the Buyer of or otherwise in any manner affect its obligation to accept Delivery hereunder.

[\*\*\*]

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**9 DELIVERY**

9.1 Delivery Schedule

9.1.1 Subject to Clauses 2, 7, 8, 10, 11 and 18, the Seller shall have the Aircraft Ready for Delivery at the Delivery Location within the following scheduled delivery period (the “**Scheduled Delivery Period**”):

<u>Aircraft Number</u>	<u>Aircraft Type</u>	<u>Scheduled Delivery Period</u>
1	[***]	[***]
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4		
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9.1.2 When a Scheduled Delivery Period of an Aircraft is a month, such month shall be, with respect to such Aircraft, the “**Scheduled Delivery Month**”.

[\*\*\*] For the purpose of Clause 5.3 of the Agreement, until a Scheduled Delivery Month has been notified pursuant to [\*\*\*] above, the Scheduled Delivery Month of an Aircraft shall be deemed (a) the [\*\*\*] month of its Scheduled Delivery Period when such Scheduled Delivery Period is a [\*\*\*], and (b) the [\*\*\*] month of its Scheduled Delivery Period when such Scheduled Delivery Period is a [\*\*\*].

9.1.3 [\*\*\*].

## 9.2 Delivery Process

9.2.1 The Buyer shall, within [\*\*\*] days after the date on which the Aircraft is Ready for Delivery, sign the Certificate of Acceptance, pay the Balance of the Final Price, send its representatives to the Delivery Location, take Delivery of the Aircraft and fly the Aircraft away from the Delivery Location.

9.2.2 The Seller shall deliver and transfer title to the Aircraft to the Buyer free and clear of all liens, claims, charges, security interests and all encumbrances of any kind whatsoever (except for any liens or encumbrances created by or on behalf of the Buyer) provided that (i) the Balance of the Final Price and any other amounts due under this Agreement have been paid by the Buyer to the Seller, (ii) 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

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sale in the form of Exhibit E (the “**Bill of Sale**”) and/or such other documentation confirming transfer of title and receipt of the Final Price as may reasonably be requested by the Buyer. Title to and risk of loss of or damage to the Aircraft shall pass to the Buyer at Delivery.

Delivery (“**Delivery**”) shall be deemed to have occurred when (i) and (ii) above have occurred and the Seller has provided the Buyer with the Bill of Sale.

9.2.3.1 Should the Buyer fail, within the period specified in Clause 9.2.1, to:

- (i) deliver the signed Certificate of Acceptance to the Seller ; or
- (ii) pay the Balance of the Final Price for the Aircraft to the Seller and take Delivery of the Aircraft;

then the Buyer shall be deemed to have rejected delivery of the Aircraft without warrant when duly tendered to it hereunder. Without prejudice to Clause 5.7 and the Seller’s other rights under this Agreement or at law (a) the Seller shall retain title to the Aircraft and (b) the Buyer shall bear all risk of loss of or damage to the Aircraft and shall indemnify and hold the Seller harmless against any and all costs (including but not limited to any parking, storage, and insurance costs) and consequences resulting from such failure, it being understood that the Seller shall be under no duty towards the Buyer to store, park, insure, or otherwise protect the Aircraft.

9.2.3.2 Should the Buyer fail to fly the Aircraft away as mentioned in Clause 9.2.1 above and without prejudice to the Seller’s other rights under this Agreement or at law, the provisions of Clause 9.2.3.1 (b) shall apply.

### 9.3 Fly away

9.3.1 The Buyer and the Seller shall cooperate 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.

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## 10 EXCUSABLE DELAY

10.1 The Buyer acknowledges that the Aircraft are to be manufactured by the Seller in performance of this Agreement and that the Scheduled Delivery Periods or Scheduled Delivery Months, as applicable, are based on the assumption that there shall be no delay due to causes beyond the control of the Seller. Accordingly, Seller shall not be responsible for any delay in the Delivery of the Aircraft or delay or interruption in the performance of the other obligations of the Seller hereunder due to causes beyond its control, and not occasioned by its fault or negligence including (but without limitation) acts of God or the public enemy, war, civil war, warlike operations, terrorism, insurrections or riots, fires, explosions, natural disasters, compliance with any applicable foreign or domestic governmental regulation or order, labor 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 caused directly or indirectly by the action or inaction of the Buyer and any delay in delivery or otherwise in the performance of this Agreement by the Seller due in whole or in part to any delay in or failure of the delivery of, or any other event or circumstance relating to the Propulsion Systems or

Buyer Furnished Equipment. Any delay or interruption resulting from any of the foregoing causes is referred to as an “**Excusable Delay**”.

10.2 If an Excusable Delay occurs:

- (i) the Seller shall notify the Buyer of such Excusable Delay as soon as practicable after becoming aware of the same;
- (ii) the Seller shall not be responsible for any damages arising from or in connection with such Excusable Delay suffered or incurred by the Buyer;
- (iii) the Seller shall not be deemed to be in default in the performance of its obligations hereunder as a result of such Excusable Delay; and
- (iv) the Seller shall as soon as practicable after the removal of the cause of the delay resume performance of its obligations under this Agreement and in particular shall notify to the Buyer the revised Scheduled Delivery Month.

10.3 Termination on Excusable Delay

10.3.1 If the Delivery of any Aircraft is delayed as a result of an Excusable Delay for a period of [\*\*\*] then either party may terminate this Agreement with respect to the Aircraft so affected by giving written notice to the other party within [\*\*\*] provided that the Buyer shall not be entitled to terminate this Agreement pursuant to this Clause if the Excusable Delay results from a cause within its control.

10.3.2 If the Seller concludes that the Delivery of any Aircraft will be delayed [\*\*\*] 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

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may thereupon terminate this Agreement with respect to such Aircraft by giving written notice to the other party within [\*\*\*].

10.3.3 If this Agreement shall not have been terminated with respect to the delayed Aircraft during [\*\*\*], then

10.4 Total Loss, Destruction or Damage

If prior to Delivery, any Aircraft is lost, destroyed or in the reasonable opinion of the Seller is damaged beyond repair (“Total Loss”), the Seller shall notify the Buyer to this effect within [\*\*\*] of such occurrence. The Seller shall include in said notification (or as soon after the issue of the notice as such information becomes available to the Seller) the earliest date consistent with the Seller’s other commitments and production capabilities that an aircraft to replace the Aircraft may be delivered to the Buyer and the Scheduled Delivery Month shall be extended as specified in the Seller’s notice to accommodate the delivery of the replacement aircraft; provided, however, that in the event the specified extension of the Scheduled Delivery Month is to a month [\*\*\*] the last day of the original Scheduled Delivery Month then [\*\*\*] unless:

- (i) the Buyer notifies the Seller within [\*\*\*] of the date of receipt of the Seller’s notice that it desires the Seller to provide a replacement aircraft during the month quoted in the Seller’s notice; and
- (ii) the parties execute an amendment to this Agreement recording the variation in the Scheduled

Delivery Month;

provided, however, that nothing herein shall require the Seller to manufacture and deliver a replacement aircraft if such manufacture would require the reactivation of its production line for the model or series of aircraft that was subject to such Total Loss.

10.5 [\*\*\*]

10.6 [\*\*\*]

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## 11 NON-EXCUSABLE DELAY

### 11.1 Liquidated Damages

Should any of the Aircraft not be Ready for Delivery to the Buyer within [\*\*\*] (the “**Delivery Period**”) and such delay is not as a result of an Excusable Delay or Total Loss (a “**Non-Excusable Delay**”), then the Buyer shall have the right to claim, and the Seller shall pay [\*\*\*].

[\*\*\*].

The Buyer’s right [\*\*\*] in respect of any Aircraft is conditional upon the Buyer submitting a claim in respect of [\*\*\*] in writing to the Seller [\*\*\*]

### 11.2 Renegotiation

If, as a result of a Non-Excusable Delay, Delivery does not occur within [\*\*\*] the Buyer shall have the right, exercisable by written notice to the Seller [\*\*\*], to require from the Seller a renegotiation of the Scheduled Delivery Month for the affected Aircraft. Unless otherwise agreed between the Seller and the Buyer during such renegotiation, the said renegotiation shall not prejudice the Buyer’s right [\*\*\*] in accordance with Clause 11.1.

### 11.3 Termination

If, as a result of a Non-Excusable Delay, Delivery does not occur [\*\*\*] and the parties have not renegotiated the Scheduled Delivery Month pursuant to Clause 11.2, then both parties shall have the right exercisable by written notice to the other party, given [\*\*\*], to terminate this Agreement in respect of the affected Aircraft. In the event of termination [\*\*\*].

11.4 [\*\*\*]

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## 12 WARRANTIES AND SERVICE LIFE POLICY

This Clause covers the terms and conditions of the warranty and service life policy.



## 12.1 Standard Warranty

### 12.1.1 Nature of Warranty

For the purpose of this Agreement the term “**Warranted Part**” shall mean any Seller proprietary component, equipment, accessory or part, which is installed on an Aircraft at Delivery thereof and

- (a) which is manufactured to the detailed design of the Seller or a subcontractor of the Seller and
- (b) which bears a part number of the Seller at the time of such Delivery.

Subject to the conditions and limitations as hereinafter provided for and except as provided for in Clause 12.1.2, the Seller warrants to the Buyer that each Aircraft and each Warranted Part shall at Delivery to the Buyer be free from defects:

- (i) in material;
- (ii) in workmanship, including without limitation processes of manufacture;
- (iii) in design (including without limitation the selection of materials) having regard to the state of the art at the date of such design; and
- (iv) arising from failure to conform to the Specification, except to those portions of the Specification relating to performance or where it is expressly stated that they are estimates or approximations or design aims.

### 12.1.2 Exclusions

The warranties set forth in Clause 12.1.1 shall not apply to Buyer Furnished Equipment, nor to the Propulsion Systems, nor to any component, equipment, accessory or part installed on the Aircraft at Delivery that is not a Warranted Part except that:

- (i) any defect in the Seller’s workmanship in respect of the installation of such items in the Aircraft, including any failure by the Seller to conform to the installation instructions of the manufacturers of such items, that invalidates any applicable warranty from such manufacturers, shall constitute a defect in workmanship for the purpose of this Clause 12.1 and be covered by the warranty set forth in Clause 12.1.1 (ii); and
- (ii) any defect inherent in the Seller’s design of the installation, in consideration of the state of the art at the date of such design, which impairs the use of such items, shall constitute a defect in design for the purpose of this Clause 12.1 and be covered by the warranty set forth in Clause 12.1.1 (iii).

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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 [\*\*\*] (the “**Warranty Period**”).

### 12.1.4 Limitations of Warranty

12.1.4.1 The Buyer’s remedy and the Seller’s obligation and liability under Clauses 12.1.1 and 12.1.2 are limited to, at the Seller’s expense and option, the repair, replacement or correction of any Warranted Part which is defective (or to the supply of modification kits rectifying the defect), together with a

credit to the Buyer's account with the Seller of an amount equal to the mutually agreed direct labor costs expended in performing the removal and the reinstallation thereof on the Aircraft at the labor rate defined in Clause 12.1.7.5.

The Seller may alternatively furnish to the Buyer's account with the Seller a credit equal to the price at which the Buyer is entitled to purchase a replacement for the defective Warranted Part.

12.1.4.2 In the event of a defect covered by Clauses 12.1.1 (iii), 12.1.1 (iv) and 12.1.2 (ii) becoming apparent within the Warranty Period, the Seller shall also, if so requested by the Buyer in writing, correct such defect in any Aircraft which has not yet been delivered to the Buyer, provided, however,

- (i) that the Seller shall not be responsible, nor be deemed to be in default on account of any delay in Delivery of any Aircraft or otherwise in respect of the performance of this Agreement, due to the Seller's undertaking to make such correction and provided further
- (ii) that, rather than accept a delay in the Delivery of any such Aircraft, the Buyer and the Seller may agree to deliver such Aircraft with subsequent correction of the defect by the Buyer at the Seller's expense, or the Buyer may elect to accept Delivery and thereafter file a Warranty Claim as though the defect had become apparent immediately after Delivery of such Aircraft.

#### 12.1.4.3 Cost of inspection

In addition to the remedies set forth in Clauses 12.1.4.1 and 12.1.4.2, the Seller [\*\*\*] incurred by the Buyer in performing inspections of the Aircraft to determine whether or not a defect exists in any Warranted Part within the Warranty Period subject to the following conditions:

- (i) such inspections are recommended by a Seller Service Bulletin to be performed within the Warranty Period;
- (ii) the reimbursement [\*\*\*] for any inspections performed [\*\*\*],

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- (iii) the labor rate for the reimbursement shall be the Inhouse Warranty Labor Rate, and
  - (iv) [\*\*\*].

#### 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 [\*\*\*];
- (iii) the Buyer having submitted to the Seller evidence reasonably satisfactory to the Seller that the claimed defect is due to a matter embraced within this Clause 12.1 and that such defect has not resulted from any act or omission of the Buyer, including but not limited to, any failure to operate and maintain the affected Aircraft or part thereof in accordance with the standards set forth in Clause 12.1.10 or from any act or omission of any third party;
- (iv) the Seller having received a Warranty Claim complying with the provisions of Clause 12.1.6 below.

#### 12.1.6 Warranty Administration

The warranties set forth in this Clause 12.1 shall be administered as hereinafter provided for in this Clause 12.1.6.

##### 12.1.6.1 Claim Determination

Determination as to whether any claimed defect in any Warranted Part is a valid Warranty Claim shall be made by the Seller and shall be based upon the claim details, reports from the Seller's Representatives, historical data logs, inspections, tests, findings during repair, defect analysis and other relevant documents.

##### 12.1.6.2 Transportation Costs

The cost of transporting a Warranted Part claimed to be defective to the facilities designated by the Seller and for the return therefrom of a repaired or replaced Warranted Part shall be borne by the Buyer.

##### 12.1.6.3 Return of an Aircraft

If the Buyer and the Seller mutually agree, prior to such return, that it is necessary to return an Aircraft to the Seller for consideration of a Warranty Claim, [\*\*\*]

##### 12.1.6.4 On Aircraft Work by the Seller

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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 [\*\*\*].

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

#### 12.1.6.6 Replacements

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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) [\*\*\*];
- (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.

Replaced components, equipment, accessories or parts will become the Seller's property.

#### 12.1.6.7 Rejection

The Seller shall provide reasonable written substantiation in case of rejection of a Warranty Claim. [\*\*\*].

#### 12.1.6.8 Inspection

The Seller shall have the right to inspect the affected Aircraft, documents and other records relating thereto in the event of any Warranty Claim under this Clause 12.1.

#### 12.1.7 Inhouse Warranty

##### 12.1.7.1 Seller's Authorization

The Seller hereby authorizes the Buyer to repair Warranted Parts ("**Inhouse Warranty**") subject to the terms of this Clause 12.1.7.

##### 12.1.7.2 Conditions for Seller's Authorization

The Buyer shall be entitled to repair such Warranted Parts:

- (i) provided the Buyer notifies the Seller Representative of its intention to perform Inhouse Warranty repairs before any such repairs are started where the estimated cost of such repair is in excess of US Dollars [\*\*\*] (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;
- (ii) provided adequate facilities and qualified personnel are available to the Buyer;
- (iii) provided repairs are performed in accordance with the Seller's Technical Data or written instructions; and

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- (iv) 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 time period set forth in 12.1.5 (ii) and shall contain the same information as that required for Warranty Claims under Clause 12.1.6.5 and in addition shall include:

- (a) a report of technical findings with respect to the defect,
- (b) for parts required to remedy the defect:
  - part numbers,
  - serial numbers (if applicable),
  - parts description,
  - quantity of parts,
  - unit price of parts,
  - related Seller's or third party's invoices (if applicable),
  - total price of parts,
- (c) detailed number of labor hours,
- (d) Inhouse Warranty Labor Rate,
- (e) total claim value.

#### 12.1.7.5 Credit

The Buyer's sole remedy and the Seller's sole obligation and liability with respect to Inhouse Warranty Claims shall be the credit to the Buyer's account of an amount [\*\*\*]

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.

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#### 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 [\*\*\*]. Such parts shall be returned to the Seller within [\*\*\*].

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 [\*\*\*], 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 [\*\*\*].

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.

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;

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- (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 DISCLAIMER OF SELLER LIABILITY

THE SELLER SHALL NOT BE LIABLE FOR, AND THE BUYER SHALL INDEMNIFY THE SELLER AGAINST, THE CLAIMS OF ANY THIRD PARTIES FOR LOSSES DUE TO ANY DEFECT, NONCONFORMANCE OR PROBLEM OF ANY KIND, ARISING OUT OF OR IN CONNECTION WITH ANY REPAIR OF WARRANTED PARTS 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 OR THE SELLER.

#### 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 hereinbelow) 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 [\*\*\*]flying hours [\*\*\*]flight cycles or [\*\*\*] after the Delivery of said Aircraft, whichever shall first occur, the Seller shall, at its discretion and as promptly as practicable and with the Seller’s financial participation as hereinafter provided, either :

- 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
- replace such Item.

#### 12.2.3 Seller’s Participation in the Costs

[\*\*\*].

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#### 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;
- (ii) the Buyer shall keep the Seller informed of any significant incidents relating to an Aircraft, howsoever occurring or recorded;
- (iii) the Buyer shall comply with the conditions of Clause 12.1.10;
- (iv) the Buyer shall implement specific structural inspection programs for monitoring purposes as may be established from time to time by the Seller. Such programs shall be as compatible as possible with the Buyer's operational requirements and shall be carried out at the Buyer's expense. Reports relating thereto shall be regularly furnished to the Seller;
- (v) the Buyer shall report any breakage or defect in a Item in writing to the Seller within [\*\*\*]after such breakage or defect becomes apparent, whether or not said breakage or defect can reasonably be expected to occur in any other aircraft, and the Buyer shall have provided to the Seller sufficient detail on the breakage or defect to enable the Seller to determine whether said breakage or defect is subject to this Service Life Policy.

12.2.4.3 Except as otherwise provided for in this Clause 12.2, any claim under this Service Life Policy shall be administered as provided for in, and shall be subject to the terms and conditions of, Clause 12.1.6.

12.2.4.4 In the event of the Seller having issued a modification applicable to an Aircraft, the purpose of which is to avoid a Failure, the Seller may elect to supply the necessary modification kit [\*\*\*]. 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 UNDER THIS CLAUSE 12.2 IS TO FURNISH ONLY THOSE CORRECTIONS TO THE ITEMS OR PROVIDE REPLACEMENTS THEREFOR AS

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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 WILL BE A CREDIT FOR GOODS AND SERVICES (NOT INCLUDING AIRCRAFT), 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, LESS THE AMOUNT THAT THE BUYER OTHERWISE WOULD HAVE BEEN REQUIRED TO PAY UNDER THIS CLAUSE 12.2 IN RESPECT OF SUCH CORRECTED OR REPLACEMENT ITEM. [\*\*\*] THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL CLAIMS TO ANY FURTHER DIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOSS OF PROFITS AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES, ARISING UNDER OR BY VIRTUE OF THIS SERVICE LIFE POLICY.

### 12.3 Supplier Warranties and Service Life Policies

Prior to or at Delivery of the first Aircraft, the Seller shall provide the Buyer, in accordance with the provisions of Clause 17, with the warranties and, where applicable, service life policies that the Seller has obtained for Supplier Parts pursuant to the Supplier Product Support Agreements.

#### 12.3.1 Definitions

12.3.1.1 “**Supplier**” means any supplier of Supplier Parts.

12.3.1.2 “**Supplier Part**” means any component, equipment, accessory or part installed in an Aircraft at the time of Delivery thereof and for which there exists a Supplier Product Support Agreement. For the sake of clarity, Propulsion Systems and Buyer Furnished Equipment and other equipment selected by the Buyer to be supplied by suppliers with whom the Seller has no existing enforceable warranty agreements are not Supplier Parts.

12.3.1.3 “**Supplier Product Support Agreements**” means agreements between the Seller and Suppliers, as described in Clause 17.1.2, containing enforceable and transferable warranties and, in the case of landing gear suppliers, service life policies for selected structural landing gear elements.

#### 12.3.2 Supplier's Default

12.3.2.1 In the event of any Supplier, under any standard warranty obtained by the Seller pursuant to Clause 12.3.1, defaulting in the performance of any material obligation with [\*\*\*] 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 [\*\*\*].

12.3.2.3 [\*\*\*].

### 12.4 Interface Commitment

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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#### 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 or its designee’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 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

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12.4.5.1 All requests under this Clause 12.4 shall be directed to both the Seller and the affected Supplier.

12.4.5.2 Except as specifically set forth in this Clause 12.4, this Clause shall not be deemed to impose on the Seller any obligations not expressly set forth elsewhere in this Agreement.

12.4.5.3 All reports, recommendations, data and other documents furnished by the Seller to the Buyer pursuant to this Clause 12.4 shall be deemed to be delivered under this Agreement and shall be subject to the terms, covenants and conditions set forth in this Clause 12.

#### 12.5 Exclusivity of Warranties

THIS CLAUSE 12 SETS FORTH THE EXCLUSIVE WARRANTIES, EXCLUSIVE LIABILITIES AND EXCLUSIVE OBLIGATIONS OF THE SELLER, AND THE EXCLUSIVE REMEDIES AVAILABLE TO THE BUYER, WHETHER UNDER THIS AGREEMENT OR OTHERWISE, ARISING FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN ANY AIRCRAFT, COMPONENT,

EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICE DELIVERED BY THE SELLER UNDER THIS AGREEMENT.

THE BUYER RECOGNIZES THAT THE RIGHTS, WARRANTIES AND REMEDIES IN THIS CLAUSE 12 ARE ADEQUATE AND SUFFICIENT TO PROTECT THE BUYER FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN THE GOODS AND SERVICES SUPPLIED UNDER THIS AGREEMENT. THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS, GUARANTEES AND LIABILITIES OF THE SELLER AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER, WHETHER EXPRESS OR IMPLIED BY CONTRACT, TORT, OR STATUTORY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMITY OR DEFECT OR PROBLEM OF ANY KIND IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICE DELIVERED BY THE SELLER UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

- (1) ANY IMPLIED WARRANTY OF MERCHANTABILITY AND/OR FITNESS FOR ANY GENERAL OR PARTICULAR PURPOSE;
- (2) ANY IMPLIED OR EXPRESS WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (3) ANY RIGHT, CLAIM OR REMEDY FOR BREACH OF CONTRACT;
- (4) ANY RIGHT, CLAIM OR REMEDY FOR TORT, UNDER ANY THEORY OF LIABILITY, HOWEVER ALLEGED, INCLUDING, BUT NOT LIMITED TO, ACTIONS AND/OR CLAIMS FOR NEGLIGENCE, GROSS NEGLIGENCE, INTENTIONAL ACTS, WILLFUL DISREGARD, IMPLIED WARRANTY, PRODUCT LIABILITY, STRICT LIABILITY OR FAILURE TO WARN;
- (5) ANY RIGHT, CLAIM OR REMEDY ARISING UNDER THE UNIFORM COMMERCIAL CODE OR ANY OTHER STATE OR FEDERAL STATUTE;
- (6) ANY RIGHT, CLAIM OR REMEDY ARISING UNDER ANY REGULATIONS OR STANDARDS IMPOSED BY ANY INTERNATIONAL, NATIONAL, STATE OR LOCAL STATUTE OR AGENCY;

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- (7) ANY RIGHT, CLAIM OR REMEDY TO RECOVER OR BE COMPENSATED FOR:
    - (a) LOSS OF USE OR REPLACEMENT OF ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART PROVIDED UNDER THIS AGREEMENT;
    - (b) LOSS OF, OR DAMAGE OF ANY KIND TO, ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART PROVIDED UNDER THIS AGREEMENT;
    - (c) LOSS OF PROFITS AND/OR REVENUES;
    - (d) ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGE.

THE WARRANTIES AND SERVICE LIFE POLICY PROVIDED BY THIS AGREEMENT SHALL NOT BE EXTENDED, ALTERED OR VARIED EXCEPT BY A WRITTEN INSTRUMENT SIGNED BY THE SELLER AND THE BUYER. IN THE EVENT THAT ANY PROVISION OF THIS CLAUSE 12 SHOULD

FOR ANY REASON BE HELD UNLAWFUL, OR OTHERWISE UNENFORCEABLE, THE REMAINDER OF THIS CLAUSE 12 SHALL REMAIN IN FULL FORCE AND EFFECT.

FOR THE PURPOSES OF THIS CLAUSE 12.5, THE “SELLER” SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS, SUBCONTRACTORS, AFFILIATES AND ANY OF THEIR RESPECTIVE INSURERS.

#### 12.6 Duplicate Remedies

The remedies provided to the Buyer under Clause 12.1 and Clause 12.2 as to any defect in respect of the Aircraft or any part thereof are mutually exclusive and not cumulative. The Buyer will be entitled to the remedy that provides the maximum benefit to it, as the Buyer may elect, pursuant to the terms and conditions of this Clause 12 for any particular defect for which remedies are provided under this Clause 12; provided, however, that the Buyer will not be entitled to elect a remedy under both Clause 12.1 and Clause 12.2 for the same defect. The Buyer’s rights and remedies herein for the nonperformance of any obligations or liabilities of the Seller arising under these warranties will be in monetary damages limited to the amount the Buyer expends in procuring a correction or replacement for any covered part subject to a defect or nonperformance covered by this Clause 12, and the Buyer will not have any right to require specific performance by the Seller.

#### 12.7 Negotiated Agreement

The Buyer specifically recognizes that:

- (i) the Specification has been agreed upon after careful consideration by the Buyer using its judgment as a professional operator of aircraft used in public transportation and as such is a professional within the same industry as the Seller;
- (ii) this Agreement, and in particular this Clause 12, has been the subject of discussion and negotiation and is fully understood by the Buyer; and
- (iii) the price of the Aircraft and the other mutual agreements of the Buyer set forth in this Agreement were arrived at in consideration of, inter alia, the provisions of this Clause

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12, specifically including the waiver, release and renunciation by the Buyer set forth in Clause 12.5.

#### 12.8 Disclosure to Third Party Entity

In the event of the Buyer intending to designate a third party entity (a “**Third Party Entity**”) to administrate this Clause 12, the Buyer shall notify the Seller of such intention prior to any disclosure of this Clause to the selected Third Party Entity and shall cause such Third Party Entity to enter into a confidentiality agreement and or any other relevant documentation with the Seller solely for the purpose of administrating this Clause 12.

#### 12.9 Transferability

Without prejudice to Clause 21.1, the Buyer’s rights under this Clause 12 may not be assigned, sold, transferred, novated or otherwise alienated by operation of law or otherwise, without the Seller’s prior written consent, which shall not be unreasonably withheld.

Any transfer in violation of this Clause 12.9 shall, as to the particular Aircraft involved, void the rights and warranties of the Buyer under this Clause 12 and any and all other warranties that might arise under or be implied in law.

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### **13 PATENT AND COPYRIGHT INDEMNITY**

#### **13.1 Indemnity**

13.1.1 Subject to the provisions of Clause 13.2.3, [\*\*\*] shall indemnify [\*\*\*] from and against [\*\*\*] of:

(i) any [\*\*\*] patent;

and

(ii) any patent [\*\*\*]: [\*\*\*] and

[\*\*\*].

[\*\*\*]

#### **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, costs and expenses and/or reduce the amount of royalties which may be payable.

13.2.2 The Seller shall be entitled either in its own name or on behalf of the Buyer to conduct negotiations with the party or parties alleging infringement and may assume and conduct the defense or settlement of any suit or claim in the manner which, in the Seller's opinion, it deems proper.

13.2.3 The Seller's liability hereunder shall be conditional upon the strict and timely compliance by the Buyer with the terms of this Clause and is in lieu of any other liability to the Buyer express or implied which the Seller might incur at law as a result of any infringement or claim of infringement of any patent or copyright.

[\*\*\*]

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## 14 TECHNICAL DATA AND SOFTWARE SERVICES

### 14.1 Scope

This Clause 14 covers the terms and conditions for the supply of technical data (“hereinafter “**Technical Data**”) and software services described hereunder (hereinafter “**Software Services**”) to support the Aircraft operation.

14.1.1 The Technical Data shall be supplied in the English language using the aeronautical terminology in common use.

14.1.2 Range, type, format and delivery schedule of the Technical Data to be provided under this Agreement are outlined in Exhibit G hereto.

### 14.2 Aircraft Identification for Technical Data

14.2.1 For those Technical Data that are customized to the Aircraft, the Buyer agrees to the allocation of fleet serial numbers (“**Fleet Serial Numbers**”) in the form of a 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 models of Aircraft are selected.

14.2.3 The Buyer shall indicate to the Seller the Fleet Serial Number allocated to each Aircraft corresponding to the delivery schedule set forth in Clause 9.1 [\*\*\*]. Neither the designation of such Fleet Serial Numbers nor the subsequent allocation of the Fleet Serial Numbers to Manufacturer Serial Numbers for the purpose of producing certain customized Technical Data shall constitute any property, insurable or other interest of the Buyer in any Aircraft prior to the Delivery of such Aircraft as provided for in this Agreement.

The customized Technical Data that are affected thereby are the following:

- Aircraft Maintenance Manual,
- Illustrated Parts Catalogue,
- 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 understanding of the affected systems [\*\*\*].

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#### 14.3.2 Buyer Furnished Equipment

14.3.2.1 The Seller shall introduce Buyer Furnished Equipment data for Buyer Furnished Equipment that is installed on the Aircraft by the Seller (hereinafter “**BFE Data**”) into the customized Technical Data, [\*\*\*] for the initial issue of the Technical Data provided at or before Delivery of the first Aircraft, provided such BFE Data is provided in accordance with the conditions set forth in Clauses 14.3.2.2 through 14.3.2.6.

14.3.2.2 The Buyer shall supply, or shall cause the BFE Supplier(s) to supply on its behalf, BFE Data to the Seller [\*\*\*] prior to the Scheduled Delivery Month of the first Aircraft.

14.3.2.3 The BFE Data shall be supplied in English and shall be established in compliance with the then applicable revision of ATA iSpecification 2200 (iSpec 2200), Information Standards for Aviation Maintenance.

14.3.2.4 The BFE Data shall be delivered in digital format and/or in Portable Document Format (PDF), as agreed between the Buyer and the Seller.

14.3.2.5 All costs related to the delivery to the Seller of the applicable BFE Data shall be borne by the Buyer.

#### 14.4 Supply

14.4.1 Technical Data shall be supplied on-line and/or off-line, as set forth in Exhibit G hereto.

14.4.2 The Buyer shall not receive any credit or compensation for any unused or only partially used Technical Data supplied pursuant to this Clause 14.

#### 14.4.3 Delivery

14.4.3.1 For Technical Data provided off-line, such Technical Data and corresponding revisions shall be sent to [\*\*\*] as indicated by the Buyer.

14.4.3.2 Technical Data provided off-line shall be delivered by the Seller at the Buyer’s named place of destination under DAP conditions. The term Delivered At Place (DAP) is defined in the Incoterms 2010 publication issued by the International Chamber of Commerce.

14.4.3.3 The Technical Data shall be delivered according to a mutually agreed schedule to correspond with the Deliveries of Aircraft. The Buyer shall provide [\*\*\*] 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.

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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".

#### 14.5 Revision Service

For each firmly ordered Aircraft covered under this Agreement, revision service for the Technical Data shall be provided on [\*\*\*] for a period [\*\*\*] after Delivery of such Aircraft (each a "Revision Service Period").

Thereafter revision service shall be provided in accordance with the terms and conditions set forth in the Seller's then current Customer Services Catalog.

#### 14.6 Service Bulletins (SB) Incorporation

During any Revision Service Period and upon the Buyer's request, [\*\*\*], Seller Service Bulletin information shall be incorporated into the Technical Data, provided that the Buyer notifies the Seller through the relevant AirbusWorld on-line Service Bulletin Reporting application that it intends to accomplish such Service Bulletin, after which post Service Bulletin status shall be shown.

#### 14.7 Technical Data Familiarization

Upon request by the Buyer, the Seller shall provide up to [\*\*\*] of Technical Data familiarization training at the Seller's or the Buyer's facilities. The basic familiarization course is tailored for maintenance and engineering personnel.

#### 14.8 Customer Originated Changes (COC)

If the Buyer wishes to introduce Buyer originated data, including BFE Data after the initial issue of the Technical Data, (hereinafter "COC Data") into any of the customized Technical Data that are identified as eligible for such incorporation in the Seller's then current Customer Services Catalog, the Buyer shall notify the Seller of such intention.

The incorporation of any COC Data shall be performed under the methods and tools for achieving such introduction and the conditions specified in the Seller's then current Customer Services Catalog.

#### 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,

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- AirN@v / Planning,
  - AirN@v / Repair,
  - AirN@v / Workshop,
  - AirN@v / Associated Data,



- AirN@v / Engineering.

14.9.3 The licensing conditions for the use of AirN@v Family integrated software shall be as set forth in Part 1 of Exhibit I to the Agreement, “**End-User License Agreement for Airbus Software**”.

14.9.4 The revision service and the license to use AirN@v Family products shall be granted [\*\*\*] 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 [\*\*\*].

14.10 On-Line Technical Data

14.10.1 The Technical Data provided on-line shall be made available to the Buyer through the Airbus customer portal AirbusWorld (“**AirbusWorld**”).

14.10.2 Access to AirbusWorld shall be subject to the “General Terms and Conditions of Access to and Use of AirbusWorld” (hereinafter the “**GTC**”), as set forth in Part 2 of Exhibit I to this Agreement.

14.10.3 The list of the Technical Data provided on-line may be extended from time to time.

For any Technical Data which is or becomes available on-line, the Seller reserves the right to eliminate other formats for the concerned Technical Data.

14.10.4 Access to AirbusWorld shall be granted [\*\*\*] for the Technical Data related to the Aircraft which shall be operated by the Buyer.

14.10.5 For the sake of clarification, it is hereby specified that Technical Data accessed through AirbusWorld shall remain subject to the conditions of this Clause 14.

In addition, should AirbusWorld provide access to Technical Data in software format, the use of such software shall be subject to the conditions of Part 1 of Exhibit I to the Agreement.

14.11 Waiver, Release and Renunciation

The Seller warrants [\*\*\*].

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

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IMPLIED, ARISING BY LAW, CONTRACT OR OTHERWISE, WITH RESPECT TO ANY NON-CONFORMITY OR DEFECT OF ANY KIND, IN ANY TECHNICAL DATA OR SERVICES DELIVERED UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

- A. ANY WARRANTY AGAINST HIDDEN DEFECTS;
- B. ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS;
- C. ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OR TRADE;

D. ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY, WHETHER IN CONTRACT OR IN TORT, WHETHER OR NOT ARISING FROM THE SELLER'S NEGLIGENCE, ACTUAL OR IMPUTED; AND

[\*\*\*]PROVIDED THAT, IN THE EVENT THAT ANY OF THE AFORESAID PROVISIONS SHOULD FOR ANY REASON BE HELD UNLAWFUL OR OTHERWISE INEFFECTIVE, THE REMAINDER OF THIS AGREEMENT SHALL REMAIN IN FULL FORCE AND EFFECT.

FOR THE PURPOSES OF THIS CLAUSE 14, THE "SELLER" SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS AND SUBCONTRACTORS, ITS AFFILIATES AND ANY OF THEIR RESPECTIVE INSURERS.

#### 14.12 Proprietary Rights

14.12.1 All proprietary rights relating to Technical Data, including but not limited to patent, design and copyrights, shall remain with the Seller and/or its Affiliates, 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.

