

AIR FRANCE-KLM

Public limited company (*société anonyme*) with share capital of 300,219,278 euros

Registered office: 2 Rue Robert Esnault Pelterie - 75007 Paris

Registered with the Paris Trade and Company Register no. 552 043 002

STATUTORY FINANCIAL STATEMENTS

Year ending December 31, 2014

AIR FRANCE – KLM

INCOME STATEMENT

	Notes	2014	2013
<i>In € millions</i>			
Operating income	2	38	19
External expenses	3	(30)	(25)
Salaries and related costs		(2)	(1)
Other expenses		(1)	-
Total operating expenses		(33)	(26)
Income from current operations		5	(7)
Financial income		62	50
Financial expenses		(190)	(377)
Net financial income	4	(128)	(327)
Earnings before tax and non-recurring items		(123)	(334)
Non-recurring income		-	8
Non-recurring expenses		-	-
Non-recurring income/- (loss)		-	8
Income tax	5	12	4
Net income/(loss)		(111)	(322)

AIR FRANCE – KLM

BALANCE SHEET

Assets	Notes	December 31, 2014	December 31, 2013
<i>In € millions</i>			
Long-term investments	6	4,668	3,927
Loans & receivables related to long -term investment	6-10	764	774
Fixed assets		5,432	4,701
Trade receivables	10	22	29
Other receivables	10	32	31
Marketable securities	7	988	1,350
Cash		178	148
Prepaid expenses		1	1
Current assets		1,221	1,559
Amortisation of capital expenses		16	8
Bond redemption premium		7	4
Total Assets		6,676	6,272

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Liabilities & equity	Notes	December 31, 2014	December 31, 2013
<i>In € millions</i>			
Capital	8.2	300	300
Additional paid-in capital		2,971	2,971
Legal reserve		70	70
Reserves		413	735
Income for the year		(111)	(322)
Shareholders' equity	8.2	3,643	3,754
Financial debt	9	3,001	2,485
Trade payable:	10	10	11
including trade payables and related accounts		9	10
including tax security and social debts		1	1
Other liabilities		22	22
Liabilities	10	3,033	2,518
Total Liabilities & equity		6,676	6,272

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NOTES

The following information constitutes the notes to the financial statements for the year ended December 31, 2014.

It is an integral part of the financial statements.

Air France KLM SA, a Public Limited Company (*société anonyme*) with registered office at 2 Rue Robert Esnault Pelterie 75007 Paris, is the parent company of the Air France-KLM Group. It is listed for trading in Paris (Euronext) and Amsterdam (Euronext).

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1. ACCOUNTING POLICIES AND PROCEDURES

Generally accepted accounting policies have been applied, consistent with the prudence principle and in accordance with the legal and regulatory provisions applicable in France and to the base assumptions whose aim is to provide a true and faithful representation of the company:

- going concern;
- consistent accounting methods from year to year;
- independence of financial periods;

and in accordance with the general rules for establishing and presenting annual financial statements.

The basic method used to value items recorded in the financial statements is the historical cost method.

THE MAIN METHODS USED ARE THE FOLLOWING:

Long-term investments

Investments in equity securities are presented on the balance sheet at their acquisition cost net of impairment, if any. A provision for impairment is recorded as soon as the fair value falls below that of the acquisition value. The fair value of securities is determined by taking into account the share of shareholders' equity, the outlook for profitability and the stock market values that can be used as a reference.

Transfer taxes, fees or commissions and legal fees related to the acquisition of securities are expensed, according to the option offered by the regulations.

Treasury shares not allocated to employees or to a capital decrease are booked in long-term investments. They are shown at the lower of their acquisition cost or fair value. The fair value is determined based on the average market price for the last month of the financial year.

Trade receivable

Trade receivables are valued at their nominal value. They are valued on a case-by-case basis and a provision is set up as required based on the assessed risks.

Marketable securities

Marketable securities are shown on the balance sheet at the lower of their acquisition cost and their market value. In the case of listed shares, this market value is determined based on the market price at the end of the financial year.

