Management Report

2012

Société anonyme with share capital of 300,219,278 euros
Registered office: 2, rue Robert Esnault-Pelterie, 75007 Paris
Mailing address: 10-14, rue de Rome, 93290 Tremblay-en-France
Paris Trade and Company Register: 552,043,002

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1 Corporate governance

1.1 The Board of Directors

Pursuant to the corporate governance principles stipulated by the AFEP-MEDEF Corporate Governance Code, the duration of Board directors' terms of office is four years and the renewal of Board director mandates is staggered to facilitate the smooth renewal of the Board of Directors.

To facilitate their integration and the exercise of their mandates, the newly-appointed Board directors are encouraged to meet with the company's senior executives, and are offered site visits and training organized and paid for by the company. On their appointment, they are also sent a dossier including, amongst other documents, the company's bylaws, the internal regulations of the Board, the Registration Document and the latest press releases issued by the company.

1.1.1 Composition of the Board of Directors

At December 31, 2012, the Board of Directors comprised 15 members:

- 12 Board directors appointed by the Shareholders' Meeting (including two representing the employee shareholders);
- Three representatives of the French State appointed by ministerial order.

Despite the particularity of its composition, the Board of Directors is a collegial body which collectively represents all the shareholders and acts in the interests of the company.

At February 21, 2013, given the resignation of Ms Saragosse and her replacement by Mr Comolli, there were two women members of the Board of Directors. In view of the forthcoming expiry of Board director mandates, the Appointments Committee will propose candidates aimed at reinforcing the presence of women within the Board in order to comply, within the recommended time horizons, with the AFEP-MEDEF recommendation of April 19, 2010 and the provisions of the law of January 27, 2011 relating to the balanced representation of men and women within Boards of Directors.

Board directors appointed by the Shareholders' Meeting

Jean-Cyril Spinetta
Chairman of the Board of Directors and Chief Executive Officer

Born October 4, 1943
First appointed as a Board director: September 23, 1997.
Expiration date of current term of office: 2014 Shareholders' Meeting
Number of shares held in the company's stock: 65,349

Expertise and professional experience

Jean-Cyril Spinetta holds an advanced degree in public law and is a graduate of the Institut des Sciences Politiques de Paris and the École Nationale d'Administration.

Between 1972 and 1990, Mr Spinetta served as a senior civil servant in a number of French government Ministries (Education, Employment, Transport). He was Chairman of Air Inter between 1990 and 1993. In 1997, he became Chairman and Chief Executive Officer of Air France, followed by Air France-KLM at the time of the merger. In 2009, he resigned from his functions as Chairman and Chief Executive Officer while remaining Chairman of the two Boards of Directors. Since the reunification of the functions of Chairman and Chief Executive Officer in October 2011, he has once more been **Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM.**

Other directorships and offices

French companies

- Chairman of the Supervisory Board of Areva*
- Director of Saint-Gobain*
- Director of Alcatel-Lucent*

Non-French company

- Director of Alitalia CAI (Italy)

Others

- Member of the IATA (International Air Transport Association) Board of Governors (Canada)
- Member of the Board of Paris Europlace

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Chairman of the Board of Directors then Chairman and Chief Executive Officer of Air France until November 16, 2011
- Chairman of the Air France-KLM* Board of Directors until October 17, 2011
- Director (representing the French State) of La Poste until April 2009
- Director (representing the French State) of GDF-Suez* until April 2009
- Chairman and Chief Executive Officer of Air France-KLM* until December 2008
- Chairman and Chief Executive Officer of Air France until December 2008

Professional address: Air France-KLM, 2 rue Robert Esnault-Pelterie, 75007 Paris

Leo M. van Wijk

Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer

Born October 18, 1946

First appointed as a Board director: June 24, 2004.

Expiration date of current term of office: 2016 Shareholders' Meeting

Number of shares held in the company's stock: 3,565.

Expertise and professional experience

Leo van Wijk, a Dutch national, holds a Masters degree in Economic Sciences.

Mr van Wijk began his career at KLM Dutch Airlines in 1971. Having occupied a number of positions in the Cargo Division, he was appointed Vice President KLM Marketing in 1984 before becoming Senior Vice President Corporate Development in 1989. He joined the KLM Board of Managing Directors in 1991 and was President and Chief Executive Officer of the company between 1997 and 2007. On October 17, 2011, he was appointed **Deputy Chief Executive Officer of Air France-KLM.**

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Aegon N.V. * (Netherlands)
- Member of the Supervisory Board of Randstad Holding N.V.* (Netherlands)

Directorships and offices held in the last five years and having expired

Non-French companies

- Member of the Supervisory Board of Martinair (Netherlands) until March 2008

Professional address : KLM, AMS/AF, PO Box 7700, 1117 ZL Schiphol Airport

* Listed company

Maryse Aulagnon
Independent director
Chair of the Audit Committee

Born April 19, 1949
First appointed as a Board director: July 8, 2010.
Expiration date of current term of office: 2013 Shareholders' Meeting
Number of shares held in the company's stock: 1,500

Expertise and professional experience

Maryse Aulagnon, is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a post-graduate degree (DESS) in Economic Sciences.
Having occupied various positions at the French Embassy in the United States and a number of Ministerial cabinets (Budget, Industry), Ms Aulagnon joined the CGE group (now Alcatel) in 1984 as Director of International Business. She subsequently joined Euris as Chief Executive Officer on its creation in 1987.
Ms Aulagnon is **Chair and Chief Executive Officer of Affine Group S.A***. (office property), a company she founded in 1990.

Other directorships and offices

French companies

- Affine Group: director of Affiparis S.A.*, Chairman of Mab-Finances SAS and of Promaffine SAS, Chief Executive Officer of ATIT (SC) and of Transaffine SAS, Member of the Executive Committee of Concerto Development SAS, Representative of Affine, Mab-Finances and Promaffine within the employee representative bodies of the various Affine Group entities
- Member of the B.P.C.E. Group (Banques Populaires Caisses d'Epargne) Supervisory Board since December 2010
- Director of Véolia Environnement* since May 16, 2012

Non-French companies

- Affine Group: Chairman of Banimmo (Belgium), Chief Executive Officer of Affinvestor GmbH (Germany) and director of Holdaffine BV (Netherlands)

Directorships and offices held in the last five years and having expired

French companies

- Affine group: Member of the Executive Committee of Business Facility International SAS from 2005 to February 2010 and Director of Abcd from 2006 to February 2008

Other

- Director of European Asset Value Fund (Luxembourg) until 2011

Professional address: Affine, 5 rue Saint-Georges, 75009 Paris, France

* Listed company

Patricia Barbizet
Independent director
Member of the Appointments and Remuneration Committees

Born April 17, 1955
First appointed as a Board director: January 3, 2003.
Expiration date of current term of office: 2014 Shareholders' Meeting
Number of shares held in the company's stock: 2,270.

Expertise and professional experience

Patricia Barbizet is a graduate of the École Supérieure de Commerce de Paris.
She began her career with Renault Group as treasurer for Renault Véhicules Industriels, then Finance Director of Renault Crédit International. She joined the Pinault Group in 1989 as Finance Director. Ms Barbizet has been **Chief Executive Officer of Artémis** since 1992.

Other directorships and offices

French companies

- Artémis/ PPR Group[3]: Vice-Chair of the PPR* Board of Directors, Member of the Supervisory Board of Yves Saint-Laurent, Member of the Supervisory Boad and Chief Executive Officer of Financière Pinault, Director of the Société Nouvelle du Théâtre Marigny, Artémis Permanent representative on the Boards of Directors of Sebdo LePoint and L'Agefi, Member of the Management Board of Château Latour
- Bouygues Group: Director of Bouygues* and of TF1* until April 2013
- Director of Total*
- Director of the Fonds Stratégique d'Investissement and Chairman of the Investment Committee

Non-French companies

- PPR Group: Director (*Amministratore & Amministratore Delegato*) of Palazzo Grassi (Italy)
- Chairman and Board member of Christie's International Plc (United Kingdom);
- Member of the Supervisory Board of Gucci Group N.V.* (Netherlands).

Directorships and offices held in the last five years and having expired

French companies

- Deputy Chief Executive Officer of the Société Nouvelle du Théâtre Marigny until January 2012
- Director of Fnac S.A. until May 2011
- Director of Piasa until December 2008
- Chairman of the Board of Directors of Piasa until May 2008

Non-French company

- Non-executive director of TAWA* (United Kingdom) until June 2012

Professional address: Artémis, 12 rue François 1er, 75008 Paris

[3] Listed company

Jean-François Dehecq
Independent director
Chairman of the Appointments Committee and a member of the Audit Committee

Born January 1, 1940
First appointed as a Board director: January 25, 1995.
Expiration date of current term of office: 2016 Shareholders' Meeting
Number of shares held in the company's stock: 523.

Expertise and professional experience

Jean François Dehecq is a graduate of the École Nationale des Arts et Métiers.
Having begun his career as a mathematics teacher, as of 1965 Mr Dehecq occupied various positions within the Société Nationale des Pétroles d'Aquitaine (SNPA, ex Elf Aquitaine). He became Chief Executive Officer of Sanofi in 1973, then Vice-Chairman and Chief Executive Officer in 1982 before becoming Chairman and Chief Executive Officer in 1988. Between 2007 and 2010, he was Chairman of the Sanofi-Aventis Board of Directors. Since May 2010, Mr Dehecq has been **Honorary Chairman of Sanofi-Aventis and Chairman of the Sanofi Espoir Corporate Foundation.**

Other directorships and offices

French companies
- Balmain Group: Chairman of the Board of Directors of Pierre Balmain S.A. and Director of Balmain.
- Director of Provepharm since June 15, 2012
- Chairman of the Board of Directors of Maori since December 27, 2011

Other
- Chairman of the Orientation Committee of the Fonds Stratégique d'Investissement
- Chairman of the Sanofi Espoir Corporate Foundation
- Vice-Chairman of the National Industry Council

Directorships and offices held in the last five years and having expired

French companies
- Director of Veolia Environnement* until May 2012
- Chairman of the Board of Directors of Sanofi-Aventis* until May 2010.