14.12.2 Whenever this Agreement and/or any Technical Data provides for manufacturing by the Buyer, the consent given by the Seller shall not be construed as any express or implicit endorsement or approval whatsoever of the Buyer or 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 any 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 this Agreement. Such PEP is composed of software components and databases, and its use is subject to the license conditions set forth in Part 1 of Exhibit I to the Agreement "End-User License Agreement for Airbus Software".

14.13.2 Use of the PEP shall be limited to [\*\*\*] 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 placed or installed on board the Aircraft.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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14.13.3 The license to use the PEP and the revision service shall be provided [\*\*\*] for the duration of the corresponding Revision Service Period as set forth in Clause 14.5.

14.13.4 At the end of such PEP Revision Service Period, the PEP shall be provided to the Buyer [\*\*\*] 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, except as permitted therein or pursuant to any government or legal requirement imposed upon the Buyer.

14.15.2 If the Seller authorizes the disclosure of this Clause or of any Technical Data or Software Services to third parties either under this Agreement or by an express prior written authorization and specifically, where the Buyer intends 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.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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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.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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### 15 **SELLER REPRESENTATIVE SERVICES**

The Seller shall provide [\*\*\*] to the Buyer the services described in this Clause 15, at the Buyer’s main base or at other locations to be mutually agreed.

#### 15.1 Customer Support Representative(s)

15.1.1 The Seller shall provide [\*\*\*] to the Buyer the services of Seller customer support representative(s), as defined in Appendix A to this Clause 15 (each a “**Seller Representative**”), at the Buyer’s main

base or such other locations as the parties may agree.

15.1.2 In providing the services as described hereabove, any Seller Representatives, or any Seller employee(s) providing services to the Buyer hereunder, are deemed to be acting in an advisory capacity only and at no time shall they be deemed to be acting as Buyer's employees, contractors or agents, either directly or indirectly.

15.1.3 [\*\*\*]

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 [\*\*\*] this Clause 15, the Buyer shall [\*\*\*]:

[\*\*\*] [\*\*\*]

15.1.5 Should the Buyer request Seller Representative services exceeding the allocation specified in Appendix A to this Clause 15, the Seller may provide such additional services subject to terms and conditions to be mutually agreed.

15.1.6 The Seller shall cause similar services to be provided by representatives of the Propulsion Systems Manufacturer and Suppliers, when necessary and applicable.

## 15.2 Buyer's Support

15.2.1 From the date of arrival of the first Seller Representative and for the duration of the assignment, the Buyer shall provide [\*\*\*], 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). [\*\*\*] 15.2.2 The Buyer shall reimburse the Seller for the costs of the initial and termination assignment travel of the Seller Representatives, which shall consist of [\*\*\*] 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.

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15.2.5 Absence of an assigned Seller Representative during normal statutory vacation periods shall be covered by other seller representatives on the same conditions as those described in Clause 15.1.4, and such services shall be counted against the total allocation provided in Appendix A hereto.

15.2.6 The Buyer shall assist the Seller in obtaining from the civil authorities of the Buyer's country those documents that are necessary to permit the Seller Representative to live and work in the Buyer's country. Failure of the Seller to obtain the necessary documents shall relieve the Seller of any obligation to the Buyer under the provisions of Clause 15.1.

15.2.7 The Buyer shall reimburse to the Seller charges, taxes, duties, imposts or levies of any kind whatsoever, imposed by the authorities of the Buyer's country upon:

- (i) the entry into or exit from the Buyer's country of the Seller Representatives and their families,
- (ii) the entry into or the exit from the Buyer's country of the Seller Representatives and their families' personal property,
- (iii) 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.

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## APPENDIX A TO CLAUSE 15

### SELLER REPRESENTATIVE ALLOCATION

The Seller Representative allocation provided to the Buyer pursuant to Clause 15.1 is defined hereunder. For the avoidance of doubt, all quantities indicated below are the total quantities granted for the whole of the Buyer's fleet of one hundred and thirty-three (133) Aircraft, unless otherwise specified.

- 1 The Seller shall provide to the Buyer Seller Representative services at the Buyer's main base or at other locations to be mutually agreed for a total of 2 For the sake of clarification, such Seller Representatives' services shall include.
- 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.

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## 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 [\*\*\*] under this Agreement are covered in Appendix A to this Clause 16.

16.1.3 Scheduling of training courses covered in Appendix A shall be mutually agreed during a training conference (the “**Training Conference**”) that shall be held [\*\*\*]

#### 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 [\*\*\*].

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 with adequate 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 not made during the Training Conference shall be submitted by the Buyer with a minimum [\*\*\*] prior notice.

16.3.2 The following terms and conditions shall apply to training performed by the Seller:

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- (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, such training equipment does not include provision of aircraft for the purpose of performing training.
  - (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 [\*\*\*]. Training data and documentation shall be marked “FOR TRAINING ONLY” and as such are supplied for the sole and express purpose of training; training data and documentation shall not be revised.

16.3.3 When the Seller’s training courses are provided by the Seller’s instructors (individually an “**Instructor**” and collectively “**Instructors**”) the Seller shall deliver a Certificate of Recognition or a Certificate of Course Completion (each a “**Certificate**”) or an attestation (an “**Attestation**”), as applicable, at the end of any such training course. Any such Certificate or Attestation shall not represent authority or qualification by any Aviation Authority but may be presented to such Aviation Authority in order to obtain relevant formal qualification.

In the event of training courses being provided by a training provider selected by the Seller as set forth in Clause 16.2.2, the Seller shall cause such training provider to deliver a Certificate or Attestation, which shall not represent authority or qualification by any Aviation Authority, but may be presented to such Aviation Authority in order to obtain relevant formal qualification.

16.3.4.1 Should the Buyer wish to exchange any of the training courses provided under Appendix A hereto, the Buyer shall place a request for exchange to this effect with the Seller. The Buyer may exchange, subject to the Seller’s confirmation, the training allowances granted under Appendix A of the present Agreement as follows:

- (i) flight operations training courses as listed under Clause 1 of Appendix A against any flight operations training courses described in the Seller’s Customer Services Catalog current at the time of the Buyer’s request;
- (ii) maintenance training courses as listed under Clause 3 of Appendix A against any maintenance training courses described in the Seller’s Customer Services Catalog current at the time of the Buyer’s request;
- (iii) should any one of the allowances granted thereunder (flight operations or maintenance) have been fully drawn upon, [\*\*\*] [\*\*\*] It is understood that the

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above provisions shall apply to the extent that training allowances granted under Appendix A remain in credit to the full extent necessary to perform the exchange.

All requests to exchange training courses shall be submitted by the Buyer with a minimum of [\*\*\*]. The requested training shall be subject to the Seller’s then existing planning constraints.

16.3.4.2 [\*\*\*].

16.3.5.1 Should the Buyer decide to cancel or reschedule a training course, fully or partially, and irrespective of the location of the training, a minimum advance notification [\*\*\*] prior to the relevant training course start date is required.

16.3.5.2 If the notification occurs [\*\*\*] ays prior to such training, a cancellation fee corresponding to [\*\*\*] of such training shall be, as applicable, either deducted from the training allowance set forth in Appendix A or invoiced at the Seller’s then applicable price.

16.3.5.3 If the notification occurs [\*\*\*] prior to such training, [\*\*\*] of such training shall be, as applicable, either deducted from the training allowance set forth 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 [\*\*\*]. The Buyer shall return concurrently thereto the completed

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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 [\*\*\*].

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, to any other required additional training, which shall be at the Buyer’s expense.

16.4.5 The Seller shall in no case warrant or otherwise be held liable for any trainee’s performance as a result of any training provided.

16.5 Logistics

16.5.1 Trainees

16.5.1.1 Living and travel expenses for the Buyer’s trainees [\*\*\*].

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 [\*\*\*]

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

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base to day of return to such base at the per diem rate set forth in the Seller's Customer Services Catalog current at the time of the corresponding training or support.

Such per diem shall include, but shall not be limited to, lodging, food and local transportation to and from the place of lodging and the training course location.

#### 16.5.2.3 Air Travel

Except as provided for in Clause 16.5.2.1.1 above, the Buyer shall reimburse the Seller for 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 [\*\*\*] 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 [\*\*\*].

#### 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.

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 [\*\*\*] crew members, [\*\*\*].

## 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 [\*\*\*], performed in accordance with the related Airbus training course definition (the “**Base Flight Training**”).

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16.6.2.2 Should it be necessary to ferry the Buyer’s delivered Aircraft to the location where the Base Flight Training shall take place, the additional flight time required for the ferry flight to and/or from the Base Flight Training field shall not be deducted from the Base Flight Training time.

16.6.2.3 If the Base Flight Training is performed outside of the zone where the Seller usually performs such training, the ferry flight to the location where the Base Flight Training shall take place shall be performed by a crew composed of the Seller’s and/or the Buyer’s qualified pilots, in accordance with the relevant Aviation Authority’s regulations related to the place of performance of the Base Flight Training.

## 16.6.3 Flight Crew Line Initial Operating Experience

In order to assist the Buyer with initial operating experience after Delivery of the first Aircraft, the Seller shall provide to the Buyer pilot Instructor(s) as set forth in Appendix A to this Clause 16.

Should the Buyer request, subject to the Seller’s consent, such Seller pilot Instructors to perform any other flight support during the flight crew line initial operating period, such as but not limited to line assistance, demonstration flight(s), ferry flight(s) or any flight(s) required by the Buyer during the period of entry into service of the Aircraft, it is understood that such flight(s) shall be deducted from the flight crew line initial operating experience allowance set forth in Appendix A hereto.

It is hereby understood by the Parties that the Seller’s pilot Instructors shall only perform the above flight support services to the extent they bear the relevant qualifications to do so.

## 16.6.4 Type Specific Cabin Crew Training Course

The Seller shall provide type specific training for cabin crews at one of the locations defined in Clause 16.2.1.

If the Buyer’s Aircraft is to incorporate special features, the type specific cabin crew training course shall be performed [\*\*\*] the scheduled Delivery Date of the Buyer’s first Aircraft.

## 16.6.5 Training on Aircraft

During any and all flights performed in accordance with this Clause 16.6, the Buyer shall bear full responsibility for the aircraft upon which the flight is performed, including but not limited to any required maintenance, all expenses such as fuel, oil or landing fees and the provision of insurance in line with Clause 16.13.

The Buyer shall assist the Seller, if necessary, in obtaining the validation of the licenses of the Seller’s pilots performing Base Flight Training or initial operating experience by the Aviation Authority of the place of registration of the Aircraft.

## 16.7 Performance / Operations Courses

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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**").

Irrespective of the location at which the training takes place, the Buyer shall provide at its own cost an aircraft for the performance of the Practical Training.

Should the Buyer require the Seller's Instructors to provide Practical Training at facilities selected by the Buyer, such training shall be subject to prior approval of the facilities by the Seller. All costs related to such Practical Training, including but not limited to the Seller's approval of the facilities, shall be borne by the Buyer.

The provision of a Seller Instructor for the Practical Training shall be deducted from the trainee days allowance defined in Appendix A to this Clause 16, subject to the conditions detailed in Paragraph 4.4 thereof.

#### 16.9 Supplier and Propulsion Systems Manufacturer Training

Upon the Buyer's request, the Seller shall provide to the Buyer the list of the maintenance and overhaul training courses provided by major Suppliers and the applicable Propulsion Systems Manufacturer on their respective products.

#### 16.10 Proprietary Rights

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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.

#### 16.11 Confidentiality

The Seller's training data and documentation are designated as confidential and as such are provided to the Buyer for the sole use of the Buyer, for training of its own personnel, who undertakes not to disclose the content thereof in whole or in part, to any third party without the prior written consent of the Seller, save as permitted herein or otherwise pursuant to any government or legal requirement imposed upon the Buyer.

In the event of the Seller having authorized the disclosure of any training data and documentation to third parties either under this Agreement or by an express prior written authorization, the Buyer shall cause such third party to agree to be bound by the same conditions and restrictions as the Buyer with respect to the disclosed training data and documentation and to use such training data and documentation solely for the purpose for which they are provided.

#### 16.12 Transferability

Without prejudice to Clause 21.1, the Buyer's rights under this Clause 16 may not be assigned, sold, transferred, novated or otherwise alienated by operation of law or otherwise, without the Seller's prior written consent.

#### 16.13 Indemnities and Insurance

INDEMNIFICATION PROVISIONS AND INSURANCE REQUIREMENTS APPLICABLE TO THIS CLAUSE 16 ARE AS SET FORTH IN CLAUSE 19.

THE BUYER SHALL PROVIDE THE SELLER WITH AN ADEQUATE INSURANCE CERTIFICATE PRIOR TO ANY TRAINING ON AIRCRAFT.

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### APPENDIX A TO CLAUSE 16

#### TRAINING ALLOWANCE

The contractual training courses defined in this Appendix A shall be provided up [\*\*\*] under this Agreement.

Notwithstanding the above, flight operations training courses [\*\*\*] in this Appendix A shall be provided by the Seller within a [\*\*\*] said Aircraft Delivery.

Any deviation to said training delivery schedule shall be mutually agreed between the Buyer and the Seller.

For the avoidance of doubt, all quantities indicated below are the total quantities granted [\*\*\*], unless otherwise specified.

#### **1 FLIGHT OPERATIONS TRAINING**

##### 1.1 Flight Crew Training (standard transition course)

The Seller shall provide flight crew training including [\*\*\*] of the Buyer's flight crews [\*\*\*].

## 1.2 Flight Crew Line Initial Operating Experience

The Seller shall [\*\*\*] to the Buyer pilot Instructor(s) for a period [\*\*\*] pilot Instructor months [\*\*\*].

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 [\*\*\*] Instructors.

## 1.3 Type Specific Cabin Crew Training Course

The Seller shall provide [\*\*\*] to the Buyer type specific training for cabin crews for [\*\*\*] of the Buyer's cabin crew instructors, pursers or cabin attendants.

## 1.4 Airbus Pilot Instructor Course (APIC)

The Seller shall provide [\*\*\*] to the Buyer transition Airbus Pilot Instructor Course(s) (APIC), for flight and synthetic instruction, for [\*\*\*] the Buyer's flight instructors. APIC courses shall be performed in groups [\*\*\*].

## **2 PERFORMANCE / OPERATIONS COURSE(S)**

The Seller shall provide to the Buyer [\*\*\*] of performance / operations training [\*\*\*] for the Buyer's personnel.

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## **3 MAINTENANCE TRAINING**

The Seller shall provide to the Buyer [\*\*\*] maintenance training for the Buyer's personnel.

## **4 TRAINEE DAYS ACCOUNTING**

Trainee days are counted as follows:

4.1 For instruction at the Seller's Training Centers: [\*\*\*].

4.2 For instruction outside of the Seller's Training Centers: [\*\*\*].

4.3 For structure maintenance training courses outside the Seller's Training Center(s), [\*\*\*].

4.4 For practical training, whether on training devices or on aircraft, [\*\*\*].

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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 Supplier Parts, the benefit of which is hereby accepted by the Buyer. Said agreements become enforceable as soon as and for as long as an operator is identified as an Airbus aircraft operator.
- 17.1.2 These agreements are based on the “World Airlines Suppliers Guide”, are made available to the Buyer through the SPSA Application, and include Supplier commitments 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 shall be prepared in accordance with the applicable provisions of ATA Specification including revision service and be published in the English language. The Seller shall recommend that a software user guide, where applicable, be supplied in the form of an appendix to the Component Maintenance Manual. Such data shall be provided in compliance with the applicable ATA Specification;
- 17.1.2.2 Warranties and guarantees, including standard warranties. In addition, landing gear Suppliers shall provide service life policies for selected structural landing gear elements;
- 17.1.2.3 Training to ensure efficient operation, maintenance and overhaul of the Supplier Parts for the Buyer’s instructors, shop and line service personnel;
- 17.1.2.4 Spares data in compliance with ATA Specification 2200, initial provisioning recommendations, spare parts and logistic service including routine and expedite deliveries;
- 17.1.2.5 Technical service to assist the Buyer with maintenance, overhaul, repair, operation and inspection of Supplier Parts as well as required tooling and spares provisioning.

## 17.2 Supplier Compliance

The Seller shall monitor Suppliers’ compliance with support commitments defined in the Supplier Product Support Agreements and shall, if necessary, jointly take remedial action with the Buyer.

- 17.3 Nothing in this Clause 17 shall be construed to prevent or limit the Buyer from entering into direct negotiations with a Supplier with respect to different or additional terms and conditions applicable to Suppliers Parts selected by the Buyer to be installed on the Aircraft.

## 17.4 Familiarization Training

Upon the Buyer’s request, the Seller shall provide the Buyer with Supplier Product Support Agreements familiarization training at the Seller’s facilities in Blagnac, France. An on-line training module shall be further available through AirbusWorld, access to which shall be

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subject to the “General Terms and Conditions of Access to and Use of AirbusWorld” (hereinafter the “GTC”), as set forth in Part 2 of Exhibit I to this Agreement.

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## 18 BUYER FURNISHED EQUIPMENT

### 18.1 Administration

18.1.1.1 In accordance with the Specification, the Seller shall install those items of equipment that are identified in the Specification as being furnished by the Buyer (“**Buyer Furnished Equipment**” or “**BFE**”), provided that the BFE and the supplier of such BFE (the “**BFE Supplier**”) are referred to in the Airbus BFE Product Catalog valid at the time the BFE Supplier is selected.

18.1.1.2 Notwithstanding the foregoing and without prejudice to Clause 2.4, if the Buyer wishes to install BFE manufactured by a supplier who is not referred to in the Airbus BFE Product Catalog, the Buyer shall so inform the Seller and the Seller shall conduct a feasibility study of the Buyer’s request, in order to consider approving such supplier, provided that such request is compatible with the Seller’s industrial planning and the associated Scheduled Delivery Month for the Buyer’s Aircraft. In addition, it is a prerequisite to such approval that the considered supplier be qualified by the Seller’s Aviation Authorities to produce equipment for installation on civil aircraft. Any approval of a supplier by the Seller shall be performed at the Buyer’s expense. The Buyer shall cause any BFE supplier approved under this Clause 18.1.1.2 (each an “**Approved BFE Supplier**”) to comply with the conditions set forth in this Clause 18 and specifically Clause 18.2.

Except for the specific purposes of this Clause 18.1.1.2, the term “BFE Supplier” shall be deemed to include Approved BFE Suppliers.

18.1.2.1 The Seller shall advise the Buyer of the dates by which, in the planned release of engineering for the Aircraft, the Seller requires a written detailed engineering definition encompassing a Declaration of Design and Performance (the “**BFE Engineering Definition**”). The Seller shall provide to the Buyer and/or the BFE Supplier(s), within an appropriate timeframe, the necessary interface documentation to enable the development of the BFE Engineering Definition.

The BFE Engineering Definition shall include the description of the dimensions and weight of BFE, the information related to its certification and the information necessary for the installation and operation thereof, including when applicable 3D models compatible with the Seller’s systems. The Buyer shall furnish, or cause the BFE Suppliers to furnish, the BFE Engineering Definition by the dates specified.

Thereafter, the BFE Engineering Definition shall not be revised, except through an SCN executed in accordance with Clause 2.

18.1.2.2 The Seller shall also provide in due time to the Buyer a schedule of dates and the shipping addresses for delivery of the BFE and, where requested by the Seller, additional spare BFE to permit installation in the Aircraft and Delivery of the Aircraft in accordance with the Aircraft delivery schedule. The Buyer shall provide, or cause the BFE Suppliers to provide, the BFE by such dates in a serviceable condition, in order to allow performance of any assembly,

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installation, test or acceptance process in accordance with the Seller's industrial schedule. In order to facilitate the follow-up of the timely receipt of BFE, the Buyer shall, upon the Seller's request, provide to the Seller dates and references of all BFE purchase orders placed by the Buyer.

The Buyer shall also provide, when requested by the Seller, at AIRBUS OPERATIONS S.A.S. works in TOULOUSE (FRANCE) and/or at AIRBUS OPERATIONS GmbH works in HAMBURG (GERMANY) 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 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.

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.

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18.1.4 The BFE shall be imported into FRANCE or into GERMANY by the Buyer under a suspensive customs system ("Régime de l'entrepôt douanier ou régime de perfectionnement actif" or "Zollverschluss") without application of any French or German tax or customs duty, and shall be Delivered At Place (DAP) according to the Incoterms, to the following shipping addresses:

AIRBUS OPERATIONS S.A.S.



316 Route de Bayonne  
31300 TOULOUSE  
France, or

AIRBUS OPERATIONS GmbH  
Kreetslag 10  
21129 HAMBURG  
GERMANY

or such other location as may be specified by the Seller.

#### 18.2 Applicable Requirements

The Buyer is responsible for ensuring, at its expense, and warrants that the BFE shall:

- be manufactured by a qualified BFE Supplier, and
- meet the requirements of the applicable Specification of the Aircraft, and
- be delivered with the relevant certification documentation, including but not limited to the DDP, and
- comply with the BFE Engineering Definition, and
- comply with applicable requirements incorporated by reference to the Type Certificate and listed in the Type Certificate Data Sheet, and
- be approved by the Aviation Authority issuing the Export Airworthiness Certificate and by the Buyer's Aviation Authority for installation and use on the Aircraft at the time of Delivery of the Aircraft, and
- not infringe any patent, copyright or other intellectual property right of the Seller or any third party, and
- not be subject to any legal obligation or other encumbrance that may prevent, hinder or delay the installation of the BFE in the Aircraft and/or the Delivery of the Aircraft.

The Seller shall be entitled to refuse any item of BFE that it considers incompatible with the Specification, the BFE Engineering Definition or the certification requirements.

#### 18.3 Buyer's Obligation and Seller's Remedies

18.3.1 Any delay or failure by the Buyer or the BFE Suppliers in:

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- 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 affected 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 [\*\*\*], or is not approved [\*\*\*] of the dates specified in Clause 18.1.2.2, deliver the Aircraft without the installation of such BFE, notwithstanding applicable terms of Clause 7, if any, and the Seller shall thereupon be relieved of all obligations to install such equipment.

#### 18.4 Title and Risk of Loss

Title to and risk of loss of any BFE shall at all times remain with the Buyer except that risk of loss (limited to cost of replacement of said BFE) shall be with the Seller for as long as.

#### 18.5 Disposition of BFE Following Termination

18.5.1 If a termination of this Agreement pursuant to the provisions of Clause 20 occurs with respect to an Aircraft in which all or any part of the BFE has been installed prior to the date of such termination, the Seller shall be entitled, but not required, to remove all items of BFE that can be removed without damage to the Aircraft and to undertake commercially reasonable efforts to facilitate the sale of such items of BFE to other customers, retaining and applying the proceeds of such sales to reduce the Seller's damages resulting from the termination.

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 [\*\*\*] of receiving documentation of such costs from the Seller.

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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 [\*\*\*] 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 INDEMNITIES AND INSURANCE

The Seller and the Buyer shall each be liable for Losses (as defined below) arising from the acts or omissions of their respective directors, officers, agents or employees occurring during or incidental to such party's exercise of its rights and performance of its obligations under this Agreement, except as provided in Clauses 19.1 and 19.2.

### 19.1 Seller's Indemnities

The Seller shall, except in the case of [\*\*\*], its directors, officers, agents and/or employees, be solely liable for and shall indemnify and hold the Buyer, its Affiliates and each of their respective directors, officers, agents, employees and insurers harmless against all losses, liabilities, claims, damages, costs and expenses, including court costs and reasonable attorneys' fees ("**Losses**"), arising from:

- (a) claims for injuries to, or death of, the [\*\*\*]'s directors, officers, agents or employees, or loss of, or damage to, property of the Seller or its employees when such Losses occur during or are incidental to either party's exercise of any right or performance of any obligation under this Agreement, and
- (b) claims for injuries to, or death of, third parties, or loss of, or damage to, property of third parties, occurring during or incidental to the Technical Acceptance Flights.

### 19.2 Buyer's Indemnities

The Buyer shall, except in the case of [\*\*\*], its directors, officers, agents and/or employees, be solely liable for and shall indemnify and hold the Seller, its Affiliates, its subcontractors, and each of their respective directors, officers, agents, employees and insurers, harmless against all Losses arising from:

- (a) claims for injuries to, or death of, the [\*\*\*] directors, officers, agents or employees, or loss of, or damage to, property of the Buyer or its employees, when such Losses occur during or are incidental to either party's exercise of any right or performance of any obligation under this Agreement, and
- (b) claims for injuries to, or death of, third parties, or loss of, or damage to, property of third parties, occurring during or incidental to (i) the provision of Seller Representatives services under Clause 15 including services performed on board the aircraft or (ii) the provision of Aircraft Training Services to the Buyer.

### 19.3 Notice and Defense of Claims

If any claim is made or suit is brought against a party or entity entitled to indemnification under this Clause 19 (the "**Clause 19 Indemnitee**") for damages for which liability has been assumed by the other party under this Clause 19 (the "**Clause 19 Indemnitor**"), the Clause 19 Indemnitee shall promptly give notice to the Clause 19 Indemnitor and the Clause 19 Indemnitor (unless otherwise requested by the Clause 19 Indemnitee) shall assume and

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conduct the defense, or settlement, of such claim or suit, as the Indemnitor shall deem prudent. Notice of the claim or suit shall be accompanied by all information pertinent to the matter as is reasonably available to the Clause 19 Indemnitee and shall be followed by such cooperation by the Clause 19 Indemnitee as the Clause 19 Indemnitor or its counsel may reasonably request, at the expense of the Clause 19 Indemnitor.

[\*\*\*]

#### 19.4 Insurance

For all Aircraft Training Services, to the extent of the Buyer's undertaking set forth in Clause 19.2, the Buyer shall:

- (a) cause the Seller, its Affiliates, its subcontractors and each of their respective directors, officers, agents and employees to be named as additional insured under the Buyer's Comprehensive Aviation Legal Liability insurance policies, including War Risks and Allied Perils (such insurance to include the AVN 52E Extended Coverage Endorsement Aviation Liabilities or any further Endorsement replacing AVN 52E as may be available as well as any excess coverage in respect of War and Allied Perils Third Parties Legal Liabilities Insurance), and
- (b) 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 Affiliates, its subcontractors and each of their respective directors, officers, agents, employees and insurers.

Any applicable deductible shall be borne by the Buyer. The Buyer shall furnish to the Seller, [\*\*\*] prior to the start of any Aircraft Training Services, certificates of insurance, in English, evidencing the limits of liability cover and period of insurance coverage in a form acceptable to the Seller from the Buyer's insurance broker(s), 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 [\*\*\*] prior written notice thereof to the Seller, and
- (iii) under any such cover, all rights of subrogation against the Seller, its Affiliates, its subcontractors and each of their respective directors, officers, agents, employees and insurers have been waived.

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## 20 **TERMINATION**

### 20.1 Termination Events

Each of the following shall constitute a “**Termination Event**”

- (1) The Buyer or any of its Affiliates commences in any jurisdiction any case, proceeding or

other action with respect to the Buyer or any of its Affiliates or their properties relating to bankruptcy, insolvency, reorganization, winding-up, liquidation, dissolution or other relief from, or with respect to, or readjustment of, its debts or obligations.

- (2) An action is commenced in any jurisdiction seeking the appointment of a receiver, trustee, custodian or other similar official for the Buyer or any of its respective Affiliates or for all or any substantial part of their respective assets, and such action remains unstayed, undismissed or undischarged for sixty (60) days, or the Buyer or any of its Affiliates makes a general assignment for the benefit of its creditors.
- (3) An action is commenced in any jurisdiction against the Buyer or any of its respective Affiliates seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of their respective assets, and such action remains unstayed, undismissed or undischarged for sixty (60) days.
- (4) The Buyer or any of its Affiliates becomes the object, in any jurisdiction, of a case, proceeding or action similar or analogous to any of the events mentioned in Clause 20.1(1), (2) or (3).
- (5) The Buyer or any of its Affiliates is generally not able, or is expected to be unable to, or shall admit in writing its inability to, pay its debts as they become due.
- (6) The Buyer or any of its Affiliates commences negotiations with significant creditors, existing or potential, either with the intention of restructuring all or a substantial part of all of its outstanding obligations or in preparation for a bankruptcy filing under the U.S. Bankruptcy Code.
- (7) The Buyer or any of its Affiliates fails to make payment of (i) any payment required to be made under this Agreement or any other material agreement between the Buyer or any of its Affiliates and the Seller or any of its Affiliates when such payment is due, (ii) any Predelivery Payment required to be made under this Agreement when such payment is due, or (iii) payment of all or part of the Final Price of any Aircraft required to be made under this Agreement.
- (8) The Buyer repudiates, cancels or terminates this Agreement in whole or in part.
- (9) The Buyer defaults in its obligation to take delivery of an Aircraft as provided in Clause 9.2.
- (10) The Buyer or any of its Affiliates defaults in the observance or performance of any other covenant, undertaking or obligation contained in this Agreement or any other material agreement between the Buyer or its Affiliates, on the one hand, and the Seller or its Affiliates on the other hand, provided that, if such breach or default is

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capable of being cured and such breach or default is not cured within any specified cure period.

- (11) Any other event that the parties agree in writing constitutes a Termination Event.

## 20.2 Remedies in Event of Termination

20.2.1 If a Termination Event occurs, the Buyer shall be in material breach of this Agreement, and the

Seller can elect any of the following remedies under the applicable law:

- (A) suspend its performance under this Agreement with respect to any or all Aircraft;
- (B) reschedule the Scheduled Delivery Month of any or all Aircraft remaining to be delivered under this Agreement without prejudice to Seller's rights under Clause 5.3.4;
- (C) suspend or reschedule the date for performance under this Agreement with respect to any or all equipment, services, data and other items; and/or
- (D) cancel or terminate this Agreement (a "**Termination**") with respect to any or all Aircraft, and/or equipment, services, data and/or other items related thereto.

20.2.2 In the event Seller elects a remedy under any of Clauses 20.2.1(A)(B) or (C), above:

- (A) Seller shall be entitled to any incidental damages incurred as a result of electing such remedy, including without limitation any commercially reasonable charges, expenses, commissions or costs of care or custody incurred in suspending or rescheduling performance after the Buyer's breach or any costs identified in Clause 9.2.3;
- (B) Buyer shall compensate Seller for such incidental damages [\*\*\*] of Seller issuing an invoice for such damages to Buyer; and
- (C) for the avoidance of doubt, (i) nothing herein shall preclude Seller from subsequently electing a Termination under 20.2.1 D, above and (ii) the Seller shall have an obligation to mitigate the damages set forth in Paragraph 20.2.2 A above.

20.2.3 If the Seller elects a Termination under Clause 20.2.1(D) above :

- (A) Seller may claim and receive payment from the Buyer, [\*\*\*] an amount equal to, for each Affected Aircraft (as defined below), the amount set forth as follows (in each case (i) less cash Predelivery Payments that have already been received by the Seller pursuant to Clause 5.3 at the time of such termination and solely to the extent such Predelivery Payments are attributable to the Affected Aircraft and (ii) plus the total amount of any credits, concessions or allowances extended by the Seller to the Buyer prior to the Applicable Date divided by the number of Aircraft on firm order and multiplied by the number of Affected Aircraft):  
  
[\*\*\*].
- (B) [\*\*\*] shall be payable by the Buyer promptly, and in any event [\*\*\*] of the date of written notice and demand therefor from the Seller that the Buyer is in breach. The

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parties agree that [\*\*\*] is not to be denied to the Seller due to the inability of the Seller to deliver a notice and demand for payment thereof due to the operation of law following a bankruptcy or other Termination Event under Clause 20.1(1) - (4).

The parties to this Agreement are commercially sophisticated parties acting within the same industry, and represented by competent counsel and the parties expressly agree and declare as follows:

- (C) damages for material breach of this Agreement by the Buyer resulting in a Termination of this Agreement as to any or all Aircraft have been [\*\*\*] at amounts that are reasonable in

light of the anticipated or actual harm caused by the Buyer's breach, the difficulties of proof of loss and the non-feasibility of otherwise obtaining an adequate remedy;

- (D) it is understood and agreed by the parties that the amount of [\*\*\*]
- (E) the [\*\*\*] of this Clause 20 has been fully negotiated by sophisticated parties represented by counsel, is a material component of the consideration granted and, [\*\*\*], the consideration would have been materially different.

### 20.3 Definitions

For purposes of this Clause 20, the terms “**Affected Aircraft**”, “**Applicable Date**” and “**Escalated Price**” are defined as follows:

- (i) “**Affected Aircraft**” – any or all Aircraft with respect to which the Seller has cancelled or terminated this Agreement pursuant to Clause 20.2.1 D,
- (ii) “**Applicable Date**” – for any Affected Aircraft, the date the Seller issues the notice and demand for payment of liquidated damages pursuant to Clause 20.2.3 B.
- (iii) “**Escalated Price**” – shall have the same meaning as the “Final Price” of the Aircraft as that term is defined in Clause 3.2, except that the meaning of “Delivery Date” shall have the same meaning as Applicable [\*\*\*], provided however that escalation in accordance with Clause 4 shall continue to accrue until the date that [\*\*\*] by the Buyer to the Seller.

### 20.4 Notice of Termination Event

[\*\*\*] becoming aware of the occurrence of a Termination Event by the Buyer, the Buyer shall notify the Seller of such occurrence in writing, provided, that any failure by the Buyer to notify the Seller shall not prejudice the Seller's rights or remedies hereunder.

### 20.5 Information Covenants

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The Buyer hereby covenants and agrees that, from the date of this Agreement until no further Aircraft are to be delivered hereunder, the Buyer shall furnish or cause to be furnished to the Seller the following, it being understood that this covenant with respect to Clauses 20.5 (a), (b) and (e) shall be deemed satisfied if the information requested in those clauses is filed, with un-redacted financial statements, with the U.S. Securities and Exchange Commission and is publicly available on EDGAR (or any successor online resource):

- (a) Annual Financial Statements. As soon as available and in any event no later than the date that the Buyer furnishes such annual statements to the Securities and Exchange Commission or successor thereto (the “SEC”) (i) a copy of the SEC Form 10-K filed by the Buyer with the SEC for such fiscal year, or, if no such Form 10-K was filed by the Buyer for such a fiscal year, the consolidated balance sheet of the Buyer and its Subsidiaries, as at the end of such fiscal year and the related consolidated statements of operations, of common stockholders' equity (deficit) (in the case of the Buyer and its Subsidiaries) and of cash flows for such fiscal year, setting forth comparative consolidated figures as of the end of and for the preceding fiscal year, and examined by any firm of independent public accountants of recognized standing selected by the Buyer and reasonably acceptable to the Seller, whose opinion shall not be qualified as to the scope of audit or as to the status of the Buyer as a going concern, and (ii) a certificate of such accounting firm stating that its audit of the

business of the Buyer was conducted in accordance with generally accepted auditing standards.

- (b) Quarterly Financial Statements. As soon as available and in any event no later than the date that the Buyer furnishes such quarterly statements to the Securities and Exchange Commission or successor thereto, a copy of the SEC Form 10-Q filed by the Buyer with the SEC for such quarterly period, or, if no such Form 10-Q was filed by the Buyer with respect to any such quarterly period, the consolidated balance sheet of the Buyer and its Subsidiaries, as at the end of such quarterly period and the related consolidated statements of operations for such quarterly period and for the elapsed portion of the fiscal year ended with the last day of such quarterly period and in each case setting forth comparative consolidated figures as of the end of and for the related periods in the prior fiscal year, all of which shall be certified by an Authorized Officer of the Buyer, subject to changes resulting from audit and normal year-end audit adjustments.
- (c) Debt Rescheduling. (i) Promptly upon the Buyer commencing negotiations with one or more of its significant creditors with a view to general readjustment or rescheduling of all or any material part of its indebtedness under circumstances in which a reasonable business person, in the exercise of prudent business judgment, would conclude that the Buyer would otherwise not be able to pay such indebtedness as it falls due, notice of commencement of such negotiations, and (ii) thereafter timely advice of the progress of such negotiations until such negotiations are terminated or completed.
- (d) Acceleration of other indebtedness. Immediately upon knowledge by the Buyer that the holder of any bond, debenture, promissory note or any similar evidence of indebtedness of the Buyer or Affiliate thereof (“**Other Indebtedness**”) has demanded payment, given notice or exercised its right to a remedy having the effect of

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acceleration with respect to a claimed event of default under any Other Indebtedness, where the impact of the acceleration is likely to have a material adverse effect on the Buyer’s ability to perform its obligations under or in connection with the transactions contemplated by this Agreement, notice of the demand made, notice given or action taken by such holder and the nature and status of the claimed event of default and what the action the Buyer is taking with respect thereto.