Treasury shares invested as part of a liquidity agreement are valued at the lower of their acquisition price and fair value. The fair value is determined based on the last month average market price at the end of the financial year.

Negotiable debt securities (certificates of deposits, and bills issued by financial companies) are booked at their acquisition cost. Interest is booked as financial income, on a-prorata temporis basis.

Foreign currency transactions

Operating expense and income transactions in foreign currencies are recognized at the average exchange rate for each relevant month.

Trade payable and receivable in foreign currencies are valued at the exchange rate in effect at December 31, 2014.

Unrealized losses and gains are recognized as assets and liabilities on the balance sheet. Provisions are established for unrealized losses, except for the following cases:

- transactions where the currency and the term contribute to an overall positive currency position and;
- currency hedging contracts concerning the payment of future investment deliveries.

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Debts

Debts are valued at their nominal amount.

Dividends received

Dividends are recognized - when they are approved by the competent bodies in the companies (i.e.: the Board of Directors or the General Shareholders' Meeting depending on the local regulations) – or according to the terms of the bylaws.

2. OTHER INCOME

This primarily involves royalties of €17 million paid by Air France and KLM at December 31, 2014 to use the “Air France-KLM” brand (€18 million as of December 31, 2013). It also includes the provision of services paid by Air France and KLM for €20 million.

3. EXTERNAL EXPENSES

In € millions

Period	2014	2013
Fees and surveys	6	9
Insurance	2	2
Sub-contracting and rents re-invoiced by Air France and KLM	20	10
Financial communication	2	3
Other	1	1
Total	31	25

During the financial year, the teams assigned to Air France-KLM holding company were still reinforced with additional staff. They represent 47 full time equivalent seconded from Air France and 25 full-time equivalent seconded from KLM. As a result the amount of sub-contracting re-invoiced by Air France and KLM increased.

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4. FINANCIAL INCOME

This section regroups interest paid or received, currency losses and gains, and allocations and write-backs of financial provisions. The break-down is as follows.

In € millions

Period	2014	2013
Interests on loans and other financial expenses ⁽¹⁾	(167)	(156)
<i>of which related companies</i>	(26)	(29)
Financial income from equity investment	8	1
<i>of which related companies</i>	8	1
Interests received on loans	36	32
<i>of which related companies</i>	36	30
Other financial income ⁽²⁾	16	16
<i>of which related companies</i>	6	6
Allocation to provisions ⁽³⁾	(23)	(221)
Reversal of provisions on treasury shares	2	1
Total	(128)	(327)

⁽¹⁾ Of which interests on OCEANE amounting to €(44) million at December 31, 2014 and €(41) million at December 31, 2013, on bond amounting to €(87) million at December 31, 2014 and €(79) million at December 31, 2013, commission on the guarantees granted by Air France and KLM amounting to €(26) million at December 31, 2014 and €(29) at December 31, 2013, cost of the sale to a bank of the tax receivable of the tax group for the CICE 2013 and 2014 amounting to €(4) million.

⁽²⁾ Of which €10 million of income in respect of investment in mutual funds and certificates of deposit certificates at December 31, 2014 and €10 million at December 31, 2013 (see note 7).

⁽³⁾ Of which €(21) million on Compagnia Aerea Italiana SpA shares at December 31, 2014 and €(221) million on shares that company at December 31, 2013.

5. INCOME TAX

Air France-KLM has benefited from the tax consolidation scheme since April 1, 2002.

The consolidation scope, for which Air France-KLM is the parent company, primarily includes Air France-KLM, Air France, the French regional companies and, Servair and its subsidiaries.

The tax consolidation agreement is based on the so-called neutrality method and puts each member company of the tax group in the situation in which it would have been in without consolidation.

The tax consolidation group benefits from tax losses that can be carried forward for an unlimited period.

The subsidiaries that are beneficiaries of the tax consolidation scope paid a tax consolidation bonus of €12 million to Air France KLM for this financial year (€4 million on the previous financial year).