Others
- Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers) until June 2011
- Chairman of the National Committee of États Généraux de l'Industrie until March 2010
- Member of the French Foundation for Research into Epilepsy until 2009
- Director of the French National Research Agency until 2009
- Chairman of the National Association for Technical Research until 2009
- Governor to the Board of the American Hospital of Paris until November 2008
- Vice-Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations) (Belgium) until June 2008

Professional address: Sanofi-Aventis, 262 Boulevard Saint Germain, 75007 Paris

* Listed company.

<u>Jean-Marc Espalioux</u>

Independent director

Chairman of the Remuneration Committee and member of the Appointments Committee

Born March 18, 1952

First appointed as a Board director: September 14, 2001.

Expiration date of current term of office: 2013 Shareholders' Meeting

Number of shares held in the company's stock: 601.

<u>Expertise and professional experience</u>

Jean-Marc Espalioux is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

In 1984, Mr Espalioux joined Compagnie Générale des Eaux (now Véolia Environnement) where he became Finance Director in 1987. He joined the Executive Committee in 1994 before becoming Deputy Chief Executive Officer in 1996. He was Chairman of the Accor Group Management Board between 1997 and 2006 and Chairman of Financère Agache Private Equity between 2006 and 2011. Mr Espalioux has been Executive Chairman and a Partner of **Montefiore Investment (SAS)** (venture capital) since April 2011.

Other directorships and offices

French companies

- Director of Paprec Holding since November 2012
- Director of Demos since October 5, 2012
- Chairman of Penthièvre SAS since September 19, 2012
- Member of the Supervisory Board of Foncière Inéa*;
- Member of the Supervisory Board of Homair Vacances*

Directorships and offices held in the last five years and having expired

French companies

- Member of the Supervisory Board of Paprec Group (SAS) until November 9, 2012
- Chairman of Financière Agache Private Equity until April 2011
- Member of the Supervisory Committee of Lyparis SAS until July 2010
- Member of the Supervisory Board of Flo Group* until June 2010
- Director of Veolia Environnement* until May 2010
- Non-voting director on the Supervisory Board of the Caisse Nationale des Caisses d'Epargne until July 2009

Professional address : Montefiore Investment, 17 rue de Miromesnil, 75008 Paris

* Listed company.

Peter Hartman

Board director

Born April 3, 1949

First appointed as a Board director: July 8, 2010.

Expiration date of current term of office: 2013 Shareholders' Meeting

Number of shares held in the company's stock: 12,960

Expertise and professional experience

Peter Hartman is a graduate of the Amsterdam Institute of Technology (Mechanical Engineering).and of the Erasmus University in Rotterdam (Economic Sciences).

In 1973, Mr Hartman joined KLM's Maintenance Division where he occupied various positions including Head of Customer Service, Head of HR and Organization and Head of Maintenance. He became a member of the Board of Managing Directors in his capacity as Chief Operating Officer and Deputy Chief Executive Officer in 1997 before being appointed **President and Chief Executive Officer of KLM** in 2007.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Stork B.V.* (Netherlands)
- Member of the Supervisory Board of Kenya Airways Limited (Kenya)
- Director of Alitalia CAI (Italy)
- Member of the Supervisory Board of Delta Lloyd N.V. (Netherlands)

Directorships and offices head in the last five years and having expired

Non-French companies

- Member of the Supervisory Board of Amsterdam RAI B.V. (Netherlands) until December 2008
- Member of the Supervisory Board of transavia.com (Netherlands) until March 2008

Others

- Member of the Board of Directors of the Rotterdam School of Management (Netherlands) until October 2011
- Member of the Supervisory Board of th Netherlands Board of Tourism and Convention (Netherlands) until June 2010.

Professional address: KLM, AMS/AF, PO Box 7700, 1117 ZL Schiphol Airport

<u>Jaap de Hoop Scheffer</u>
Independent director
Member of the Remuneration Committee

Born April 3, 1948
First appointed as a Board director: July 7, 2011.
Expiration date of current term of office: 2015 Shareholders' Meeting
Number of shares held in the company's stock: 25

Expertise and professional experience

Jaap de Hoop Scheffer, a Dutch national, is a law graduate of Leiden University.

Mr de Hoop Scheffer started his diplomatic career in 1976 and became Private Secretary to the Minister of Foreign Affairs (1980-1986). He then became a member of the Dutch Parliament (1986-2002), leader of the Christian Democratic Alliance (CDA) (1997-2001), the Dutch Minister of Foreign Affairs (2002-2003) and Secretary General of NATO (2004-2009). Since 2009, Mr de Hoop Scheffer has held the **Kooijmanschair for Peace, Justice and Security, Leiden University** (Netherlands).

Other directorships and offices

Non-French entities

- Member of the International Advisory Board of Royal Ten Cate N.V. (Netherlands).
- Chairman of the Supervisory Board of Rijksmuseum (Netherlands).
- Vice-Chairman of the Franco-Dutch Cooperation Council
- Co-President of the Security and Defence Agenda (Brussels)
- Member of the European Council on Foreign Relations (London).

Directorships and offices held in the last five years and having expired

- Secretary General of NATO and Chairman of the North Atlantic Council between 2004 and 2009.

Professional address: Air France-KLM, 2 rue Robert Esnault-Pelterie, 75007 Paris

Alexandre de Juniac
Board director

Born November 10, 1962
First appointed as a Board director: January 11, 2012
Expiration date of current term of office: 2015 Shareholders' Meeting
Number of shares held in the company's stock: 2,000

Expertise and professional experience

Alexandre de Juniac is a graduate of the École Polytechnique de Paris and of the École Nationale d'Administration.

Having begun his career at the Council of State in 1988, Mr de Juniac joined the cabinet of Nicolas Sarkozy at the French Budget Ministry in 1993. Between 1995 and 2008 he occupied various functions in the aeronautical industry (Thomson, Sextant Avionique, Thales). In 2009, he became Chief of Staff to Christine Lagarde, Minister for the Economy, Industry and Employment.

Mr de Juniac has been **Chairman and Chief Executive Officer of Air France** since November 2011**.**

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Chief of Staff to Christine Lagarde, Minister for the Economy, Industry and Employment, between 2009 and 2011
- General Manager for Asia, Africa, the Middle East and Latin America at Thales* between 2008 and 2009
- Senior Vice-President, Thales* in charge of the Aviation Systems Division between 2004 and 2008.

Professional address: Air France, 45 rue de Paris, 95747 Roissy Charles de Gaulle Cedex

Cornelis J.A. van Lede
Independent director
Member of the Audit and Remuneration Committees

Born November 21,1942
First appointed as a Board director: June 24, 2004.
Expiration date of current term of office: 2016 Shareholders' Meeting.
Number of shares held in the company's stock: 1,000

Expertise and professional experience

Cornelis J.A. van Lede, a Dutch national, holds a law degree from Leiden University and an MBA from INSEAD (European Institute of Business Administration).

Mr van Lede worked successively for Shell (1967-1969) and McKinsey (1969-1976) before becoming Chairman and Chief Executive Officer of Koninklijke Nederhorst Bouw B.V between 1977 and 1982. He was President of the Dutch Industry Federation between 1984 and 1991 and Chairman of the Akzo Nobel N.V. Management Board between 1994 and 2003. He was **Chairman of the Supervisory Board of Heineken*** between 2004 and April 2013.

Other directorships and offices

French company
- Director of L'Air Liquide*

Sociétés étrangères
- Member of the Supervisory Board of Philips Electronics (Netherlands)
- Director of DE Master Blenders* since June 2012[1] (Netherlands)

Directorships and offices held in the last five years and having expired

Non-French companies
- Director of Sara Lee Corporation (United States) until June 2012
- Member of the Supervisory Board of Stork B.V.* (Netherlands) until January 2008

Others
- Member of the Board of Directors of INSEAD (Institute of Business Administration) (France) until 2010
- Chairman of the Board of Directors of INSEAD until January 2009

Professional address: Air France-KLM, 2 rue Robert Esnault-Pelterie, 75007 Paris

[1] Sara Lee Corporation was dissolved on June 28, 2012 following a spin-off of two separate companies, one of which is DE Master Blenders.

* Listed company

Board directors representing the French State

Pursuant to article 2 of the decree-law of October 30, 1935, amended by the law of May 15, 2001, in that the French State owns more than 10% of Air France-KLM's share capital, the number of seats reserved for the State representatives within the Board is proportional to the State's shareholding.

These Board directors representing the French State are appointed by ministerial order.

David Azéma

Board director representing the French State until February 20, 2013

Born April 25,1948

First appointed as a Board director: October 1, 2012

Expertise and professional experience

David Azéma is a graduate of the Institut d'Etudes Politiques de Paris and of the Ecole Nationale d'Administration, and holds a Law degree.

Having begun his career at the Court of Auditors, Mr Azéma occupied various positions within the cabinet of Employment Minister, Martine Aubry. In 1993, he joined the SNCF Group where he became Advisor to the Chairman and Director of Subsidiaries and Shareholdings. He was appointed Chairman and Chief Executive Officer of Eurostar Group Ltd in 1999. He then spent six years with Vinci Group (2002-2008), where he became a member of the Executive Committee in 2006. He returned to the SNCF in 2008 where he was appointed Deputy Chief Executive Officer in 2011 then Chairman of the Management Board of Kéolis in June 2012. He has been a **Commissioner for State Holdings** since September 1, 2012.

Other directorships and offices representing the French State

French companies and public institutions

- Director of EDF* since November 9, 2012
- Member of the Areva* Supervisory Board since September 26, 2012
- Director of the Fonds Stratégique d'Investissement since September 26, 2012
- Director of Renault* since September 26, 2012

Directorships and offices held in the last five years and having expired

French companies and public institutions

- Chairman of the Keolis Management Board between June and September 2012
- Deputy Chief Executive Officer of the SNCF Group between October 2011 and June 2012
- Chairman and Chief Executive Officer of SNCF Participations from 2008 to 2012
- Chairman of the SeaFrance Supervisory Board between 2008 and 2012
- Director of Geodis from 2008 to 2012
- Member of the Keolis Supervisory Board between 2008 and 2012
- Chief Executive Officer of Vinci Concessions until 2008 and Director of a number of unlisted companies within the Vinci Group between 2002 and 2008

Professional address: Agence des Participations de l'Etat, Ministère de l'Economie, des Finances et l'Industrie, 139 rue de Bercy, 75572 Paris Cedex 12

* Listed company

Jean-Dominique Comolli
Board director representing the French State (until October 1, 2012 and since January 30, 2013)

Born April 25,1948
First appointed as a Board director: December 14, 2010
Expiration date of current term of office: January 2017

Expertise and professional experience

Jean-Dominique Comolli is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a Masters degree in Economic Sciences.