- (e) Other Information. Promptly upon transmission thereof, copies of any filings and registrations with, and reports to, the SEC by the Buyer or any of its Subsidiaries, and, with reasonable promptness, such other information or documents (financial or otherwise) as the Seller may reasonably request from time to time.

For the purposes of this Clause 20, (x) an “**Authorized Officer**” of the Buyer shall mean the Chief Executive Officer, the Chief Financial Officer or any Vice President and above who reports directly or indirectly to the Chief Financial Officer and (y) “**Subsidiaries**” shall mean, as of any date of determination, those companies owned by the Buyer whose financial results the Buyer is required to include in its statements of consolidated operations and consolidated balance sheets.

20.6 Nothing contained in this Clause 20 shall be deemed to waive or limit the Seller’s rights or ability to request adequate assurance under Article 2, Section 609 of the Uniform Commercial Code (the “UCC”). It is further understood that any commitment of the Seller or the Propulsion Systems



manufacturer to provide financing to the Buyer shall not constitute adequate assurance under Article 2, Section 609 of the UCC.

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## 21 ASSIGNMENTS AND TRANSFERS

### 21.1 Assignments

Except as hereinafter provided, neither party may sell, assign, novate or transfer its rights or obligations under this Agreement to any person without the prior written consent of the other, except that the Seller may sell, assign, novate or transfer its rights or obligations under this Agreement to any Affiliate without the Buyer's consent.

### 21.2 Assignments on Sale, Merger or Consolidation

The Buyer shall be entitled to assign its rights under this Agreement at any time due to a merger, consolidation or a sale of all or substantially all of its assets, provided the Buyer first obtains the written consent of the Seller. The Buyer shall provide the Seller with [\*\*\*] notice if the Buyer wishes the Seller to provide such consent. The Seller shall provide its consent if

- (i) the surviving or acquiring entity is organized and existing under the laws of the United States;
- (ii) the surviving or acquiring entity has executed an assumption agreement, in form and substance reasonably acceptable to the Seller, agreeing to assume all of the Buyer's obligations under this Agreement;
- (iii) at the time, and immediately following the consummation, of the merger, consolidation or sale, no event of default exists or shall have occurred and be continuing;
- (iv) there exists with respect to the surviving or acquiring entity no basis for a Termination Event;
- (v) the surviving or acquiring entity is an airline holding an operating certificate issued by the FAA at the time, and immediately following the consummation, of such sale, merger or consolidation; and
- (vi) following the sale, merger or consolidation, the surviving entity is in a financial condition at least equal to that of the Buyer at time of execution of the Agreement.

### 21.3 Designations by Seller

The Seller may at any time by notice to the Buyer designate facilities or personnel of the Seller or any other Affiliate of the Seller at which or by whom the services to be performed under this Agreement shall be performed. Notwithstanding such designation, the Seller shall remain ultimately responsible for fulfillment of all obligations undertaken by the Seller in this Agreement.

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#### 21.4 Transfer of Rights and Obligations upon Reorganization

In the event that the Seller is subject to a corporate restructuring having as its object the transfer of, or succession by operation of law in, all or a substantial part of its assets and liabilities, rights and obligations, including those existing under this Agreement, to a person (the “**Successor**”) that is an Affiliate 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 recognizes that succession of the Successor to the Agreement by operation of law that is valid under the law pursuant to which that succession occurs shall be binding upon the Buyer.

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## 22 MISCELLANEOUS PROVISIONS

### 22.1 Data Retrieval

The Buyer shall provide the Seller, as the Seller may [\*\*\*] 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 an efficient and coordinated survey of all reliability, maintenance, operational and cost data with a view to monitoring the efficient and cost effective operations of the Airbus fleet worldwide

### 22.2 Notices

All notices and requests required or authorized hereunder shall be given in writing either by personal delivery to an authorized officer of the party to whom the same is given or by commercial courier, express mail, certified air mail (return receipt requested) or facsimile (with a correct confirmation printout) at the addresses and numbers set forth below. For technical and operational matters, the parties may also communicate by e-mail. The date on which any such notice or request is so personally delivered, or if such notice or request is given by commercial courier, express mail, certified air mail, the date upon which it is received by the addressee or, if given by facsimile, the date on which it is sent with a correct confirmation printout, provided that if such date is not a Business Day, notice shall be deemed to have been received on the first following Business Day and shall be deemed to be the effective date of such notice or request.

The Seller will be addressed at:

Airbus S.A.S.  
Attention: Senior Vice President Contracts  
1, Rond Point Maurice Bellonte  
31707 Blagnac Cedex,  
France

The Buyer shall be addressed at:

Avianca (acting in its capacity as Agent, on behalf of the Buyer)  
Attention: Secretary General  
Avenida Calle 26 No. 59-15  
Bogota, Colombia

All communication, emails, notices and/or requests by Seller or its affiliates, agents or representatives shall be deemed to be received by each of Avianca and GTH when received by the Agent, without any further action to be taken by the Seller.

The Seller shall receive any communication, emails notices and/requests related to obligations under this Agreement from the Agent only.

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From time to time, the party receiving the notice or request may reasonably designate in writing another address or another person.

### 22.3 Waiver

The failure of either party to enforce at any time any of the provisions of this Agreement, to exercise any right herein provided or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a present or future waiver of such provisions nor in any way to affect the validity of this Agreement or any part hereof or the right of the other party thereafter to enforce each and every such provision. The express waiver (whether made one (1) or several times) by either party of any provision, condition or requirement of this Agreement shall not constitute a waiver of any future obligation to comply with such provision, condition or requirement except to the extent provided in such express waiver.

### 22.4 Negotiated Contract

The Buyer and the Seller recognize that this Agreement is has been the subject of discussion and negotiation, that all its terms and conditions are fully understood by the parties, and that the Specification and price of the Aircraft and the other mutual agreements of the parties set forth herein were arrived at in consideration of, inter alia, all provisions hereof specifically including all waivers, releases and renunciations by the Buyer set out herein.

### 22.5 Certain Representations of the Parties

#### 22.5.1 Buyer's Representations

Each Buyer and the Agent represents and warrants to the Seller:

- (A) Avianca, as Agent and Buyer
  - (i) Avianca is a sociedad anonima organized and existing in good standing under the laws of the Republic of Colombia and has the corporate power and authority to enter into and perform its obligations under this Agreement;
  - (ii) neither the execution and delivery by Avianca of this Agreement, nor the consummation of any of the transactions by Avianca contemplated thereby, nor the performance by Avianca of the obligations thereunder, constitutes a breach of any agreement to which Avianca is a party or by which its assets are bound;
  - (iii) this Agreement has been duly authorized, executed and delivered by Avianca and constitutes the legal, valid and binding obligation of Avianca enforceable against Avianca in accordance with its terms, except as such enforcement may be limited by bankruptcy, moratorium and other laws affecting sellers and creditors rights generally.
- (B) GTH

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- (i) GTH is a corporation organized and existing in good standing under the laws of the Commonwealth of the Bahamas and has the corporate power and authority to enter into and perform its obligations under this Agreement;
  - (ii) neither the execution and delivery by GTH of this Agreement, nor the consummation of any of the transactions by GTH contemplated thereby, nor the performance by GTH of the obligations thereunder, constitutes a breach of any agreement to which GTH is a party or by which its assets are bound;
  - (iii) this Agreement has been duly authorized, executed and delivered by GTH and constitutes the legal, valid and binding obligation of GTH enforceable against GTH in accordance with its terms, except as such enforcement may be limited by bankruptcy, moratorium and other laws affecting sellers and creditors rights generally.

#### 22.5.2 Seller's Representations

The Seller represents and warrants to the Buyer:

- (i) the Seller is a société par action simplifiée organized and existing in good standing under the laws of the Republic of France and has the corporate power and authority to enter into and perform its obligations under the Agreement;
- (ii) neither the execution and delivery by the Seller of this Agreement, nor the consummation of any of the transactions by the Seller contemplated thereby, nor the performance by the Seller of the obligations thereunder, constitutes a breach of any agreement to which the Seller is a party or by which its assets are bound;
- (iii) this Agreement has been duly authorized, executed and delivered by the Seller and constitutes the legal, valid and binding obligation of the Seller enforceable against the Seller in accordance with its terms except as such enforcement may be limited by bankruptcy, moratorium and other laws affecting sellers and creditors rights generally.

#### 22.6 Interpretation and Law

22.6.1 THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

Each of the Seller and the Buyer (i) hereby irrevocably submits itself to the exclusive jurisdiction of the courts sitting in the Borough of Manhattan, New York County, New York, for the purposes of any suit, action or other proceeding arising out of this Agreement, the subject matter hereof or any of the transactions contemplated hereby brought by any party or parties hereto, and (ii) hereby waives, and agrees not to assert, by way of motion, as a defense or otherwise, in any such suit, action or proceeding, to the extent permitted by applicable law, any defense based on sovereign or other immunity or that the suit, action or proceeding which is referred to in clause (i) above is brought in an inconvenient forum, that

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the venue of such suit, action or proceeding is improper, or that this Agreement or the subject matter hereof or any of the transactions contemplated hereby may not be enforced in or by these courts.

THE PARTIES HEREBY ALSO AGREE THAT THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS SHALL NOT APPLY TO THIS TRANSACTION.

- 22.6.2 The Buyer and the Agent for itself and its successors and assigns hereby designates and appoints the Smith, Gambrell & Russell, LLP, and its successors, duly elected from time to time as its legal agent and attorney-in-fact upon whom all processes against the Buyer in any suit, action or proceeding in respect of any matter as to which it has submitted to jurisdiction under Clause 22.6.1 may be served with the same effect as if the Buyer were a corporation organized under the laws of the State of New York and had lawfully been served with such process in such state, it being understood that such designation and appointments shall become effective without further action on the part of the appointee.
- 22.6.3 The designation and appointment in Clause 22.6.2 made for the purpose of effecting the service of process shall not affect any assertion of diversity by either party hereto initiating a proceeding in the New York Federal Courts or seeking transfer to the New York Federal Courts on the basis of diversity.
- 22.6.4 Service of process in any suit, action or proceeding in respect of any matter as to which the Seller or the Buyer has submitted to jurisdiction under Clause 22.6.1 may be made on the Seller by delivery of the same personally or by dispatching the same via Federal Express, UPS, or similar international air courier service prepaid to, CT Corporation, New York City offices as agent for the Seller, it being agreed that service upon CT Corporation shall constitute valid service upon the Seller or by any other method authorized by the laws of the State of New York, and (ii) may be made on the Buyer by delivery of the same personally or by dispatching the same by Federal Express, UPS, or similar international air courier service prepaid, return receipt requested to: Smith, Gambrell & Russell, LLP, and its successors, 1301 Avenue of the Americas, 21st Floor, New York, New York 10019, Attention: Peter Barlow, as agent for the Buyer, it being agreed that service upon Smith, Gambrell & Russell, LLP shall constitute valid service upon the Buyer or any other method authorized by the laws of the State of New York; provided in each case that failure to deliver or mail such copy shall not affect the validity or effectiveness of the service of process.

#### 22.7 Headings

All headings in this Agreement are for convenience of reference only and do not constitute a part of this Agreement.

#### 22.8 Waiver of Jury Trial

EACH OF THE PARTIES HERETO WAIVES ITS RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE TRANSACTIONS

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CONTEMPLATED HEREBY BROUGHT BY ANY PARTY OR PARTIES HERETO AND FOR ANY COUNTERCLAIM OR CROSS-CLAIM THEREIN.

22.9 No Representations Outside of this Agreement

The parties declare that, prior to the execution of this Agreement, they, with the advice of their respective counsel, apprised themselves of sufficient relevant data in order that they might intelligently exercise their own judgments in deciding whether to execute this Agreement and in deciding on the contents of this Agreement. Each party further declares that its decision to execute this Agreement is not predicated on or influenced by any declarations or representations by any other person, party, or any predecessors in interest, successors, assigns, officers, directors, employees, agents or attorneys of any said person or party, except as set forth in this Agreement. This Agreement resulted from negotiation involving counsel for all of the parties hereto and no term herein shall be construed or interpreted against any party under the contra proferentum or any related doctrine.

22.10 Severability

If any provision of this Agreement should for any reason be held ineffective, the remainder of this Agreement shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law that renders any provision of this Agreement prohibited or unenforceable in any respect.

22.11 Entire Agreement

This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any previous understanding, commitments or representations whatsoever, whether oral or written. This Agreement shall not be amended or modified except by an instrument in writing of even date herewith or subsequent hereto executed by both parties or by their fully authorized representatives.

22.12 Inconsistencies

In the event of any inconsistency between the terms of this Agreement and the terms contained in either (i) the Specification, or (ii) any other Exhibit, in each such case the terms of this Agreement shall prevail over the terms of the Specification or any other Exhibit. For the purpose of this Clause 22.12, the term Agreement shall not include the Specification or any other Exhibit hereto.

22.13 Language

All correspondence, documents and any other written matters in connection with this Agreement shall be in English.

22.14 Counterparts

This Agreement has been executed in two (2) original copies.

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Notwithstanding the foregoing, this Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

22.15 Confidentiality

Subject to any legal or governmental requirements of disclosure, the parties (which for this purpose shall include their employees, consultants, advisors and legal counsel) shall maintain the terms and conditions of this Agreement and any reports, information or other data furnished hereunder strictly confidential, including but not limited to, the Aircraft pricing and other concessions and any data furnished under Clause 22.1 (the “**Confidential Information**”). Without limiting the generality of the foregoing, the Buyer and Seller will each use its best efforts to limit the disclosure of the contents of this Agreement to the extent legally permissible in any filing required to be made with any governmental agency and shall make such applications as shall be necessary to protect the confidentiality of the Confidential Information.

With respect to any public disclosure or filing by the Buyer (including any filing by Buyer with the US Securities and Exchange Commission or any similar body in connection with registration and/or offering of the Buyer’s securities), the disclosing party agrees to submit to the Seller a copy of the proposed document to be filed or disclosed and shall give the Seller a reasonable period of time [\*\*\*]) in which to review and comment on said document and any redactions thereof. The Buyer and the Seller shall consult with each other prior to the making of any public disclosure or filing of this Agreement permitted hereunder or the terms and conditions hereof as well as any press release concerning the whole or any part of the contents and/or subject matter hereof or of any future amendment hereof.

The provisions of this Clause 22.15 shall survive any termination of this Agreement.

22.16 Export Control

The Buyer acknowledges that the commodities, technology, software and/or services provided by the Seller or its Affiliates under this Agreement may be subject to export control laws and regulations, and that use, disclosure or diversion contrary to such laws is prohibited.

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IN WITNESS WHEREOF, this Agreement was entered into as of the day and year first above written.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE**

**GRUPO TACA HOLDINGS LIMITED**

**AMERICANO S.A. AVIANCA.**

Name: \_\_\_\_\_ Name: \_\_\_\_\_

Title: \_\_\_\_\_ Title: \_\_\_\_\_

Signature: \_\_\_\_\_ Signature: \_\_\_\_\_

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EXHIBIT A

**SPECIFICATION**

The A319 Standard Specification, the A320 Standard Specification and the A320ceo Standard Specification are attached in a separate folder.

CONTENT

PART 1 List of SCNs for A319 Aircraft

PART 2 List of SCNs for A320 Aircraft

PART 3 List of SCNs for A321 Aircraft

[\*\*\*]

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EXHIBIT B

CONTENT



PART 1: FORM OF A SPECIFICATION CHANGE NOTICE

PART 2 FORM OF A MANUFACTURER'S SPECIFICATION CHANGE NOTICE

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EXHIBIT B

PART 1: FORM OF A SPECIFICATION CHANGE NOTICE

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EXHIBIT B

PART 2: FORM OF A MANUFACTURER SPECIFICATION CHANGE NOTICE

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EXHIBIT B

[\*\*\*]

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EXHIBIT C

**PART 1 AIRFRAME PRICE REVISION FORMULA**

**1 BASE PRICE**

The Base Price of the Airframe quoted in Clause 3.1 of the Agreement is 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 Price of the Airframe has been established in accordance with the [\*\*\*] as defined [\*\*\*] index values indicated hereafter.

**3 INDEXES**

Labor Index [\*\*\*] The quarterly value released for a certain [\*\*\*].

Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*].

[\*\*\*]Index code for access on the web site of the US Bureau of Labor Statistics: [\*\*\*]

**4 REVISION FORMULA**

[\*\*\*]

**5 GENERAL PROVISIONS**

5.1 Roundings

The Labor Index average and the Material Index average shall be computed to the first decimal. If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

Each quotient [\*\*\*] shall be rounded to the nearest ten-thousandth (4 decimals). If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

[\*\*\*]

The final price shall be rounded to the nearest whole number (0.5 or more rounded to 1).

#### 5.2 Substitution of Indexes for Airframe Price Revision Formula

If:

- (i) the United States Department of Labor substantially revises the methodology of calculation of the Labor Index or the Material Index as used in the Airframe Price Revision Formula, or
- (ii) the United States Department of Labor discontinues, either temporarily or permanently, such Labor Index or such Material Index, or

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#### EXHIBIT C

- (iii) the data samples used to calculate such Labor Index or such Material Index are substantially changed;

Then the Seller shall select a substitute index for inclusion in the Airframe Price Revision Formula (the "Substitute Index").

The Substitute Index shall reflect as closely as possible the actual variance of the Labor Costs or of the material costs used in the calculation of the original Labor Index or Material Index as the case may be.

As a result of the selection of the Substitute Index, the Seller shall make an appropriate adjustment to the Airframe Price Revision Formula to combine the successive utilization of the original Labor Index or Material Index (as the case may be) and of the Substitute Index.

#### 5.3 Final Index Values

The Index values as defined in Clause 4 above shall be considered final and no further adjustment to the base prices as revised at Delivery of the Aircraft shall be made after Aircraft Delivery for any subsequent changes in the published Index values.

#### 5.4 Limitation

v

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## **PART 2 CFM PRICE REVISION FORMULA**

### **1 REFERENCE PRICE OF THE PROPULSION SYSTEMS**

The Reference Prices of a set of two (2) CFM INTERNATIONAL LEAP Propulsion Systems are:

[\*\*\*]

These 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 Clauses 4 and 5 hereof.

### **2 REFERENCE PERIOD**

The Reference Prices have been established in accordance with the [\*\*\*]

### **3 INDEXES**

Labor Index [\*\*\*] The quarterly value released for a certain [\*\*\*].

Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*]

Material Index [\*\*\*] Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*]

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EXHIBIT C

### **4 REVISION FORMULA**

[\*\*\*]

### **5 GENERAL PROVISIONS**

#### **5.1 Roundings**

- (i) The Material index [\*\*\*] shall be rounded to the nearest second decimal place and the labor index average [\*\*\*] shall be rounded to the nearest first decimal place.
- (ii) [\*\*\*] shall be rounded to the nearest second decimal place.
- (iii) The final factor [\*\*\*] shall be rounded to the nearest third decimal place.

If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure. After final computation [\*\*\*] shall be rounded to the nearest whole number (0.5 rounds to 1).

#### **5.2 Final Index Values**

The revised Reference Price at the date of Aircraft Delivery shall not be subject to any further adjustments in the indexes.

### 5.3 Interruption of Index Publication

If the US Department of Labor substantially revises the methodology of calculation or discontinues any of these indexes referred to hereabove, the Seller shall reflect the substitute for the revised or discontinued index selected by CFM INTERNATIONAL, such substitute index to lead in application to the same adjustment result, insofar as possible, as would have been achieved by continuing the use of the original index as it may have fluctuated had it not been revised or discontinued. Appropriate revision of the formula shall be made to accomplish this result.

### 5.4 Annulment of the Formula

Should the above [\*\*\*] provisions become null and void by action of the US Government, the Reference Price shall be adjusted due to increases in the costs of labor and materiel which have occurred from the period represented by the applicable Reference [\*\*\*] to the [\*\*\*] prior to the month of Aircraft Delivery.

### 5.5 Limitation

[\*\*\*]

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EXHIBIT C

## **PART 3 PW PRICE REVISION FORMULA**

### **1 REFERENCE PRICE OF THE PROPULSION SYSTEMS**

The Reference Prices of a set of two (2) PRATT AND WHITNEY PW1100G-JM Propulsion Systems are:

[\*\*\*]

The Reference Price is 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 Reference Price has been established in accordance with the [\*\*\*] and corresponding to a theoretical delivery in [\*\*\*] as defined by [\*\*\*] indicated hereafter.

### **3 INDEXES**

Labor Index: [\*\*\*]

The quarterly value released for a certain [\*\*\*].

Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*]

Material Index: [\*\*\*]

Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*]

Metal Index: [\*\*\*] Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*].

#### **4 REVISION FORMULA**

[\*\*\*]

#### **5 GENERAL PROVISIONS**

##### **5.1 Roundings**

The Labor Index average, the Material Index average and the Metal Index average shall be computed to the first decimal. If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

Each quotient [\*\*\*] shall be rounded to the nearest ten-thousandth (4 decimals). If the next succeeding place is five (5) or more, the preceding decimal place shall be raised to the next higher figure.

The final factor shall be rounded to the nearest ten-thousandth (4 decimals).

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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#### **EXHIBIT C**

The final price shall be rounded to the nearest whole number (0.5 or more rounded to 1).

##### **5.2 Substitution of Indexes for Price Revision Formula**

If:

- (i) the United States Department of Labor substantially revises the methodology of calculation of the Labor Index, the Material Index or the Metal Index, as used in the Price Revision Formula, or
- (ii) the United States Department of Labor discontinues, either temporarily or permanently, such Labor Index, such Material Index or such Metal Index, or
- (iii) the data samples used to calculate such Labor Index, such Material Index, or such Metal Index are substantially changed;

Pratt and Whitney shall select a substitute index for inclusion in the Price Revision Formula (the “Substitute Index”) and the Seller shall reflect such Substitute Index.

The Substitute Index shall reflect as closely as possible the actual variance of the labor costs, of the material costs or of the metal costs used in the calculation of the original Labor Index, Material Index or Metal Index, as the case may be.

As a result of the selection of the Substitute Index, an appropriate adjustment to the Price Revision Formula shall be performed, to combine the successive utilization of the original Labor Index, Material Index or Metal Index (as the case may be) and of the Substitute Index.

5.3 Final Index Values

The Index values as defined in Clause 4 above shall be considered final and no further adjustment to the adjusted Reference Price as revised at Aircraft Delivery (or payment of such revised amounts, as the case may be) shall be respectively made after Aircraft Delivery (or payment of such adjusted amounts, as the case may be) for any subsequent changes in the published Index values.

5.4 Limitation

[\*\*\*]

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EXHIBIT D

**CERTIFICATE OF ACCEPTANCE**

In accordance with the terms of clause \_\_\_\_\_ of the \_\_\_\_\_ purchase agreement dated \_\_\_\_\_ and made between [name of the parties to the Purchase Agreement] (the “**Customer**”) and Airbus S.A.S., as amended and supplemented from time to time (the “**Purchase Agreement**”), the technical acceptance tests relating to one Airbus A3\_\_-\_\_\_\_\_ aircraft bearing manufacturer’s serial number \_\_\_\_\_ and registration mark \_\_\_\_\_ (the “**Aircraft**”) have taken place in [Blagnac, France /or Hamburg, Germany /or Tianjin, People’s Republic of China].

In view of said tests having been carried out with satisfactory results, the Customer, as agent of [Name of party purchasing the Aircraft] (the “**Owner**”) pursuant to the purchase agreement assignment dated \_\_\_\_\_ and made between the Customer and the Owner, hereby approves the Aircraft as being in conformity with the provisions of the Purchase Agreement and accepts the Aircraft for delivery in accordance with the provisions of the Purchase Agreement.

Such acceptance shall not impair the rights that may be derived from the warranties relating to the Aircraft set forth in the Purchase Agreement.

Any right at law or otherwise to revoke this acceptance of the Aircraft is hereby irrevocably waived.

IN WITNESS WHEREOF, the Customer, as agent of the Owner, has caused this instrument to be executed by its duly authorised representative this \_\_\_\_\_ day of \_\_\_\_\_ in [Blagnac, France /or Hamburg, Germany /or Tianjin, People’s Republic of China].

[**CUSTOMER**] as agent of [the **OWNER**]

Name:

Title:

Signature:

EXHIBIT E

**AIRCRAFT BILL OF SALE**

(the “**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 of \_\_\_\_\_, 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\_\_-\_\_

**[ENGINES/PROPULSION SYSTEMS]:**

[engine or p/s manufacturer] Model \_\_\_\_\_

**MANUFACTURER’S SERIAL NUMBER:** \_\_\_\_\_

\_\_\_\_\_

**ENGINE SERIAL NUMBERS:**

LH: \_\_\_\_\_

RH: \_\_\_\_\_

**REGISTRATION MARK:** \_\_\_\_\_

and had such title to the BFE as was acquired by it from [insert name of vendor of the BFE] pursuant to a bill of sale dated \_\_\_\_\_ (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 \_\_\_\_\_, sell, transfer and deliver all of its above described rights, title and interest in and to the Aircraft and the BFE to the following entity and to its successors and assigns forever, said Aircraft and the BFE to be the property thereof:

[Insert Name and Address of Buyer]

(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 is governed by and shall be construed in accordance with the laws of [same governing law as in the Purchase Agreement].



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EXHIBIT E

IN WITNESS WHEREOF, the Seller has caused this instrument to be executed by its duly authorised representative this \_\_\_\_\_ day of \_\_\_\_\_ in [Blagnac, France /or Hamburg, Germany /or Tianjin, People’s Republic of China].

**AIRBUS S.A.S.**

Name:

Title:

Signature:

---

EXHIBIT F

**SERVICE LIFE POLICY**

**LIST OF ITEMS**

1 The Items covered by the Service Life Policy pursuant to Clause 12.2 are those Seller Items of primary and auxiliary structure described hereunder.

2 **WINGS - CENTER AND OUTER WING BOX (LEFT AND RIGHT)**

[\*\*\*]

3 [\*\*\*]

4 [\*\*\*]

5 **EXCLUSIONS**

Bearing and roller assemblies, bearing surfaces, bushings, fittings other than those listed above, access and inspection doors, including manhole doors, latching mechanisms, all system components, commercial interior parts, insulation and related installation and connecting devices are excluded from this Seller Service Life Policy.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

## TECHNICAL DATA & SOFTWARE

Where applicable, data shall be established in general compliance with the ATA 100 Information Standards for Aviation Maintenance and the applicable provisions for digital standard of ATA Specification 2200 (iSpec2200).

The Seller shall provide the Buyer with the following Technical Data (or such other equivalent Technical Data as may be applicable at the time of their provision to the Buyer).

### 1 Airbus Flight Operations Data Package

The Airbus Flight Operations Data Package encompasses the following customised operational manuals required to operate the Aircraft:

- Flight Manual (FM),
- Flight Crew Operating Manual (FCOM),
- Flight Crew Training Manual (FCTM),
- Quick Reference Handbook (QRH),
- Cabin Crew Operating Manual (CCOM),
- Master Minimum Equipment List (MMEL),
- Weight and Balance Manual (WBM).

#### 1.1 Format of Data

The Flight Operations Data Package shall be available on-line through the Seller's customer portal AirbusWorld in eXtensible Mark-up Language (XML), for downloading and further data processing and customization, and/or in Portable Document Format (PDF), as applicable.

In addition, the Seller shall make available [\*\*\*] QRH sets per Aircraft in paper format.

Upon the Buyer's request, a back-up copy of the manuals of the Flight Operations Data Package may be provided off-line on CD or DVD.

#### 1.2 Availability Schedule

The Airbus Flight Operations Data Package, reflecting the Buyer's Aircraft configuration, shall be available to the [\*\*\*] of the first Aircraft.

A preliminary customized MMEL shall be available [\*\*\*] Aircraft.

The final issue of WBM and FM shall be made available [\*\*\*] Aircraft Delivery.

### 2 Airbus Maintenance Technical Data Package

The Airbus Maintenance Technical Data Package encompasses the following customised maintenance data required for on-aircraft maintenance to ensure the continued airworthiness of the Aircraft:

- Aircraft Maintenance Manual (AMM),
- Aircraft Wiring Manual (AWM),
- Aircraft Schematics Manual (ASM),
- Aircraft Wiring Lists (AWL),

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- Illustrated Part Catalog (IPC),
- Trouble Shooting Manual (TSM).

2.1 Format of Data

The Airbus Maintenance Technical Data Package shall be available in the AirN@v/Maintenance module of the AirN@v software and shall be accessible on-line through the Seller's customer portal AirbusWorld.

In addition, if so requested by the Buyer, the corresponding raw data in Standard Generalized Mark-up Language (SGML) format shall also be made available for download from the Seller's customer portal AirbusWorld.

[\*\*\*] that a back-up copy of the data of the Airbus Maintenance Technical Data Package be provided off-line on CD or DVD.

2.2 Availability Schedule

The Airbus Maintenance Technical Data Package, reflecting the Buyer's Aircraft configuration, shall be available to the [\*\*\*] Aircraft.

Upon the Buyer's request, where applicable, preliminary customized maintenance data may be available [\*\*\*] Aircraft.

3 Non-customized Technical Data

Non-customised Technical Data, provided as part of the Maintenance Technical Data Package, shall be made available to the Buyer either in the corresponding AirN@v software module, as detailed in Clause 14.9 of the Agreement, or in PDF format, as applicable.

The Technical Data belonging to each AirN@v module and/or available in PDF format shall be as listed in the Seller's Customer Services Catalog current at the time of the delivery of the Technical Data.

Non-customised Technical Data shall be made available to the Buyer in accordance with a schedule to be mutually agreed between the Buyer and [\*\*\*] Aircraft.

4 Additional Technical Data

4.1 In addition to the Flight Operations Data Package and the Maintenance Technical Data Package, the Seller shall provide, at Delivery of each Aircraft, on-line access to the Aircraft mechanical drawings that cover installation of structure and systems fitted on the Buyer's Aircraft at Delivery.

4.2 Within [\*\*\*] after the Delivery of each Aircraft, the Seller shall provide, [\*\*\*]:

- the weighing report, for integration into the WBM by the Buyer,
- the Electrical Load Analysis (ELA), in a format allowing further updating by the Buyer.

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## EXHIBIT H

## MATERIAL SUPPLY AND SERVICES

**1 GENERAL**1.1 Scope

- 1.1.1 This Exhibit H sets forth the terms and conditions for the support and services offered by the Seller to the Buyer with respect to Material (as defined below).
- 1.1.2 References made to Articles shall be deemed to refer to articles of this Exhibit H unless otherwise specified.
- 1.1.3 For purposes of this Exhibit H:
- 1.1.4 The term “**Supplier**” shall mean any supplier providing any of the Material listed in Article 1.2.1 and the term “**Supplier Part**” shall mean an individual item of Material.
- 1.1.5 The term “**SPEC 2000**” means the “**E-Business Specification for Materials Management**” document published by the Air Transport Association of America.

1.2 Material Categories

- 1.2.1 Each of the following constitutes “**Material**” for purposes of this Exhibit H:
- (i) Seller parts;
  - (ii) Supplier Parts classified as Repairable Line Maintenance Parts (as defined in SPEC 2000);
  - (iii) Supplier Parts classified as Expendable Line Maintenance Parts (as defined in SPEC 2000);
  - (iv) Seller and Supplier ground support equipment and specific-to-type tools

where “**Seller Parts**” means Seller’s proprietary parts bearing a part number of the Seller or for which the Seller has the exclusive sales rights.

- 1.2.2 Propulsion Systems, engine exchange kits, their accessories and parts for any of the foregoing, are not covered under this Exhibit H.

1.3 Term

During a period commencing on the date hereof and continuing as long as [\*\*\*] aircraft of the model of the Aircraft are operated in commercial air transport service, of which [\*\*\*] (the “**Term**”), the Seller shall maintain, or cause to be maintained, a reasonable stock of [\*\*\*].

The Seller shall use reasonable efforts to obtain a similar service from all Suppliers of Supplier Parts originally installed on an Aircraft at Delivery.

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1.4 Airbus Material Store

1.4.1 AACS Spares Center

The Seller has established and shall maintain or cause to be maintained, during the Term, a US store (“**US Spares Center**”). The US Spares Center shall be operated twenty-four (24) hours per day, seven (7) days per week, for the handling of AOG and critical orders for Seller Parts.

Seller acknowledges that Buyer’s preference of Miami, FL as a location for development of future US Spares center.

The Seller shall make reasonable efforts to deliver Seller Parts to the Buyer from the US Spares Center.

1.4.2 Material Support Center, Germany

The Seller has established its material headquarters in Hamburg, Germany (the “**Airbus Material Center**”) and shall, during the Term, maintain, or have maintained on its behalf, a central store of Seller Parts. The Airbus Material Center shall be operated twenty-four (24) hours per day, seven (7) days per week.

[\*\*\*] 1.4.3 Other Points of Shipment

1.4.3.1 In addition to the AACS Spares Center and the Airbus Material Center, the Seller and its Affiliates operate a global network of regional satellite stores (The “**Regional Satellite Stores**”). A list of such stores shall be provided to the Buyer upon the Buyer’s request.

1.4.3.2 The Seller reserves the right to effect deliveries from distribution centers other than the US Spares Center or the Airbus Material Center, which may include the Regional Satellite Stores or any other production or Supplier’s facilities.

1.5 Customer Order Desk

The Seller operates a “**Customer Order Desk**”, the main functions of which are:

- (i) Management of order entries for all priorities, including Aircraft On Ground (“**AOG**”);
- (ii) Management of order changes and cancellations;
- (iii) Administration of Buyer’s routing instructions;
- (iv) Management of Material returns;
- (v) Clarification of delivery discrepancies;

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- (vi) Issuance of credit and debt notes.

[\*\*\*]

The Buyer hereby agrees to communicate its orders for Material to the Customer Order Desk either in electronic format (SPEC 2000), telephone, fax, SITA message, e-mail or via the Internet.

1.6 Commitments of the Buyer

[\*\*\*].

2 INITIAL PROVISIONING

2.1 Period

The initial provisioning period commences with the Pre-Provisioning Meeting, as defined in Article 2.2.1, and expires on [\*\*\*] after Delivery of the last Aircraft firmly ordered under the Agreement as of the date hereof (“**Initial Provisioning Period**”).

2.2 Pre-Provisioning Meeting

2.2.1 The Seller shall organize a pre-provisioning meeting at AACCS Spares Center or at the Airbus Material Center, or at any other agreed location, for the purpose of setting an acceptable schedule and working procedure for the preparation of the initial issue of the Provisioning Data and the Initial Provisioning Conference referred to in Articles 2.3 and 2.4 below (the “**Pre-Provisioning Meeting**”).

During the Pre-Provisioning Meeting, the Seller shall familiarize the Buyer with the provisioning processes, methods and formulae of calculation and documentation.