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6. LONG-TERM INVESTMENTS

6.1. NET BOOK VALUE

In € millions

	Beginning of year	Acquisitions Capital increases	Transfer	Provision Variation	End of year
Equity investments	4,238	-	760 ⁽²⁾	-	4,998
Loans & receivables related to long term investment	774	750 ⁽¹⁾	(760) ⁽²⁾	-	764 ⁽³⁾
Other long- term investments	75	-	-	-	75
Gross amount	5,087	750	-	-	5,837
Depreciation	(386)	-	-	(19)	(405)
Net amount	4,701	750	-	(19)	5,432

⁽¹⁾Net increases of loans & receivables related to long term investment granted to Air France, KLM, Air France KLM Finance, and Transavia Company.

⁽²⁾On July 24th 2014, increase of Air France share capital compensated by loans and receivables related to long term investment, owned from this entity.

⁽³⁾Voir note 9.

6.2. EQUITY INVESTMENTS

In € millions

COMPANIES	Gross value at beginning of year	Transfers or Acquisitions	Sales	Gross value at end of year
Air France	3,060	760	-	3,821
KLM	817	-	-	817
Compagnia Aerea Italiana SpA	356	-	-	356
Air France KLM Finance	5	-	-	5
Transavia Company	-	-	-	-
Total	4,238	760	-	4,998

In € millions

COMPANIES	Provisions at beginning of year	Allocations	Reversal	Provisions at end of year
Compagnia Aerea Italiana SpA ⁽¹⁾	(334)	(22)	-	(356)
Impairment	(334)	(22)	-	(356)
Net Value	3,904	738	-	4,642

⁽¹⁾Compagnia Aerea italiana SpA shares are fully impaired.

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6.3. OTHER FINANCIAL INVESTMENTS

In € millions

	Gross value at beginning of year	Acquisitions	Sales	Gross value at end of year
Treasury shares	75	-	-	75
	Provision at beginning of year	Allocation	Reversal	Provision at end of year
Impairment on treasury shares	(52)	-	2	(50)
Net Value	23	-	2	25

7. MARKETABLE SECURITIES

<i>In € millions</i>	December 31, 2014 Net carrying amount	December 31, 2013 Net carrying amount
Mutual funds, certificates of deposit & marketable term notes	988	1,349
Money market fund ⁽¹⁾	-	1
Total	988	1,350

⁽¹⁾ Cash invested as part of a liquidity agreement, subscribed with a bank.

The net carrying amount for the mutual funds and certificates of deposit is the market value.

8. SHAREHOLDERS' EQUITY

8.1. DISTRIBUTION OF SHARE CAPITAL AND VOTING RIGHTS

The issued capital comprises 300,219,278 fully paid-up shares with a nominal value of one euro. Each share confers one voting right.

It is as follows:

	<i>% of capital</i>		<i>% of voting rights</i>	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
French State	16%	16%	16%	16%
Employees and former employees ⁽¹⁾	7%	7%	7%	7%
Treasury stock	1%	1%	-	-
Public	76%	76%	77%	77%
Total	100%	100%	100%	100%

⁽¹⁾ Employees and former employees identified in funds or by a Sicovam code.

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In April 2005, Air France issued €450 million of bonds with an option of conversion and /or exchange for new or existing Air France KLM shares » (OCEANE) maturing in fifteen years. At December 31, 2014 only 595 OCEANE have been converted, of which 510 into 525 new shares during 2007-08 financial year. Between January 1, 2014 and December 31, 2014, no bonds were converted. The conversion ratio is 1.03 Air France-KLM shares for one bond.

Furthermore on December 6, 2011, Air France signed a Swap contract with Natixis postponing until April 2016 the probability of the repayment option initially foreseen for April 1, 2012.

See note 9 for comments on other OCEANE.