He began his career in 1977 as a civil administrator before becoming a technical advisor at the French Ministry of Budget under Laurent Fabius, then a member of Prime Minister Pierre Mauroy's staff. He occupied various positions within the Ministry of Budget before being appointed Director of Customs in 1989. Between 1993 and 1999, he was Chairman and Chief Executive Officer of Seita and Vice-Chairman of Altadis until 2005. In September 2010, he was appointed Commissioner for State Holdings, a position he was to occupy until October 2012. He is currently an **Honorary Civil Service Administrator**.

Other directorships and offices
French companies and public institutions
- Director of the Établissement de l'Opéra Comique

Directorships and offices held in the last five years and having expired
French companies and public institutions
- Director of EDF* until November 2012
- Director of the SNCF until October 2012
- Member of the Areva* Supervisory Board until September 2012
- Director of France Telecom* until September 2012
- Director of the Fonds Stratégique d'Investissement until September 2012
- Chairman of the Board of Directors of Seita until September 2010
- Director of Casino* until September 2010
- Director of Pernod Ricard* until September 2010
- Director of Crédit Agricole Corporate & Investment Bank until August 2010

Non-French companies
- Chairman of the Board of Directors of Altadis (Spain) until September 2010
- Chairman of the Supervisory Board of Altadis Maroc (Morocco) until September 2010
- Vice-Chairman of the Board of Directors of Imperial Tobacco* (United Kingdom) Board of Directors until September 2010
- Director of Logista (Spain) until October 2008
- Director of Aldeasa (Spain) until April 2008

Professional address: Air France-KLM, 2 rue Robert Esnault-Pelterie, 75007 Paris

* Listed company

Claude Gressier
Board director representing the French State until February 22, 2013
Member of the Audit Committee

Born July 2, 1943
First appointed as a Board director: June 24, 2004.

Expertise and professional experience

Claude Gressier is a graduate of the École Polytechnique, attended the Institut des Sciences Politiques de Paris and is qualified as a general public works engineer.

Mr Gressier spent most of his career within the Territorial Administration and the French Ministry of Transport. Having been Chairman and Chief Executive Officer of the SNCF-Participations Group (1994-1996) and of Géodis (1996-1997), in 1988 he was appointed the Director of Maritime Transport, Ports and the Coast at the Ministry of Equipment, Transport and Housing. In 2001, he became Chairman of the Economic Affairs section in the Counsel General for Public Works.

Since 2010, he has been a **policy officer attached to the Managing Director for Infrastructure, Transport and Maritime Affairs at the Ministry of Ecology, Sustainable Development, Transport and Housing.**

Other directorships and offices representing the French State	**Directorships and offices held in the last five years and having expired**
Public institution	***Public institution***
• Director of the SNCF	• Representative of the Counsel General for Public Works on the Board of Directors of the Établissement des Autoroutes de France until December 2008

Professional address: Ministère de l'Ecologie, Grande Arche de la Défense, 92055 Paris La Défense

Marie-Christine Saragosse

Board director representing the French State until January 29, 2013

Born March 24, 1960

First appointed as a Board director: July 27, 2011.

Expertise and professional experience

Marie-Christine Saragosse is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

Ms Saragosse began her career at the French Ministry of Communication then served in the cabinet of the Deputy Minister for Francophonie. She then joined the Ministry of Foreign Affairs before moving to TV5 in 1997 where, in 1998, she became Chief Executive Officer then Vice-Chairman in 2001. Having managed the Cultural Cooperation and French Language Promotion department at the French Ministry of Foreign Affairs for two years, she was appointed Chief Executive Officer of TV5Monde in May 2008. Ms Saragosse has been **Chairman and Chief Executive Officer of French External Audiovisual** since October 6, 2012.

Directorships and offices held in the last five years and having expired

Public institutions

- Chief Executive Officer of TV5Monde until December 2012
- Director for Cultural Cooperation and French Language Promotion at the French Ministry of Foreign Affairs between 2006 and 2008
- Member of the Board of Directors of the Agency for French Teaching Abroad from 2006 to 2008
- Member of the Board of Directors of Cultures Frances between 2006 and 2008.

Professional address: Audiovisuel Extérieur de la France, 80 rue Camille Desmoulins, 92130 Issy-Les-Moulineaux

Board directors representing the employee shareholders

Pursuant to articles L.6411-9 of the Code of Transport and article 17 of the bylaws, in that the employees of the subsidiaries of Air France-KLM own more than 2% of Air France-KLM's share capital, there are two representatives of the employee shareholders within the Board:

- one representative belonging to the flight deck crew category of staff;
- one representative belonging to the other employees category of staff.

These Board directors representing the employee shareholders are appointed by the Shareholders' Meeting having been proposed by the shareholders referred to in article L.225-102 of the French Commercial Code.

Christian Magne
Board director representing the Ground Staff and Cabin Crew shareholders
Member of the Audit Committee

Born August 20, 1952
First appointed as a Board director: September 14, 2001
Expiration date of current term of office: 2014 Shareholders' Meeting
Number of shares held in the company's stock: 156 shares and 392 FCPE units.

Expertise and professional experience
Christian Magne joined Air France in 1974 and occupied various positions linked to crew management, the establishment of rosters and flight plans, the establishment of budgets and management control, the establishment of cost prices and the monitoring of IT methods and applications. He has also exercized numerous functions linked to defending the interests of Air France employees. He is currently a **Finance Executive.**

Professional address: Air France, 45, rue de Paris, 95747 Roissy Charles de Gaulle Cedex.

Bernard Pédamon
Board director representing the Flight Deck Crew shareholders
Member of the Audit Committee

Born July 10, 1961
First appointed as a Board director: July 8, 2010.
Expiration date of current term of office: 2014 Shareholders' Meeting
Number of shares held in the company's stock: 2,959 shares and 8,075 FCPE units.

Expertise and professional experience
Bernard Pédamon is a graduate of the Science Faculty of Paris Orsay University and holds a Masters degree (formerly DESS) in International Transport from the University of Paris I.
Having worked in the United States and Africa, Mr Pédamon joined Air France in 1988 as a Fokker 27 pilot before moving to the Boeing B747-400. In 1999, he became an Airbus A320 Flight Captain then, in 2006, **Flight Capital on the Boeing B777**.

Directorships and offices held in the last five years and having expired
French company
- Director of Air France representing the flight deck crew until July 2010.

Professional address: Air France, 45, rue de Paris, 95747 Roissy Charles de Gaulle Cedex

Secretary for the Board of Directors

Jean-Marc Bardy
Legal Counsel

- **Composition of the Board of Directors at December 31, 2012**

Board director *(Age at December 31, 2012)*	**Functions within the Board of Directors**	**Date first appointed to the Group**	**Date appointed to the Air France-KLM Board**	**Date of expiry of mandate**	**Principal current position**
Jean-Cyril Spinetta *(69 years)*	Chairman of the Board of Directors and Chief Executive Officer	September 23, 1997	September 15, 2004	2014 AGM	Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM
Leo van Wijk *(66 years)*	Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer	June 24, 2004	September 15, 2004	2016 AGM	Vice-Chairman of the Board of Directors and Deputy Chief Executive Officer of Air France-KLM
Maryse Aulagnon* *(63 years)*	Independent director Chair of the Audit Committee	July 8, 2010	July 8, 2010	2013 AGM	Chair and Chief Executive Officer of Affine
David Azéma* [(1)] *(52 years)*	Director representing the French State	October 1, 2012	October 1, 2012	February 20, 2013	Commissioner for State Holdings
Patricia Barbizet* *(57 years)*	Independent director Member of the Appointments and Remuneration Committees	January 3, 2003	September 15, 2004	2014 AGM	Chief Executive Officer and Director of Artémis
Jean-François Dehecq* *(72 years)*	Independent director Chairman of the Appointments Committee and member of the Audit Committee	January 25, 1995	September 15, 2004	2016 AGM	Honorary Chairman of Sanofi-Aventis
Jean-Marc Espalioux* *(60 years)*	Independent director Chairman of the Remuneration Committee and member of the Appointments Committee	September 14, 2001	September 15, 2004	2013 AGM	Partner and Executive Chairman of Montefiore Investment
Claude Gressier **[(2)] *(69 years)*	Director representing the French State Member of the Audit Committee	June 24, 2004	September 15, 2004	February 22, 2013	Honorary General Public Works Engineer
Peter Hartman *(63 years)*	Director	July 8, 2010	July 8, 2010	2013 AGM	President and Chief Executive Officer of KLM
Jaap de Hoop Scheffer* *(64 years)*	Independent director Member of the Remuneration Committee	July 7, 2011	July 7, 2011	2015 AGM	Kooijmanschair for Peace, Justice and Security, Leiden University (Netherlands)
Alexandre de Juniac *(50 years)*	Director	November 16, 2011	January 11, 2012	2015 AGM	Chairman and Chief Executive Officer of Air France
Cornelis van Lede*	Independent director	June 24,	September	2016 AGM	Chairman of the Heineken

(70 years)	Member of the Audit and Appointments Committees	2004	15, 2004		Supervisory Board
Christian Magne *(60 years)*	Director representing the employee shareholders Member of the Audit Committee	September 14, 2001	September 15, 2004	2014 AGM	Finance Executive
Bernard Pédamon *(51 years)*	Director representing the employee shareholders Member of the Audit Committee	July 8, 2010	July 8, 2010	2014 AGM	Boeing 777 Flight Captain
Marie-Christine Saragosse* *[(3)]* *(52 years)*	Director representing the French State	July 27, 2011	July 27, 2011	January 29, 2013	Chair and Chief Executive Officer of French Exernal Audiovisual

** Board directors deemed to be independent*
*** Board directors representing the French State appointed by ministerial order*
[(1)] Appointed by a ministerial order dated October 1, 2012; resigned on February 20, 2013
[(2)] Resigned on February 22, 2013
[(3)] Resigned on January 29, 2013 and was replaced by Mr Jean-Dominque Comolli on January 30, 2013

1.1.2 Missions of the Board of Directors

The Board of Directors determines the orientations of the company's activity and ensures their implementation. Subject to the powers conferred upon it, the Board is responsible for any question regarding the proper running of the company and settles, in its deliberations, the matters which concern it. In addition, the Board undertakes the monitoring and verification it considers appropriate.