2.2.2 The Pre-Provisioning Meeting shall take place on an agreed date that is [\*\*\*] prior to Scheduled Delivery Month of the first Aircraft, allowing a minimum preparation time [\*\*\*] for the Initial Provisioning Conference.

2.3 Initial Provisioning Conference

The Seller shall organize an initial provisioning conference at the AACCS Spares Center or at the Airbus Material Center (the “**Initial Provisioning Conference**”), the purpose of which shall be to agree the material scope and working procedures to accomplish the initial provisioning of Material (the “**Initial Provisioning**”).

The Initial Provisioning Conference shall take place at the earliest [\*\*\*] after Aircraft Manufacturer Serial Number allocation or Contractual Definition Freeze, whichever occurs last and latest [\*\*\*] before the Scheduled Delivery Month of the first Aircraft.

2.4 Provisioning Data

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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2.4.1 Provisioning data generally in accordance with SPEC 2000, Chapter 1, for Material described in Articles 1.2.1 (i) through 1.2.1 (iii) (“**Provisioning Data**”) shall be supplied by the Seller to the Buyer in the English language, in a format and timeframe to be agreed during the Pre-Provisioning Meeting.

2.4.1.1 Unless a longer revision cycle has been agreed, the Provisioning Data shall be revised every [\*\*\*] up to the end of the Initial Provisioning Period.

- 2.4.1.2 The Seller shall ensure that Provisioning Data is provided to the Buyer in time to permit the Buyer to perform any necessary evaluation and to place orders in a timely manner.
- 2.4.1.3 Provisioning Data generated by the Seller shall comply with the configuration of the Aircraft as documented [\*\*\*] before the date of issue.

This provision shall not cover:

- (i) Buyer modifications not known to the Seller,
- (ii) other modifications not approved by the Seller's Aviation Authorities.

#### 2.4.2 Supplier-Supplied Data

Provisioning Data relating to each Supplier Part (both initial issue and revisions) shall be produced by Supplier thereof and may be delivered to the Buyer either by the Seller or such Supplier. It is agreed and understood by the Buyer that the Seller shall not be responsible for the substance, accuracy or quality of such data. Such Provisioning Data shall be provided in either SPEC 2000 format or any other agreed format.

#### 2.4.3 Supplementary Data

The Seller shall provide the Buyer with data supplementary to the Provisioning Data, comprising local manufacture tables, ground support equipment, specific-to-type tools and a pool item candidate list. The list of spare parts required for the installation of all airframe LRUs will be provided by the Seller to the Buyer during the Initial Provisioning Conference

#### 2.5 Commercial Offer

Upon the Buyer's request, the Seller shall submit a commercial offer for Initial Provisioning Material.

#### 2.6 Delivery of Initial Provisioning Material

- 2.6.1 During the Initial Provisioning Period, Initial Provisioning Material shall conform to the latest known configuration standard of the Aircraft for which such Material is intended as reflected in the Provisioning Data transmitted by the Seller.
- 2.6.2 The delivery of Initial Provisioning Material shall take place according to the conditions specified in the commercial offer mentioned in Article 2.5.

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- 2.6.3 All Initial Provisioning Material shall be packaged in accordance with ATA 300 Specification.

#### 2.7 Buy-Back Period and Buy-Back of Initial Provisioning Surplus Material

The "**Buy-Back Period**" is defined as the period starting [\*\*\*].

- b) At any time during the Buy-Back Period, the Buyer [\*\*\*]
- c) [\*\*\*] shall be eligible for Buy-Back provided:
  - [\*\*\*].
  - [\*\*\*]

d) If [\*\*\*] is accepted for Buy-Back, the Seller shall [\*\*\*]:

- [\*\*\*];
- [\*\*\*].

### **3 OTHER MATERIAL SUPPORT**

#### **3.1 Replenishment and Delivery**

##### **3.1.1 General**

For the purpose of clarification, it is expressly stated that the provisions of Article 3.1.2 do not apply to Initial Provisioning Material and Provisioning Data as described in Article 2.

##### **3.1.2 Lead times**

In general, lead times shall be in accordance with the provisions of the latest edition of the “**World Airlines and Suppliers Guide**”.

3.1.2.1 Seller Parts as per Article 1.2.1 (i) shall be dispatched within the lead times published by the Seller.

Lead times for Seller Parts as per Article 1.2.1 (i), which are not published by the Seller, shall be quoted upon request.

3.1.2.2 Material defined in Articles 1.2.1 (ii) through 1.2.1 (iv) can be dispatched within the Supplier’s lead time augmented by the Seller’s own order and delivery administration time.

##### **3.1.3 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**”).

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3.1.3.1 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:

- (i) four (4) hours after receipt of an AOG order;
- (ii) twenty-four (24) hours after receipt of a critical order (imminent AOG or work stoppage);
- (iii) seven (7) days after receipt of an expedite order (urgent stock replenishment).

3.1.3.2 In exceptional AOG circumstances, should the Buyer be unable to send a written order for reasons beyond his control, the Seller may deliver the Material after a telephone call, provided a purchase order is sent to the Seller by [\*\*\*] Day. Should the Buyer fail to send such purchase order, the Seller reserves the right to refuse any subsequent purchase orders without receipt of a firm written purchase order.

3.1.4 Shortages, Overshipments, Non-Conformity in Orders



3.1.4.1 The Buyer shall, within [\*\*\*] after delivery of Material pursuant to a purchase order, advise the Seller:

- (i) of any alleged shortages or overshipments;
- (ii) 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-conformities within the above-defined period, the Buyer shall be deemed to have accepted the delivery.

3.1.4.2 In the event of the Buyer reporting an overshipment or non-conformity to the order within the period defined in Article 3.1.4.1 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. In such case, [\*\*\*] 3.1.5 Delivery Terms

Material shall be delivered to the Buyer as follows:

- (i) Free Carrier (FCA) Airbus Material Center;
- (ii) Free Carrier (FCA) Seller's Regional Satellite Stores;
- (iii) Free Carrier (FCA) Seller's or Supplier's facility for deliveries from any other Seller or Supplier facilities.

The term Free Carrier (FCA) is as defined in the Incoterms 2010 publication issued by the International Chamber of Commerce.

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### 3.1.6 Packaging

All Material shall be packaged in accordance with ATA 300 Specification.

### 3.1.7 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 5.2 through 5.3.

### 3.2 Seller Parts Leasing

The Seller offers the Buyer the option to lease certain Seller Parts as listed in the Customer Services Catalog. The terms and conditions applicable to such service shall be as set forth in the then current Customer Services Catalog.

### 3.3 Tools and Ground Support Equipment

The Seller offers for sale and/or loan a range of ground support equipment and specific-to-type tools, as defined in 1.2.1 (iv).

The terms and conditions applicable to such service shall be as set forth in the then current Customer Services Catalog.

### 3.4 Seller Parts Repair

The Seller may offer the Buyer a service whereby the Seller would manage the repair of Seller Parts as defined in Article 1.2.1 (i).

The terms and conditions applicable to such service shall be as set forth in the then current Customer Services Catalog.

## 4 **WARRANTIES**

### 4.1 Seller Parts

Subject to the limitations and conditions as hereinafter provided, the Seller warrants to the Buyer that all Seller Parts, sold under this Exhibit H 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.

#### 4.1.1 Warranty Period

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4.1.1.1 The warranty period for Seller Parts is [\*\*\*] for new Seller Parts and [\*\*\*] for used Seller Parts from delivery of such parts to the Buyer.

4.1.1.2 Whenever any Seller Part that contains a defect for which the Seller is liable under Article 4.1 has been corrected, replaced or repaired pursuant to the terms of this Article 4.1, the period of the Seller's warranty with respect to such corrected, repaired or replacement Seller Part, as the case may be, shall be the remaining portion of the original warranty period or [\*\*\*], whichever is longer.

#### 4.1.2 Buyer's Remedy and Seller's Obligation

The Buyer's remedy and Seller's obligation and liability under this Article 4.1 are limited to the repair, replacement or correction, [\*\*\*], of any Seller Part that is defective.

The Seller may alternatively furnish to the Buyer's account with the [\*\*\*] The provisions of Clauses 12.1.5 through 12.1.11 of the Agreement shall apply to claims made pursuant to this Article 4.1.

### 4.2 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 the benefit of any warranties, which the Seller may have obtained from the corresponding Suppliers and the Buyer hereby agrees that it shall accept the same.

### 4.3 Waiver, Release and Renunciation

THIS ARTICLE 4 (INCLUDING ITS SUBPARTS) SETS FORTH THE EXCLUSIVE WARRANTIES, EXCLUSIVE LIABILITIES AND EXCLUSIVE OBLIGATIONS OF THE SELLER, AND THE

EXCLUSIVE REMEDIES AVAILABLE TO THE BUYER, WHETHER UNDER THIS AGREEMENT OR OTHERWISE, ARISING FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN ANY SELLER PART, MATERIAL, LEASED PART, OR SERVICES DELIVERED BY THE SELLER UNDER THIS AGREEMENT.

THE BUYER RECOGNIZES THAT THE RIGHTS, WARRANTIES AND REMEDIES IN THIS ARTICLE 4 ARE ADEQUATE AND SUFFICIENT TO PROTECT THE BUYER FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN THE SELLER PARTS, MATERIALS, LEASED PARTS, OR SERVICES SUPPLIED UNDER THIS AGREEMENT. THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS, GUARANTEES AND LIABILITIES OF THE SELLER AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER AND ITS SUPPLIERS, WHETHER EXPRESS OR IMPLIED BY CONTRACT, TORT, OR STATUTORY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMITY OR DEFECT OR PROBLEM OF ANY KIND IN ANY SELLER PART, MATERIAL, LEASED PART, OR SERVICES DELIVERED BY THE SELLER UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

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- (1) ANY IMPLIED WARRANTY OF MERCHANTABILITY AND/OR FITNESS FOR ANY GENERAL OR PARTICULAR PURPOSE;
- (2) ANY IMPLIED OR EXPRESS WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (3) ANY RIGHT, CLAIM OR REMEDY FOR BREACH OF CONTRACT;
- (4) ANY RIGHT, CLAIM OR REMEDY FOR TORT, UNDER ANY THEORY OF LIABILITY, HOWEVER ALLEGED, INCLUDING, BUT NOT LIMITED TO, ACTIONS AND/OR CLAIMS FOR NEGLIGENCE, IMPLIED WARRANTY, PRODUCT LIABILITY, STRICT LIABILITY OR FAILURE TO WARN;
- (5) ANY RIGHT, CLAIM OR REMEDY TO RECOVER OR BE COMPENSATED FOR:
  - (a) LOSS OF USE OR REPLACEMENT OF ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART PROVIDED UNDER THE AGREEMENT;
  - (b) LOSS OF, OR DAMAGE OF ANY KIND TO, ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART PROVIDED UNDER THE AGREEMENT;
  - (c) LOSS OF PROFITS AND/OR REVENUES;
  - (d) ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGE.

THE WARRANTIES PROVIDED BY THIS AGREEMENT SHALL NOT BE EXTENDED, ALTERED OR VARIED EXCEPT BY A WRITTEN INSTRUMENT SIGNED BY THE SELLER AND THE BUYER. IN THE EVENT THAT ANY PROVISION OF THIS ARTICLE 4 SHOULD FOR ANY REASON BE HELD UNLAWFUL, OR OTHERWISE UNENFORCEABLE, THE REMAINDER OF THIS ARTICLE 4 SHALL REMAIN IN FULL FORCE AND EFFECT.

FOR THE PURPOSES OF THIS ARTICLE 4, THE “SELLER” SHALL BE UNDERSTOOD TO INCLUDE THE SELLER, ANY OF ITS SUPPLIERS, SUBCONTRACTORS, AND AFFILIATES AND ANY OF THEIR RESPECTIVE INSURERS.

[\*\*\*]

## 5 COMMERCIAL CONDITIONS

### 5.1 Delivery Terms

All Material prices are quoted on the basis of Free Carrier (FCA) delivery terms, without regard to the place from which such Material is shipped. The term “**Free Carrier (FCA)**” is as defined by publication n° 560 of the International Chamber of Commerce, published in January 2000.

### 5.2 Payment Procedures and Conditions

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## EXHIBIT H

All payments under this Exhibit H shall be made in accordance with the terms and conditions set forth in the then current Customer Services e-Catalog.

### 5.3 Title

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.

### 5.4 Cessation of Deliveries

The Seller has the right to restrict, stop or otherwise suspend deliveries if the Buyer fails to meet its obligations set forth in this Exhibit H.

### 5.5 Price

5.5.1 All quoted Material prices shall be expressed in US Dollars 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.

The Seller commits that the average annual increase rate in the price of Seller Parts shall be capped at a maximum annual rate calculated as follows:

#### 5.5.2 Revision Formula

[\*\*\*]

#### 5.5.3 Indexes

Labor Index: [\*\*\*].

Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*]

Material Index: [\*\*\*]

Index code for access on the Web site of the US Bureau of Labor Statistics: [\*\*\*]

5.5.3.1 The annual increase in prices for Supplier Parts shall be regulated according to the Supplier Product Support Agreement applicable to the supplier in question.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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EXHIBIT H

5.5.3.2 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. Subject to Article 2.1.8.3 above, the percentage of such handling charge shall vary with the Material's value and shall be determined on a per item basis.

6 [\*\*\*]

## 7 TERMINATION OF MATERIAL PROCUREMENT COMMITMENTS

If the Agreement is terminated with respect to any Aircraft, then the rights and obligations of the parties 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 Agreement has been terminated shall also be terminated. Unused Material in excess of the Buyer's requirements due to such termination may be repurchased by the Seller, at the Seller's option and transportation costs, as provided in Article 2.7.

## 8 INCONSISTENCY

In the event of any inconsistency between this Exhibit H and the Customer Services Catalog or any order placed by the Buyer, this Exhibit H shall prevail to the extent of such inconsistency.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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EXHIBIT I

### 1.1.1.1 LICENSES AND ON LINE SERVICES

#### Part 1 END-USER LICENSE AGREEMENT FOR AIRBUS SOFTWARE

**Part 2 GENERAL TERMS AND CONDITIONS OF ACCESS TO AND USE OF AIRBUSWORLD**

**Part 3 END-USER SUBLICENSE AGREEMENT FOR SUPPLIER SOFTWARE**

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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EXHIBIT I

**PART 1**

**END-USER LICENSE AGREEMENT FOR AIRBUS SOFTWARE**

**1. DEFINITIONS**

For the purposes of this end-user license agreement for Airbus software (the “**Software License**”) the following definitions shall apply:

“**Agreement**” means the Purchase Agreement of even date herewith entered into between the Licensee and the Licensor covering the purchase and sale of the Aircraft subject thereof.

“**Airbus Software**” means each of the Licensor’s proprietary products including Composite Work, configurations, processes, rules (together with any related documentation), as well as any modifications, enhancements or extensions thereto as may be provided by the Licensor from time to time. The Airbus Software shall be supplied in machine-readable code form only, for use in connection with the Aircraft or operations related to the Aircraft. The Airbus Software shall be either On Board Certified Software or Software Products. For the avoidance of doubt, this Software License does not apply to (i) open source software contained in the Airbus Software, if any, and it is hereby acknowledged and agreed by both parties hereto that such open source software is independently distributed on an “as is” basis under the respective license terms therefor, and that the Licensor disclaims any liability in relation to such open source software, or (ii) any proprietary third party software that the Licensor purchases or licenses from any third party and delivers to the Licensee, either as a sublicense or as a direct license from such third party.

“**Aircraft**” means, individually or collectively, the Aircraft subject of the Agreement.

“**Composite Work**” means the package composed of various elements, such as database(s), software or data, and which necessitates the use of the Airbus Software.

“**Licensee**” means the Buyer under the Agreement.

“**Licensor**” means the Seller under the Agreement.

“**On Board Certified Software**” means those Airbus Part 125 and/or FAR 125 certified software that are installed on board the Aircraft and bear a part number of the Licensor, excluding any software embedded in any component, furnishing or equipment installed on the Aircraft and itself bearing a part number.

“**Permitted Purpose**” means use of the Airbus Software by the Licensee for its own internal business needs, solely in conjunction with the Aircraft and in particular pertaining to (i) operation of the Aircraft; (ii) on ground operational support of the Aircraft; or (iii) related authorized customization of software.

“**Software Product(s)**” means either those Airbus Software intended to be used on ground at the Licensee’s facilities or Airbus Software that are installed on board the Aircraft and that are not Part

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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**EXHIBIT I**

125 and/or FAR 125 certified—whether or not bearing a part number of the Licensor—excluding any software embedded in any component, furnishing or equipment installed on the Aircraft and itself bearing a part number.

“**Update(s)**” means any update(s) or replacement(s) to the Airbus Software licensed hereunder, which the Licensor, at its discretion, makes generally available to the Licensee.

“**User Guide**” means the documentation, which may be in electronic format, designed to assist the Licensee in using the Airbus Software.

Capitalized terms used herein and not otherwise defined in this Software License shall have the meaning assigned thereto in the Agreement.

## **2. LICENSE**

In consideration of the purchase by the Licensee of the Aircraft, the Licensee is hereby granted a worldwide and non-exclusive right to use the Airbus Software, for a Permitted Purpose. The Licensor shall remain the owner of all intellectual property rights in the Airbus Software. There shall be one license encompassing all Airbus Software granted in respect of each Aircraft purchased by the Licensee.

Notwithstanding the foregoing, license rights regarding the use of Software Products may be subject to specific commercial conditions and to the payment of specific fees relating to such Software Products.

The Licensee hereby acknowledges that it is aware that certain Airbus Software subject of this Software License may incorporate some third party software or open source software components. The Licensee hereby agrees to be bound by the licensing terms and conditions applicable to such third party software and made available by the Licensor through AirbusWorld.

## **3. ASSIGNMENT AND DELEGATION**

### **3.1 Assignment**

#### **3.1.1 On Board Certified Software**

The Licensee may [\*\*\*] assign or otherwise transfer all or part of its rights pertaining to any On Board Certified Software under this Software License only as part of, and to the extent of, a sale, transfer or lease of each Aircraft on which such On Board Certified Software is installed. The Licensee shall assign as many Software Licenses [\*\*\*] and shall retain all other Software Licenses attached to any Aircraft that the Licensee continues to operate.

In the event of any such assignment or transfer, the Licensee shall transfer the copies of the Airbus Software attached to the sold, transferred or leased Aircraft (including all component parts, media, any upgrades or backup copies and, if applicable, certificate(s) of authenticity), except as otherwise instructed by the Licensor.

#### **3.1.2 Software Products**

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

## EXHIBIT I

Save as otherwise set forth in the Agreement, the right to use any Software Product is personal to the Licensee, for its own internal use, and is non-transferable, except with the Licensor's prior written consent, in which case the Licensee shall cause the assignee or sub-licensee to agree to the terms of this Software License.

### 3.2 Delegation

Without prejudice to Article 6 (a) hereof, in the event of the Licensee 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 Licensee shall notify the Licensor of such intention prior to any disclosure of this Software License and/or the Airbus Software Services to such Third Party.

The Licensee hereby undertakes to cause such Third Party to agree to be bound by the conditions and restrictions set forth in this Software License with respect to the Airbus Software and shall in particular cause such Third Party to enter into an appropriate licensing conditions and to commit to use the Airbus Software solely for the purpose of maintaining the Licensee's Aircraft and/or for processing the Licensee's data.

## 4. COPIES

Use of the Airbus Software is limited to the number of copies delivered by the Licensor to the Licensee and to the medium on which the Airbus Software is delivered. No reproduction shall be made without the prior written consent of the Licensor, except that the Licensee is authorized to copy the Airbus Software for back-up and archiving purposes. Any copy the Licensor authorizes the Licensee to make shall be performed under the sole responsibility of the Licensee. The Licensee agrees to reproduce the copyright and other notices as they appear on or within the original media on any copies that the Licensee makes of the Airbus Software.

## 5. TERM

### 5.1 On Board Certified Software

Subject to the Licensee having complied with the terms of this Software License, the rights under this Software License shall be granted from [\*\*\*], this Software License or any part thereof being terminated for any reason whatsoever, in which case the Licensee shall immediately cease to use the On Board Certified Software.

### 5.2 Software Products

Save as otherwise specified in any applicable commercial conditions relating to any Software Product as set forth in the Agreement and subject to the Licensee having complied with the terms of this Software License, the rights under this Software License shall be [\*\*\*] until the [\*\*\*], in which case the Licensee shall immediately cease to use the Software Products

## 6. CONDITIONS OF USE

The Airbus Software shall only be used for the Permitted Purpose.



[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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The Licensee shall be solely responsible for, and agrees to be careful in the use of, all outputs and results derived from the operation of the Airbus Software and all consequences, direct and indirect, relating to the use of such output and results. The Licensee agrees to use such outputs and results only once it has verified such outputs and results and has checked the relevance and correctness thereof, in the light of its particular needs.

The Licensee expressly acknowledges that it shall take all appropriate precautions for the use of the Airbus Software, including without limitation measures required for its compliance with the User Guide or any information or directive regarding the use of the Supplier Software.

In the event the Licensor should offer a replacement product, the conditions for using such product shall be subject to a separate agreement.

Under the present Software License, the Licensee shall:

- a) not permit any parent, subsidiary affiliate, agent or third party to use the Airbus Software in any manner, including, but not limited to, any outsourcing, loan, commercialization of the Airbus Software or commercialization by merging the Airbus Software into another software or adapting the Airbus Software, without the prior written consent from the Licensor;
- b) do its utmost to maintain the Airbus Software and the relating documentation in good working condition, in order to ensure the correct operation thereof;
- c) use the Airbus Software in accordance with such documentation and the User Guide, and ensure that the personnel using the Airbus Software has received appropriate training;
- d) use the Airbus Software exclusively in the technical environment defined in the applicable User Guide, except as otherwise agreed in writing between the parties;
- e) except as permitted by any applicable law, not alter, reverse engineer, modify, correct, translate, disassemble, decompile or adapt the Airbus Software, nor integrate all or part of the Airbus Software in any manner whatsoever into another software product, nor create a software product derived from the Airbus Software save with the Licensor's prior written approval.
- f) should the Licensor have elected to provide the source code to the Licensee, have the right to study and test the Airbus Software, under conditions to be expressly specified by the Licensor, but in no event shall the Licensee have the right to correct, modify or translate the Airbus Software;
- g) except with respect to Software Products intended to be used on ground, use the Airbus Software exclusively on the referenced machines and the declared sites;

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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- h) not attempt to discover or re-write the Airbus Software source codes in any manner whatsoever;
- i) not delete any identification or declaration relative to the intellectual property rights, trademarks or any other information related to ownership or intellectual property rights in the Airbus Software;
- j) not pledge, sell, distribute, grant, sublicense, lease, lend, whether on a free-of-charge basis or against payment, or permit access on a time-sharing basis or any other utilization of the Airbus Software, whether in whole or in part, for the benefit of a third party.

With respect to Software Products intended for use on ground, the Licensor shall be entitled, subject to providing reasonable prior written notice thereof to the Licensee, [\*\*\*].

## 7. TRAINING

In addition to the User Guide provided with the Airbus Software, training and other assistance may be provided upon the Licensee's request, subject to the conditions set forth in the Agreement. Such assistance or training shall not operate to relieve the Licensee of its sole responsibility with respect to the use of the Airbus Software under this Software License.

## 8. PROPRIETARY RIGHTS—RIGHT TO CORRECT AND MODIFY

- 8.1 The Airbus Software is proprietary to the Licensor or the Licensor has acquired the intellectual property rights necessary to grant this Software License. The copyright and all other proprietary rights in the Airbus Software are and shall remain the property of the Licensor.
- 8.2 The Licensor reserves the right to correct and modify any Airbus Software at its sole discretion and the Licensee shall not undertake any correction or modification of the Airbus Software without the Licensor's prior written approval. The Licensee shall install any Updates provided by the Licensor, at its own cost, in accordance with the time schedule notified with the provision of such Update(s). In the event of the Licensee failing to install any such Update(s), the Licensor shall be relieved of any warranty or liability of any kind with respect to the conformity or operation of the Airbus Software.

## 9. COPYRIGHT INDEMNITY

### 9.1 Indemnity

9.1.1 Subject to the provisions of Article 9.2.3[\*\*\*] shall defend and indemnify [\*\*\*] from and against [\*\*\*] resulting from any infringement, or claim of infringement, [\*\*\*] of any copyright, provided that [\*\*\*]

9.1.2 In the event that [\*\*\*]

### 9.2 Administration of Copyright Indemnity Claims

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## EXHIBIT I

**9.2.1** If the Licensee receives a written claim or a suit is threatened or commenced against the Licensee for infringement of a copyright referred to in Article 9.1 as a result of the use of the Airbus Software, the Licensee shall:

- (i) forthwith promptly notify the Licensor following the Licensee receiving notice of the same, giving particulars thereof to the extent known by the Licensee.;
- (ii) [\*\*\*] furnish to the Licensor all data, papers and records within the Licensee's control or possession relating to such claim or suit;
- (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-Article (iii) shall prevent the Licensee from paying such sums as may be required in order to obtain the release of the Aircraft, or the allegedly infringing part, software or Other Items provided such payment, to the extent permitted by any applicable laws, is accompanied by a denial of liability and is made without prejudice;
- (iv) fully co-operate with, and render all such assistance to the Licensor as be may be pertinent to the defense or denial of the suit or claim [\*\*\*] and
- (v) act in such way as to mitigate damages and/or reduce the amount of royalties that may be payable as well as to minimize costs and expenses [\*\*\*] **9.2.2** The Licensor may [\*\*\*] assume and conduct the defense or settlement of any suit or claim in the manner that, in the Licensor's opinion, it deems proper. [\*\*\*]

**9.2.3** The Licensor's obligations and the Licensee's remedies hereunder shall be conditional upon the strict and timely compliance by the Licensee with the terms of this Clause 9 and of Clauses 6(e), 6(h), 6(i) and 8.2 and are exclusive and in substitution for, and the Licensee hereby waives, releases and renounces all other obligations and liabilities of the Licensor and rights, claims and remedies of the Licensee against the Licensor, express or implied, arising by law or otherwise with respect to any infringement or claim of infringement of any copyright.

[\*\*\*]

## 10. CONFIDENTIALITY

The Airbus Software, this Software License and their contents are designated as confidential. The Licensee undertakes not to disclose the Software License, the Airbus Software or any parts thereof to any third party without the prior written consent of the Licensor, except to the lessee in case of lease of an Aircraft or to the buyer in case of resale of an Aircraft, without prejudice to any provisions set forth in the Agreement. In so far as it is necessary to disclose aspects of the Airbus Software to the Licensee's employees, such disclosure is permitted solely for the purpose for which the Airbus Software is supplied and only to those employees who need to know the same, v or where otherwise required pursuant to an enforceable court order or any governmental decision or regulatory provision imposed on the Licensee, provided that reasonable prior notice of the intended disclosure is provided to the Licensor.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## EXHIBIT I

The obligations of the Licensee to maintain confidentiality shall survive the termination of this Software License for a period [\*\*\*].

**11. ACCEPTANCE**

On Board Certified Software shall be deemed accepted as part of the Technical Acceptance Process set out in Clause 8 of the Agreement.

Software Products shall be deemed accepted upon delivery thereof unless otherwise specifically provided for in the Agreement.

**12. WARRANTY****12.1 On Board Certified Software**

Any On Board Certified Software installed on board an Aircraft at Delivery thereof shall be deemed a Warranted Part for the purposes of Clause 12.1 of the Agreement and the relevant provisions of such Clause 12.1 shall be fully applicable to such On Board Certified Software.

**12.2 Software Products**

The Licensor warrants that Software Products are prepared in accordance with the state of art at the date of their conception and shall perform substantially in accordance with their functional and technical specifications current at the time of their delivery.

Should Software Products be found not to conform to their documentation, the Licensee shall notify the Licensor promptly, [\*\*\*] delivery of Software Products, in such case, the exclusive liability of the Licensor shall be to take [\*\*\*] steps to correct and/or replace Software Products [\*\*\*]

**12.3** The Licensor shall be relieved of any obligations under Articles 12.1 and 12.2 in case of:

- (i) Airbus Software defects or non-conformities caused by alterations or modifications to the Airbus Software carried out without the prior approval of the Licensor;
- (ii) Airbus Software defects or non-conformities caused by negligence of the Licensee or other causes beyond the Licensor's reasonable control;
- (iii) Failure of the Licensee to install any Update in accordance with Article 8 hereof;
- (iv) Airbus Software defects or non-conformities caused by errors in or modifications of or Updates to operating systems, databases or other software or hardware with which the Airbus Software interfaces, where such elements have not been provided by the Licensor.

The Licensee shall be responsible for the cost and expense of any correction services provided by the Licensor as a result of any of the foregoing exclusions. Such correction services shall be subject to the then applicable commercial conditions.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## 12.4 EXCLUSIVITY OF WARRANTIES

AS BETWEEN THE LICENSEE AND THE LICENSOR, THIS ARTICLE 12 (INCLUDING ITS SUBPROVISIONS) SETS FORTH THE EXCLUSIVE WARRANTIES, EXCLUSIVE LIABILITIES AND EXCLUSIVE OBLIGATIONS OF THE LICENSOR, AND THE EXCLUSIVE REMEDIES AVAILABLE TO THE LICENSEE, WHETHER UNDER THIS SOFTWARE LICENSE OR OTHERWISE, ARISING FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN ANY AIRBUS SOFTWARE AND SERVICES DELIVERED BY THE LICENSOR UNDER THIS SOFTWARE LICENSE.

THE LICENSEE RECOGNIZES THAT THE RIGHTS, WARRANTIES AND REMEDIES IN THIS ARTICLE 12 ARE ADEQUATE AND SUFFICIENT TO PROTECT THE LICENSEE FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN THE GOODS AND SERVICES SUPPLIED UNDER THIS SOFTWARE LICENSE. THE LICENSEE HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS, GUARANTEES AND LIABILITIES OF THE LICENSOR AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF THE LICENSEE AGAINST THE LICENSOR, WHETHER EXPRESS OR IMPLIED BY CONTRACT, TORT, OR STATUTORY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMITY OR DEFECT OR PROBLEM OF ANY KIND IN ANY AIRBUS SOFTWARE AND/OR SERVICES DELIVERED BY THE LICENSOR UNDER THIS SOFTWARE LICENSE, INCLUDING BUT NOT LIMITED TO:

- (1) ANY IMPLIED WARRANTY OF MERCHANTABILITY AND/OR FITNESS FOR ANY GENERAL OR PARTICULAR PURPOSE;
- (2) ANY IMPLIED OR EXPRESS WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (3) ANY RIGHT, CLAIM OR REMEDY FOR BREACH OF CONTRACT;
- (4) ANY RIGHT, CLAIM OR REMEDY FOR TORT, UNDER ANY THEORY OF LIABILITY, HOWEVER ALLEGED, INCLUDING, BUT NOT LIMITED TO, ACTIONS AND/OR CLAIMS FOR NEGLIGENCE, GROSS NEGLIGENCE, INTENTIONAL ACTS, WILLFUL DISREGARD, IMPLIED WARRANTY, PRODUCT LIABILITY, STRICT LIABILITY OR FAILURE TO WARN;
- (5) ANY RIGHT, CLAIM OR REMEDY ARISING UNDER THE UNIFORM COMMERCIAL CODE OR ANY OTHER STATE OR FEDERAL STATUTE;
- (6) ANY RIGHT, CLAIM OR REMEDY ARISING UNDER ANY REGULATIONS OR STANDARDS IMPOSED BY ANY INTERNATIONAL, NATIONAL, STATE OR LOCAL STATUTE OR AGENCY;
- (7) ANY RIGHT, CLAIM OR REMEDY TO RECOVER OR BE COMPENSATED FOR:
  - (a) LOSS OF USE OR REPLACEMENT OF ANY AIRBUS SOFTWARE PROVIDED UNDER THIS SOFTWARE LICENSE;
  - (b) LOSS OF, OR DAMAGE OF ANY KIND TO, ANY AIRBUS SOFTWARE PROVIDED UNDER THIS SOFTWARE LICENSE;
  - (c) LOSS OF PROFITS AND/OR REVENUES;

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## EXHIBIT I

## (d) ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGE.

THE WARRANTIES PROVIDED BY THIS SOFTWARE LICENSE SHALL NOT BE EXTENDED, ALTERED OR VARIED EXCEPT BY A WRITTEN INSTRUMENT SIGNED BY THE LICENSOR AND THE LICENSEE. IN THE EVENT THAT ANY PROVISION OF THIS ARTICLE 12 SHOULD FOR ANY REASON BE HELD UNLAWFUL, OR OTHERWISE UNENFORCEABLE, THE REMAINDER OF THIS ARTICLE 12 SHALL REMAIN IN FULL FORCE AND EFFECT.

THE ABOVE LIMITATION WILL NOT BE INTERPRETED TO IMPAIR THE EXPRESS CONTRACTUAL WARRANTIES OR GUARANTEES GRANTED TO THE LICENSEE ELSEWHERE UNDER THIS SOFTWARE LICENSE OR TO RELIEVE THE LICENSOR OF ANY OF ITS EXPRESS CONTRACTUAL OBLIGATIONS UNDER THIS SOFTWARE LICENSE. THIS ARTICLE 12.4 SHALL NOT BE INTERPRETED TO IMPAIR ANY LICENSOR OR SUPPLIER.

FOR THE PURPOSE OF THIS ARTICLE 12.4, "LICENSOR" SHALL BE UNDERSTOOD TO INCLUDE THE LICENSOR AND ITS AFFILIATES EXCEPT FOR ANY AFFILIATE THAT IS A SUPPLIER AND IS PROVIDING A SEPARATE WARRANTY TO THE LICENSEE.

[\*\*\*]

**14. EXCUSABLE DELAYS**

**14.1** The Licensor shall not be responsible nor be deemed to be in default on account of delays in delivery of any Airbus Software or Update due to causes reasonably beyond the Licensor's or its subcontractors' control including but not limited to: natural disasters, fires, floods, explosions or earthquakes, epidemics or quarantine restrictions, serious accidents, total or constructive total loss, any act of the government of the country of the Licensee or the governments of the countries of Licensor or its subcontractors, war, insurrections or riots, failure of transportation, communications or services, strikes or labor troubles causing cessation, slow down or interruption of services, inability after due and timely diligence to procure materials, accessories, equipment or parts, failure of a subcontractor or supplier to furnish materials, accessories, equipment or parts due to causes reasonably beyond such subcontractor's or supplier's control or failure of the Licensee to comply with its obligations arising out of the present Software License.

**14.2** The Licensor shall, as soon as practicable after becoming aware of any delay falling within the provisions of this Article, notify the Licensee of such delay and of the probable extent thereof and shall, subject to the conditions as hereinafter provided and as soon as practicable after the removal of the cause or causes for delay, resume delivery of the delayed Airbus Software or Update.

**15. TERMINATION**

In the event of breach of an obligation set forth in this Software License by either the Licensor or the Licensee or failure to comply with the commercial conditions applicable to Airbus Software as set forth in the Agreement, [\*\*\*], the non-breaching party shall be entitled to terminate this Software License.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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**EXHIBIT I**

In the event of termination for any cause, the Licensee shall no longer have any right to use the Airbus Software and shall return to the Licensor all copies of the Airbus Software and any relating documentation together with an affidavit to that effect. In case of breach by the Licensee, the Licensor shall be entitled [\*\*\*].