8.2. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In € millions

	Capital	Additional paid-in capital	Reserves	Earnings for the year	Shareholders' equity
At December 31, 2012	300	2,971	921	(116)	4,076
Allocation of earnings	-	-	(116)	116	-
Earnings for the period	-	-	-	(322)	(322)
At December 31, 2013	300	2,971	805	(322)	3,754
Allocation of earnings	-	-	(322)	322	-
Earnings for the period	-	-	-	(111)	(111)
At December 31, 2014	300	2,971	483	(111)	3,643

9. FINANCIAL DEBT

<i>In € millions</i>	<i>December 31, 2014</i>	<i>December 31, 2013</i>
Non-current financial debt		
OCEANE (convertible bonds)	550	1,211
Bonds	1,706	1,200
Total non-current debt	2,256	2,411
Current Financial debt		
OCEANE (convertible bond)	661	-
Accrued interest	84	74
Total current debt	745	74
Total	3,001	2,485

On June 26, 2009, Air France-KLM issued 56,016,949 bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on April 1, 2015 for a total amount of €661 million (see note 10). As of December 31, 2014, no OCEANE has been converted during the 2014 financial year. The conversion ratio is one Air France-KLM share for one bond.

Each bond has a nominal value of €11.80 and the annual coupon is 4.97%.

This OCEANE will be reimbursed to investors on April 1st 2015.

On October 27, 2009, Air France-KLM issued bonds for a total amount of €700 million, maturing on October 27, 2016 and with an annual coupon of 6.75%. On June 18, 2014, a nominal amount of €93.8 million of these bonds was bought and then canceled by Air France-KLM, as part of a bid intermediate and the issuance of new bonds (see below). After this operation, the par value of the bond issued in 2009 is about €606.2 million.

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On December 14, 2012 Air France KLM issued € 500 million of bonds maturing on January 18, 2018 with an annual coupon of 6.25%.

On March 28, 2013, Air France-KLM issued 53,398,058 bonds with an option of conversion and/or exchange for new or existing Air France-KLM shares (OCEANE) maturing on February 15, 2023 for a total amount of €550 million. The bonds have a nominal value of €10.30 and the annual coupon is 2.03%. The conversion ratio is one Air France-KLM share for one bond. As of December 31, 2014, no OCEANE has been converted during the 2014 financial year.

On June 18, 2014, Air France KLM issued € 600 million of bonds maturing on June 18, 2021 with an annual coupon of 3.875%.

Some of the proceeds were used to issue loans to Air France, to KLM, to Air France KLM Finance and Transavia Company. As of December 31, 2014 these loans amount to €123 million with Air France, €521 million with KLM, €89 million with Air France KLM Finance and €31 million with Transavia Company (See note 6.1).

10. MATURITY OF TRADE RECEIVABLES AND TRADE PAYABLES

As of December 31, 2014

In € millions

Trade receivables	Gross amount	Up to one year	More than one year	Related companies
Non-current assets				
Loans and receivables related to long-term investment	764	308	456	764
Current assets				
Trade receivables and related accounts	22	22	-	21
Other receivables (including tax receivables) ⁽¹⁾⁽²⁾	32	32	-	15
Total	818	362	456	800

⁽¹⁾Of which €6 million as accrued income with related companies and €7 million on December 31, 2013.

⁽²⁾The €64 million CICE 2014 tax receivable of the tax group was sold to a bank, thus this receivable has been withdrawn from assets.

In € millions

Trade payables	Gross amount	Up to one year	More than one year	Related companies
Financial debt ⁽¹⁾	3,001	745	2,256	-
Trade payables and related accounts	10	10	-	5
Other payables	22	22	-	22
Total	3,033	777	2,256	27

⁽¹⁾ See note 9.

This amount includes € 84 million of accrued interests (€74 million at December 31, 2013).