The Board deliberates on any matters falling within its legal and regulatory remit. In addition, the Board approves the:

- Group's strategic orientations and reviews them as a whole at least once a year;
- Group's significant investment projects;
- Significant operations that are liable to affect the Group's strategy and modify its financial structure or scope of activity; the Chairman and Chief Executive Officer is responsible for determining whether an operation is significant in nature.

1.1.3 Organization of the Board of Directors

Reunification of the functions of Chairman and Chief Executive Officer

On October 17, 2011, the Appointments Committee recommended to the Board of Directors the proposed orientations relating to the organization and governance of the Air France-KLM Group and the appointment of its senior executives. These orientations were aimed at improving the Group's operating and financial performance within a context marked by economic uncertainty and an increasingly competitive environment.

The Board of Directors adopted the proposals of the Committee which recommended that the:

- implementation of the Group's new governance be postponed until 2013 to give priority to reinstating and improving the results of Air France and KLM;

- strategic and operational coordination between the Air France and KLM Groups be reinforced by appointing Mr Spinetta and Mr van Wijk as, respectively, Chairman and Chief Executive Officer and Deputy Chief Executive Officer of Air France-KLM;
- appointment of Mr Alexandre de Juniac as Chairman and Chief Executive Officer of Air France be recommended to the Air France Board of Directors.

The reunification of the functions of Chairman of the Board of Directors and Chief Executive Officer, which had previously been separate, enables everyone's energies to be mobilized around a single function aimed at improving the Company's levels of performance. The consolidation of a team united around a sole individual exercising a mandate as Chairman and Chief Executive Office is all the more key within the current economic environment.

The Chairman and Chief Executive Officer is appointed by the Board of Directors. He is invested with the broadest powers to act in the company's name in all circumstances within the limits set forth in the internal regulations of the Board of Directors, which stipulate that the Chairman and Chief Executive Officer must obtain prior approval from the Board to perform the following operations when their amount is equal to or exceeds €150 million:

- acquire or sell all interests in all companies formed or to be formed, participate in the formation of all companies, groups or organizations, subscribe to all issues of shares, units or bonds; and
- grant all exchanges, with or without balancing cash adjustments, on the company's assets, stocks or securities.

Internal regulations of the Board of Directors

On June 17, 2004, the Board of Directors adopted a set of internal regulations based on the corporate governance principles established by the AFEP and MEDEF. In addition to the limitations on the powers of the Chairman and Chief Executive Officer, these internal regulations specify the terms for the organization and functioning of the Board, and establish the prerogatives and duties of Board directors in terms of the rules on reporting, disclosure, confidentiality and conflicts of interest. They also determine the powers of each of the specialized committees established within the Board.

The internal regulations are regularly updated. They were, in particular, modified by the Board of Directors meeting of November 9, 2011, notably with regard to the section governing the composition and powers of the Audit Committee (in line with the new legal requirements arising from the transposition, in December 2008, of European Directive no.2006/43/EC of May 17, 2006 (8th European Directive) and the AMF's recommendations in its *Final Report on Audit Committees* of July 22, 2010) and to reiterate some aspects linked to respect of the stock market compliance rules applying to the company's Board directors.

The internal regulations are available on the website http://www.airfranceklm-finance.com (Corporate governance section).

Independence of the Board directors

Having examined the situation of each Board director in the light of the criteria stipulated by the AFEP-MEDEF Code, the Board of Directors adopted the following position:

- nine of the fifteen directors are either representatives of the French State, representatives of the employee shareholders, or senior executives of Air France-KLM, Air France and KLM and, in this capacity, may not be deemed to be independent;
- the six remaining directors (Ms Aulagnon, Ms Barbizet, Mr Dehecq, Mr Espalioux, Mr de Hoop Scheffer and Mr van Lede) may be deemed to be independent in that:
  - none of these six directors appointed by the Shareholders' Meeting has a relationship with the company, its Group or its management that is such as to color their judgement (aside from the fact that the candidature of some of these individuals had been proposed to the Shareholders' Meeting either by KLM or by the Dutch government pursuant to the agreements signed in October 2003),
  - Mr Dehecq's and Mr Espalioux's terms of office are deemed to begin in 2004, when Air France-KLM modified its corporate purpose to become the holding company for the Group.
- given the above, the following may be deemed to be independent:
  - three of the six members of the Audit Committee, including its Chair, and
  - all the members of the Appointments and Remuneration Committees.

The Board considered that all the Board directors had competences and professional experience that are useful to the company, irrespective of whether they are deemed to be independent in the light of the AFEP-MEDEF criteria.

Corporate governance principles and application of the AFEP-MEDEF Code

The Board of Directors operates in accordance with the corporate governance principles in force in France as presented in the AFEP-MEDEF Corporate Governance Code updated in April 2010 and available on the MEDEF website (www.medef.com, corporate governance section). The following table shows the AFEP-MEDEF Code recommendations that have not been applied and the reasons for this.

Recommendations of the AFEP-MEDEF Code not applied	Reasons
Proportion of independent members of the Board of Directors and the Audit Committee	
'The independent directors should account for half the members of the Board in widely-held corporations and without controlling shareholders" (§ 8.2 of the AFEP-MEDEF Code) *'The proportion of independent directors on the audit committee should be at least equal to two-thirds'* (§ 14.1 of the AFEP-MEDEF Code)	The Board of Directors comprises 15 members, six of whom are deemed to be independent, i.e. a 40% proportion. The Audit Committee comprises six members, three of whom are deemed to be independent including its Chair, i.e. a 50% proportion. These exemptions are notably explained by the ownership structure of Air France-KLM (and, in particular, the presence of the French State and employee shareholders in the share capital) as well as by the specific rules governing the appointment of a proportion of the Board directors. Nine Board directors are either representatives of the French State, representatives of the employee shareholders, executives of Air-France-KLM, Air France or KLM and, in this capacity, may not be deemed to be independent.
Criteria governing whether Board directors are deemed to be independent if they have exercised their mandates for more than 12 years	
'The criteria to be reviewed by the committee and the Board in order to have a director qualify as independent and to prevent risks of conflicts of interest betwen the director and the management, corporation or its Group are the following: […] Not to have been a director of the corporation for more than twelve years' (§ 8.4 of the AFEP-MEDEF Code)	Mr Dehecq's and Mr Espalioux's terms of office are deemed to begin in 2004, when Air France-KLM modified its corporate purpose to become the holding company for the Group.

Compliance and ethics

The Board of Directors has adopted a set of Compliance Rules and a Financial Code of Ethics. The Compliance Rules, adopted by the Board of Directors on March 25, 2004, and as amended on November 9, 2011, remind company officers, senior executives, anyone with close personal ties with the latter and employees of the company with access to inside information that they are required to refrain from trading in the company's shares for a minimum of thirty calendar days prior to the publication of the full annual, half-year and quarterly financial statements and on the day of their publication. They also reiterate the specific obligations (particularly relating to access to inside information) of Board directors pursuant to the applicable laws and regulations. The Financial Code of Ethics defines the principles with which the principal executives of the company responsible for the disclosure of financial information must comply.

In the past five years, to the company's knowledge, no Board director has been subject to a fraud or other criminal conviction or to public sanction by the statutory or regulatory authorities, associated with a bankruptcy, a sequestration of goods or liquidation nor has, finally, been prevented by a court from acting as a member of a management or supervisory body of an issuer or from involvement in managing the business of an issuer. On January 9, 2012, the Paris bankruptcy court ruled on the compulsory liquidation of SeaFrance, a company for which Mr Azéma had been Chairman of the Supervisory Board since 2008.

Conflicts of interest

To the company's knowledge, none of the Board members are related and there are no conflicts of interest between the duties of the members of the Board of Directors with regard to the company and their private interests or other duties. Note, however, that the French State, which held 15.9% of the Air France-KLM share capital as of December 31, 2012, also holds 52.1% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

With the exception of the agreements concluded in October 2003 between Air France, KLM and the Dutch government, there is no arrangement or agreement between the main shareholders, customers, suppliers or other parties, in accordance with which a member of the Board of Directors has been appointed.

There are no service level contracts binding any member of the Board of Directors to Air France-KLM or one of its subsidiaries involving the granting of benefits under the terms of the contract.

The Board directors have not accepted any restrictions concerning the sale of their shareholdings in Air France-KLM.

1.1.4 Functioning of the Board of Directors

The minimum number of Board of Directors meetings is set at five per year. Prior to Board meetings, a dossier is sent to Board members containing the agenda for the meeting together with any summaries or, where appropriate, full documentation on any issues requiring special analysis and/or prior consideration. The matters raised in meetings are usually the subject of presentations, followed by discussion.

Board meetings are conducted in French; however, individual directors may speak in French or English with simultaneous interpretation.

Secretarial services for the Board of Directors are provided by the Legal Counsel.

Board activity during the 2012 financial year

During the 2012 financial year, the Board of Directors met nine times, including one extraordinary meeting (seven meetings in 2011 over a nine-month financial year). The Board meetings averaged more than three and a half hours and the attendance rate for directors was 94.07% (87.62% in 2011).

During these meetings the following matters were notably addressed:

- interim and annual financial statements,
- regular status reports on the Group's activity and financial situation,
- monitoring of the *Transform 2015* industrial and strategic project,
- restructuring of the short and medium-haul activities and the action plan for the French Regional Division,
- trans-Atlantic joint-venture with Delta,
- alliance strategy,
- reorganization of the Group,
- plain vanilla bond issue,
- change in Air France's shareholding in Amadeus,
- status report on aviation safety,
- compensation of the executive directors.