**16. GENERAL PROVISIONS**

- 16.1** This Software License is an Exhibit to the Agreement and integrally forms part thereof. As a result, any non-conflicting terms of the Agreement are deemed incorporated herein to the extent they are relevant in the context of this Software License.
- 16.2** In the event of any inconsistency or discrepancy between any term of this Software License and any term of the Agreement (including any other Exhibit or Appendices thereto), the terms of this Software License shall take precedence over the conflicting terms of the Agreement to the extent necessary to resolve such inconsistency or discrepancy.
- 16.3** This Software License is subject to and construed and the performance thereof shall be determined in accordance with the laws in effect in the State of New York without regard to conflict of laws principles that could result in the application of the laws of any other jurisdiction. All disputes arising in connection with this Software License shall be submitted to the competent courts of New York and the parties hereby agree to submit to the jurisdiction of those courts.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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**EXHIBIT I****PART 2**

**GENERAL TERMS AND CONDITIONS  
OF  
ACCESS TO  
AND  
USE OF  
AIRBUSWORLD**

*This document and all information contained herein is the sole property of AIRBUS S.A.S. No intellectual property rights are granted by the delivery of this document or the disclosure of its content. This document shall not be reproduced or disclosed to a third party without the express written consent of AIRBUS S.A.S. This document and its content shall not be used for any purpose other than that for which it is supplied.*

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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EXHIBIT I

**Preamble**

For the sole purposes of the General Terms and Conditions of Access to and Use of AirbusWorld (the “GTC”), the Buyer and the Seller hereby agree that in such GTC:

“The Seller” shall be referred to as AIRBUS S.A.S.,

“The Buyer” shall be referred to as “the Company”,

“The Agreement” shall have the meaning assigned thereto in the GTC.

*1.1.1.1.1.1.1.1 For the sake of clarification, it is understood that the term “Agreement” as defined in the Clause 00B shall be referred to within the GTC with the meaning assigned thereto under the definition of “Contracts”*

2.

**3. GENERAL TERMS AND CONDITIONS OF ACCESS TO AND USE OF**

**4. AIRBUSWORLD**

**4.1 ARTICLE 1: DEFINITIONS**

**Administrator(s):** Company’s employee(s) appointed by the Company, entitled to represent the Company for and in the management of the Agreement and responsible for the compliance by the Designated Users and the Company’s employees with the Agreement.

**Agreement** The agreement between the Parties shall be understood as including, in the following order of precedence, (i) Specific Terms and Conditions applicable to specific Services if any and to that extent only, (ii) these General Terms and Conditions, and any other relating functional or technical document agreed between the Parties, it being understood that, in the event of any inconsistency the former ranking document shall prevail over the following one(s) to the extent of such inconsistency.

**AIRBUS S.A.S.** AIRBUS S.A.S, a French *Société par Actions Simplifiée*, with a share capital of Euros 2 704 375, registered with the Trade and Companies Registry of Toulouse (France) under n° 383 474 814 and whose registered office is located 1 Rond Point Maurice Bellonte, 31700 Blagnac, France



**AIRBUS** Collectively AIRBUS S.A.S and the legal entities controlled by AIRBUS S.A.S, the term “control” meaning the direct or indirect ownership of at least fifty percent

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(50%) of the voting stocks in such legal entities.

**AIRBUS Data** Any and all data, information and material made accessible and available by AIRBUS to the Company through AW.

**AW** AirbusWorld, access to which may be given by AIRBUS S.A.S. to Designated Users of the Company

**Company** The company entering into these General Terms and Conditions as identified on the execution page of this document.

**Company Data** Any and all data, information and other material made accessible and available by the Company to AIRBUS through AW.

**4.1.1**

**4.1.2 Contracts** Any and all present and future contracts, agreements or letters, the terms of which imply a commitment of the Company and/or AIRBUS other than related to the present Agreement, namely but without limitation: confidentiality agreements, exchanges in the course of a call for tender, contracts for the supply of services, procurement/sale agreements, aircraft purchase agreements, co-operation agreements, research contracts, maintenance contracts.

**Data** Collectively the AIRBUS Data and the Company Data.

**Databases** Any and all collections of independent works, data or other materials arranged in a systematic or methodical way and individually accessible by electronic or other means by the Company through AW.

**Designated Users** Employees of the Company authorized by a Company Administrator to access and use AW.

**Identification Codes** Confidential and personal identification codes attached to each Designated User and which formally identify each Designated User accessing and using AW.

<b>Party or Parties</b>	Individually or collectively AIRBUS S.A.S. and/or the Company.
<b>Services</b>	Any and all on line services made available to the Company through AW under the terms and conditions of the Agreement.
<b>Specific Terms and Conditions</b>	Terms and conditions under which AIRBUS S.A.S. grants access to specific Services to the Company.
<b>System</b>	Equipment (hardware, software, connections, etc) set up by AIRBUS S.A.S. and enabling AIRBUS S.A.S. to provide the Services on AW through the internet.
<b>User Documentation</b>	Documentation intended for the Administrators and Designated Users of AW describing the technical means enabling connection to the System and access to AW and providing information related to the use of AW and/or the Services. User

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Documentation may be modified from time to time by AIRBUS S.A.S and is available on AW.

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## ARTICLE 2: PURPOSE / CONTRACTUAL DOCUMENTS

- 2.1 The purpose of these General Terms and Conditions is to define the terms and conditions under which AIRBUS S.A.S. authorizes the Company to access and use AW and to benefit from some of the Services offered through the latter.
- 2.2 Access to and use of certain Services may be subject to acceptance by the Company of Specific Terms and Conditions.
- 2.3 AW may be used by the Company for the purpose of exchanging information with AIRBUS and

specifically for the performance of the Contracts. The Agreement shall not be construed as interfering with the terms and conditions of any such Contracts. The terms and conditions of the Contracts shall in any case prevail over the terms of the Agreement.

- 2.4** The Company and AIRBUS shall not exchange Data through AW that are not necessary for professional or business purposes as mentioned in Article 2.3. Activities directly or indirectly related to spamming are prohibited on AW.
- 2.5** Should there be a need for the Company to use AW in its quality of subcontractor of a supplier, a customer, or a co-contractor of AIRBUS (hereafter individually and collectively an “**AIRBUS Co-contractor**”), then the Company hereby guarantees that it is duly authorised by such AIRBUS Co-contractor to request from AIRBUS S.A.S. an access to AW and the use of the Services. The Agreement between AIRBUS S.A.S. and the Company is entered into for the sole purpose of the use of AW and shall in no event be construed as a change to the contracts entered into by AIRBUS and the AIRBUS Co-contractor and/or establish a direct contractual relationship between AIRBUS and the Company other than the Agreement.

### **ARTICLE 3: EXTENT OF ACCESS TO AND USE OF AW**

- 3.1** AIRBUS S.A.S. grants to the Company, a worldwide, personal, non-exclusive and non-transferable right to access and use AW and the Services, pursuant to the terms and conditions of and for the duration of the Agreement. The Company shall not fully or partially assign, sublicense nor subcontract any of its rights and/or obligations under the Agreement [\*\*\*]
- 3.2** No right other than that provided in Article 3.1 above is granted by AIRBUS S.A.S. to the Company under these General Terms and Conditions, and the Company shall not, directly or indirectly, without limitation, extract, reproduce, represent, adapt, modify and/or translate, all or part of

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AW, the System and/or the Databases, nor create any derivative work therefrom, nor use any and/or all of the aforesaid elements for any purposes other than those agreed upon between the Parties.

- 3.3** AW, the System, the Databases and the AIRBUS Data shall remain the sole ownership of AIRBUS and/or its licensors.

### **ARTICLE 4: ADMINISTRATORS AND DESIGNATED USERS**

- 4.1** AIRBUS S.A.S. shall propose on-line standard training for the Administrator on AW at AIRBUS S.A.S' expense and AIRBUS S.A.S. shall make available appropriate documentation to the Designated Users.
- 4.2** The Company shall be solely responsible for the enforcement of the Agreement by its employees, including the Administrator(s) and the Designated Users. The Company shall ensure, at its own expense, that the Administrator(s) and the Designated Users are qualified and properly trained for the purpose of the performance of the Agreement.

- 4.3** The Company shall designate one Administrator. AIRBUS S.A.S. may, at its sole discretion and upon the Company's request, authorize in writing the Company to designate additional Administrator(s), provided the Company defines non-overlapping areas and/or timeframes for each of the Administrators, e.g. for different branches or sites of the Company. It is understood that the Company shall be solely responsible in the event of inconsistent instructions received from the Administrators.
- 4.4** The Administrator(s) shall have the capacity to represent the Company with respect to the execution and performance of any contractual document related to the access, use and operation of AW.
- 4.5** The Administrator(s) shall appoint Designated Users among the employees of the Company. Each Designated User shall be provided with a personal and confidential Identification Code, at AIRBUS S.A.S.' discretion, [\*\*\*].
- 4.6** Each and every access, use and operation of AW with an Identification Code shall be deemed to have been made by the corresponding Designated User.
- 4.7** The Company shall ensure that:

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- (I) each Identification Code is used by the corresponding Designated User only and is personal to such Designated User;
- (II) each personal Identification Code shall not be communicated to any person other than the corresponding Designated User;
- (III) each Designated User accesses and uses AW in accordance with the specific rights he/she has been granted under the Agreement;
- (IV) no third party can access the Identification Codes or AW.
- 4.8** Should the Company become aware of any potential risk that Identification Code(s) could be or could have been disclosed to anyone other than the corresponding Designated User, then the Administrator(s) shall, without any delay, cancel the access to AW in respect of such Identification Code(s) and notify AIRBUS S.A.S. of such potential risk and of such cancellation of the Identification Code(s), notwithstanding AIRBUS S.A.S.' rights to cancel such access.
- 4.9** The Company shall inform AIRBUS S.A.S., without any delay, of (i) any modification in the professional situation of the Administrator(s) and/or Designated Users, including without limitation leave or resignation from the Company, (ii) the termination/expiration of any or all of the Contracts (iii) the termination/expiration of any contract of the Company with an AIRBUS Co-contractor as referred to in Article 2.5 above. In any of such cases, the Company shall without delay cancel the access to AW for the corresponding Designated Users, notwithstanding AIRBUS S.A.S.' rights to cancel such access.
- 4.10** Should any one of Designated Users and/or Administrators not comply with any provision of the Agreement and/or any applicable laws and regulations, or should AIRBUS S.A.S. fear that his/her access may possibly result in a breach of the Agreement, including but not limited to confidentiality and/or security provisions and/or result in an illegal situation, AIRBUS S.A.S. shall be entitled, at

any time, without prejudice to its other rights and without prior notice [\*\*\*]

#### **ARTICLE 5: ACCESS REQUIREMENTS**

- 5.1** The Company shall, at its own costs and under its sole responsibility and liability, procure, install and maintain the information technology equipment necessary to access the System and AW. The Company shall use all care and means available in the state of the art necessary to prevent intrusion of any third party and/or malicious codes into the System and/or AW.
- 5.2** The Company shall be responsible for obtaining and maintaining any relevant authorisations and/or accomplishing any and all relevant formalities necessary to have access to and benefit from AW as well as for performing its own obligations under the Agreement and/or any applicable laws and regulations.

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- 5.3** AIRBUS S.A.S. shall be entitled, without limitation for security purposes, to at any time modify or have the Company modify, the Identification Codes. Any modification of such Identification Codes shall be notified by the modifying Party to the other Party.

#### **ARTICLE 6: CHARACTERISTICS AND AVAILABILITY OF AW**

- 6.1** AIRBUS S.A.S. shall make its reasonable efforts to provide the necessary means in order to make AW accessible seven (7) days a week and twenty-four (24) hours a day. Should the access to or use of AW be disturbed, AIRBUS S.A.S. shall take all reasonable and proper steps to restore the access to or use of AW.
- 6.2** In this respect and without limitation, AIRBUS S.A.S. shall be entitled, at any time and without notification, to suspend, temporarily or permanently, access to all or part of AW:
- (i) in order to proceed with any maintenance of the System and/or updating of AW, the Databases and/or the Data;
  - (ii) for security reasons;
  - (iii) in order to comply with any regulatory constraints and/or court injunction or decision.
- 6.3** Should AIRBUS S.A.S. foresee that the unavailability of AW, in whole or in part, will exceed [\*\*\*], AIRBUS S.A.S. shall make reasonable efforts to inform as promptly as possible the Company, by whatever means, of such unavailability.
- 6.4** Without prejudice to any other provision of the Agreement, should the Company be unable for any reason to access AW for [\*\*\*]

#### **ARTICLE 7: CONFIDENTIALITY**

- 4.1.3 **7.1** Unless otherwise agreed upon in the Agreement and/or the Contracts, and unless the same information may be accessed in the freely accessible public area of AW, all information made available by the Company and AIRBUS to each other through AW shall be deemed confidential information and shall not be disclosed by the receiving party to any third party and shall not be used for any purpose other than those agreed upon by the Company and AIRBUS, even for the receiving party's internal needs.
- 7.2** The Company hereby authorises AIRBUS to disclose such information within AIRBUS, provided the AIRBUS legal entities exchanging such information have entered with each other into a confidentiality agreement.
- 4.1.4**

## ARTICLE 8: EXCHANGE OF DATA

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- 8.1** As part of the Services, AW enables the Company and AIRBUS to exchange or have access to the Data, for the purpose of collaboration between the Company and AIRBUS and/or performance of the Contracts.
- 8.2** The Company shall have the right to access to and use the AIRBUS Data, and AIRBUS shall have the right to access to and use the Company Data, solely to the extent defined in the Agreement and/or the Contracts.
- 8.3** Except as otherwise agreed in the Agreement and/or the Contracts, the Company and AIRBUS may, during the term of the Agreement, for internal use only, adapt, translate, make hard copies and/or numeric reproductions of the Data received from the disclosing party, for the sole purpose of the Agreement and of, as the case may be, the performance of the Contract(s) or the collaboration of the Company and AIRBUS. The Data received from the disclosing party, their hard copies and numeric reproductions, may be processed by and circulated worldwide only to the employees of the receiving party having a need to know the same for the purpose of the Agreement and of, as the case may be, the performance of the Contract(s) or the collaboration of the Company and AIRBUS.
- 8.4** The Company and AIRBUS shall ensure that all proprietary rights and confidentiality mentions stated on any original document are replicated on any reproduction made thereof. Any translation and/or adaptation shall expressly state that it is a derivative from the original document. The Company and AIRBUS shall refrain from removing and/or altering any of these mentions.
- 8.5** The Company shall take care and use all means available in the state of the art at any time of the Agreement in order to prevent the Company Data from creating permanent or temporary disturbance of the operation and/or the use of the System, AW and/or the Database.
- 8.6** The Company shall immediately notify AIRBUS S.A.S. of the occurrence or possible occurrence of any of the events referred to in Article 8.5 above. Should AIRBUS S.A.S. be aware of any of such aforesaid events, it shall be entitled, without notice and without prejudice to its other rights, to delete the implicated Company Data from the System.

- 8.7** Taking into account the electronic nature of the Data exchanged through AW, the Company and AIRBUS agree to give to such electronic exchanges the same probatory value as exchanges made by registered mail.
- 8.8** Should any creation or development be made by the Company when accessing and using AW and/or exchanging Data with AIRBUS, then the rights of each party on such creation or development shall be determined pursuant to the corresponding Contract or Specific Terms and Conditions, if any.

## **ARTICLE 9: PRIVACY**

- 9.1** AIRBUS S.A.S. and, when applicable, the Company shall comply at all times with their obligations under any local law towards the relevant authority(ies) with regard to data protection principles, including any personal data files or personal data automated processing systems and shall inform each other of any information system evolution which could affect such obligations.

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- 9.2** The Company is hereby notified that AIRBUS may request personal data directly from the Administrator(s) and the Designated Users for accessing and using AW. The Company shall inform the Administrator(s) and the Designated Users (i) in accordance with applicable laws, and specifically with article 27 of the French law n°78-17 of January 6, 1978 when data are collected and/or processed in France, (ii) of the provisions of this Article 9 and their related rights.
- 9.3** The Company undertakes, according to article 27 of the French law n°78-17 of January 6, 1978, to inform the Administrator(s) and the Designated Users that:
- (i) failure to provide such data may prevent access to AW;
  - (ii) such personal data shall be used by AIRBUS for the sole purpose of (a) security, operation and maintenance of AW and (b) the Services and/or communication to and information of the Administrator(s) and the Designated Users in respect of AW and the Services;
  - (iii) such personal data may be transferred to AIRBUS service providers or other AIRBUS entities throughout the world; and
  - (iv) they benefit from a right of access to and rectification of, their personal data archived by AIRBUS.
- 9.4** AW uses “cookies” (small data files transferred to computer hard drives for the sole purpose of recording computer connections to AW such as date, time, consulted pages, etc.). AIRBUS S.A.S. may access and record this information during Designated Users’ visits. The use of cookies is a prerequisite to the operation of AW and the Company recognizes that any Designated User exercising his/her right to disable cookies shall not have access to AW.
- 9.5** Personal data may be accessed by the Company, Administrators and/or Designated Users and, as the case may be, rectified upon written request to AIRBUS S.A.S, 1 Rond-Point Maurice Bellonte, 31707 Blagnac Cedex, France.

- 9.6** As the performance of the Agreement may imply cross-border transfer of personal data protected under New York law, the Company hereby declares that it is aware of (i) the Council of Europe Convention for the Protection of Individuals with regards to Automatic Processing of Personal Data, (ii) the European Directive n° 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data and the Company shall ensure that it remains aware of any further modification of the applicable laws in force and undertakes to respect the same.

#### **ARTICLE 10: WARRANTY / LIABILITY**

- 10.1** To the extent permitted by New York law, the Company acknowledges that AW, including any and all of its supporting elements and contents, i.e. without limitation the System, the Databases and, unless otherwise stated in the Contracts, AIRBUS Data, are provided “as is” and “as available”.
- 10.2** To the extent permitted by New York law, AIRBUS S.A.S. neither warrants nor represents, without limitation, that (i) AW, the System, the Services and/or the User Documentation will meet the Company’s requirements and expectations, nor will be uninterrupted, timely, secure or error-free, (ii) the results that may be displayed through AW, the Data, Databases and/or any material obtained through AW will be accurate, reliable or error free.
- 10.3** Access to and use of AW are therefore performed at the Company’s sole risk and the Company shall be solely responsible and AIRBUS S.A.S. shall not be liable for damages, on whatever grounds,

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- including third parties’ rights’ infringement, arising out or in connection with access, use, computer intrusion, security failure, or unavailability of the Services, AW and/or the materials contained therein or accessed there through. In no event, shall AIRBUS, their successive successors and assignees be liable for any damage, whether direct or indirect, such as but without limitation loss of data or of programs, loss of use, financial loss, any deterioration or infection by malicious codes of the Company’s information technology equipment (including but not limited to software, hardware, connections and/or any system or network).
- 10.4** Notwithstanding the preceding provisions, AIRBUS S.A.S. agrees to [\*\*\*] Should any provision of the Agreement become prohibited or unlawful or unenforceable under any applicable law actually applied by any court of competent jurisdiction, such provision shall, to the extent required by such law, be severed from the Agreement and rendered ineffective insofar as possible without modifying the remaining provisions. Where, however, the provisions of any such applicable law may be waived, the Parties hereby agree that they shall waive such provisions to the fullest extent permitted by such law, with the result that the provisions of the Agreement shall be valid, binding and enforceable. The Parties agree to replace, as far as practicable, any provision which is prohibited, unlawful or unenforceable with another provision having substantially the same effect (in its legal and commercial content) as the replaced provision, but which is not prohibited, unlawful or unenforceable. The invalidity in whole or in part of any provision(s) of the Agreement shall not void or affect the validity of any other provision.

#### **ARTICLE 11: DURATION / TERMINATION**



- 11.1** These General Terms and Conditions shall enter into force on the date of their execution by both Parties. The entry into force or termination of these General Terms and Conditions shall not interfere in any way with the term of any Contracts in force.

The duration of any other contractual document entered into by the Parties as part of the Agreement shall be provided in the corresponding document. Should these General Terms and Conditions be terminated, all such documents shall, automatically and notwithstanding any other provision in the Agreement, be terminated concurrently therewith.

In the event of the Company being in breach any of its obligations under the Agreement, AIRBUS S.A.S. shall be entitled, without prejudice to any of its other rights and without prior notice, to immediately and automatically suspend access to AW or terminate all or part of the Agreement.

- 11.2** Upon termination, for whatever reason, of all or part of the Agreement, the Company shall immediately, at AIRBUS S.A.S.' discretion, (i) cease to access to AW and/or the corresponding Service(s) and (ii) return or destroy, except in the event that a dispute arises or is raised between the Company and AIRBUS under the Agreement or the Contracts, the Identification Codes as well as all AIRBUS Data the Company may have held in the frame of the terminated part of the Agreement.

- 11.3** Should [\*\*\*] then either Party may terminate the Agreement upon written notice to the other Party.

## **ARTICLE 12: MISCELLANEOUS**

Airbus S.A.S. is entitled to assign all or part of its rights and/or obligations under the Agreement to any legal entity controlled by AIRBUS S.A.S.

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Airbus S.A.S. is entitled to subcontract any of its obligations under the Agreement.

The Agreement shall not be modified except through a written amendment signed by the duly authorized representatives of both Parties.

## **ARTICLE 13: LAW – JURISDICTION**

THE AGREEMENT IS GOVERNED [\*\*\*] AND THE EXCLUSIVE JURISDICTION FOR ANY DISPUTE ARISING OUT OR IN CONNECTION WITH ITS EXISTENCE, VALIDITY, INTERPRETATION OR EXECUTION SHALL BE GIVEN TO [\*\*\*] [\*\*\*], WITH AIRBUS RESERVING THE RIGHT TO PETITION ANY OTHER COMPETENT COURT.

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## PART 3

## END-USER SUBLICENSE AGREEMENT FOR SUPPLIER SOFTWARE

## 1. DEFINITIONS

For the purposes of this end-user sublicense agreement for Supplier Software (the “**Software Sublicense**”) the following definitions shall apply:

“**Agreement**” means the Purchase Agreement of even date herewith covering the purchase and sale of the Aircraft subject thereof.

“**Aircraft**” means, individually or collectively, the Aircraft subject of the Agreement.

“**Composite Work**” means the package composed of various elements, such as database(s), software or data, and which necessitates the use of the Supplier Software.

“**Permitted Purpose**” means use of the Supplier Software by the Sublicensee for its own internal business needs, solely in conjunction with the Aircraft and in particular pertaining to (i) operation of the Aircraft; (ii) on ground operational support of the Aircraft; or (iii) related authorized customization of software.

“**Sublicensee**” means the Buyer under the Agreement.

“**Sublicensor**” means the Seller under the Agreement as authorized by the Supplier to sublicense the Supplier Software to the operators of Airbus aircraft.

“**Supplier**” means each of the Sublicensor’s suppliers owning the intellectual property rights in the corresponding Supplier Software (or holding the right to authorize the Sublicensor to sublicense such Supplier Software) and having granted to the Sublicensor the right to sublicense such Supplier Software.

“**Supplier Product Support Agreement**” shall have the meaning set forth in Clause 12.3.1.3 of the Agreement.

“**Supplier Software**” means each of the Supplier’s proprietary products including Composite Work, configurations, processes, rules (together with any related documentation) as well as any modifications, enhancements or extensions thereto, as may be provided by the Supplier or the Sublicensor from time to time and the supply of which to the Sublicensee is governed by a Supplier Product Support Agreement. The Supplier Software shall be supplied in machine-readable code form only, for use in connection with the Aircraft or operations related to the Aircraft. For the avoidance of doubt, this Software Sublicense does not apply to (i) any software embedded in any component, furnishing or equipment installed on the Aircraft and itself bearing a partnumber (ii) third party software not provided under a Supplier Product Support Agreement, including but not limited to any standard, “off the shelf” software (Components Off The Shelf/COTS) and (iii) open source software contained in the Supplier Software, if any, and it is hereby acknowledged and

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agreed by both parties hereto that such open source software is independently distributed on an “as is” basis under the respective license terms therefor, and that the Sublicensor disclaims any liability in relation to such open source software.

“**Update(s)**” means any update(s) or replacement(s) to the Supplier Software licensed hereunder, which the Sublicensor or the Supplier, at their discretion, make generally available to the Sublicensee.

“**User Guide**” means the documentation, which may be in electronic format, designed to assist the Sublicensee in using the Supplier Software.

Capitalized terms used herein and not otherwise defined in this Software Sublicense shall have the meaning assigned thereto in the Agreement.

## **2. LICENSE**

In consideration of the purchase by the Sublicensee of the Aircraft, the Sublicensee is hereby granted [\*\*\*], worldwide and non-exclusive right to use the Supplier Software, for a Permitted Purpose. Each Supplier shall remain the owner of all intellectual property rights in the Supplier Software. There shall be one Software Sublicense granted in respect of each Aircraft purchased by the Sublicensee.

The Sublicensee hereby acknowledges that it is aware that certain Supplier Software subject of this Software Sublicense may incorporate some third party software or open source software components. The Sublicensee hereby agrees to be bound by the licensing terms and conditions applicable to such third party software and made available by the Sublicensor through AirbusWorld.

## **3. ASSIGNMENT AND DELEGATION**

### **3.1 Assignment**

The Sublicensee may, at any time, assign or otherwise transfer all or part of its rights under this Software Sublicense only as part of, and to the extent of, a sale, transfer or lease of any or all of the Aircraft to which the Supplier Software are related provided that the Sublicensee causes the assignee to agree to the terms of this Software Sublicense.

The Sublicensee shall assign a Software Sublicense for all Supplier Software installed on the sold, transferred or leased Aircraft and shall retain all other Software Sublicenses attached to any Aircraft that the Sublicensee continues to operate.

In the event of any such assignment or transfer, the Sublicensee shall transfer the copies of the Supplier Software attached to the sold, transferred or leased Aircraft (including all component parts, media, any upgrades or backup copies, this Software Sublicense, and if applicable, certificate(s) of authenticity), except as otherwise instructed by the Sublicensor.

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### **3.2 Delegation**

Without prejudice to Article 10 hereof, in the event of the Sublicensee 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 Sublicensee shall notify the Sublicensor of such intention prior to any disclosure of this Software Sublicense and/or the Supplier Software to such Third Party.

The Sublicensee hereby undertakes to cause such Third Party to enter into appropriate licensing conditions with the corresponding Supplier and to commit to use the Supplier Software solely for the purpose of maintaining the Sublicensee’s Aircraft and/or processing the Sublicensee’s data.

#### **4. COPIES**

Use of the Supplier Software is limited to the number of copies delivered by the Sublicensor to the Sublicensee and to the medium on which the Supplier Software is delivered. No reproduction shall be made without the written consent of the Sublicensor, except that the Sublicensee is authorized to copy the Supplier Software for back-up and archiving purposes. Any copy the Sublicensor authorizes the Sublicensee to make shall be performed under the sole responsibility of the Sublicensee. The Sublicensee agrees to reproduce the copyright and other notices as they appear on or within the original media on any copies that the Sublicensee makes of the Supplier Software.

#### **5. TERM**

Subject to the Sublicensee having complied with the terms of this Software Sublicense, the rights under this Software Sublicense shall be [\*\*\*] in which case the license rights pertaining to such Aircraft shall be deemed terminated for such Aircraft on the date of the last operation thereof by the Sublicensee or any of its assignees, or (ii) the Agreement, this Software Sublicense or any part thereof, being terminated for any reason whatsoever, in which case the Sublicensee shall immediately cease to use the affected Supplier Software upon the effective termination date.

#### **6. CONDITIONS OF USE**

The Supplier Software shall only be used for the Permitted Purpose.

The Sublicensee shall be solely responsible for, and agrees to be careful in the use of, all outputs and results derived from the operation of the Supplier Software and all consequences, direct and indirect, relating to the use of such output and results. The Sublicensee agrees to use such outputs and results only once it has verified such outputs and results and has checked the relevance and correctness thereof, in the light of its particular needs.

The Sublicensee expressly acknowledges that it will take all appropriate precautions for the use of the Supplier Software, including without limitation measures required for its compliance with the User Guide or any information or directive regarding the use of the Supplier Software.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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Under the present Software Sublicense, the Sublicensee shall:

- a) not permit any parent, subsidiary, affiliate, agent or other third party to use the Supplier Software in any manner, including, but not limited to, any outsourcing, loan,

commercialization of the Supplier Software or commercialization by merging the Supplier Software into another software or adapting the Supplier Software, without the prior written consent from the Supplier;

- b) do its utmost to maintain the Supplier Software and the relating documentation in good working condition, in order to ensure the correct operation thereof;
- c) use the Supplier Software in accordance with such documentation and the User Guide, and ensure that the personnel using the Supplier Software has received appropriate training;
- d) use the Supplier Software exclusively in the technical environment defined in the applicable User Guide, except as otherwise agreed in writing between the parties;
- e) except as permitted by [\*\*\*], not alter, reverse engineer, modify, correct, translate, disassemble, decompile or adapt the Supplier Software, nor integrate all or part of the Supplier Software in any manner whatsoever into another software product; nor create a software product derived from the Supplier Software save with the Supplier's prior written approval;
- f) should the Sublicensor or the Supplier have elected to provide the source code to the Sublicensee, have the right to study and test the Supplier Software, under conditions to be expressly specified by the Sublicensor, but in no event shall the Sublicensee have the right to correct, modify or translate the Supplier Software;
- g) not attempt to discover or re-write the Supplier Software source codes in any manner whatsoever;
- h) not delete any identification or declaration relative to the intellectual property rights, trademarks or any other information related to ownership or intellectual property rights in the Supplier Software;
- i) not pledge, sell, distribute, grant, sublicense, lease, lend, whether on a free-of-charge basis or against payment, or permit access on a time-sharing basis or any other utilization of the Supplier Software, whether in whole or in part, for the benefit of a third party;

## **7. TRAINING**

In addition to the User Guide provided with the Supplier Software, training and other assistance shall be provided upon the Sublicensee's request, subject to conditions set forth in the Agreement. Such assistance or training shall not operate to relieve the Sublicensee of its sole responsibility with respect to the use of the Supplier Software under this Software Sublicense.

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## **8. PROPRIETARY RIGHTS—RIGHT TO CORRECT AND MODIFY**

- 8.1** The Supplier Software is proprietary to the Supplier and the Sublicensor represents and warrants that it has been granted the intellectual property rights necessary to grant this Software Sublicense. The

copyright and all other proprietary rights in the Supplier Software are and shall remain the property of the Supplier.

- 8.2** The Supplier may correct or modify its Supplier Software from time to time at its sole discretion and the Sublicensee shall not undertake any correction or modification of the Supplier Software without the Sublicensor's prior written approval. The Sublicensee shall install any Updates provided either by the Supplier or the Sublicensor in accordance with the time schedule notified with the provision of such Update(s). In the event of the Sublicensee failing to install any such Update(s), both the Sublicensor and the Supplier shall be relieved of any warranty or liability of any kind with respect to the conformity or operation of the Supplier Software.

## **9. COPYRIGHT INDEMNITY**

The Sublicensee hereby accepts the transfer to its benefit of all transferable and enforceable copyright indemnity conditions related to the corresponding Supplier Software and contained in the applicable Supplier Product Support Agreement.

## **10. CONFIDENTIALITY**

The Supplier Software, this Software Sub-license and their contents are designated as confidential. The Sublicensee undertakes not to disclose the Software Sub-license, the Supplier Software or any parts thereof to any third party without the prior written consent of the Sublicensor, except to the lessee in case of lease of an Aircraft or to the buyer in case of resale of the Aircraft, without prejudice to any provisions set forth in the Agreement. In so far as it is necessary to disclose aspects of the Supplier Software to the Sublicensee's employees, such disclosure is permitted solely for the purpose for which the Supplier Software is supplied and only to those employees who need to know the same, save as permitted herein or where otherwise required pursuant to an enforceable court order or any governmental decision or regulatory provision imposed on the Sublicensee, provided that reasonable prior notice of the intended disclosure is provided to the Sublicensor.

The obligations of the Sublicensee to maintain confidentiality shall survive the termination of this Software Sublicense for a period of [\*\*\*].

## **11. ACCEPTANCE**

Supplier Software shall be deemed accepted as part of the Technical Acceptance Process set out in Clause 8 of the Agreement.

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## **12. WARRANTY**

The Sublicensee hereby accepts the transfer to its benefit of all transferable and enforceable warranties related to the corresponding Supplier Software and contained in the applicable Supplier Product Support Agreement.

As a result, THE SUBLICENSEE acknowledges that the transferable and enforceable warranties, OBLIGATIONS and LIABILITIES contained in the Supplier Product Support Agreement shall constitute the sole and exclusive remedy available in the event of any defect or non-conformity of the Supplier Software.

Neither the Supplier nor the Sublicensor shall have any liability for data that is entered into the Supplier Software by the Sublicensee and/or used for computation purposes.

13 [\*\*\*]

#### 14 EXCUSABLE DELAYS

- 14.1 Neither the Sublicensor nor the Supplier(s) shall be responsible nor be deemed to be in default on account of delays in delivery of any Supplier Software or Updates due to causes reasonably beyond Sublicensor's or its suppliers' or subcontractors' (including the Supplier) control including but not limited to: natural disasters, fires, floods, explosions or earthquakes, epidemics or quarantine restrictions, serious accidents, total or constructive total loss, any act of the government of the country of the Sublicensee or the governments of the countries of Sublicensor or its subcontractors or its suppliers (including the Supplier), war, insurrections or riots, failure of transportation, communications or services, strikes or labor troubles causing cessation, slow down or interruption of services, inability after due and timely diligence to procure materials, accessories, equipment or parts, failure of a subcontractor or supplier (including the Supplier) to furnish materials, accessories, equipment or parts due to causes reasonably beyond such subcontractor's or supplier's (including the Supplier) control or failure of the Sublicensee or the Supplier to comply with its obligations arising out of the present Software Sublicense.
- 14.2 The Sublicensor shall, and/or shall cause the Supplier to, as soon as practicable after becoming aware of any delay falling within the provisions of this Article, notify the Sublicensee of such delay and of the probable extent thereof and shall, subject to the conditions as hereinafter provided and as soon as practicable after the removal of the cause or causes for delay, resume delivery of the delayed Supplier Software or Update.

#### 15 TERMINATION

In the event of breach of an obligation set forth in this Software Sublicense by either the Sublicensor or the Sublicensee[\*\*\*] the non-breaching party shall be entitled to terminate this Software Sublicense.

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#### EXHIBIT I

In the event of termination for any cause, the Sublicensee shall no longer have any right to use the Supplier Software and shall return to the Supplier all copies of the Supplier Software and any relating documentation together with an affidavit to that effect.

#### 16 GENERAL PROVISIONS

- 16.1 This Software Sublicense is an Exhibit to the Agreement and integrally forms part thereof. As a result, any non-conflicting terms of the Agreement are deemed incorporated herein to the extent they are relevant in the context of this Software Sublicense.
- 16.2 In the event of any inconsistency or discrepancy between any term of this Software Sublicense and any term of the Agreement (including any Appendix or other Exhibits thereto), the terms of this Software Sublicense shall take precedence over the conflicting terms of the Agreement to the extent

necessary to resolve such inconsistency or discrepancy.

- 16.3** The Sublicensee acknowledges that the Supplier Software covered under the present Sub-license Agreement is also subject to the conditions relative to each Supplier Software set forth in the corresponding Supplier Product Support Agreement. In the event of any inconsistency between the terms of this Sub-license Agreement and the terms contained in the corresponding Supplier Product Support Agreement, the latter shall prevail to the extent of such inconsistency.
- 16.4 This Software Sublicense is subject to and construed and the performance thereof shall be determined in accordance with the laws in effect [\*\*\*] without regard to conflict of laws principles that could result in the [\*\*\*] All disputes arising in connection with this Software Sublicense shall be submitted to the [\*\*\*] and the parties hereby agree to submit to the [\*\*\*]

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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LETTER AGREEMENT N° 1

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**

Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**

Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: **COMMERCIAL CONCESSIONS**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°1 (the “**Letter Agreement No1**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°1 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°1, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°1 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°1. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°1 then the provisions of this Letter Agreement N°1 will govern.