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11. LIST OF SUBSIDIARIES AND EQUITY INVESTMENTS

In € millions

Companies or Groups of companies	Capital	Shareholders' equity other than capital after earnings	Share of capital held	Carrying amount of shares held		Loans & advances granted and not reimbursed	Amount of security and guarantees given	Revenues (excl. tax) for last financial year	Net profit or loss for last financial year	Dividends booked during financial year
				Gross	Net					

Detailed information about individual investment whose gross value exceeds € 15 million

1. Subsidiaries (held at more than 50%)

Société Air France (France) ⁽¹⁾	127	(287)	100%	3,820	3,820	123	21	14,337	(156)	
KLM (Netherlands) ⁽¹⁾	94	(85)	99.1%	817	817	561	-	9,643	341	8

2. Equity investments (held at less than 50%)

Compagnia Aerea Italiana SpA ⁽²⁾	358	N/A	1,11%	356	0					-
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⁽¹⁾ Statutory financial statements at December 31, 2014

⁽²⁾ After the participation by Etihad Airways in the capital increment of Alitalia, the share participation of Air France-KLM has been diluted from 7.08 per cent as at December 31, 2013 to 1.11 per cent as at December 31, 2014. After this operation, the Group is not a member anymore of the board of the new Alitalia SAI.

12. ESTIMATED VALUE OF THE PORTFOLIO

<i>In € millions</i>	Amount at beginning of year		Amount at end of year	
	gross carrying amount	net carrying amount	gross carrying amount	net carrying amount
Portfolio fractions valued				
Air France	3,060	3,060	3,820	3,820
KLM	817	817	817	817
Compagnia Aerea Italiana SpA	356	22	356	0

Estimated value of equity investments is based on Italian Gaap equity or on medium term profitability outlook. This estimated value supports net book value at year end.

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13. ITEMS CONCERNING RELATED COMPANIES

<i>In € millions</i>		Amount
Trade receivables & related accounts		
of which	Air France	2
	KLM	19
Other receivables		
of which	Air France	5
	KLM	1
	Air France Finance	6
	Air France KLM Finance	1
	Others	2
Trade payables and related accounts		
of which	Air France	3
	KML	2
Other payables		
of which	Servair	8
	Acna	3
	CPA	3
	Regional	3
	Britair	1
	OAT	1
	Other	2

14. COMMITMENTS

▪ **KLM shares**

During the business combination of the Air France and KLM groups, the Dutch government undertook to reduce its stake in KLM proportionally to any reduction by the French government of its stake in Air France-KLM's capital. To this end, the Dutch government had to sell its cumulative preferred shares to Air France-KLM or to a Dutch foundation in the name of and on behalf of Air France-KLM, if the transfer had occurred during the first three years following the business combination.

In the latter case, the foundation would have issued, to the benefit of Air France-KLM, share certificates corresponding to the cumulative A preferred shares transferred to the foundation. These share certificates would have conferred to Air France-KLM all of the economic rights attached to the said shares, the voting rights attached to the said shares being exercised by the foundation until Air France exchanges the share certificates against the said shares.

At the end of the initial three-year period, Air France-KLM had the option to exchange the share certificates against the cumulative A preferred shares, which it could hold directly. As Air France-KLM decided in 2007 to maintain SAK I and SAK II foundations, Air France-KLM did not carry out this exchange.

Moreover, the Dutch government has the right to sell to Air France-KLM at any time as many cumulative A preferred shares as it wants.

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After the sale of 5,103,885 shares to Air France-KLM in April 2005 for €11.6 million, the acquisition price of the 3,708,615 cumulative A preferred shares still held by the Dutch government amounts to €8.4 million (i.e. a unit price of €2.27 per cumulative A preferred share, which has to be paid pro rata during any sale or transfer under the conditions above).

▪ Other

Since January 2009, Air France-KLM has acted as a guarantor for Société Air France within the framework of its commitments to Aéroport de Paris in respect of civil leases. This guarantee has been renewed in July 2014.

The guarantee is now expressly limited to €21 million.