The Board of Directors held two meetings during the year devoted to the Group's strategy in the different business lines (passenger, cargo and maintenance) in January and October 2012. It reviewed, in particular, the Group's three-year transformation plan (2012-14) and the implementation of the three priorities it had set in November 2011: restoring competitiveness through cost-cutting, restructuring the short- and medium-haul operations and rapidly reducing debt.

Evaluation of the functioning of the Board of Directors and its Committees

During the 2012 financial year, the Board of Directors commissioned an independent firm to conduct an evaluation of its functioning and that of its Committees.

A number of themes were addressed during this evaluation:

- organization and functioning of the Board of Directors and its Committees;
- effectiveness of the Board of Directors;
- principal changes and areas requiring improvement.

The results of the interviews with Board directors were handled under the seal of anonymity and were the subject of a presentation to and discussion by the Board of Directors.

Generally speaking, the operational functioning of the Board and its Committees had improved since the last evaluation carried out by an independent firm in 2010 and the self-evaluations carried out in 2011 and 2012 thanks, notably, to the quality of the information and discussions, the transparency of the General Management, the level of the Board's involvement in defining the strategy, and the particular attention paid to the customer, the product and the change in the Group's organization with the gradual integration of a number of functions at the holding company level.

Some additional improvements were suggested, specifically in terms of the format of presentations (which could be more condensed and analytical), the procedure for monitoring the implementation of decisions taken by the Board of Directors, the information communicated on human resources matters and the change in the composition of the management teams within the principal subsidiaries.

Lastly, following the recommended improvements identified by the Board of Directors during the previous evaluation, the Board of Directors meetings held during 2012 put particular emphasis on the new challenges facing the Group and its priorities (restoring competitiveness through cost-cutting, restructuring the short- and medium-haul operations and rapidly reducing debt). A regular status report on the *Transform 2015* plan was thus made to the Board of Directors and a dashboard comprising a series of key financial, operational and qualititative indicators was communicated to the Board every quarter.

For developments with respect to the composition of the Board of Directors, see paragraph *The Appointments Committee* below.

Regulated agreements and commitments

On December 6, 2012, pursuant to the authorization granted by the Board of Directors on October 30, 2012, Air France-KLM launched a €500 million issue of five-year bonds, with Air France and KLM as guarantors. To this effect, the Board of Directors authorized the signature, between the companies Air France-KLM, Air France and KLM, of a guarantee agreement, an agreement in consideration for the grant of this guarantee, an agreement on the credit facility and an underwriting agreement covering the aforementioned issue.

These agreements together with the commitments and agreements approved during previous financial years which continued to apply during the 2012 financial year are outlined in the Statutory Auditors' report on the regulated agreements and commitments.

Furthermore, on December 17, 2012, on the basis that they no longer qualify as regulated agreements, the Board of Directors decided to reclassify the intra-Group agreements signed on October 5, 2004 (service agreement, cash agreement, domiciliation agreement) between Air France-KLM and Air France under ordinary agreements signed subject to normal conditions. The Statutory Auditors were informed of this reclassification.

1.1.5 The Board of Directors Committees

The Audit Committee

Composition

Since July 8, 2010, the Audit Committee has comprised the following six members: Maryse Aulagnon (Chair of the Committee), Jean-François Dehecq, Claude Gressier, Cornelis van Lede, Christian Magne and Bernard Pédamon.

The Board of Directors meeting of November 9, 2011 considered that, pursuant to the provisions of article L.823-19 of the French Commercial Code, the company's Audit Committee comprises at least one independent member with special competence in finance or accounting in the person of Ms Aulagnon. The meeting deemed that Ms Aulagnon's educational background and professional experience fulfil this requirement for special financial competence, and that she has no relationships with the company, its Group or management that are such as to color her judgement.

The five other Committee members also have financial competencies which guided the Board's choice of members comprising the Audit Committee.

The principal executives responsible for accounting, legal affairs, finance, internal control and internal audit of Air France-KLM and the subsidiaries Air France and KLM are also invited to attend meetings in an advisory capacity.

The Statutory Auditors attended all the Audit Committee meetings taking place during the financial year. At the request of the Chair of the Committee, they were able to consult with Committee members outside the presence of the Group's senior executives.

Missions

The Audit Committee's principal missions are to review the interim and annual consolidated financial statements to inform the Board of Directors of their content, ensure that they are reliable and exhaustive and that the information they contain including the forecasts provided to shareholders and the market meets high standards of quality, and oversee the auditing of the annual financial statements.

In particular, the Audit Committee is responsible for the:

- consolidation scope
- relevance and consistency of the accounting methods used to draw up the financial statements;
- principal estimates made by management;
- principal financial risks and material off-balance-sheet commitments;
- comments and recommendations made by the Statutory Auditors and, if applicable, any significant adjustments resulting from audits.

The Audit Committee monitors the effectiveness of the internal control and risk management procedures and, in this capacity, reviews in particular the program and results of internal auditing.

It is responsible for selecting the incumbent and deputy Statutory Auditors and submits the names of the proposed firms to the Board of Directors before their appointment by the Shareholders' Meeting. It verifies the independence and the quality of their work, approves the fees of the Statutory Auditors, issues prior approval for some services provided by them and ascertains that the joint system of Statutory Auditors is effective.

The Audit Committee has access to the resources required to fulfil its mission and may, notably, be assisted by persons from outside the company.

Activity

During the 2012 financial year, the Audit Committee met six times (twice in 2011 over a nine-month financial year) with an attendance rate for members of 83.33% (91.67% in 2011 over a nine-month financial year). The meetings lasted an average of three hours. The following matters were notably reviewed by the Audit Committee during the 2012 financial year.

Review of the financial statements

The Committee reviewed the half-year and annual financial statements prior to their presentation to the Board of Directors. It conducted a detailed examination of the Statutory Auditors' report on the half-year and annual financial statements as well as the significant points noted in audits.

Internal control and risk management

At each of its meetings, the Committee reviewed the status of internal control and internal audit. Although the company is no longer required to comply with the obligations of the Sarbanes-Oxley Act, it continues to maintain high standards of financial disclosure and corporate governance, and a rigorous level of internal control across the Group.

Risk assessment

Every quarter, the Audit Committee reviewed the summary sheet of all the operating and/or strategic risks.

Other

The Audit Committee also reviewed the:

- fuel hedging strategy;
- interest rate and currency exchange rate risk management strategy;
- bond issue;
- pension commitments – actuarial assumptions;
- change in the financial situation of the KLM pension funds
- comparative study of Air France/KLM costs.

The Remuneration Committee

Composition

Since July 8, 2010, the Remuneration Committee has comprised the following three members: Jean-Marc Espalioux (Chairman of the Committee), Patricia Barbizet and Leo van Wijk. Pursuant to the recommendations of the AFEP-MEDEF Corporate Governance Code, during its meeting of March 7, 2012, the Board of Directors decided to replace Leo van Wijk, an executive director since October 17, 2011, with Jaap de Hoop Scheffer.

Missions

The Remuneration Committee is primarily responsible for formulating recommendations on the level of and changes to the remuneration of the executive directors. It may also be asked to comment on the compensation of the Group's senior executives, as well as on any stock subscription or purchase option plan policies.

Activity

The Remuneration Committee met once during the 2012 financial year (three meetings in 2011 over a nine-month financial year) and the attendance rate for members was 100%, as in 2011.

The Remuneration Committee submitted a number of proposals to the Board of Directors, which were subsequently adopted, relating to the modalities for the payment of directors' fees, and the principles and amounts of the fixed and variable compensation for the executive directors (*see paragraph 1.1.6 –*

Compensation of the Company Officers below). It was also informed of the policy regarding the compensation of non-executive directors of Air France-KLM, Air France and KLM.

The Appointments Committee

Composition

Since July 8, 2010, the Appointments Committee has comprised the following four members: Jean-François Dehecq (Chairman of the Committee), Patricia Barbizet, Jean-Marc Espalioux and Cornelis van Lede.

Missions

The Appointments Committee is responsible for proposing candidates to serve as members of the Board of Directors as well as to replace the executive directors, particularly in the event of unforeseen vacancies.

Activity

During the 2012 financial year, the Appointments Committee met once (eight times in 2011 over a nine-month financial year) with an attendance rate for directors of 100%, as in 2011. The Appointments Committee notably convened to submit proposals to the Board of Directors regarding the renewal of the mandates of three Board Directors (Leo van Wijk, Cornelis van Lede and Jean-François Dehecq) by the Shareholders' Meeting of May 31, 2012. The Committee took the view that, within a context of economic crisis and in view of the implementation of the *Transform 2015* plan, the experience of the relevant Board directors was precious for the Group.

The Committee also recommended that the Board of Directors change the composition of the Remuneration Committee to come into line with the AFEP-MEDEF Corporate Governance Code, following the appointment of Mr van Wijk as Deputy Chief Executive Officer. The AFEP-MEDEF Code stipulates that the Remuneration Committee must not include executive directors of the company.

1.1.6 Compensation of the company officers

Compensation for Board directors

Board directors' fee modalities

Board directors receive fees whose maximum amount was set at €800,000 by the Shareholders' Meeting of June 24, 2004.

The modalities for the payment of Board directors' fees applied in respect of the 2012 financial year were those adopted by the Board of Directors during its meeting of June 27, 2007 following a recommendation from the Remuneration Committee and are as follows:

- €20,000 as fixed compensation;
- €20,000 as variable compensation based on Board of Directors and Shareholders' Meeting attendance;
- €7,000 of additional directors' fees for each non-resident director.

Committee members receive additional fees

- for the Audit Committee, the Chairman and members receive, respectively, fees of €12,000 and €8,000;
- for the other Committees, the Chairman and members receive, respectively, €7,500 and €5,000.

In privatized companies, the representatives of the French State are entitled to directors' fees, which are paid directly to the French Treasury.

To contribute to the efforts required within the framework of the Transform 2015 recovery plan, the Board directors decided to waive half their directors' fees in respect of the 2012 financial year.