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LETTER AGREEMENT N° 1

## 1 PURCHASE INCENTIVES

### 1.1 \*\*\* Credit Memorandum

The Seller shall grant to the Buyer, at \*\*\*, a credit memorandum (the “\*\*\* **Credit Memorandum**”) in an amount of, respectively:

\*\*\*

The \*\*\* Credit Memorandum shall be applied, at the Buyer’s option, \*\*\* from the Seller.

The \*\*\* Credit Memorandum is expressed in \*\*\* shall be subject to revision up to the delivery date of the relevant Aircraft in accordance with the Airframe Price Revision Formula.

### 1.2 \*\*\* Credit Memorandum

\*\*\* **Credit Memorandum**”) in an amount of:

\*\*\*

\*\*\* Credit Memorandum shall be applied, at the Buyer’s option, \*\*\* from the Seller.

\*\*\* Credit Memorandum is expressed in \*\*\* shall be subject to revision up to the delivery date of the relevant Aircraft in accordance with the Airframe Price Revision Formula. With respect to the \*\*\* Credit Memorandum, references to \*\*\* in the Airframe Price Revision Formula and in Clause 1.6.1 below shall be replaced by references to \*\*\*.

For the sake of clarity, the \*\*\* Credit Memorandum \*\*\*.

### 1.3 **Airbus Training** \*\*\*

#### 1.3.2

### 1.4 \*\*\* Credit Memorandum

1.4.1 The Seller shall make available to the Buyer, \*\*\*, a credit memorandum (the “\*\*\* **Credit Memorandum**”) in a \*\*\*

The \*\*\* Credit Memorandum shall \*\*\*

### 1.5 \*\*\* Credit Memoranda

The Seller shall make available to the Buyer, \*\*\* credit memorandum (the “\*\*\* **Credit Memorandum**”) in \*\*\*

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## LETTER AGREEMENT N° 1

1.6 Price Revision \*\*\*

1.6.1 Notwithstanding the provisions of \*\*\*

**2 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°1 is not transferable, and the Buyer's rights under this Letter Agreement N°1 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer's rights under this Letter Agreement N°1 with respect to any Aircraft will be void and without effect.

**3 CONFIDENTIALITY**

This Letter Agreement N°1 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**4 COUNTERPARTS**

This Letter Agreement N°1 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**5 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT N°1 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

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## LETTER AGREEMENT N° 1

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°1 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_  
Title: \_\_\_\_\_  
Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_  
Signature: \_\_\_\_\_ Signature: \_\_\_\_\_

Date:

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LETTER AGREEMENT N° 2

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**

Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**

Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: **MISCELLANEOUS**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°2 (the “**Letter Agreement No2**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°2 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°2, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°2 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°2. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°2 then the provisions of this Letter Agreement N°2 will govern.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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LETTER AGREEMENT N° 2

**1 AMENDED PROVISIONS**

1.1 Amended Clauses of the Agreement

The following clauses of the Agreement are hereby deleted in their entireties and replaced with the amended clauses set forth in the corresponding Appendixes attached hereto as detailed in the following table:

<u>Clause of the Agreement</u>	<u>Appendix to this Letter Agreement No2 in which the amended Clause is set out</u>
Clause 2	Appendix 2
Clause 5	Appendix 5
Clause 6	Appendix 6
Clause 7	Appendix 7
Clause 8	Appendix 8
Clause 9	Appendix 9
Clause 10	Appendix 10
Clause 11	Appendix 11
Clause 12	Appendix 12
Clause 13	Appendix 13
Clause 14	Appendix 14
Clause 15	Appendix 15
Clause 16	Appendix 16
Clause 17	Appendix 17
Clause 18	Appendix 18
Clause 19	Appendix 19
Clause 20	Appendix 20
Clause 21	Appendix 21

Note: there are no changes to Clauses 1, 3, 4, or 22 to the Agreement and therefore no Appendixes 1, 3, 4, or 22 to this Letter Agreement No 2.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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LETTER AGREEMENT N° 2

**2 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement No 2 is not transferable, and the Buyer's rights under this Letter Agreement No 2 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer's rights under this Letter Agreement No 2 with respect to any Aircraft will be void and without effect.

**3 CONFIDENTIALITY**

This Letter Agreement No 2 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**4 COUNTERPARTS**

This Letter Agreement No 2 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**5 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT No 2 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

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LETTER AGREEMENT N° 2

If the foregoing correctly sets forth our understanding, please execute two (2) originals in the space provided below and return one (1) original of this Letter Agreement No 2 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_  
Title: \_\_\_\_\_  
Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Signature: \_\_\_\_\_

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Signature: \_\_\_\_\_

Date:

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APPENDIX 2 to LETTER AGREEMENT N° 2

**2 SPECIFICATION**

**2.1 Aircraft Specification**

2.1.1 A319 Aircraft shall be manufactured in accordance with the A319 Specification;  
A320 Aircraft shall be manufactured in accordance with the A320 Specification;  
A321 Aircraft shall be manufactured in accordance with the A321 Specification.

2.1.2 Part [\*\*\*], Part [\*\*\*] and Part [\*\*\*] of Appendix 3 shall include SCNs to increase the design weights set forth in the applicable Standard Specification to at least the design weights (Maximum Take-off Weight (“**MTOW**”) Maximum Landing Weight (“**MLW**”) and Maximum Zero Fuel Weight (“**MZFW**”)) set forth in the table below:

	<b>MTOW</b>	<b>MLW</b>	<b>MZFW</b>
<b>A319 Aircraft</b>	[***]	[***]	[***]
<b>A320 Aircraft</b>	[***]	[***]	[***]
<b>A321 Aircraft</b>	[***]	[***]	[***]

2.1.3 \*\*\*

## 2.2 Specification Amendment

The Specification may be further amended following the execution of the Agreement in accordance with the terms of this Clause 2.2

### 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 Part [\*\*\*] of Appendix B, 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 [\*\*\*]. An SCN may result in an adjustment of the Base Price of the Aircraft, 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 Agreement ("**Development Changes**"), as set forth in this Clause 2.2.2.

#### 2.2.2.1 Manufacturer Specification Changes Notices

2.2.2.1.1 The Specification may be amended by the Seller through a Manufacturer Specification Change Notice ("**MSCN**"), which shall be substantially in the form set out in Exhibit B hereto

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## APPENDIX 2 to LETTER AGREEMENT N° 2

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 [\*\*\*]

2.2.2.1.2 [\*\*\*]

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 2.2.2.1.2 above, such revision shall be performed by the Seller without the Buyer's consent. In such cases, the Buyer shall have access to the details of such changes through the relevant application in AirbusWorld.

2.2.2.3 [\*\*\*]

2.2.2.4 The Seller shall provide the Buyer with a milestone chart reflecting, in terms of minimum lead-times prior to delivery of the first Aircraft of a type, the dates when a mutual agreement shall be reached by way of execution of an SCN to integrate the Buyer specific features into the industrial process.

## 2.3 Propulsion Systems

2.3.1 The Airframe shall be equipped with either (i) a set of two (2) CFM INTERNATIONAL ("**CFM**") LEAP Propulsion Systems or (ii) a set of two (2) PRATT & WHITNEY ("**PW**") PW1100G-JM Propulsion Systems (the "**Propulsion Systems**"), as detailed below:

Aircraft	CFM	PW
A319 Aircraft	LEAP[***]	PW[***]
A320 Aircraft	LEAP[***]	PW[***]
A321 Aircraft	LEAP[***]	PW[***]

AET means Airbus Equivalent Thrust

2.3.2 The Buyer hereby confirms to the Seller that the Buyer has selected CFM Propulsion Systems for Batch 1 Aircraft.

With respect to Batch 2 Aircraft, Propulsions Systems shall be selected not later than \*\*\* prior to the [\*\*\*] day of the Scheduled Delivery Period of the [\*\*\*] Aircraft.

2.4 Customization

2.4.1 Customization Milestones Chart

Within a reasonable period [\*\*\*] following signature of the Agreement, the Seller shall provide the Buyer with a customization milestones chart (the “Customization Milestones Chart”). The chart will set out the minimum lead times prior to the Scheduled Delivery

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APPENDIX 2 to LETTER AGREEMENT N° 2

Month of the Aircraft when a mutual agreement shall be reached (execution of a SCN) in order to integrate into the Specification any items requested by the Buyer from the Seller’s catalogues of Specification change options (the “Option Catalogues”).

2.4.2 Contractual Definition Freeze

The Customization Milestone Chart shall in particular define the date(s) by which the contractual definition of the Aircraft must be finalized and all SCNs need to have been executed by the Buyer (the “**Contractual Definition Freeze**” or “**CDF**”) in order to enable their incorporation into the manufacturing of the Aircraft and Delivery of the Aircraft in the Scheduled Delivery Month. Each such date shall be referred to as a “**CDF Date**”. [\*\*\*]

2.5 Propulsion Systems and BFE Concessions

Concessions which may be provided by the applicable Propulsion Systems Manufacturer and BFE Suppliers shall be negotiated directly between the Buyer and such Propulsion Systems Manufacturer and BFE Suppliers.

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**5 PAYMENT TERMS**

5.1 Seller's Account

The Buyer shall pay the Predelivery Payments (PDPs), the Balance of the Final Price and any other amount due by the Buyer to the following account of the Seller:

Beneficiary Name: AIRBUS  
Account identification: [\*\*\*]  
Bank: [\*\*\*]  
SWIFT: [\*\*\*]  
ABA: [\*\*\*]  
[\*\*\*]

or to such other account as may be designated by the Seller.

5.2 Commitment Fee

The Seller acknowledges that it has received from the Buyer the sum of [\*\*\*] USD (USD [\*\*\*]), which represents a non-refundable commitment fee of [\*\*\*] USD (USD [\*\*\*]) (the “**Commitment Fee**”) for each of the Batch 2 Aircraft. The Commitment Fee shall be credited against the Predelivery Payment [\*\*\*] upon execution of this Agreement.

5.3 Predelivery Payments

5.3.1 The Buyer shall pay Predelivery Payments to the Seller calculated on the predelivery payment reference price (“**PDPRP**”) of each Aircraft. Predelivery Payments are non-refundable. The PDPRP of an Aircraft is determined by the following formula:

[\*\*\*]

5.3.2 Such Predelivery Payments shall be made in accordance with the following schedule:

[\*\*\*]

<b>PDP number</b>	<b>Due date</b>	<b>Amount</b>
(1)	[***]	[***]
(2)	[***]	

5.3.3 The Seller shall be entitled to hold and use any Predelivery Payment as absolute owner thereof, subject only to [\*\*\*] the obligation [\*\*\*] to deduct [\*\*\*] such Predelivery Payment from the Final Price when calculating the Balance of Final Price [\*\*\*]. The Seller shall be

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under no obligation to segregate any Predelivery Payment, or any amount equal thereto, from the Seller's funds generally [\*\*\*].

5.3.4 [\*\*\*]

5.4 Balance of the Final Price

5.4.1 For each Aircraft, the Buyer shall pay to the Seller at the time set forth in Clause 9.2.1. an amount equal to (a) the Final Price less (b) the amount of Predelivery Payments received by the Seller for such Aircraft on or before the Delivery Date (the "**Balance of the Final Price**").

5.4.2 The Seller's receipt of the full amount of all PDPs and the Balance of the Final Price and any other amounts due under [\*\*\*] are a condition precedent to the Seller's obligation to deliver such Aircraft.

5.5 Other Amounts

Unless expressly stipulated otherwise, any other amounts [\*\*\*] due under this Agreement other than those set out in Clauses 5.2, 5.3 and 5.4 shall be paid by the Buyer at the same time as payment of the Balance of the Final Price or, if invoiced after the Delivery Date, within [\*\*\*] days after the invoice date.

5.6 Method of Payment; Payment in Full

5.6.1 All payments provided for in this Agreement shall be made in United States Dollars (USD) in immediately available funds.

5.6.2 All payments due to the Seller hereunder shall be made in full, without set-off, counterclaim, deduction, recoupment or withholding of any kind. Consequently, the Buyer shall procure that the sums received by the Seller under this Agreement shall be equal to the full amounts expressed to be due to the Seller hereunder, without deduction or withholding on account of and free from any and all taxes, levies, imposts, dues or charges of whatever nature [\*\*\*] the Buyer shall pay such additional amounts as may be necessary in order that the net amount received by the Seller after such deduction or withholding shall be equal to the amounts which would have been received in the absence of such deduction or withholding and pay to the relevant taxation or other authorities within the period for payment permitted by applicable law, the full amount of the deduction or withholding.

5.7 Overdue Payments

[\*\*\*]

5.8 Taxes

[\*\*\*]

5.9 Proprietary Interest

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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The Buyer shall not, by virtue of anything contained in this Agreement (including, without limitation, any Commitment Fee or Predelivery Payments hereunder, or any designation or identification by the Seller of a particular aircraft as an Aircraft to which any of the provisions of this Agreement refers) acquire any proprietary, insurable or other interest whatsoever in any Aircraft before Delivery of and payment for such Aircraft, as provided in this Agreement.

5.10 Set-Off

[\*\*\*]

5.11 Application of Payments

[\*\*\*]

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APPENDIX 6 to LETTER AGREEMENT N° 2

**6 MANUFACTURE PROCEDURE—INSPECTION**

6.1 Manufacture Procedures

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 authorized 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 (each an “**Inspection**”) on the following terms and conditions;

- (i) any Inspection shall be conducted pursuant to the Seller’s system of inspection and the relevant Airbus procedures, as developed under the supervision of the [\*\*\*] relevant Aviation Authority;
- (ii) the Buyer’s Inspector(s) shall have access to such relevant technical data as is reasonably necessary for the purpose of the Inspection;
- (iii) any Inspection and any related discussions with the Seller and other relevant personnel by the Buyer’s Inspector(s) shall be at reasonable times during business hours and shall take place in the presence of the relevant inspection department personnel of the Seller, [\*\*\*];
- (iv) the Inspections shall be performed in a manner not to unduly delay or hinder the manufacture or assembly of the Aircraft or the performance of this Agreement by the Seller or any other work in progress at the Manufacture Facilities.

6.2.2 Location of Inspections

The Buyer’s Inspector(s) shall be entitled to conduct any such Inspection at the relevant Manufacture Facility of the Seller or the Affiliates and where possible at the Manufacture Facilities of the sub-contractors provided that if access to any part of the Manufacture Facilities where the Airframe manufacture is in progress or materials or parts are stored are restricted for security or confidentiality reasons, the Seller shall be allowed reasonable time to make the relevant items available elsewhere.

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6.3 Seller's Service for Buyer's Inspector(s)

For the purpose of the Inspections, [\*\*\*], the Seller shall [\*\*\*].

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APPENDIX 7 to LETTER AGREEMENT N° 2

**7 CERTIFICATION**

[\*\*\*]

7.1 Type Certification

The [\*\*\*] Aircraft has been type certificated under EASA [\*\*\*] procedures for certification in the transport category. [\*\*\*]

7.2 Export Certificate of Airworthiness

[\*\*\*]

7.3 Specification Changes before Aircraft Ready for Delivery

7.3.1 If, any time before the date on which the Aircraft is Ready for Delivery, any law, rule or regulation is enacted, promulgated, becomes effective and/or an interpretation of any law, rule or regulation is issued [\*\*\*] that requires any change to the Specification for the purposes of obtaining the Export Certificate of Airworthiness (a “**Change in Law**”), the Seller shall make the required [\*\*\*] modification and the parties hereto shall sign an SCN or MSCN in connection with such [\*\*\*] modification.

7.3.2 The Seller shall as far as practicable, but at its sole discretion and without prejudice to Clause 7.3.3(ii), take into account the information available to it concerning any proposed law, rule or regulation or interpretation that could become a Change in Law, in order to minimize the costs of changes to the Specification as a result of such proposed law, regulation or interpretation becoming effective before the applicable Aircraft is Ready for Delivery.

7.3.3 The cost of implementing the required [\*\*\*] modifications referred to in Clause 7.3.1 shall be:

- (i) for the account of the Seller if the Change in Law became effective before the date of this Agreement [\*\*\*]

- (ii) [\*\*\*] shared equally between the Seller and the Buyer if the Change in Law becomes effective after the date of this Agreement [\*\*\*]

7.3.4 Notwithstanding the provisions of Clause 7.3.3, if a Change in Law relates to an item of BFE or to the Propulsion Systems the costs related thereto shall be borne in accordance with such arrangements as may be made separately between the Buyer and the manufacturer of the BFE or the Propulsion Systems, as applicable, and the Seller shall have no obligation with respect thereto. [\*\*\*]

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## **8 TECHNICAL ACCEPTANCE**

### **8.1 Technical Acceptance Process**

8.1.1 Prior to Delivery the Aircraft shall undergo a [\*\*\*] technical acceptance process [\*\*\*] (the “**Technical Acceptance Process**”). [\*\*\*]

8.1.2 The Technical Acceptance Process shall:

- (i) commence on a date [\*\*\*] after the date of the Seller’s notice under Clause 9.1.3;
- (ii) take place at the Delivery Location;
- (iii) be carried out by the personnel of the Seller;
- (iv) include a technical acceptance flight [\*\*\*] the “**Technical Acceptance Flight**”) [\*\*\*]

### **8.2 Buyer’s Attendance**

8.2.1 The Buyer shall be entitled to attend the Technical Acceptance Process.

8.2.2 If the Buyer attends the Technical Acceptance Process, the Buyer;

- (i) shall [\*\*\*] with the reasonable requirements of the Seller with the intention of completing the Technical Acceptance Process within [\*\*\*]
- (ii) may have a maximum of [\*\*\*] of its representatives (no more than [\*\*\*] of whom shall have access to the cockpit at any one time) accompany the Seller’s representatives on the Technical Acceptance Flight, during which the Buyer’s representatives shall comply with the instructions of the Seller’s representatives.

8.2.3 [\*\*\*]

### **8.3 Certificate of Acceptance**

[\*\*\*] 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**”).

8.4 [\*\*\*]

### **8.5 Aircraft Utilization**

The Seller shall, without payment or other liability, be entitled to use the Aircraft before Delivery as may be necessary to obtain the certificates required under Clause 7. Such use shall not relieve the Buyer of or otherwise in any manner affect its obligation to accept Delivery hereunder. [\*\*\*]

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**9 DELIVERY**

9.1 Delivery Schedule

9.1.1 Subject to Clauses 2, 7, 8, 10, 11 and 18, the Seller shall have the Aircraft Ready for Delivery at the Delivery Location within the following scheduled delivery period (the “**Scheduled Delivery Period**”):

<u>Aircraft Number</u>	<u>Aircraft Type</u>	<u>Scheduled Delivery Period</u>
1	[***]	[***]
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4		
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9.1.2 When a Scheduled Delivery Period of an Aircraft is a month, such month shall be, with respect to such Aircraft, the “**Scheduled Delivery Month**”. [\*\*\*]

For the purpose of Clause 5.3 of the Agreement, until a Scheduled Delivery Month has been notified pursuant to [\*\*\*] above, the Scheduled Delivery Month of an Aircraft shall be deemed (a) the [\*\*\*] month of its Scheduled Delivery Period when such Scheduled Delivery Period is a [\*\*\*], and (b) the [\*\*\*] month of its Scheduled Delivery Period when such Scheduled Delivery Period is a [\*\*\*].

9.1.3 [\*\*\*].

9.2 Delivery Process

9.2.1 The Buyer shall, within [\*\*\*] after the date on which the Aircraft is Ready for Delivery, sign the Certificate of Acceptance, pay the Balance of the Final Price, send its representatives to the Delivery Location, take Delivery of the Aircraft and fly the Aircraft away from the Delivery Location.

9.2.2 The Seller shall deliver and transfer [\*\*\*] title to the Aircraft to the Buyer free and clear of all liens, claims, charges, security interests and all encumbrances of any kind whatsoever (except for any liens or encumbrances created by or on behalf of the Buyer) provided that (i)

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the Balance of the Final Price and any other amounts [\*\*\*] have been paid by the Buyer to the Seller and (ii) the Certificate of Acceptance has been signed and delivered to the Seller pursuant to Clause 8.3. The Seller shall provide the Buyer with a bill of sale in the form of Exhibit E (the “**Bill of Sale**”) and/or such other documentation [\*\*\*] confirming transfer of [\*\*\*] title and receipt of the Final Price as may reasonably be requested by the Buyer. Title to and risk of loss of or damage to the Aircraft shall pass to the Buyer at Delivery.

Delivery (“**Delivery**”) shall be deemed to have occurred when (i) and (ii) above have occurred; and the Seller has provided the Buyer with the Bill of Sale [\*\*\*].

9.2.3 [\*\*\*]

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 [\*\*\*]

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**10 EXCUSABLE DELAY**

10.1 The Buyer acknowledges that the Aircraft are to be manufactured by the Seller in performance of this Agreement and that the Scheduled Delivery Periods or Scheduled Delivery Months, as applicable, are based on the assumption that there shall be no delay due to causes beyond the control of the Seller. Accordingly, Seller shall not be responsible for any delay in the Delivery of the Aircraft or delay or interruption in the performance of the other obligations of the Seller hereunder due to causes beyond its control, [\*\*\*] including (but without limitation) acts of God or the public enemy, war, civil war, warlike operations, terrorism, insurrections or riots, fires, explosions, natural disasters, [\*\*\*] with any applicable foreign or domestic governmental regulation or order, labor 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 caused directly or indirectly by the action or inaction of the Buyer and any delay in delivery or otherwise in the performance of this Agreement by the Seller due in whole or in part to any delay in or failure of the delivery of, or any other event or circumstance relating to the Propulsion Systems or Buyer Furnished Equipment.

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) [\*\*\*]
- (ii) the Seller shall notify the Buyer of such Excusable Delay as soon as practicable after becoming aware of the same;
- (iii) the Seller shall not be responsible for any damages arising from or in connection with such Excusable Delay suffered or incurred by the Buyer;
- (iv) the Seller shall not be deemed to be in default in the performance of its obligations hereunder [\*\*\*] as a result of such Excusable Delay;
- (v) [\*\*\*]

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 [\*\*\*] then either party may terminate this Agreement with respect to the Aircraft so affected by giving written notice to the other party within [\*\*\*] provided that the Buyer shall not be entitled to terminate this Agreement pursuant to this Clause if the Excusable Delay [\*\*\*]

10.3.2 If the Seller concludes that the Delivery of any Aircraft will be delayed for more than [\*\*\*] due to an Excusable Delay and as a result thereof reschedules Delivery of such Aircraft to a date or month reflecting such delay then the Seller shall promptly notify the Buyer in writing to this effect and shall include in such notification the new Scheduled Delivery Month. Either party may thereupon terminate this Agreement with respect to such Aircraft by giving written notice to the other party within [\*\*\*].

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10.3.3 If this Agreement shall not have been terminated with respect to the delayed Aircraft during [\*\*\*], then [\*\*\*]

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 [\*\*\*]. The Seller shall include in said notification (or as soon after the issue of the notice as such information becomes available to the Seller) the earliest date consistent with the Seller’s other commitments and production capabilities that an aircraft to replace the Aircraft [\*\*\*] may be delivered to the Buyer and the Scheduled Delivery Month shall be extended as specified in the Seller’s notice to accommodate the delivery of the replacement aircraft; provided, however, that in the event the specified extension of the Scheduled Delivery Month is to a month [\*\*\*] then [\*\*\*] unless:

- (i) the Buyer notifies the Seller within [\*\*\*] that it desires the Seller to provide a replacement aircraft during the month quoted in the Seller’s notice; and

- (ii) the parties execute an amendment to this Agreement recording the variation in the Scheduled Delivery Month [\*\*\*];

provided, however, that nothing herein shall require the Seller to manufacture and deliver a replacement aircraft if such manufacture would require the reactivation of its production line for the model or series of aircraft that was subject to such Total Loss.

10.5 [\*\*\*]

10.6 [\*\*\*]

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APPENDIX 11 to LETTER AGREEMENT N° 2

## 11 NON-EXCUSABLE DELAY

### 11.1 Liquidated Damages

Should any of the Aircraft not be Ready for Delivery to the Buyer within [\*\*\*] (the “**Delivery Period**”) and such delay is not as a result of an Excusable Delay or Total Loss (a “**Non-Excusable Delay**”), then the Buyer shall have the right to claim, and the Seller shall pay [\*\*\*].

The Buyer’s right [\*\*\*] in respect of any Aircraft is conditional upon the Buyer submitting a claim in respect of [\*\*\*] in writing to the Seller [\*\*\*]

### 11.2 Renegotiation

If, as a result of a Non-Excusable Delay, Delivery does not occur within [\*\*\*] the Buyer shall have the right, exercisable by written notice to the Seller [\*\*\*], to require from the Seller a renegotiation of the Scheduled Delivery Month for the affected Aircraft. Unless otherwise agreed between the Seller and the Buyer during such renegotiation, the said renegotiation shall not prejudice the Buyer’s right [\*\*\*] in accordance with Clause 11.1.

### 11.3 Termination

If, as a result of a Non-Excusable Delay, Delivery does not occur within [\*\*\*] and the parties have not renegotiated the Scheduled Delivery Month pursuant to Clause 11.2, then both parties shall have the right exercisable by written notice to the other party, given [\*\*\*], to terminate this Agreement in respect of the affected Aircraft. In the event of termination, [\*\*\*]

11.4 [\*\*\*]

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## 12 WARRANTIES AND SERVICE LIFE POLICY

This Clause covers the terms and conditions of the warranty and service life policy.

### 12.1 Standard Warranty

#### 12.1.1 Nature of Warranty

For the purpose of this Agreement the term “**Warranted Part**” shall mean any [\*\*\*] component, equipment, [\*\*\*] accessory or part, which is installed on an Aircraft at Delivery thereof and

- (a) which is manufactured to the detailed design of the Seller or a subcontractor of the Seller and
- (b) which bears a part number of the Seller at the time of such Delivery.

Subject to the conditions and limitations as hereinafter provided for and except as provided for in Clause 12.1.2, the Seller warrants to the Buyer that each Aircraft and each Warranted Part shall at Delivery to the Buyer be free from defects:

- (i) in material;
- (ii) in workmanship, including without limitation processes of manufacture;
- (iii) in design (including without limitation the selection of materials) having regard to the state of the art at the date of such design; and
- (iv) arising from failure to conform to the Specification, except to those portions of the Specification relating to performance or where it is expressly stated [\*\*\*] that they are estimates, approximations or design aims.

#### 12.1.2 Exclusions

The warranties set forth in Clause 12.1.1 shall not apply to Buyer Furnished Equipment, nor to the Propulsion Systems, nor to any component, equipment, accessory or part installed on the Aircraft at Delivery that is not a Warranted Part except that:

- (i) any defect in the Seller’s workmanship in respect of the installation of such [\*\*\*] items in the Aircraft, including any failure by the Seller to conform to the installation instructions of the manufacturers of such items, that invalidates any applicable warranty from such manufacturers, shall constitute a defect in workmanship for the purpose of this Clause 12.1 and be covered by the warranty set forth in Clause 12.1.1 (ii); and
- (ii) any defect inherent in the Seller’s design of the installation, in consideration of the state of the art at the date of such design, which impairs the use of such items, shall

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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).

### 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 [\*\*\*] (the “**Warranty Period**”).

### 12.1.4 Buyer’s Remedy and Seller’s Obligation

12.1.4.1 The Buyer’s remedy and the Seller’s obligation and liability under Clauses 12.1.1 and 12.1.2 are limited to, at the Seller’s expense and option, the repair, replacement or correction of any Warranted Part which is defective (or to the supply of modification kits rectifying the defect), together with a credit to the Buyer’s account with the Seller of an amount equal to the mutually agreed direct labor costs expended in performing the removal and the reinstallation thereof on the Aircraft at the labor rate defined in Clause 12.1.7.5.

The Seller may alternatively [\*\*\*] furnish to the Buyer’s account with the Seller a credit equal to [\*\*\*] the price at which the Buyer is entitled to purchase a replacement for the defective Warranted Part [\*\*\*].

12.1.4.2 In the event of a defect covered by Clauses 12.1.1 (iii), 12.1.1 (iv) and 12.1.2 (ii) becoming apparent within the Warranty Period, the Seller shall also, [\*\*\*] correct such defect in any Aircraft which has not yet been delivered to the Buyer, provided, however,

- (i) that the Seller shall not [\*\*\*] be deemed to be in default on account of any delay in Delivery of any Aircraft or otherwise in respect of the performance of this Agreement, due to the Seller’s undertaking to make such correction [\*\*\*],
- (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 [\*\*\*] incurred by the Buyer in performing inspections of the Aircraft [\*\*\*] to determine whether or not a defect exists in any Warranted Part within the Warranty Period subject to the following conditions:

- (i) such inspections are recommended by a Seller Service Bulletin [\*\*\*] to be performed within the Warranty Period;

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## APPENDIX 12 to LETTER AGREEMENT N° 2

- (ii) the reimbursement [\*\*\*] for any inspections performed [\*\*\*],
- (iii) the labor rate for the reimbursement shall be the Inhouse Warranty Labor Rate [\*\*\*].

### 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 [\*\*\*] within the Warranty Period;

- (ii) the Buyer having filed a Warranty Claim within [\*\*\*]
- (iii) the Buyer [\*\*\*] the affected Aircraft or part thereof in accordance with the standards set forth in Clause 12.1.10;
- (iv) [\*\*\*] from any act or omission of any third party;
- (v) the Seller having received a Warranty Claim complying with the provisions of Clause [\*\*\*] below.

#### 12.1.6 Warranty Administration

The warranties set forth in this Clause 12.1 shall be administered as hereinafter provided for in this Clause 12.1.6.

##### 12.1.6.1 Claim Determination

[\*\*\*]

##### 12.1.6.2 Transportation Costs

The cost of transporting a Warranted Part claimed to be defective to the facilities designated by the Seller [\*\*\*]

##### 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 [\*\*\*]

##### 12.1.6.4 On -Aircraft Work by the Seller

[\*\*\*]

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The condition which has to be fulfilled for on-Aircraft work by the Seller is that [\*\*\*] the work necessitates the technical expertise of the Seller as manufacturer of the Aircraft.

If said condition is fulfilled [\*\*\*] 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 [\*\*\*] 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 [\*\*\*],
- (h) time since last shop visit at the date [\*\*\*]
- (i) Manufacturer Serial Number of the Aircraft and/or its registration,
- (j) Aircraft total flying hours and/or number of landings at the date [\*\*\*]
- (k) Warranty Claim number,
- (l) date of Warranty Claim, and
- (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

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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) [\*\*\*] ;
- (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 thereof.

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. [\*\*\*]

12.1.6.8 Inspection

The Seller shall have the right to inspect the affected Aircraft, documents and other records relating thereto in the event of any Warranty Claim under this Clause 12.1. [\*\*\*].



## 12.1.7 Inhouse Warranty

### 12.1.7.1 Seller's Authorization

The Seller hereby authorizes the Buyer to repair Warranted Parts (“**Inhouse Warranty**”) subject to the terms of this Clause 12.1.7.

### 12.1.7.2 Conditions for Seller's Authorization

The Buyer shall be entitled to repair such Warranted Parts:

- (i) provided the Buyer notifies the Seller Representative of its intention to perform Inhouse Warranty repairs [\*\*\*];
- (ii) provided adequate facilities and qualified personnel are available to the Buyer; and
- (iii) provided repairs are performed in accordance with the Seller's Technical Data or

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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written instructions; and

- (iv) [\*\*\*].

### 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 [\*\*\*] have the right to have a [\*\*\*] present during the disassembly, inspection and testing of any Warranted Part claimed to be defective [\*\*\*].

### 12.1.7.4 Inhouse Warranty Claim Substantiation

Claims for Inhouse Warranty credit shall be filed within the time period set forth in 12.1.5 (ii) and shall contain the same information as that required for Warranty Claims under Clause 12.1.6.5 and in addition shall include:

- (a) a report of technical findings with respect to the defect,
- (b) for parts required to remedy the defect:
  - part numbers,
  - serial numbers (if applicable),
  - parts description,
  - quantity of parts,
  - unit price of parts,
  - related Seller's or third party's invoices (if applicable),
  - total price of parts,

- (c) detailed number of labor hours,
- (d) Inhouse Warranty Labor Rate,
- (e) total claim value.

#### 12.1.7.5 Credit

The Buyer's sole remedy and the Seller's sole obligation and liability with respect to Inhouse Warranty Claims shall be the credit to the Buyer's account of an amount

#### 12.1.7.6 Limitation

[\*\*\*]

#### 12.1.7.7 Scrapped Material

The Buyer shall retain any defective Warranted Part [\*\*\*] and any defective part removed

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from a Warranted Part during repair for a period of [\*\*\*]. Such parts shall be returned to the Seller [\*\*\*].

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

[\*\*\*], the warranties provided for in this Clause 12.1 for any Warranted Part shall [\*\*\*], 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 [\*\*\*].

If a defect is attributable to a [\*\*\*] repair or [\*\*\*] by the Buyer, a Warranty Claim with respect to such defect [\*\*\*] 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 [\*\*\*] the Suppliers and the Propulsion Systems Manufacturer and all applicable rules, regulations and directives of the relevant Aviation Authorities.

The Seller's liability under this Clause 12.1 shall not extend to normal wear and tear or 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 [\*\*\*]
- (iii) any component, equipment, accessory [\*\*\*] part from which the trademark [\*\*\*],

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part or serial number or other identification marks have been removed.

12.1.11 LIMITATION OF LIABILITY

[\*\*\*]

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 below) that did not result 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 shall, at its discretion and as promptly as practicable and with the Seller’s financial participation as hereinafter provided, either:

- design and furnish to the Buyer a correction for such Item having the Failure and provide any parts required for such correction (including Seller designed standard parts but excluding industry standard parts [\*\*\*]), or
- replace such Item.

12.2.3 Seller’s Participation in the Costs

[\*\*\*]

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 [\*\*\*].

12.2.4.2 The Buyer’s remedies and the Seller’s obligations and liabilities under this Service Life Policy are subject to the [\*\*\*] following conditions:

- (i) the Buyer shall maintain log books and other historical records with respect to each

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[\*\*\*] 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;

- (ii) the Buyer shall keep the Seller [\*\*\*] informed of any significant incidents relating to an Aircraft, howsoever occurring or recorded;
- (iii) the Buyer shall comply with the conditions of Clause 12.1.10;
- (iv) the Buyer shall implement specific structural inspection programs for monitoring purposes as may be established from time to time by the Seller [\*\*\*]. Such programs shall be as compatible as possible with the Buyer's operational requirements and shall be carried out at the Buyer's expense. Reports relating thereto shall be regularly furnished to the Seller;
- (v) the Buyer shall report any breakage or defect in a Item in writing to the Seller within [\*\*\*] after such breakage or defect becomes apparent, [\*\*\*] breakage or defect can reasonably be expected to occur in any other aircraft, and the Buyer shall have provided to the Seller [\*\*\*] sufficient detail [\*\*\*] 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 [\*\*\*] applicable to an Aircraft, the purpose of which is to avoid a Failure, the Seller may elect to supply the necessary modification kit [\*\*\*]. 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 NOT A WARRANTY, PERFORMANCE GUARANTEE, OR 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 [\*\*\*].

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### 12.3 Supplier Warranties and Service Life Policies

Prior to [\*\*\*] Delivery of the first Aircraft, the Seller shall provide the Buyer [\*\*\*] 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. [\*\*\*] 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, among other things, 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 [\*\*\*]

12.3.2.2 [\*\*\*]

12.3.2.3 [\*\*\*].