15. LITIGATION

Provisions for anti-trust cases in the air-freight industry

Air France, KLM and Martinair, a wholly-owned subsidiary of KLM since January 1, 2009, have been involved, since February 2006, with up to twenty-five other airlines in investigations initiated by the anti-trust authorities in several countries, with respect to allegations of anti-competitive agreements or concerted actions in the air-freight industry.

As of December 31, 2014 most of these investigations have been terminated following the entry into plea agreements between Air France, KLM and Martinair and the appropriate competition authorities providing for the payment of settlement amounts or fines, with the exception of the proceedings initiated by the European Commission and the Swiss anti-trust authority, which are still pending.

In Europe, Air France, KLM and Martinair have filed an appeal before the EU General Court against the 2010 EU Commission decision.

In Switzerland, Air France and KLM are challenging a decision imposing a €3 million fine before the relevant court.

In South Korea, the procedure is definitely closed: in December 2014, the Supreme Court confirmed the fines against Air France and KLM for a total of approximately €7 million but dismissed the action against Air France- KLM and accordingly decided the annulment of the fine against Air France- KLM.

16. CONTINGENT LIABILITIES

The Group is involved in several governmental, judicial and arbitration procedures for which provisions have not been recorded in the financial statements in accordance with applicable accounting rules.

Third-party claims for damages in connection with alleged anti-competitive behaviors in the air-freight industry

Following the initiation of various investigations by competition authorities in 2006 and the E.U. Commission decision in 2010 several collective and individual actions were brought by forwarders and air-freight shippers in civil courts against Air France, KLM and Martinair, and the other airlines in several jurisdictions.

Under these civil lawsuits, shippers and freight forwarders are claiming for damages to compensate alleged higher prices due to the cartel.

Air France, KLM and /or Martinair remain defendants, either as main defendants (in particular in The Netherlands, Norway, Korea and United States) or as third parties interveners brought in these cases by other main defendants under “contribution proceedings” (in the UK for example). Where Air France, KLM and /or Martinair are main defendants, they have also initiated contribution proceedings against other airlines.

No provision has been recognized at present in connection with these disputes as the Group is not in a position at this stage of the judicial proceedings to give a reliable estimate of the maximum potential loss that would be incurred if the outcome of these proceedings were to be negative. In particular, although significant amounts have been reported by the media, plaintiffs are mostly claiming for unspecified and/or insufficiently substantiated damages against defendants taken as a whole (and not individually) and the EU decision to which the plaintiffs generally refer to is still not definitive.

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The Group companies and the other airlines involved in these lawsuits continue to vigorously oppose all such civil claims.

Litigation anti-trust in the sector of passage

Canada

A civil class action was reinitiated in 2013 by claimants in Ontario against seven airlines including Air France and KLM. The plaintiffs allege that the defendants participated in a conspiracy in the passenger air transport service from/to Canada on the cross-Atlantic routes, for which they are claiming damages. Air France and KLM strongly deny any participation to such conspiracy.

Other litigation cases

a) KLM minority shareholders

On December 31, 2012, one KLM minority shareholder filed a request with the Enterprise Chamber of the Amsterdam Court of Appeal to order an enquiry into KLM's dividend policy from 2004-2005 to 2010-2011. The Enterprise Chamber upheld such order and an inquiry is now being performed although KLM has filed an appeal against such decision.

b) Rio-Paris AF447 flight

Following to the crash in the South Atlantic Ocean of the Rio-Paris AF447 flight, a number of legal actions for damages have been brought by heirs of the victims in the United States and Brazil and more recently in France. Damages to heirs of the victims are covered by third-party liability insurance subscribed by Air France.

In 2011, Air France and Airbus were indicted as legal entities for unintentional manslaughter and therefore are exposed to applicable fines under the French criminal code. Air France is challenging its implication in this criminal case.

Except for the matters specified under the paragraph 15, the Group is not aware of any governmental, judicial and arbitration dispute or proceedings that could have a significant impact on the Group's financial position, earnings, assets, liabilities or profitability for a period including at least the past twelve months.

18. SUBSEQUENT EVENTS

Nil.