Modalities for the compensation paid to directors other than the executive directors

The directors' fees and other compensation paid in respect of the 2012 and 2011 financial years were as follows. Note that, with the exception of Mr Hartman and Mr de Juniac, no non-executive directors received compensation other than directors' fees:

	Rate of participation in Board meetings and the Shareholders' Meeting (2012 Financial Year)	Amount of compensation paid (in €)	
		In respect of the 2012 Financial Year*	In respect of the 2011 Financial Year (9 months)
Maryse Aulagnon	100%	26,000	33,375
David Azéma (1)	100%	4,000 (2)	N/A
Patricia Barbizet	90%	24,000	33,750
Frits Bolkestein (3)	N/A	N/A	17,625
Jean-Dominique Comolli (4)	100%	16,000 (2)	30,000 (2)
Jean-François Dehecq	100%	27,750	41,625
Jean-Marc Espalioux	90%	25,250	37,500
Claude Gressier	100%	24,000 (2)	34,125 (2)
Peter Hartman	100%	1,252,334	680,932
Directors' fees		23,500 (5)	35,250 (5)
Other compensation		1,228,834(6)	645,682
Jaap de Hoop Scheffer (7)	100%	26,000	17,625
Philippe Josse (8)	N/A	N/A	9,375 (2)
Alexandre de Juniac (9)	100%	735,000	N/A
Directors' fees		0	
Other compensation		735,000(10)	
Cornelis J.A. van Lede	80%	28,000	43,125
Christian Magne	100%	24,000	36,000
Bernard Pédamon	100%	24,000	36,000
Marie-Christine Saragosse (11)	60%	16,000 (2)	13,125 (2)
Total		2,252,334	**1,064,182**
Of which directors' fees		*288,500*	***418,500***
Of which other compensation		*1,963,834*	***645,682***

* To participate in the effort required within the framework of the Transform 2015 recovery plan, the Board directors decided to waive half their directors' fees in respect of the 2012 financial year.

(1) Director since October 1, 2012
(2) Amount paid to the French Treasury
(3) Director until July 7, 2011
(4) Director until October 1, 2012
(5) Amount paid to KLM
(6) In his capacity as President and Chief Executive Officer of KLM, Mr Hartman received total compensation of €1,228,834 corresponding to a fixed portion of €731,449 and a variable portion of €497,385 in respect of the 2012 financial year.
(7) Director since July 7, 2011
(8) Director until July 27, 2011
(9) Director since January 11, 2012. He does not receive directors' fees.

(10) In his capacity as Chairman and Chief Executive Officer of Air France, the Board of Directors granted Mr de Juniac fixed compensation of €600,000 and a variable portion of €270,000 in respect of the 2012 financial year. Mr de Juniac waived half of his variable compensation in respect of 2012 to contribute to the recovery efforts at Air France. He thus received total compensation of €735,000 in respect of the 2012 financial year.

(11) Director from July 27, 2011 until January 29, 2013.

Compensation of the executive directors

In line with the recommendations of the Remuneration Committee, for the period from October 17, 2011:

Chairman and Chief Executive Officer

The Board of Directors decided to grant the Chairman and Chief Executive Officer a fixed compensation, with no variable portion. Despite the reunification of the functions of Chairman and Chief Executive Officer, this compensation is identical to the compensation granted to Mr Spinetta in his capacity as Chairman of the Board of Directors until October 17, 2011.

Deputy Chief Executive Officer

The Board of Directors decided to grant the Deputy Chief Executive Officer a fixed compensation, with no variable portion.

The Board of Directors also decided that the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer would not receive directors' fees in addition to their compensation.

Furthermore, the latter receive no other form of compensation from Air France or KLM.

Compensation of Mr Spinetta

In his capacity as Chairman and Chief Executive Officer, Mr Spinetta receives annual compensation of €200,000 comprised exclusively of a fixed portion, unchanged since 2009.

No variable compensation or directors' fees are due in addition to this fixed annual compensation.

Summary of Mr Spinetta's compensation in respect of the 2012 financial year

In respect of the 2012 financial year, Mr Spinetta's total compensation thus amounted to €200,000.

- **Summary table of the compensation, options and shares granted to Jean-Cyril Spinetta**

(In €)	**2012 Financial Year**	**2011 Financial Year (9 months) ***
Compensation due in respect of the financial year	200,000	150,000
Value of the options granted during the financial year	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A
Total	**200,000**	150,000
* *Nine-month financial year following the change in opening and closing dates for the financial year decided by the Shareholders' Meeting of July 7, 2011*		

- **Summary table of the gross compensation due to Jean-Cyril Spinetta**

(In €)	**Fixed compensation**	**Variable compensation**	**Exceptional compensation**	**Directors' fees**	**Benefits in kind**	**Total**
Amounts due in respect of the 2012 financial year	200,000	0	0	0	0	200,000
*Reminder of 2011 (9 months) **	*150,000*	*0*	*0*	*0*	*0*	*150,000*

** Nine-month financial year following the change in opening and closing dates for the financial year decided by the Shareholders' Meeting of July 7, 2011.*

In line with the recommendation of the *Autorité des Marchés Financiers* of December 22, 2008, the table below shows the amounts paid during the financial year.

- **Summary table of the gross compensation paid to Jean-Cyril Spinetta**

(In €)	**Fixed compensation (1)**	**Variable compensation**	**Exceptional compensation**	**Directors' fees (2)**	**Benefits in kind**	**Total (1)**
Amounts paid during the 2012 financial year	200,000	0	0	0	0	200,000
*Reminder of 2011 (9 months) **	*137,520*	*0*	*0*	*0*	*0*	*137,520*

** Nine-month financial year following the change in opening and closing dates for the financial year decided by the Shareholders' Meeting of July 7, 2011.*

(1) Amount after the "Air France-KLM shares-for-salary exchange offering". In April 2005, Mr Spinetta subscribed for the "Air France-KLM shares-for-salary exchange offering", made by the French State to Air France employees on the sale of part of its shareholding. Given Mr Spinetta's subscription for 65,240 shares in the "Air France-KLM shares-for-salary exchange offering", the fixed compensation paid to Mr Spinetta during the 2011 financial year amounted to €137,520. Note that the deductions made from Mr Spinetta's compensation in respect of the "Air France-KLM shares-for-salary offering" terminated on April 30, 2011.

(2) Since January 1, 2009, Mr Spinetta has no longer received directors' fees.

Compensation paid to Mr van Wijk

At its meeting of January 11, 2012, the Board of Directors decided to set Mr van Wijk's annual compensation in his capacity as Deputy Chief Executive Officer at €150,000.

No variable portion or directors' fees are due addition to this fixed compensation.

- **Summary table of the compensation, options and shares granted to Leo van Wijk**

(In €)	**2012 Financial Year**	**2011 Financial Year (9 months) * (1)**
Compensation due in respect of the financial year	150,000	62,719
Value of the options granted during the financial year	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A

Total					150,000	**62,719**

** Nine-month financial year following the change in opening and closing dates for the financial year decided by the Shareholders' Meeting of July 7, 2011.*

(1) Corresponding to the directors' fees (€31,469) due for the period between April 1 and October 17, 2011 and the fixed compensation due for the period between October 17, 2011 and December 31, 2011.

- **Summary table of the gross compensation due to Leo van Wijk**

(In €)	**Fixed compensation**	**Variable compensation**	**Exceptional compensation**	**Directors' fees (2)**	**Benefits inkind**	**Total**
Amounts due in respect of the 2012 financial year	150,000	0	0	0	0	150,000
*Reminder of 2011 (9 months) **	*31,250 (1)*	*0*	*0*	*31,469*	*0*	*62,719*

** Nine-month financial year following the change in opening and closing dates for the financial year decided by the Shareholders' Meeting of July 7, 2011.*

(1) Fixed compensation due for the period between October 17 and December 31, 2011, paid as of the decision of the Board of Directors on January 11, 2012.

(2) Since October 17, 2011, the date on which he was appointed an executive director, Mr van Wijk has no longer received directors' fees.

In line with the recommendation of the *Autorité des Marchés Financiers* of December 22, 2008, the following table shows the amounts paid during the financial year, the directors' fees being due in respect of the previous financial year.

- **Summary table of the gross compensation paid to Leo van Wijk**

(In €)	**Fixed compensation**	**Variable compensation**	**Exceptional compensation**	**Directors' fees (2)**	**Benefits in kind**	**Total**
Amounts paid during the 2012 financial year	181,250 (1)	0	0	31,469	0	212,719
*Reminder of 2011 (9 months) **	*0*	*0*	*0*	*47,000*	0	*47,000*

** Nine-month financial year following the change in opening and closing dates for the financial year decided by the Shareholders' Meeting of July 7, 2011.*

(1) €31,250 paid in January 2012 in respect of the 2011 financial year and €150,000 paid in 2012 in respect of the 2012 financial year.

(2) Since October 17, 2011, the date on which he was appointed an executive director, Mr van Wijk has no longer received directors' fees.

Other commitments made in respect of the executive directors

As regards the *commitments of any nature made by the company to the benefit of its company officers* note that, in its deliberation of January 15, 2004, the Board of Directors decided to set up a separate collective pension scheme for Air France senior executives.

This pension scheme aims to guarantee these executives*, once they fulfil the specific conditions for eligibility (notably seven years' service with Air France), an annual pension benefit of between 35% and 40% of their average annual compensation during the last three years of their functions, with the amount capped, on any assumption, at 40% of average compensation during the last three years.

Mr Spinetta, who benefits from this additional collective scheme, opted to start receiving payments from his pension schemes as of January 1, 2009.

Mr van Wijk does not benefit from this additional collective pension scheme. Note that Mr van Wijk opted to start receiving payments from his pension schemes as of January 1, 2009.

There are no non-compete indemnities or specific severance packages provided in the event of the departure of the Chairman and Chief Executive Officer or the Deputy Chief Executive Officer.

- **Summary table of the situation of the executive directors in function at December 31, 2012**

	Employment contract		**Additional pension scheme (see above)**		**Indemnities or benefits due or liable to be due on a cessation or a change in function**		**Indemnities relating to a non-compete clause**	
Executive directors	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
Jean-Cyril Spinetta		X	X			X		X
Leo van Wijk		X		X		X		X

Loans and guarantees granted to company officers

None.