### 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 [\*\*\*] charge to the Buyer [\*\*\*], 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 [\*\*\*]. 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

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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

[\*\*\*]

#### 12.4.3 Supplier's Responsibility

[\*\*\*]

#### 12.4.4 Joint Responsibility

[\*\*\*]

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 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 [\*\*\*]

#### 12.4.6 General

12.4.6.1 All requests under this Clause 12.4 shall be directed to [\*\*\*] the Seller [\*\*\*].

12.4.6.2 Except as specifically set forth in this Clause 12.4, this Clause 12.4 shall not be deemed to impose on the Seller any obligations not expressly set forth elsewhere in this Clause 12.

12.4.6.3 All reports, recommendations, data and other documents furnished by the Seller to the Buyer pursuant to this Clause 12.4 shall be deemed to be delivered under this Agreement and shall be subject to the terms, covenants and conditions set forth in this Clause 12 and Clause 22.12.

#### 12.5 EXCLUSIVITY OF WARRANTIES

[\*\*\*] THIS CLAUSE 12 [\*\*\*] SETS FORTH THE EXCLUSIVE WARRANTIES, EXCLUSIVE LIABILITIES AND EXCLUSIVE OBLIGATIONS OF THE SELLER, AND THE EXCLUSIVE REMEDIES AVAILABLE TO THE BUYER, WHETHER UNDER THIS AGREEMENT OR OTHERWISE, ARISING FROM ANY DEFECT OR NONCONFORMITY OR PROBLEM OF ANY KIND IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICE DELIVERED BY THE SELLER UNDER THIS AGREEMENT.

THE BUYER RECOGNIZES THAT THE RIGHTS, WARRANTIES AND REMEDIES IN THIS CLAUSE 12 ARE ADEQUATE AND SUFFICIENT TO PROTECT THE BUYER FROM ANY DEFECT OR

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NONCONFORMITY OR PROBLEM OF ANY KIND IN THE GOODS AND SERVICES SUPPLIED UNDER THIS AGREEMENT. THE BUYER HEREBY WAIVES, RELEASES AND RENOUNCES ALL OTHER WARRANTIES, OBLIGATIONS, GUARANTEES AND LIABILITIES OF THE SELLER AND ALL OTHER RIGHTS, CLAIMS AND REMEDIES OF THE BUYER AGAINST THE SELLER,

WHETHER EXPRESS OR IMPLIED BY CONTRACT, TORT, OR STATUTORY LAW OR OTHERWISE, WITH RESPECT TO ANY NONCONFORMITY OR DEFECT OR PROBLEM OF ANY KIND IN ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY, PART, SOFTWARE, DATA OR SERVICE DELIVERED BY THE SELLER UNDER THIS AGREEMENT, INCLUDING BUT NOT LIMITED TO:

- (1) ANY IMPLIED WARRANTY OF MERCHANTABILITY AND/OR FITNESS FOR ANY GENERAL OR PARTICULAR PURPOSE;
- (2) ANY IMPLIED OR EXPRESS WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE;
- (3) ANY RIGHT, CLAIM OR REMEDY FOR BREACH OF CONTRACT;
- (4) ANY RIGHT, CLAIM OR REMEDY FOR TORT, UNDER ANY THEORY OF LIABILITY, HOWEVER ALLEGED, INCLUDING, BUT NOT LIMITED TO, ACTIONS AND/OR CLAIMS FOR NEGLIGENCE, GROSS NEGLIGENCE, INTENTIONAL ACTS, WILLFUL DISREGARD, IMPLIED WARRANTY, PRODUCT LIABILITY, STRICT LIABILITY OR FAILURE TO WARN;
- (5) ANY RIGHT, CLAIM OR REMEDY ARISING UNDER THE UNIFORM COMMERCIAL CODE OR ANY OTHER STATE OR FEDERAL STATUTE;
- (6) ANY RIGHT, CLAIM OR REMEDY ARISING UNDER ANY REGULATIONS OR STANDARDS IMPOSED BY ANY INTERNATIONAL, NATIONAL, STATE OR LOCAL STATUTE OR AGENCY;
- (7) ANY RIGHT, CLAIM OR REMEDY TO RECOVER OR BE COMPENSATED FOR:
  - (a) LOSS OF USE OR REPLACEMENT OF ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART PROVIDED UNDER THIS AGREEMENT;
  - (b) LOSS OF, OR DAMAGE OF ANY KIND TO, ANY AIRCRAFT, COMPONENT, EQUIPMENT, ACCESSORY OR PART PROVIDED UNDER THIS AGREEMENT;
  - (c) LOSS OF PROFITS AND/OR REVENUES;
  - (d) ANY OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGE.

THE WARRANTIES AND SERVICE LIFE POLICY PROVIDED BY THIS AGREEMENT SHALL NOT BE EXTENDED, ALTERED OR VARIED EXCEPT BY A WRITTEN INSTRUMENT SIGNED BY THE SELLER AND THE BUYER. IN THE EVENT THAT ANY PROVISION OF THIS CLAUSE 12 SHOULD FOR ANY REASON BE HELD UNLAWFUL, OR OTHERWISE UNENFORCEABLE, THE REMAINDER OF THIS CLAUSE 12 SHALL REMAIN IN FULL FORCE AND EFFECT.

[\*\*\*]

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The remedies provided to the Buyer under Clause 12.1 and Clause 12.2 as to any defect in respect of the Aircraft or any part thereof are mutually exclusive and not cumulative. The Buyer shall be entitled to the remedy that provides the maximum benefit to it, as the Buyer may elect, pursuant to the terms and conditions of this Clause 12 for any particular defect for which remedies are provided under this Clause 12; provided, however, that the Buyer shall not be entitled to elect a remedy under both Clause 12.1 and Clause 12.2 for the same defect. The Buyer's rights and remedies herein for the non performance of any obligations or liabilities of the Seller arising under these warranties shall be in monetary damages limited to the amount the Buyer expends in procuring a correction or replacement for any covered part subject to a defect or non performance covered by this Clause 12, and the Buyer shall not have any right to require specific performance by the Seller.

#### 12.7 Negotiated Agreement

The Buyer specifically recognizes that:

- (i) the Specification has been agreed upon after careful consideration by the Buyer using its judgment as a professional operator of aircraft used in public transportation and as such is a professional within the same industry as the Seller;
- (ii) this Agreement, and in particular this Clause 12, has been the subject of discussion and negotiation and is fully understood by the Buyer; and
- (iii) the price of the Aircraft and the other mutual agreements of the Buyer set forth in this Agreement were arrived at in consideration of, inter alia, the provisions of this Clause 12, specifically including the Exclusivity of Warranties by the Buyer set forth in Clause 12.5.

#### 12.8 Disclosure to Third Party Entity

- (i) In the event of the Buyer intending to designate a third party entity (a "**Third Party Entity**") to administer 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

[\*\*\*]

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### 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 [\*\*\*] of:

- (i) any [\*\*\*] patent;

and



(ii) any patent [\*\*\*] and [\*\*\*]

## 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 [\*\*\*].

13.2.2 [\*\*\*]

13.2.3 The Seller's liability hereunder shall be conditional upon [\*\*\*] timely compliance by the Buyer [\*\*\*] with the terms of this Clause 13 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.

[\*\*\*]

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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## APPENDIX 14 to LETTER AGREEMENT N° 2

## 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 [\*\*\*] of the Technical Data to be provided under this Agreement are outlined in Exhibit G hereto.

### 14.2 Aircraft Identification for Technical Data

14.2.1 For those Technical Data that are customized to the Aircraft, the Buyer agrees to the allocation of fleet serial numbers (“**Fleet Serial Numbers**”) in the form of a 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 models of Aircraft are selected.

14.2.3 The Buyer shall indicate to the Seller the Fleet Serial Number allocated to each Aircraft corresponding to the delivery schedule set forth in Clause 9.1.1 [\*\*\*]. 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 [\*\*\*] 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 under this Agreement.

The customized Technical Data that are affected by this Clause 14.2.3 are:

- 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

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Information, including revisions, relating to Supplier equipment that is installed on the Aircraft at Delivery, or through Airbus Service Bulletins thereafter, [\*\*\*].

##### 14.3.2 Buyer Furnished Equipment

14.3.2.1 [\*\*\*]

14.3.2.2 [\*\*\*].

14.3.2.3 The BFE Data shall be supplied in English and shall be established in compliance with the then applicable revision of ATA iSpecification 2200 (iSpec 2200), Information Standards for Aviation Maintenance.

[\*\*\*]

14.3.2.4 The BFE Data shall be delivered in digital format [\*\*\*] and/or in Portable Document Format (PDF), as agreed between the Buyer and the Seller.

14.3.2.5 All costs related to the delivery to the Seller of the applicable BFE Data shall be borne by the Buyer.

#### 14.4 Supply

14.4.1 Technical Data shall be supplied on-line and/or off-line, as set forth in Exhibit G hereto.

14.4.2 The Buyer shall not receive any credit or compensation for any unused or only partially used Technical Data supplied pursuant to this Clause 14.

##### 14.4.3 Delivery

14.4.3.1 For Technical Data provided off-line, such Technical Data and corresponding revisions shall be sent to [\*\*\*] as indicated by the Buyer.

14.4.3.2 [\*\*\*] The term Delivered At Place (DAP) is defined in the Incoterms 2010 publication issued by the International Chamber of Commerce.

14.4.3.3 The Technical Data shall be delivered according to a mutually agreed schedule [\*\*\*]. The Buyer shall provide [\*\*\*] 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 for Technical Data. [\*\*\*] quantities of such Technical Data shall be supplied by the

Seller [\*\*\*] at the Buyer's named place of destination.

[\*\*\*]

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14.5 Revision Service

[\*\*\*]

14.6 Service Bulletins (SB) Incorporation

[\*\*\*]

14.7 Technical Data Familiarization

[\*\*\*]

14.8 Customer Originated Changes (COC)

[\*\*\*] (hereinafter “**COC Data**”) into any of the customized Technical Data that are identified as eligible for such incorporation in the Seller's then current Customer Services Catalog, the Buyer shall notify the Seller [\*\*\*].

The incorporation of any COC Data shall be performed under the methods and tools for achieving such introduction and the conditions specified in the Seller's then current Customer Services Catalog.

[\*\*\*]

14.9 AirN@v Family products

14.9.1 [\*\*\*] “**AirN@v Family**”).

14.9.2 The AirN@v Family covers several Technical Data domains, reflected by the following AirN@v Family products:

- AirN@v / Maintenance,
- AirN@v / Planning,
- AirN@v / Repair,
- AirN@v / Workshop,
- AirN@v / Associated Data,
- AirN@v / Engineering.

14.9.3 The licensing conditions for the use of AirN@v Family integrated software shall be as set forth in Part I of Exhibit I to the Agreement, **End-User License Agreement for Airbus Software**.

14.9.4 [\*\*\*]

14.10 On-Line Technical Data

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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14.10.1 The Technical Data [\*\*\*] provided on-line shall be made available to the Buyer through the Airbus customer portal AirbusWorld (“**AirbusWorld**”) [\*\*\*]

14.10.2 [\*\*\*]

14.10.3 Access to AirbusWorld will be subject to the “**General Terms and Conditions of Access to and Use of AirbusWorld**” (hereinafter the “**GTC**”), as set forth in Part 2 of Exhibit I to this Agreement.

14.10.4 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 [\*\*\*]

14.10.5 Access to [\*\*\*]

14.10.6 [\*\*\*].

In addition, should AirbusWorld provide access to Technical Data in software format, the use of such software shall be [\*\*\*] subject to the conditions of Part 1 of Exhibit I to the Agreement.

14.11 Waiver, Release and Renunciation

The Seller warrants [\*\*\*]

14.12 Proprietary Rights

14.12.1 All proprietary rights [\*\*\*], including but not limited to patent, design and copyrights, [\*\*\*] shall remain with the Seller and/or its Affiliates 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.

14.12.2 Whenever this Agreement and/or any Technical Data provides for manufacturing by the Buyer, [\*\*\*]

14.13 Performance Engineer’s Program

14.13.1 [\*\*\*] “**Licence for Use of Software**”.

14.13.2 Use of the PEP shall be limited to [\*\*\*] 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 [\*\*\*] on board the Aircraft.

14.13.3 The license to use the PEP and the revision service shall be provided [\*\*\*] for the duration of the corresponding Revision Service Period as set forth in Clause 14.5.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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14.13.4 At the end of such PEP Revision Service Period, the [\*\*\*] shall be provided to the Buyer [\*\*\*] set forth in the Seller's then current Customer Services Catalog.

14.14 Future Developments

[\*\*\*]

14.15 Confidentiality

14.15.1 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 otherwise pursuant to any government or legal requirement imposed upon the Buyer.

14.15.2 [\*\*\*]

14.16 Transferability

[\*\*\*]

**ANY UNAUTHORIZED ASSIGNMENT, SALE, TRANSFER, NOVATION OR OTHER ALIENATION OF THE BUYER'S RIGHTS UNDER THIS CLAUSE 14 SHALL BE NULL AND VOID.**

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**15 SELLER REPRESENTATIVE SERVICES**

The Seller shall provide [\*\*\*] to the Buyer the services described in this Clause 15, at the Buyer's main base or at other locations to be mutually agreed.

15.1 Customer Support Representative(s)

15.1.1 The Seller shall provide [\*\*\*] to the Buyer the services of Seller customer support representative(s), as defined in Appendix A to this Clause 15 (each a "**Seller Representative**"), at the Buyer's main base or such other locations as the parties may agree. [\*\*\*]

15.1.2 [\*\*\*]

15.1.3 [\*\*\*]

15.1.4 [\*\*\*]

15.1.5 Should the Buyer request Seller Representative services exceeding the allocation specified in Appendix A to this Clause 15, the Seller may provide such additional services subject to terms and conditions to be mutually agreed.

15.1.6 [\*\*\*].

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 [\*\*\*].

15.2.2 [\*\*\*]

15.2.3 [\*\*\*]

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 [\*\*\*].

15.2.6 [\*\*\*]

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 [\*\*\*] dangerous to their safety or health or prevent them from fulfilling their contractual tasks [\*\*\*].

15.4 Indemnities

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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INDEMNIFICATION PROVISIONS APPLICABLE TO THIS CLAUSE 15 ARE SET FORTH IN CLAUSE 19.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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APPENDIX 15 to LETTER AGREEMENT N° 2

APPENDIX A TO CLAUSE 15

**SELLER REPRESENTATIVE ALLOCATION**

The Seller Representative allocation provided to the Buyer pursuant to Clause 15.1 is defined hereunder. For the avoidance of doubt, all quantities indicated below are the total quantities granted for the whole of the Buyer's fleet of one hundred and thirty-three (133) Aircraft, unless otherwise specified.

1 The Seller shall provide to the Buyer Seller Representative services at the Buyer's main base or at

other locations to be mutually agreed for a total of [\*\*\*].

2 For the sake of clarification, such Seller Representatives' services shall include [\*\*\*].

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 [\*\*\*].

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APPENDIX 16 to LETTER AGREEMENT N° 2

## 16 TRAINING AND AIDS

### 16.1 General

This Clause 16 covers the terms and conditions for the supply of training support and services for the Buyer's personnel to support the Aircraft operation.

### 16.2 Scope

#### 16.2.1 [\*\*\*]

Scheduling of training courses covered in Appendix A shall be mutually agreed during a training conference (the "**Training Conference**") that shall be held [\*\*\*].

#### 16.2.2 [\*\*\*]

### 16.3 Training Organization / Location

[\*\*\*]

#### 16.3.2 [\*\*\*]

16.3.3 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 this event, all additional charges listed in [\*\*\*].

#### 16.3.4 [\*\*\*]

### 16.4 Training Courses

[\*\*\*]

#### 16.4.2 [\*\*\*]

16.4.2.1 Should the Buyer wish to exchange any of the training courses provided under Appendix A hereto, the Buyer shall place a request for exchange to this effect with the Seller. The Buyer may exchange, subject to the Seller's confirmation, the training allowances granted under Appendix A of the present Agreement as follows:

- (i) flight operations training courses as listed under Article 1 of Appendix A against any flight operations training courses described in the Seller's Customer Services Catalog current at the time of the Buyer's request;
- (ii) maintenance training courses as listed under Article 3 of Appendix A against any

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APPENDIX 16 to LETTER AGREEMENT N° 2

maintenance training courses described in the Seller's Customer Services Catalog current at the time of the Buyer's request;

- (iii) should any one of the allowances granted thereunder (flight operations or maintenance) have been fully drawn upon, [\*\*\*]

It is understood that the above [\*\*\*] shall apply to the extent that training allowances granted under Appendix A remain in credit to the full extent necessary to perform the exchange.

All requests to exchange training courses shall be submitted by the Buyer with a minimum [\*\*\*] prior notice. The requested training shall be subject to the Seller's then existing planning constraints.

[\*\*\*]

16.4.3.1 [\*\*\*]

16.4.3.2 [\*\*\*]

16.4.3.3 [\*\*\*]

16.5 Prerequisites and Conditions

[\*\*\*]

16.6 Logistics

16.6.1 Trainees

[\*\*\*]

16.6.2 Training at External Location

[\*\*\*]

16.7 Flight Operations Training

[\*\*\*]

16.7.1 Flight Crew Training Course

[\*\*\*]

16.7.2 Flight Crew Line Initial Operating Experience

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16.7.2.1 In order to assist the Buyer with initial operating experience after Delivery of the first Aircraft, the Seller will provide to the Buyer pilot instructor(s) as defined in Appendix A to this Clause 16.

Should the Buyer request, subject to the Seller's consent, such Seller pilot Instructors to perform any other flight support during the flight crew line initial operating period, such as but not limited to line assistance, demonstration flight(s), ferry flight(s) or any flight(s) required by the Buyer during the period of entry into service of the Aircraft, it is understood that such flight(s) shall be deducted from the flight crew line initial operating experience allowance set forth in Appendix A hereto.

It is hereby understood by the Parties that the Seller's pilot Instructors shall only perform the above flight support services to the extent they bear the relevant qualifications to do so.

[\*\*\*]

16.7.3 Type Specific Cabin Crew Training Course

[\*\*\*]

16.7.4.1 Performance / Operations Course

[\*\*\*]

16.8 Maintenance Training

16.8.1 [\*\*\*]

16.8.2 Practical Training on Aircraft

[\*\*\*]

16.9 Supplier and Propulsion System Manufacturer Training

Upon the Buyer's request, the Seller will provide [\*\*\*] to the Buyer a list of the maintenance and overhaul training courses provided by major Suppliers and the applicable Propulsion Systems Manufacturer on their [\*\*\*] products.

[\*\*\*]

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APPENDIX A TO CLAUSE 16

**TRAINING ALLOWANCE**

The contractual training courses defined in this Appendix A shall be provided [\*\*\*].

Notwithstanding the above, flight operations training courses granted per Aircraft in this Appendix A shall be provided by the Seller within [\*\*\*].

Any deviation to said training delivery schedule shall be mutually agreed between the Buyer and the Seller.

For the avoidance of doubt, all quantities indicated below are the total quantities granted [\*\*\*], unless otherwise specified.

## **1 FLIGHT OPERATIONS TRAINING**

### **1.1 Flight Crew Training (standard transition course)**

The Seller shall provide [\*\*\*] flight crew training including [\*\*\*].

[\*\*\*]

### **1.2 Flight Crew Line Initial Operating Experience**

The Seller shall provide [\*\*\*] to the Buyer pilot Instructor(s) for a period of [\*\*\*].

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.

### **1.3 Type Specific Cabin Crew Training Course**

The Seller shall provide [\*\*\*] to the Buyer type specific training for cabin crews for [\*\*\*] of the Buyer's cabin crew instructors, pursers or cabin attendants.

### **1.4 Airbus Pilot Instructor Course (APIC)**

The Seller shall provide [\*\*\*] to the Buyer transition Airbus Pilot Instructor Course(s) (APIC), for flight and synthetic instruction, for [\*\*\*] the Buyer's flight instructors. APIC courses shall be performed in groups [\*\*\*].

## **2 PERFORMANCE / OPERATIONS COURSE(S)**

The Seller shall provide to the Buyer [\*\*\*] of performance / operations training [\*\*\*] for the

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## APPENDIX 16 to LETTER AGREEMENT N° 2

Buyer's personnel.

## **3 MAINTENANCE TRAINING**

The Seller shall provide [\*\*\*] to the Buyer [\*\*\*] maintenance training for the Buyer's personnel.

## **4 TRAINEE DAYS ACCOUNTING**

Trainee days are counted as follows:

4.1 For instruction at the Seller's Training Centers: [\*\*\*].

4.2 For instruction outside of the Seller's Training Centers: [\*\*\*].

4.3 For structure maintenance training courses outside the Seller's Training Center(s), [\*\*\*].

4.4 For practical training, whether on training devices or on aircraft, [\*\*\*].

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APPENDIX 17 to LETTER AGREEMENT N° 2

17 EQUIPMENT SUPPLIER PRODUCT SUPPORT

17.1 Equipment Supplier Product Support Agreements

17.1.1 The Seller [\*\*\*]

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 will [\*\*\*].

17.1.2.2 [\*\*\*]

17.1.2.3 [\*\*\*] 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 [\*\*\*] data in compliance with ATA iSpecification 2200, initial provisioning recommendations, spare parts and logistic service including routine and expedited deliveries.

17.1.2.5 [\*\*\*] service to assist the Buyer with maintenance, overhaul, repair, operation and inspection of Supplier Parts as well as required tooling and spares provisioning.

17.2 Supplier Compliance

The Seller shall [\*\*\*].

Nothing in this Clause 17 shall be construed to prevent or limit the Buyer from entering into direct negotiations with a Supplier with respect to different or additional terms and conditions applicable to Suppliers Parts selected by the Buyer to be installed on the Aircraft.

[\*\*\*]

17.3 [\*\*\*]

17.4 Familiarization Training

Upon the Buyer’s request, the Seller shall provide the Buyer [\*\*\*] with Supplier Product Support Agreements familiarization training at the Seller’s facilities in Blagnac, France. An on-line training module shall be further available through AirbusWorld, access to which shall be subject to the “**General Terms and Conditions of Access to and Use of AirbusWorld**” (hereinafter the “**GTC**”) [\*\*\*].

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## APPENDIX 18 to LETTER AGREEMENT N° 2

## 18 BUYER FURNISHED EQUIPMENT

18.1 Administration

[\*\*\*] the Seller shall [\*\*\*] those items of equipment which are identified in the Specification as being furnished by the Buyer (“**Buyer Furnished Equipment**” or “**BFE**”), provided [\*\*\*].

18.1.2 Notwithstanding the foregoing and without prejudice to Clause 2.4, if the Buyer wishes to install BFE manufactured by a supplier who is not referred to in the Airbus BFE Product Catalog, the Buyer shall so inform the Seller and the Seller shall conduct a feasibility study of the Buyer’s request, in order to consider approving such supplier, provided that such request is compatible with the Seller’s industrial planning and the associated Scheduled Delivery Month for the Buyer’s Aircraft. In addition, it is a prerequisite to such approval that the considered supplier be qualified by the Seller’s Aviation Authorities to produce equipment for installation on civil aircraft. Any approval of a supplier by the Seller shall be performed at the Buyer’s expense. The Buyer shall cause any BFE supplier approved under this Clause 18.1.2 (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 18.1.2, the term “**BFE Supplier**” will be deemed to include Approved BFE Supplier.

18.1.3 The Seller shall advise the Buyer [\*\*\*] of the dates by which, in the planned release of engineering for the Aircraft, the Seller requires a written detailed engineering definition encompassing a Declaration of Design and Performance (the “**BFE Engineering Definition**”). The Seller will 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 will include the description of the dimensions and weight of BFE, the information related to its certification and information necessary for the installation and operation thereof [\*\*\*].

The Seller shall also furnish in due time to the Buyer [\*\*\*] a schedule of dates and [\*\*\*] shipping addresses for delivery of 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 delivery schedule. The [\*\*\*] Buyer shall provide or cause the BFE Supplier to provide [\*\*\*] 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 will, upon the Seller’s request, provide to the Seller dates and references of all BFE purchase orders placed by the Buyer.

18.1.4 The Buyer shall [\*\*\*] provide, when requested by the Seller, at AIRBUS OPERATIONS S.A.S. works in TOULOUSE (FRANCE) and/or at AIRBUS OPERATIONS GmbH, works in HAMBURG

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(GERMANY) [\*\*\*] 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.

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:

- (i) 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;
- (ii) 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;
- (iii) for major BFE, including, but not being limited to, seats 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");
- (iv) 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;
- (v) to attend the Source Inspection ("SI") that takes place at the BFE Supplier's premises prior to shipping, for each shipset of all Major BFE. Should the Buyer not attend such SI, the Buyer shall delegate the SI to the BFE Supplier and confirmation thereof shall be brought to the Seller in writing. Should the Buyer not attend the SI, the Buyer shall be deemed to have accepted the conclusions of the BFE Supplier with respect to such SI.

The Seller will be entitled to attend the PDR, the CDR and the FAI. In doing so, the Seller's employees will be acting in an advisory capacity only and at no time will they be deemed to be acting as Buyer's employees or agents, either directly or indirectly.

18.1.5 [\*\*\*]

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18.1.6 The BFE shall be imported into FRANCE or into GERMANY by the Buyer under a suspensive customs system [\*\*\*] without application of any French or German tax or customs duty, and shall be Delivered [\*\*\*] according to the Incoterms [\*\*\*]

Shipping Addresses:

AIRBUS OPERATIONS S.A.S.  
316 Route de Bayonne  
31300 TOULOUSE  
FRANCE

Or

AIRBUS OPERATIONS GmbH  
Kreetslag 10  
21129 HAMBURG  
GERMANY

[\*\*\*]

18.2 Aviation Authorities' Requirements

[\*\*\*]

18.3 Buyer's Obligation and Seller's Remedies

[\*\*\*]

18.4 Title and Risk of Loss

Title to and risk of loss of any BFE shall at all times remain with the Buyer except that risk of loss (limited to cost of replacement of said BFE [\*\*\*]) shall be with the Seller for as long as [\*\*\*].

18.5 Disposition of BFE Following Termination

If a termination of this Agreement pursuant to the provisions of Clause 20 occurs with respect to an Aircraft in which all or any part of the BFE has been installed prior to the date of such termination, then:

[\*\*\*]

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APPENDIX 19 to LETTER AGREEMENT N° 2

19 INDEMNITIES AND INSURANCE

The Seller and the Buyer shall each be liable for Losses (as defined below) arising from the acts or omissions of their respective directors, officers, agents or employees occurring during or incidental to such party's exercise of its rights and performance of its obligations under this Agreement, except as provided in Clauses 19.1 and 19.2.

19.1 Seller's Indemnities

The Seller shall, except in the case of gross negligence or willful misconduct of the Buyer or Buyer's directors, officers, agents and/or employees, be solely liable for and shall indemnify and hold the Buyer, its Affiliates and each of their respective directors, officers, agents, employees and insurers harmless against all losses, liabilities, claims, damages, costs and expenses, including court costs and reasonable attorneys' fees ("Losses"), arising from:

- (a) claims for injuries to, or death of, the directors, officers, agents or employees of the Seller [\*\*\*], or loss of, or damage to, property of the Seller or its [\*\*\*] employees when such

Losses occur during or are incidental to either party's exercise of any right or performance of any obligation under this Agreement, and

- (b) claims for injuries to, or death of, third parties, or loss of, or damage to, property of third parties, occurring during or incidental to [\*\*\*]

#### 19.2 Buyer's Indemnities

The Buyer shall, except in the case of gross negligence or willful misconduct of the Seller or Seller's directors, officers, agents and/or employees, be solely liable for and shall indemnify and hold the Seller, its Affiliates, its subcontractors [\*\*\*] and each of their respective directors, officers, agents, employees and insurers, harmless against all Losses arising from:

- (a) claims for injuries to, or death of, the Buyer's directors, officers, agents or employees [\*\*\*], or loss of, or damage to, property of the Buyer or its [\*\*\*] employees, when such Losses occur during or are incidental to either party's exercise of any right or performance of any obligation under this Agreement, and
- (b) claims for injuries to, or death of, third parties, or loss of, or damage to, property of third parties, occurring during or incidental to (i) the provision of Seller Representatives Services under Clause [\*\*\*] or (ii) the provision of Aircraft Training Services to [\*\*\*] the Buyer.

#### 19.3 Notice and Defense of Claims

If any claim is made or suit is brought against a party or entity entitled to indemnification under this Clause 19 (the "**Clause 19 Indemnitee**") for damages for which liability has been assumed by the other party under this Clause 19 (the "**Clause 19 Indemnitor**"), the Clause 19 Indemnitee shall promptly give notice to the Clause 19 Indemnitor and the Clause 19

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#### APPENDIX 19 to LETTER AGREEMENT N° 2

Indemnitor (unless otherwise requested by the Clause 19 Indemnitee) shall assume and conduct the defense, or settlement, of such claim or suit, as the Clause 19 Indemnitor shall deem prudent. Notice of the claim or suit shall be accompanied by all information pertinent to the matter as is reasonably available to the Clause 19 Indemnitee and shall be followed by such cooperation by the Clause 19 Indemnitee as the Clause 19 Indemnitor or its counsel may reasonably request, at the expense of the Clause 19 Indemnitor.

If the Clause 19 Indemnitor fails or refuses to assume the defense of any claim or suit notified to it under this Clause 19, the Clause 19 Indemnitee shall have the right to proceed with the defense or settlement of the claim or suit as it deems prudent and shall have a claim against the Clause 19 Indemnitor for any judgments, settlements, costs or expenses, including reasonable attorneys' fees. Further, in such event, the Clause 19 Indemnitor shall be deemed to have waived any objection or defense to the Clause 19 Indemnitee's claim based on the reasonableness of any settlement.

#### 19.4 Insurance

[\*\*\*] To the extent of the Buyer's undertaking set forth in Clause 19.2, the Buyer shall:

- (a) cause the Seller, its Affiliates, its subcontractors and each of their respective directors, officers, agents and employees to be named as additional insureds under the Buyer's Comprehensive Aviation Legal Liability insurance policies, including War Risks and Allied

Perils (such insurance to include the [\*\*\*] or any further Endorsement replacing AVN 52E as may be available as well as any excess coverage in respect of War and Allied Perils Third Parties Legal Liabilities Insurance), and

- (b) 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 Affiliates, its subcontractors and each of their respective directors, officers, agents, employees and insurers.

Any applicable deductible shall be borne by the Buyer. The Buyer shall furnish to the Seller, not less than [\*\*\*] prior to the start of any Aircraft Training Services, certificates of insurance, in English, evidencing the limits of liability cover and period of insurance coverage in a form acceptable to the Seller from the Buyer's insurance broker(s), 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 [\*\*\*] prior written notice thereof to the Seller, and

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APPENDIX 19 to LETTER AGREEMENT N° 2

- (iii) under any such cover, all rights of subrogation against the Seller, its Affiliates, its subcontractors and each of their respective directors, officers, agents, employees and insurers have been waived.

[\*\*\*]

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APPENDIX 20 to LETTER AGREEMENT N° 2

## 20 EVENTS OF DEFAULT & REMEDIES

### 20.1 Events of Default

[\*\*\*]

Each of the following will constitute a “**Buyer Event of Default**”:

- (1) The Buyer [\*\*\*] commences in any jurisdiction any case, proceeding or other action with respect to the Buyer [\*\*\*] or their properties relating to bankruptcy, insolvency,



reorganization, winding-up, liquidation, dissolution or other relief from, or with respect to, or readjustment of, its debts or obligations.

[\*\*\*]

- (2) An action is commenced in any jurisdiction seeking the appointment of a receiver, trustee, custodian or other similar official for the Buyer [\*\*\*] or for all or any substantial part of their respective assets, and such action remains unstayed, undismissed or undischarged for [\*\*\*], or the Buyer [\*\*\*] makes a general assignment for the benefit of its creditors;
- (3) An action is commenced in any jurisdiction against the Buyer [\*\*\*] seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of their respective assets, and such action remains unstayed, undismissed or undischarged for [\*\*\*].
- (4) The Buyer [\*\*\*] becomes the object, in any jurisdiction, of a case, proceeding or action similar or analogous to any of the events mentioned in Clause 20.1 (1), (2) or (3).
- (5) The Buyer [\*\*\*] is generally not [\*\*\*], or is expected to be unable to, or [\*\*\*], pay its debts as they become due.
- (6) The Buyer [\*\*\*] commences negotiations with significant creditors, existing or potential, either with the intention of restructuring all or [\*\*\*] all of its outstanding obligations or in preparation for a bankruptcy filing [\*\*\*].
- (7) [\*\*\*]
- (8) The Buyer defaults in its obligation to take delivery of [\*\*\*] an Aircraft as provided in Clause 9.2.

[\*\*\*]

## 20.2 Remedies [\*\*\*]

If a Buyer Event of Default occurs, then the Buyer will be in material breach of this Agreement and [\*\*\*] the Seller can elect any or all of the following remedies [\*\*\*]:

- (i) suspend its performance under this Agreement with respect to any or all Aircraft;
- (ii) reschedule the Scheduled Delivery Period or Scheduled Delivery Month, as applicable, of any or all Aircraft remaining to be delivered under this Agreement [\*\*\*]

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## APPENDIX 20 to LETTER AGREEMENT N° 2

- (iii) [\*\*\*] reschedule the date for performance by Seller under this Agreement with respect to any or all equipment, services, data and other items; and/or
- (iv) cancel or terminate this Agreement (a “**Termination**”) with respect to any or all Aircraft, and/or equipment, services, data and/or other items related thereto [\*\*\*].

[\*\*\*]

## 20.3 [\*\*\*]

## 20.4 Information Covenants

The Buyer hereby covenants and agrees that, from the date of this Agreement until no further Aircraft are to be delivered hereunder, the Buyer shall furnish or cause to be furnished to the Seller the following [\*\*\*]:

- (a) **Annual Financial Statements.** [\*\*\*]
- (b) **Quarterly Financial Statements.** [\*\*\*].
- (c) [\*\*\*] **Acceleration of other indebtedness.** [\*\*\*]
- (d) **Other Information.** Promptly upon transmission thereof, copies of any filings and registrations with, and reports to, the SEC by the Buyer [\*\*\*], and, with reasonable promptness, such other information or documents (financial or otherwise) as the Seller may reasonably request from time to time.

For the purposes of this Clause 20.6, (x) an “Authorized Officer” of the Buyer shall mean the Chief Executive Officer, the Chief Financial Officer or any Vice President and above who reports directly or indirectly to the Chief Financial Officer, (y) “Subsidiaries” shall mean, as of any date of determination, those companies owned by the Buyer whose financial results the Buyer is required to include in its statements of consolidated operations and consolidated balance sheets [\*\*\*].

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## APPENDIX 21 to LETTER AGREEMENT N° 2

### 21 **ASSIGNMENTS AND TRANSFERS**

#### 21.1 Assignments

Except as hereinafter provided, neither party may sell, assign, novate or transfer its rights or obligations [\*\*\*] under this Agreement to any person without the prior written consent of the other [\*\*\*] party.

#### 21.2 Assignments [\*\*\*]

[\*\*\*]

21.3 [\*\*\*]

21.4 [\*\*\*]

21.5 [\*\*\*]

21.6 [\*\*\*]

The Seller may at any time by notice to the Buyer designate facilities or personnel of the Seller or any [\*\*\*] Affiliate of the Seller at which or by whom the services to be performed under this Agreement shall be performed. Notwithstanding such designation, the Seller shall remain ultimately responsible for fulfilment of all obligations undertaken by the Seller in this Agreement.