Stock options for new or existing shares granted to the company officers of Air France-KLM

Air FranceKLM has not established a stock subscription or purchase option scheme to the benefit of its company officers.

Stock subscription or purchase option schemes granted to the company officers of Air France-KLM and employees of the Air France-KLM Group by the subsidiaries*

	KLM [1]
Date of authorization	May 17, 2005 [2]
Date of granting	July 27, 2007
Total number of options granted	428,850
Of which to Mr Hartman	*25,000*
Of which to Mr van Wijk	*25,000*
Available for exercise from	July 27, 2010
Expiration date	July 25, 2012
Exercise price per share	€34.21
Number of shares purchased at December 31, 2012	0
Of which purchased by Mr Hartman	*0*

* *For indicative purposes, some 30 eligible executives as of December 31, 2012.*

Of which purchased by Mr van Wijk	*0*
Number of share options cancelled or lapsing on December 31, 2012	428,850
Outstanding stock options at December 31, 2012	0
Of which remaining to be exercised by Mr Hartman	*0*
Of which remaining to be exercised by Mr van Wijk	*0*

* *The company Air France-KLM has not established a stock subscription or purchase option scheme for its employees and/or company officers.*

(1) KLM plans for its senior executives and company officers.

(2) The vesting conditions of the options granted by KLM in 2007 provide for the vesting of one third of the options on the grant date, a second third at the end of the first year following the grant date, with the final third at the end of the second year. The vesting of these options is conditional on the achievement of pre-determined performance criteria which are not market dependent.

Information on stock subscription or purchase option schemes granted to the employees of the Air France-KLM Group and exercised by them during the financial year

None.

During the 2008-09 financial year, KLM introduced Share Appreciation Rights or SARs, which are share-based plans paid for in cash. Since 2008, this scheme has replaced the option plans (note that no options were exercised during the 2012 financial year). 146,004 SARS, 144,235 SARs, 145,450 SARs, 136,569 SARs and 153,080 SARs were, respectively, granted by KLM on April 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009 and July 1, 2008 (*see note 29.3 to the consolidated financial statements*).

Performance shares granted to the company officers of Air France-KLM

Air France-KLM and its subsidiaries have not established a performance shares scheme to the benefit of the Air France-KLM company officers.

Summary of operations in the shares of Air France-KLM realized during the financial year (art.223-26 of the General Regulation of the *Autorité des Marchés Financiers*)

Relevant individual	Operation date	Nature of the operation	Unit price *(In €)*	Operation amount *(In €)*	Type of financial instrument	Market for the operation
Alexandre de Juniac Board director	March 30, 2012	Acquisition	4.299	8,598.40	Shares	Euronext Paris
Peter Hartman Board director	May 10, 2012	Acquisition	3.525	35,537.09	Shares	Euronext Paris

1.2 The CEO Committee

The CEO Committee, established during 2012, comprises the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer of Air France-KLM, together with the Chairman and Chief Executive Officer of Air France and the President and Chief Executive Officer of KLM. It meets, in particular, within the framework of the preparation for meetings of the Group Executive Committee.

The CEO Committee is also planning the new integration phase for the Air France-KLM Group by defining functions and responsibilities, and by appointing the individuals who will fulfill the functions at the level of the holding company.

1.3 The Group Executive Committee

Until December 31, 2012, the Group Executive Committee comprised 15 members who fulfilled responsibilities at the level of the Air France-KLM Group while retaining their functions within each entity. The Committee meets every two weeks, alternating between Amsterdam and Paris, to determine the Group's main orientations within the framework of the strategy approved by the Board of Directors.

The members of the Group Executive Committee are remunerated by the company to which they belong. In 2012, the remuneration (fixed and variable) paid to the Group Executive Committee amounted to €4.1million (€4.7 million at December 31, 2011).

The new organization of the passenger activity within Air France together with the ongoing organization of the functions at the level of the holding company led to a number of changes within the Group Executive Committee which, since January 1, 2013, has comprised 17 members.

Group Executive Committee at December 31, 2012

Members	Age at December 31, 2012	Relevant professional experience	
		Sector	Experience
Jean-Cyril Spinetta Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM	69 years	Public Service, Air Transport (Air Inter and Air France)	20 years 20 years
Leo van Wijk Deputy Chief Executive Officer of Air France-KLM	66 years	Air Transport (KLM and SkyTeam)	42 years
Peter Hartman President and Chief Executive Officer of KLM	63 years	Air Transport (KLM)	40 years
Alexandre de Juniac Chairman and Chief Executive Officer of Air France	50 years	Public Service Industry (Thomson, Sextant, Thalès) Air Transport	9 years 14 years 1 year
Philippe Calavia Executive Vice President, Finance, Air France-KLM	64 years	Banking Air Transport (Air France)	7 years 14 years
Alain Bassil Chief Operating Officer, Air France	58 years	Air Transport (Air France)	33 years
Christian Boireau Executive Vice President, French Sales, Air France	62 years	French Departmental Directorate for	6 years 32 years

		Equipment Air Transport (Air Inter and Air France)	
Pieter Elbers Managing Director and Chief Operating Officer of KLM, a member of the GEC since May 23, 2012	42 years	Air Transport (KLM)	20 years
Camiel Eurlings Executive Vice President, Air France-KLM Cargo and Managing Director of KLM	39 years	Public Service KLM	16 years 2 years
Frédéric Gagey Executive Vice President, Fleet Management and Purchasing, Air France-KLM and Chief Financial Officer of Air France since March 12, 2012	56 years	Air Transport (Air Inter, Air France and KLM)	19 years
Wim Kooijman Executive Vice President, Management Development, Air France-KLM	62 years	Industry Air Transport (KLM)	25 years 15 years
Jean-Christophe Lalanne (1) Executive Vice President, Information Systems, Air France-KLM and Air France, and a member of the GEC since October 1, 2012	51 years	Industry, IT Services Air Transport (Air France) years	20 years 8
Bertrand Lebel Secretary to the Executive Committee, Corporate Strategy, Air France-KLM	59 years	Consultant Air Transport (Air France)	16 years 15 years
Bruno Matheu Executive Vice President, Marketing, Revenue Management and Network, Air France-KLM and Chief Commercial Officer, Air France	49 years	Air Transport (UTA and Air France)	27 years
Erik Varwijk Executive Vice President, International Sales and The Netherlands, Air France-KLM and Managing Director of KLM	51 years	Air Transport (KLM)	24 years

(1) Mr Lalanne replaced Edouard Odier on October 1, 2012.

Group Executive Committee at January 1, 2013

Members	Age at at January 1, 2013	Relevant professional experience	
		Secteur	**Experience**
Jean-Cyril Spinetta Chairman of the Board of Directors and Chief Executive Officer of Air France-KLM	69 years	Public Service, Air Transport (Air Inter and Air France)	20 years 20 years
Leo van Wijk Deputy Chief Executive Officer of Air France-KLM	66 years	Air Transport (KLM and SkyTeam)	42 years
Peter Hartman President and Chief Executive Officer of KLM	63 years	Air Transport (KLM)	40 years

Alexandre de Juniac Chairman and Chief Executive Officer of Air France	50 years	Public Service Industry (Thomson, Sextant, Thalès) Air Transport	9 years 14 years 1 year
Philippe Calavia Executive Vice President, Finance, Air France-KLM	64 years	Banking Air Transport (Air France)	7 years 14 years
Patrick Alexandre Executive Vice President, International Sales and the Netherlands, Air France-KLM	58 years	Air Transport (Air France)	31 years
Alain Bassil Chief Operating Officer, Air France	58 years	Air Transport (Air France)	33 years
Christian Boireau Executive Vice President, French Sales, Air France	62 years	DDE Air Transport (Air Inter and Air France)	6 years 32 years
Pieter Bootsma Executive Vice President, Marketing, Revenue Management and Network, Air France-KLM	43 years	Air Transport (KLM)	17 years
Pieter Elbers Managing Director and Chief Operating Officer of KLM	42 years	Air Transport (KLM)	20 years
Camiel Eurlings Executive Vice President, Air France-KLM Cargo and Managing Director of KLM	39 years	Public Service Air Transport (KLM)	16 years 2 years
Frédéric Gagey Executive Vice President, Fleet Management and Purchasing, Air France-KLM and Chief Financial Officer of Air France	56 years	Air Transport (Air Inter, Air France and KLM)	19 years
Wim Kooijman Executive Vice President, Management Development, Air France-KLM	62 years	Industry Air Transport (KLM)	25 years 15 years
Jean-Christophe Lalanne Executive Vice President, Information Systems, Air France-KLM	51 years	Industry, IT Services Air Transport (Air France) years	20 years 8
Bertrand Lebel Secretary to the Group Executive Committee, Corporate Strategy, Air France-KLM	59 years	Consultant Air Transport (Air France)	16 years 15 years
Franck Terner Executive Vice President, Strategy and Commercial Engineering & Maintenance, Air France-KLM	52 years	Air Transport (Air France)	24 years
Erik Varwijk Managing Director of KLM	51 years	Air Transport (KLM)	24 years

1.4 Share capital and shareholder structure

1.4.1 Share capital

At December 31, 2012, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares with a nominal value of one euro, held in registered or bearer form according to shareholder preference. Each share has one voting right attached and there are no specific rights attached to the shares. There are no securities not representing the share capital.

Changes in the share capital over the last three financial years

The change in the share capital over the last three financial years is as follows

Financial year ended	Total capital	Number of shares
March 31, 2011	300,219,278	300,219,278
December 31, 2011	300,219,278	300,219,278
December 31, 2012	300,219,278	300,219,278

Autorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 7, 2011 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital. As of December 31, 2012, the company had not used these authorizations which will be submitted for renewal to the Shareholders' Meeting of May 16, 2013.