#### 21.7 Transfer of Rights and Obligations upon Reorganization

In the event that the Seller is subject to a corporate restructuring having as its object the transfer of, or succession by operation of law in, all or a substantial part of its assets and liabilities, rights and obligations, including those existing under this Agreement, to a person (the “**Successor**”) that is an Affiliate 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 recognizes that succession of the Successor to the Agreement by operation of law that is valid under the law pursuant to which that succession occurs shall be binding upon the Buyer.

21.8 [\*\*\*]

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LETTER AGREEMENT N° 3

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**  
Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**  
Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: **BACKLOG AIRCRAFT**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°3 (the “**Letter Agreement No3**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°3 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°3, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°3 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°3. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°3 then the provisions of this Letter Agreement N°3 will govern.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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**LETTER AGREEMENT N° 3****1 BACKLOG A320ceo FAMILY AIRCRAFT**

\*\*\*

**2 \*\*\***

2.1 \*\*\*

2.2 \*\*\*

**3 \*\*\*****4 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°3 is not transferable, and the Buyer's rights under this Letter Agreement N°3 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer's rights under this Letter Agreement N°3 with respect to any Aircraft will be void and without effect.

**5 CONFIDENTIALITY**

This Letter Agreement N°3 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**6 COUNTERPARTS**

This Letter Agreement N°3 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**6 INTERPRETATION AND LAW**

**THIS LETTER AGREEMENT N°3 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.**

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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**LETTER AGREEMENT N° 3**

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°3 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

For and on behalf of

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 4

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**  
Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**  
Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: \*\*\*

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°4 (the “**Letter Agreement No4**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°4 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°4, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°4 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°4. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°4 then the provisions of this Letter Agreement N°4 will govern.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 4

**1** \*\*\*

1.1 The Buyer shall \*\*\*

**2** \*\*\*

**3 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°4 is not transferable, and the Buyer’s rights under this Letter Agreement N°4 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer’s rights under this Letter Agreement N°4 with respect to any Aircraft will be void and without effect.

**4 CONFIDENTIALITY**

This Letter Agreement N°4 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**5 COUNTERPARTS**

This Letter Agreement N°4 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**6 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT N°4 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 4

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°4 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

Agreed and Accepted

For and on behalf of

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 5

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**  
Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**  
Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: **ECAs**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°5 (the “**Letter Agreement No5**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°5 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°5, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°5 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°5. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°5 then the provisions of this Letter Agreement N°5 will govern.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 5



**1 ECAs**

As requested by the Buyer, the Seller shall \*\*\*

**2 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°5 is not transferable, and the Buyer’s rights under this Letter Agreement N°5 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer’s rights under this Letter Agreement N°5 with respect to any Aircraft will be void and without effect.

**3 CONFIDENTIALITY**

This Letter Agreement N°5 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**4 COUNTERPARTS**

This Letter Agreement N°5 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**5 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT N°5 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 5

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°5 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 6

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**  
Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**  
Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: \*\*\* **GUARANTEES**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°6 (the “**Letter Agreement No6**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°6 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°6, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°6 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°6. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°6 then the provisions of this Letter Agreement N°6 will govern.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 6

**0 DEFINITIONS**

In the appendixes to this Letter Agreement No6, the word “**Guarantees**” and the word “**Specification**” shall have the meanings assigned thereto in each such appendix.

**1 \*\*\* GUARANTEES**

\*\*\* Guarantees for the Aircraft are set out in following appendixes attached hereto:

<u>Aircraft</u>	<u>Weights</u>	<u>Propulsion Systems</u>	<u>Appendix</u>
A319 Aircraft	***	***	Appendix 1
A319 Aircraft	***	***	Appendix 2
A320 Aircraft	***	***	Appendix 3
A320 Aircraft	***	***	Appendix 4
A321 Aircraft	***	***	Appendix 5
A321 Aircraft	***	***	Appendix 6

**2 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°6 is not transferable, and the Buyer’s rights under this Letter Agreement N°6 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer’s rights under this Letter Agreement N°6 with respect to any Aircraft will be void and without effect.

**3 CONFIDENTIALITY**

This Letter Agreement N°6 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**4 COUNTERPARTS**

This Letter Agreement N°6 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**5 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT N°6 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 6

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°6 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 1 to the Letter Agreement N° 6

## 1 AIRCRAFT CONFIGURATION

The guarantees set forth in this Appendix 1 (the “**Guarantees**”) are applicable to the A319 Aircraft as described in the Standard Specification reference \*\*\* as amended by Specification Change Notices (SCN) for:

- (i) the installation of \*\*\* engines; and
- (ii) the selection of the following design weights:

Maximum Take-Off Weight (MTOW):	***
Maximum Landing Weight (MLW):	***
Maximum Zero Fuel Weight (MZFW):	***

without taking into account any further changes thereto as provided in the Agreement (the “**Specification**”).

## 2 GUARANTEED \*\*\*

\*\*\*

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 2 to the Letter Agreement N°6

## 1 AIRCRAFT CONFIGURATION

The guarantees set forth in this Appendix 2 (the “**Guarantees**”) are applicable to the A319 Aircraft as described in the Standard Specification reference \*\*\* as amended by Specification Change Notices (SCN) for:

- (i) the installation of \*\*\* engines; and

- (ii) the selection of the following design weights:

Maximum Take-Off Weight (MTOW):	***
Maximum Landing Weight (MLW):	***
Maximum Zero Fuel Weight (MZFW):	***

without taking into account any further changes thereto as provided in the Agreement (the “**Specification**”).

## 2 **GUARANTEED** \*\*\*

### 2.1 \*\*\*

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 2 to the Letter Agreement N°6

\*\*\*

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 3 to the Letter Agreement N° 6

## 1 **AIRCRAFT CONFIGURATION**

The guarantees set forth in this Appendix 3 (the “**Guarantees**”) are applicable to the A320 Aircraft as described in the Standard Specification reference \*\*\* as amended by Specification Change Notices (SCN) for:

- (i) the installation of \*\*\* engines; and
- (ii) the selection of the following design weights:

Maximum Take-Off Weight (MTOW):	***
Maximum Landing Weight (MLW):	***
Maximum Zero Fuel Weight (MZFW):	***,

without taking into account any further changes thereto as provided in the Agreement (the “**Specification**”).

## 2 **GUARANTEED \*\*\***

\*\*\*

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 4 to the Letter Agreement N°6

### 1 **AIRCRAFT CONFIGURATION**

The guarantees set forth in this Appendix 4 (the “**Guarantees**”) are applicable to the A320 Aircraft as described in the Standard Specification reference \*\*\* as amended by Specification Change Notices (SCN) for:

- (i) the installation of \*\*\* engines; and
- (ii) the selection of the following design weights:

Maximum Take-Off Weight (MTOW):	***
Maximum Landing Weight (MLW):	***
Maximum Zero Fuel Weight (MZFW):	***,

without taking into account any further changes thereto as provided in the Agreement (the “**Specification**”).

## 2 **GUARANTEED \*\*\***

\*\*\*

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 5 to the Letter Agreement N°6

### 1 **AIRCRAFT CONFIGURATION**

The guarantees set forth in this Appendix 5 (the “**Guarantees**”) are applicable to the A321 Aircraft as described in the Standard Specification reference \*\*\* as amended by Specification Change Notices (SCN) for:

- (i) the installation \*\*\* engines; and

- (ii) the selection of the following design weights:

Maximum Take-Off Weight (MTOW): \*\*\*  
Maximum Landing Weight (MLW): \*\*\*  
Maximum Zero Fuel Weight (MZFW): \*\*\*,

without taking into account any further changes thereto as provided in the Agreement (the “**Specification**”).

## **2 GUARANTEED \*\*\***

### **2.1 \*\*\***

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Appendix 6 to the Letter Agreement N°6

## **1 AIRCRAFT CONFIGURATION**

The guarantees set forth in this Appendix 6 (the “**Guarantees**”) are applicable to the A321 Aircraft as described in the Standard Specification reference \*\*\* as amended by Specification Change Notices (SCN) for:

- (i) the installation of \*\*\* engines; and  
(ii) the selection of the following design weights:

Maximum Take-Off Weight (MTOW): \*\*\*  
Maximum Landing Weight (MLW): \*\*\*  
Maximum Zero Fuel Weight (MZFW): \*\*\*

without taking into account any further changes thereto as provided in the Agreement (the “**Specification**”).

## **2 GUARANTEED \*\*\***

### **2.1 \*\*\***

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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LETTER AGREEMENT N° 7



**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**

Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**

Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: \*\*\*

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated as of event date herewith, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°7 (the “**Letter Agreement No7**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°7 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°7, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°7 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°7. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°7 then the provisions of this Letter Agreement N°7 will govern.

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LETTER AGREEMENT N° 7

**1 SELLER \*\*\***

**2 BUYER \*\*\***

**3 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°7 is not transferable, and the Buyer’s rights under this Letter Agreement N°7 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer’s rights under this Letter Agreement N°7 with respect to any Aircraft will be void and without effect.

**4 CONFIDENTIALITY**

This Letter Agreement N°7 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

**5 COUNTERPARTS**

This Letter Agreement N°7 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

**6 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT N°7 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

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LETTER AGREEMENT N° 7

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°7 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

Name: \_\_\_\_\_

Agreed and Accepted

For and on behalf of

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

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[\*\*][\*\*] **LETTER AGREEMENT**

**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA, (“Avianca”)**

Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED, (“GTH”)**

Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

**AVIANCA LEASING L.L.C., (“Avianca Leasing”)**

160 Greentree Drive,  
Suite 101,  
CITY OF DOVER,  
COUNTY OF KENT, DE 19904,  
U.S.A.

**AVIANCA HOLDINGS (“Avianca Holdings”)**

Calle Aquilino de la Guardia No.8  
Cuidad de Panama  
Republica de Panama

Subject: [\*\*]

Ladies and Gentleman:

On even date herewith, Avianca and GTH (jointly and severally, the “**2015 Buyer**”) and Airbus S.A.S. (the “**Seller**”) entered into an A320neo Family Aircraft Purchase Agreement (the “**2015 Agreement**”), which covers, among other things, the manufacture and the sale by the Seller and the purchase by the 2015 Buyer [\*\*] the “**2015 Aircraft**”);

[\*\*]

[\*\*]This [\*\*] “**Letter Agreement**”) [\*\*] The Buyer and the Seller have agreed to set forth in this Letter Agreement [\*\*]

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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Capitalized terms used herein and not otherwise defined in this Letter Agreement will have the meanings assigned thereto (a) in the 2015 Agreement [\*\*\*].

This Letter Agreement [\*\*\*] a separate and independent contract [\*\*\*].

(A)

[\*\*\*] If requested by the Buyer, the Seller shall [\*\*\*] the Buyer [\*\*\*] with a view to obtaining [\*\*\*] for the acquisition of an [\*\*\*] In this respect, the Seller and the Buyer shall need to co-operate closely to provide all necessary information as may be [\*\*\*] Subject (i) to the [\*\*\*] and (ii) to [\*\*\*] in respect of an Aircraft as described hereafter may be granted to the Buyer (each such Aircraft hereafter referred to as a “**Relevant Aircraft**”).

[\*\*\*]).

The terms and conditions [\*\*\*]. Such terms and conditions are subject to amendment [\*\*\*]. Upon request, the Seller will provide the Buyer with the latest version of [\*\*\*] at the time.

(i) **2.** [\*\*\*]

In addition to [\*\*\*] as described above, the Seller will [\*\*\*]

**3.** [\*\*\*]

(ii) Should [\*\*\*] be available to the Buyer for any of the Aircraft, the Seller [\*\*\*].

(iii) Nothing in this Letter Agreement will be construed [\*\*\*].

#### **4. Assignment**

The Buyer shall not be entitled to assign, transfer, mortgage or pledge this Letter Agreement or any of its rights under this Letter Agreement without the prior written consent of the Seller.

#### **5. Confidentiality**

This Letter Agreement is provided by the Seller and the Buyer [\*\*\*] and is therefore considered by the Seller as [\*\*\*] constituting confidential information.

[\*\*\*]

The Buyer agrees that the provisions of this Letter Agreement are personal to it and that it will not disclose the existence or content of this Letter Agreement to any other party, [\*\*\*] its legal advisers and to the Guarantor provided that such parties are bound by a professional duty of confidentiality or enter into confidentiality agreements with and satisfactory to the Seller before any such disclosure occurs; and

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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- (a) any governmental authority to which the Buyer is obliged to disclose such information, any parties entitled to receive such information (pursuant to an order or relevant request of any court, legal or regulatory body having jurisdiction over the Buyer or otherwise in accordance with any obligation to disclose imposed by any applicable law) provided that:
- (i) the Buyer shall promptly notify the Seller prior to such disclosure;
  - (ii) the parties shall work together to ensure the minimum amount of information required to comply with such public disclosure obligation is disclosed; and:
  - (iii) the Buyer shall use its best endeavours to:
    - (B) procure that the party to whom such information may be disclosed itself enters into confidentiality agreement (if it is not already bound by a duty of confidentiality) with the Seller and satisfactory to the Seller; or
    - (C) obtain assurances from the party to whom such information may be disclosed that such information shall be treated in the utmost confidence.

Non-compliance by the Buyer with the terms of this Clause 5 shall give the Seller the right to cancel any financing support offered to the Buyer pursuant to this Letter Agreement.

6. [\*\*\*] with respect to the 2011 Aircraft only.

## 7. Counterparts

I- This Letter Agreement may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

## II- 8. Notices

III- All notices and requests required or authorized hereunder shall be given in writing either by personal delivery to an authorized officer of the party to whom the same is given or by commercial courier, express mail, certified air mail (return receipt requested) or facsimile at the addresses and numbers set forth below. The date on which any such notice or request is so personally delivered, or if such notice or request is given by commercial courier, express mail, certified air mail, the date upon which it is received by the addressee or, if given by facsimile, the date on which it is sent with a correct confirmation printout, provided that if such date is not a Business Day, notice shall be deemed to have been received on the first following Business Day and shall be deemed to be the effective date of such notice or request.

IV- The Seller will be addressed to:

V- Airbus S.A.S.

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- VI- 1, Rond Point Maurice Bellonte
- VII- 31707 Blagnac Cedex,
- VIII- France
- IX- Facsimile :
- X- Attention: Senior Vice President Contracts
- XI- The Buyer shall be addressed to:
- XII- Avianca (acting in its capacity as Agent under this Letter Agreement)
- XIII- Avenida Calle 26 No. 59-15
- XIV- Bogota, Colombia
- XV- Facsimile:
- XVI- Attention: Secretary General
- XVII- and
- XVIII- Avianca Holdings S.A.
- XIX- Calle Aquilino de la Guardia No.8
- XX- Ciudad de Panama
- XXI- Republica de Panama
- XXII- Facsimile:
- XXIII- Attention: Secretary
- XXIV- All communication, emails, notices and/or requests by Seller or its affiliates, agents or representatives shall be deemed to be received by any and all of Avianca, GTH and Avianca Leasing when received by the Agent, without any further action to be taken by the Seller.
- XXV- The Seller shall receive any communication, emails notices and/requests related to obligations under this Letter Agreement from the Agent and AVIANCA HOLDINGS only.
- XXVI- From time to time, the party receiving the notice or request may reasonably designate in writing another address or another person.

**XXVII- 9. Waiver**

- XXVIII- The failure of either party to enforce at any time any of the provisions of this Letter Agreement, to exercise any right herein provided or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a present or future waiver of such provisions nor in any way to affect the validity of this Letter Agreement or any part hereof 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 Letter Agreement shall not constitute a waiver of any future obligation to comply with such provision, condition or requirement except to the extent provided in such express waiver.

**XXIX- 10. Governing Law**

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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XXX- THIS LETTER AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

XXXI- Each of the Seller and the Buyer (i) hereby irrevocably submits itself to the exclusive jurisdiction of the courts sitting in the Borough of Manhattan, New York County, New York, for the purposes of any suit, action or other proceeding arising out of this Letter Agreement, the subject matter hereof or any of the transactions contemplated hereby brought by any party or parties hereto, and (ii) hereby waives, and agrees not to assert, by way of motion, as a defense or otherwise, in any such suit, action or proceeding, to the extent permitted by applicable law, any defense based on sovereign or other immunity or that the suit, action or proceeding which is referred to in clause (i) above is brought in an inconvenient forum, that the venue of such suit, action or proceeding is improper, or that this Letter Agreement or the subject matter hereof or any of the transactions contemplated hereby may not be enforced in or by these courts.

XXXII- THE PARTIES HEREBY ALSO AGREE THAT THE UNITED NATIONS CONVENTION ON CONTRACTS FOR THE INTERNATIONAL SALE OF GOODS SHALL NOT APPLY TO THIS TRANSACTION.

XXXIII- The Buyer for itself and its successors and assigns hereby designates and appoints the Smith, Gambrell & Russell, LLP, and its successors, duly elected from time to time as its legal agent and attorney-in-fact upon whom all processes against the Buyer in any suit, action or proceeding in respect of any matter as to which it has submitted to jurisdiction under Clause 22.6.1 may be served with the same effect as if the Buyer were a corporation organized under the laws of the State of New York and had lawfully been served with such process in such state, it being understood that such designation and appointments shall become effective without further action on the part of the appointee.

XXXIV- EACH OF THE PARTIES HERETO WAIVES ITS RIGHT TO TRIAL BY JURY IN ANY LITIGATION ARISING OUT OF OR RELATING TO THIS LETTER AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY BROUGHT BY ANY PARTY OR PARTIES HERETO AND FOR ANY COUNTERCLAIM OR CROSS-CLAIM THEREIN.

**XXXV- 11. Severability**

XXXVI- If any provision of this Letter Agreement should for any reason be held to be without effect, the remainder of this Letter Agreement shall remain in full force and effect. To the extent permitted by applicable law, each party hereto hereby waives any provision of law that renders any provision of this Letter Agreement prohibited or unenforceable in any respect.

**XXXVII-12. Entire Agreement**

XXXVIII- This Letter Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes any previous understanding, commitments or

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representations whatsoever, whether oral or written. This Letter Agreement shall not be amended or modified except by an instrument in writing of even date herewith or subsequent hereto executed by both parties or by their fully authorized representatives.

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If the foregoing correctly sets forth your understanding, please execute five (5) 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

**AVIANCA HOLDINGS S.A.**

**AVIANCA LEASING, LLC**

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_



Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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Date:

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## APPENDIX A

### GENERAL TERMS AND CONDITIONS

Capitalized terms used herein and not otherwise defined in this Appendix shall have the meanings assigned thereto in the Agreement [\*\*\*] [\*\*\*]

#### **1 Purpose** [\*\*\*]

(iv) The [\*\*\*] if the Buyer [\*\*\*] if the [\*\*\*] of the Relevant Aircraft.

(v) [\*\*\*]

[\*\*\*]

[\*\*\*]

(vi) [\*\*\*]

**2** [\*\*\*]

[\*\*\*]

The Buyer may select from the following [\*\*\*].

[\*\*\*]

**3** [\*\*\*]

- (i) an aircraft invoice issued by the Seller and
- (ii) the Certificate of Acceptance

in each case in respect of the Relevant Aircraft duly signed by a representative of the Buyer

[\*\*\*]

**4** [\*\*\*] [\*\*\*]

**5** [\*\*\*]

**6** [\*\*\*] The Buyer shall be responsible for all legal expenses, professional fees as well as taxes and other costs arising out of or in connection with the [\*\*\*]. All corporate and governmental approvals necessary for the performance of the Buyer's obligations [\*\*\*] shall be obtained by the Buyer [\*\*\*].

[\*\*\*]

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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(D) **7** [\*\*\*]

(E) **8** [\*\*\*].

[\*\*\*]

## **11 Miscellaneous**

I. **11.1** The Buyer shall notify the Seller of its intention to [\*\*\*] before the first day of the scheduled month of delivery of the relevant Aircraft [\*\*\*]

II. **11.2** [\*\*\*] [\*\*\*] [\*\*\*]

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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**Exhibit**

**Form of Utilisation Notice**

**(F) From: [\*\*\*]**

(vii) To: **AIRBUS S.A.S.**

Attention: Vice President Customer Finance

◆ 20[◆]

Dear Sirs

[\*\*\*].

Yours faithfully

.....

**(G) [\*\*\*]**

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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If the foregoing correctly sets forth our understanding, please execute two (2) 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

**(H)**

[\*\*\*] **AIRBUS S.A.S.**

By: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Its: \_\_\_\_\_

III.

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**

Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**

Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: **MISCELLANEOUS**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) on April 30th, 2015 which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°2.1 (the “**Letter Agreement No2.1**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°2.1 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°2.1, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°2.1 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°2.1. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°2.1 then the provisions of this Letter Agreement N°2.1 will govern.

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Letter Agreement 2.1 - Page 1 of 11

**1 AMENDED PROVISIONS**

- 1.1 In consideration of the Buyer’s wish to \*\*\*, the Appendix 2 to the Letter Agreement No 2 of the Agreement is hereby deleted in its entirety and replaced by the Appendix 2 attached hereto.
- 1.2 In consideration of (i) the Buyer’s exercise of \*\*\* under Clause \*\*\* of the Letter Agreement No \*\*\* of the Agreement, \*\*\*, and (ii) the allocation of Scheduled Delivery Months for the Aircraft \*\*\*, the Appendix 9 to the Letter Agreement No 2 of the Agreement is hereby deleted in its entirety and replaced by the Appendix 9 attached hereto.

**2 PAYMENTS**

As a consequence of Clause 1.1 above \*\*\*, and as a result of the changes to the delivery schedule pursuant to Clause 1.2 above, \*\*\*

### **3 ASSIGNMENT**

Except as provided in Clause 21 of the Agreement, this Letter Agreement No 2.1 is not transferable, and the Buyer's rights under this Letter Agreement No 2 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer's rights under this Letter Agreement No 2.1 with respect to any Aircraft will be void and without effect.

### **4 CONFIDENTIALITY**

This Letter Agreement No 2.1 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

### **5 COUNTERPARTS**

This Letter Agreement No 2.1 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

### **6 INTERPRETATION AND LAW**

THIS LETTER AGREEMENT No 2.1 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

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LETTER AGREEMENT N° 2.1

If the foregoing correctly sets forth our understanding, please execute two (2) originals in the space provided below and return one (1) original of this Letter Agreement No 2.1 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

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Letter Agreement 2.1 - Page 3 of 11

APPENDIX 2 to LETTER AGREEMENT N° 2

**2 SPECIFICATION**

**2.1 Aircraft Specification**

2.1.1 A319 Aircraft shall be manufactured in accordance with the A319 Specification;  
A320 Aircraft shall be manufactured in accordance with the A320 Specification;  
A321 Aircraft shall be manufactured in accordance with the A321 Specification.

2.1.2 Part \*\*\*, Part \*\*\* and Part \*\*\* of Appendix 3 shall include SCNs to increase the design weights set forth in the applicable Standard Specification to at least the design weights (Maximum Take-off Weight (“**MTOW**”) Maximum Landing Weight (“**MLW**”) and Maximum Zero Fuel Weight (“**MZFW**”)) set forth in the table below:

	<b>MTOW</b>	<b>MLW</b>	<b>MZFW</b>
<b>A319 Aircraft</b>			
<b>A320 Aircraft</b>			
<b>A321 Aircraft</b>			

2.1.3 \*\*\*.

**2.2 Specification Amendment**

The Specification may be further amended following the execution of the Agreement in accordance with the terms of this Clause 2.2

**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 Part \*\*\* of Appendix B, 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 \*\*\*. An SCN may result in an adjustment of the Base Price of the Aircraft, 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 Agreement (“**Development Changes**”), as set forth in this Clause 2.2.2.

### 2.2.2.1 Manufacturer Specification Changes Notices

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## APPENDIX 2 to LETTER AGREEMENT N° 2

2.2.2.1.1 The Specification may be amended by the Seller through a Manufacturer Specification Change Notice (“**MSCN**”), which shall be substantially in the form set out in Exhibit B 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 \*\*\*.

2.2.2.1.2 \*\*\*.

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 2.2.2.1.2 above, such revision shall be performed by the Seller without the Buyer’s consent. In such cases, the Buyer shall have access to the details of such changes through the relevant application in AirbusWorld.

2.2.2.3 \*\*\*.

2.2.2.4 The Seller shall provide the Buyer with a milestone chart reflecting, in terms of minimum lead-times prior to delivery of the first Aircraft of a type, the dates when a mutual agreement shall be reached by way of execution of an SCN to integrate the Buyer specific features into the industrial process.

## 2.3 Propulsion Systems

2.3.1 The Airframe shall be equipped with either (i) a set of two (2) CFM INTERNATIONAL (“**CFM**”) LEAP Propulsion Systems or (ii) a set of two (2) PRATT & WHITNEY (“**PW**”) PW1100G-JM Propulsion Systems (the “**Propulsion Systems**”), as detailed below:

<b>Aircraft</b>	<b>CFM</b>	<b>PW</b>
<b>A319 Aircraft</b>	LEAP***	PW***
<b>A320 Aircraft</b>	LEAP***	PW***
<b>A321 Aircraft</b>	LEAP***	PW***

AET means Airbus Equivalent Thrust

2.3.2 The Buyer hereby confirms to the Seller that the Buyer has selected CFM Propulsion Systems for the \*\*\*.



With respect to the remaining \*\*\* Aircraft, Propulsions Systems shall be selected and such selection notified in writing to the Seller not later than \*\*\*.

2.4 Customization

2.4.1 Customization Milestones Chart

Within a reasonable period \*\*\* following signature of the Agreement, the Seller shall provide the Buyer with a customization milestones chart (the “**Customization Milestones**”

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APPENDIX 2 to LETTER AGREEMENT N° 2

**Chart**”). The chart will set out the minimum lead times prior to the Scheduled Delivery Month of the Aircraft when a mutual agreement shall be reached (execution of a SCN) in order to integrate into the Specification any items requested by the Buyer from the Seller’s catalogues of Specification change options (the “**Option Catalogues**”).

2.4.2 Contractual Definition Freeze

The Customization Milestone Chart shall in particular define the date(s) by which the contractual definition of the Aircraft must be finalized and all SCNs need to have been executed by the Buyer (the “**Contractual Definition Freeze**” or “**CDF**”) in order to enable their incorporation into the manufacturing of the Aircraft and Delivery of the Aircraft in the Scheduled Delivery Month. Each such date shall be referred to as a “**CDF Date**”. \*\*\*

2.5 Propulsion Systems and BFE Concessions

Concessions which may be provided by the applicable Propulsion Systems Manufacturer and BFE Suppliers shall be negotiated directly between the Buyer and such Propulsion Systems Manufacturer and BFE Suppliers.

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APPENDIX 9 to LETTER AGREEMENT N° 2

**9 DELIVERY**

9.1 Delivery Schedule

9.1.1 Subject to Clauses 2, 7, 8, 10, 11 and 18, the Seller shall have the Aircraft Ready for Delivery at the Delivery Location within the following scheduled delivery period (the “**Scheduled Delivery Period**”):

<u>Aircraft Number</u>	<u>Aircraft Type</u>	
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\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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APPENDIX 9 to LETTER AGREEMENT N° 2

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APPENDIX 9 to LETTER AGREEMENT N° 2

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9.1.2 When a Scheduled Delivery Period of an Aircraft is a month, such month shall be, with respect to such Aircraft, the “**Scheduled Delivery Month**”.

\*\*\*

For the purpose of Clause 5.3 of the Agreement, until a Scheduled Delivery Month has been notified pursuant to \*\*\* above, the Scheduled Delivery Month of an Aircraft shall be deemed (a) the \*\*\* month of its Scheduled Delivery Period when such Scheduled Delivery Period is a \*\*\*, and (b) the \*\*\* month of its Scheduled Delivery Period when such Scheduled Delivery Period is a \*\*\*.

9.1.3 \*\*\*

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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APPENDIX 9 to LETTER AGREEMENT N° 2

9.2 Delivery Process

9.2.1 The Buyer shall, within \*\*\* after the date on which the Aircraft is Ready for Delivery, sign the Certificate of Acceptance, pay the Balance of the Final Price, send its representatives to the Delivery Location, take Delivery of the Aircraft and fly the Aircraft away from the Delivery Location.

9.2.2 The Seller shall deliver and transfer \*\*\* title to the Aircraft to the Buyer free and clear of all liens, claims, charges, security interests and all encumbrances of any kind whatsoever (except for any liens or encumbrances created by or on behalf of the Buyer) provided that (i) the Balance of the Final Price and any other amounts \*\*\* have been paid by the Buyer to the Seller and (ii) the Certificate of Acceptance has been signed and delivered to the Seller pursuant to Clause 8.3. The Seller shall provide the Buyer with a bill of sale in the form of Exhibit E (the “**Bill of Sale**”) and/or such other documentation \*\*\* confirming transfer of \*\*\* title and receipt of the Final Price as may reasonably be requested by the Buyer. Title to and risk of loss of or damage to the Aircraft shall pass to the Buyer at Delivery.

Delivery (“**Delivery**”) shall be deemed to have occurred when (i) and (ii) above have occurred; and the Seller has provided the Buyer with the Bill of Sale \*\*\*

9.2.3 \*\*\*

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 \*\*\*

[\*\*\*] Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended

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**AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA,**

Avenida Calle 26  
No. 59-15 Bogota,  
Colombia

**GRUPO TACA HOLDINGS LIMITED,**

Winterbotham Place,  
Marlborough and Queen Streets  
P.O. Box N-3026 Nassau,  
the Bahamas

Subject: **BACKLOG AIRCRAFT**

**GRUPO TACA HOLDINGS LIMITED, AEROVIAS DEL CONTINENTE AMERICANO S.A. AVIANCA** (jointly and severally referred to as the “**Buyer**”) and **AIRBUS S.A.S.** (the “**Seller**”) have entered into an A320neo Family Purchase Agreement (the “**Agreement**”) dated April 30th, 2015, which covers, among other things, the manufacture and the sale by the Seller and the purchase by the Buyer of the Aircraft under the terms and conditions in said Agreement.

The Buyer and the Seller have agreed to set forth in this Letter Agreement N°3.1 (the “**Letter Agreement No3.1**”) certain additional terms and conditions regarding the Aircraft.

Capitalized terms used herein and not otherwise defined in this Letter Agreement N°3.1 shall have the meanings assigned thereto in the Agreement.

Both parties agree that this Letter Agreement N°3.1, upon execution hereof, shall constitute an integral, nonseverable part of said Agreement, that the provisions of said Agreement are hereby incorporated herein by reference, and that this Letter Agreement N°3.1 shall be governed by all the provisions of the Agreement; as such provisions have been specifically amended pursuant to this Letter Agreement N°3.1. If there is any inconsistency between the provisions of the Agreement and the provisions of this Letter Agreement N°3.1 then the provisions of this Letter Agreement N°3.1 will govern.

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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**0 APPLICABILITY**

The Letter Agreement No3 to the Agreement is hereby cancelled in its entirety and replaced with this Letter Agreement No3.1.

**1 BACKLOG A320ceo FAMILY AIRCRAFT**

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2 \*\*\*

3 \*\*\*

#### 4 ASSIGNMENT

Except as provided in Clause 21 of the Agreement, this Letter Agreement N°3.1 is not transferable, and the Buyer's rights under this Letter Agreement N°3.1 shall not be assigned, sold, transferred or otherwise alienated by operation of law or otherwise to any person other than the Buyer. Any unauthorised assignment, sale, transfer or other alienation of the Buyer's rights under this Letter Agreement N°3.1 with respect to any Aircraft will be void and without effect.

#### 5 CONFIDENTIALITY

This Letter Agreement N°3.1 (and its existence) shall be treated by both parties as confidential in accordance with Clause 22.15 of the Agreement.

#### 6 COUNTERPARTS

This Letter Agreement N°3.1 may be signed in any number of separate counterparts. Each counterpart, when signed and delivered (including counterparts delivered by facsimile transmission) shall be an original, and the counterparts together shall constitute one and the same instrument.

#### 6 INTERPRETATION AND LAW

THIS LETTER AGREEMENT N°3 SHALL BE GOVERNED BY AND CONSTRUED AND THE PERFORMANCE THEREOF SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS CONFLICTS OF LAWS PROVISIONS THAT WOULD RESULT IN THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

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A320neo Family PA – April 2015

Letter Agreement 3.1 - Page 2 of 3

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LETTER AGREEMENT N° 3.1

If the foregoing correctly sets forth our understanding, please execute four (4) originals in the space provided below and return one (1) original of this Letter Agreement N°3.1 to the Seller.

Agreed and Accepted

For and on behalf of

**AIRBUS S.A.S.**

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_



Agreed and Accepted

Agreed and Accepted

For and on behalf of

For and on behalf of

**AEROVIAS DEL CONTINENTE  
AMERICANO S.A. AVIANCA.**

**GRUPO TACA HOLDINGS LIMITED**

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

\*\*\* Represents material which has been redacted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment pursuant to Rule 406 under the Securities Act of 1933, as amended.

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Letter Agreement 3.1 - Page 3 of 3

## List of Subsidiaries

<u>Name of Subsidiary</u>	<u>Country of Incorporation</u>
Aerolíneas Galápagos Aerogal, S.A.	Ecuador
Aerovias del Continente Americano, S.A.	Colombia
Líneas Aéreas Costaricenses S.A.	Costa Rica
Nicaragüense de Aviación, S.A.	Nicaragua
Taca International Airlines, S.A.	El Salvador
Tampa Cargo S.A.S.	Colombia
Trans American Airlines, S.A.	Peru
Aerotaxis La Costeña, S.A.	Nicaragua
Isleña de Inversiones, S.A. de C.V.	Honduras
Servicios Aéreos Nacionales S.A.	Costa Rica
Aerospace Investments, Limited	Bahamas
Aviation Leasing Services (ALS), Inc.	Panama
Aviation Leasing Services, Investments (ALS), S.A.	Panama
Intercontinental Equipment Corp.	Bahamas
Little Plane, Limited	Bahamas
Little Plane Six, Limited	Bahamas
Southern Equipment Corp.	Bahamas
Turboprop Leasing Company, Limited	Bahamas
Technical & Training Services, S.A. de C.V.	El Salvador
Grupo Taca Holdings, Limited	Bahamas
Ronair N.V.	Curaçao
Avianca Inc.	USA
LifeMiles B.V.	Curaçao
Tampa Cargo Logistics, Inc.	USA
Getcom International Investments, SL	Spain
Avianca Leasing, LLC	USA
Turbo Aviation Two, Limited	Ireland
Latin Airways Corp.	Panamá
Vu-Marsat S.A.	Costa Rica
Turbo Aviation Three S.A.	Panamá

**Annual Certification**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Hernán Rincón, certify that:

1. I have reviewed this annual report on Form 20-F of Avianca Holdings S.A.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 29, 2016

By: /s/ Hernán Rincón

Hernán Rincón

Chief Executive Officer

Section 302 CEO Certification

**Annual Certification**

**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gerardo Grajales, certify that:

1. I have reviewed this annual report on Form 20-F of Avianca Holdings S.A.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 29, 2016

By: /s/ Gerardo Grajales

Gerardo Grajales

Chief Financial Officer

Section 302 CFO Certification

**Annual Certification**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Avianca Holdings S.A. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2015 of the Company fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2016

By: /s/ Hernán Rincón \_\_\_\_\_

Hernán Rincón

Chief Executive Officer

Section 906 CEO Certification

**Annual Certification**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Avianca Holdings S.A. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2015 of the Company fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 29, 2016

By: /s/ Gerardo Grajales \_\_\_\_\_

Gerardo Grajales

Chief Financial Officer

Section 906 CFO Certification



# Form 20-F

AVIANCA HOLDINGS S.A.

For the Fiscal Year Ended December 31, 2015