Nature of the operation	Maximum amount of issuance in nominal	Balance available at December 31, 2012
Capital increase via the issue of shares or other securities conferring rights to the capital with preferential subscription rights	€120 million	€120 million
Capital increase via the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an obligatory priority subscription period	€75 million	€75 million
Capital increase via the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an optional priority subscription period. This authorization is limited to issuance by the company or one of its subsidiaries of securities conferring rights to the share capital and issuance of shares within the framework of public exchange offers	€45 million	€45 million
Issue of bonds or other related securities conferring rights to the capital with preferential subscription rights	€1 billion	€1 billion
Capital increase through capitalization of reserves and/or additional paid-in capital	€120 million	€120 million
Capital increase reserved for members of an employee savings scheme	3% of the capital at the time of each issue	3% of the capital at the time of each issue

1.3.2 Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) 2.75% 2020

In April 2005, Air France issued 21,951,219 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs), with a 15-year maturity, for a total amount of €450 million. These bonds have a nominal unit value of €20.50 and mature on April 1, 2020. The annual coupon is 2.75% paid annually in arrears on April 1. The conversion period for these bonds runs from June 1, 2005 to March 23, 2020.

Further to the payment of dividends from the other reserves account in respect of the financial year ended March 31, 2006 and in order to maintain the rights of bond holders, an adjustment was made pursuant to the stipulations of the OCEANE 2.75% 2005-20 issue contract. The conversion/ exchange ratio for holders of bonds convertible and/or exchangeable into Air France-KLM new or existing shares was thus changed to 1.03 shares for each 2.75% 2005-20 bond.

On December 6, 2011, Air France signed a swap agreement with Natixis for a period of four years. To cover this agreement, between December 7 and December 13, 2011, Natixis acquired 18,692,474 OCEANEs, or some 85.16% of the initial issue, enabling Air France to defer, until April 2016 at the earliest, the €383.2 million repayment. Of the 3,258,150 OCEANEs not tendered to Natixis within the framework of the transaction, 1,501,475 were the subject of a €31.6 million reimbursement.

The number of convertible bonds remaining outstanding as of December 31, 2012 stood at 20,449,146 after the conversion of three bonds during 2012.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANEs) 4.97% 2015

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCEANEs) for a total of €661 million. These bonds have a nominal unit value of €11.80, a conversion/exchange ratio of one share for one bond and mature on April 1, 2015. The annual coupon is 4.97% paid annually in arrears on April 1. At December 31, 2012, 8,984 bonds had been converted into existing shares, of which 68 during 2012, reducing the outstanding balance to 56,007,965 bonds.

1.3.3 Authorization to buy back Air France-KLM's own shares

Every year, the Air France-KLM Board of Directors asks the Shareholders' Meeting for the authorization to buy back the company's own shares in the stock market subject to a number of conditions.

The aims of the buyback program are to stimulate trading activity in the secondary market or stock liquidity within the framework of the liquidity agreement signed with Rothschild & Cie Banque, the delivery of these shares to satisfy rights attached to securities, the allocation or sale of shares to the Group's employees and senior executives and, lastly, the retention and future allocation of these shares in an exchange or in payment for an acquisition.

On March 1, 2012, given the trading activity in the secondary market and the good stock liquidity, Air France-KLM suspended its buyback contract authorized by the Shareholders' Meeting of July 7, 2011. Were the market trading conditions or stock liquidity to require this, the company could re-launch the share buyback program under the conditions approved by the Ordinary Shareholders' Meeting of May 31, 2012, i.e. up to a maximum of 5% of the share capital for a period of eighteen months at a maximum purchase price of €15 and as of 16 May 2013, under the conditions authorized by the Shareholders' Meeting.

As a result, between January 1 and March 1, 2012, pursuant to the program authorized by the Shareholders' Meeting of July 7, 2011, the company purchased 100,000 shares at an average price of €3.854 and sold 1,550,000 shares at an average price of €5.049. Since March 1, 2012, the Group has neither purchased nor sold Air France-KLM shares within the framework of these authorizations.

At December 31, 2012, Air France-KLM held 4,189,405 of its own shares, i.e. 1.4% of the share capital, including 1,116,420 shares held by KLM in respect of its various stock option plans. The valuation of the portfolio stood at €29.3 million at December 31, 2012.

Transactions realized between January 1 and December 31, 2012 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at December 31, 2011	**1,450,000**	**2,958,876**	**4,408,876**
Shares purchased			
Number of shares	100,000	-	100,000
Average purchase price *(In €)*	3,854	-	3,854
Use			
Number of shares	1,550,000	72	1,550,000
Average sale price *(In €)*	5,049	5,052	5,049
Number of shares at December 31, 2012	**-**	**2,958,804**	**2,958,804**

1.3.4 Air France-KLM shareholder structure

Changes in the shareholder structure

	% of share capital			% of voting rights		
Financial year ended	**December 31, 2012**	**December 31, 2011**	**March 31, 2011**	**December 31, 2012**	**December 31, 2011**	**March 31, 2011**
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	296,029,873	294,579,801	295,669,366
French State	15.9	15.8	15.7	16.1	16.1	16.0
Employees						
• Of which FCPE	7.6	7.7	7.8	7.7	7.8	7.9
• Of which held directly	1.9	1.9	2.0	2.0	2.0	2.0
Treasury stock	1.4	1.9	1.4	-	-	-
Others	73.1	72.6	73.1	74.2	74.0	74.0

The number of shares has not changed since March 31, 2011.

Shareholder analysis

Pursuant to the obligation for air transport companies to monitor and control their shareholders, Air France-KLM has implemented a procedure for their identification on a quarterly basis.

The TPI (identifiable bearer shares) analysis as at December 31, 2012, was carried out on the basis of the following thresholds: intermediaries holding a minimum of 200,000 shares and shareholders holding a minimum of 100 shares. Including the registered shares, the holders of 97.7% of the capital were identified and 96,835 shareholders listed including 81,999 individual shareholders. Based on the TPI analysis of December 31, 2012, restated pursuant to article 14 of the bylaws which defines French nationality, Air France-KLM is more than 50% held by French shareholders and, consequently, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met with the majority of the company's voting rights being held by shareholders and foundations subject to Dutch law.

Financial year ended	Number of shares			% of the share capital		
	December 31, 2012	December 31, 2011	March 31, 2011	December 31, 2012	December 31, 2011	March 31, 2011
French State	47,665,899	47,563,745	47,247,967	15.9	15.8	15.7
Employees	28,698,231	29,178,372	29,570,185	9.6	9.7	9.8
Individuals	53,379,067	64,594,419	45,603,974	17.7	21.5	15.2
Resident institutions	55,182,528	68,363,254	73,419,348	18.4	22.8	24.5
Non-resident institutions	115,293,553	90,519,488	104,377,804	38.4	30.2	34.8

At December 31, 2012, Air France-KLM was 61.6% owned by French interests (69.8% at December 31, 2011) and more than 75% by European institutions (as at December 31, 2011). The principal European countries are the United Kingdom (5.9%), the Netherlands (3.5%), Germany (1.6%), Norway (1.2%) and Switzerland (0.9%). North American institutions hold 14.5% of the share capital of which (11.6% at December 31, 2011) of which 15.3 million in ADR form (13.2 million at December 31, 2011).

Based on the latest declarations, the following shareholders hold at least 0.5% of Air France-KLM's share capital.

Shareholders	eclaration date	Number of shares	% of the share capital	Increase or reduction
Amundi Asset Management	ctober 10, 2012	3,091,236	1.03	I
Axa IM	anuary 10, 2013	1,701,826	0.56	I
BNP Paribas AM	October 1, 2012	2,221,708	0.74	I
BNP Paribas Assurances	December 19, 2012	1,005,373	0.33	R
Capital Research & Mgt	December 31, 2012	8,160,720	2.72	-
Crédit Suisse	November 26, 2012	3,226,243	1.07	I
Dimensional Fund Advisors	September 15, 2012	4,889,810	1.63	I
DNCA	ctober 11, 2012	4,959,000	1.63	I
Donald Smith	December 31, 2012	12,727,091	4.24	I
Groupama AM	June 7, 2012	399,692	0.13	R
HSBC AM	November 30, 2012	2,872,519	0.95	I
HSBC Holding	November 30, 2012	464,876	0.15	R
Natixis Asset Management	September 11, 2012	1,294,244	0.43	R
Norges Bank Investment Management	September 5, 2011	3,055,759	1.02	I
Prigest	November 15, 2012	1,000,000	0.33	R
UBS Londres	anuary 3, 2013	3,259,705	1.08	R

Shareholder pacts

Air France-KLM is not aware of the existence of any shareholder pacts or agreements whose implementation could lead to a change of control.

Dividend policy

In the last few financial years, Air France-KLM paid the following dividends:

Financial year	Earnings per share *(in €)*	Dividend paid *(in €)*
2009-10	(5.30)	-
2010-11	2.08	-
2011 (12 months to December 31)	(2.73)	-

The Group's objective is to have a sustained dividend policy, subject to the growth in net income excluding exceptional items. The dividend is paid on the fifth trading day after the Shareholders' Meeting approving the dividend.

Given the difficult economic environment in recent years, the Board of Directors decided not to propose a dividend payment in respect of the last three financial years. For the 2012 financial year, the Board of Directors again opted not to propose a dividend payment.

2 Activity

2.1 Highlights of the 2012 financial year

Implementation of the Transform 2015 plan

- On January 12, 2012, Air France-KLM presents the targets and measures of Transform 2015, its three-year transformation plan aimed at a €2 billion reduction in net debt, a reduction in investment, a significant downwards revision in capacity growth and a 10% reduction in the unit cost between the end of 2011 and the end of 2014.
- On March 7, 2012, at the presentation of its 2011 annual results, the Group provides a status report on the implementation of the plan and, particularly, the initial cost-saving initiatives, the calendar for the renegotiation of the collective agreements and the action plans.
- Over the summer, Air France finalizes new collective agreements with ground staff and flight deck crew. On the other hand, the draft agreement for cabin crew is rejected by the unions, although the discussions enabled to reach a pre-agreement in February 2013. For its part, in December, KLM signs new collective labor agreements for a three-year period. These new agreements aim to reduce payroll expenses and achieve a significant improvement in productivity by the end of 2014 relative to the end of 2011.
- In November 2012, a voluntary departure plan for around 3,000 people is launched at Air France. KLM also reduces its staff by cutting temporary employment.
- The Group also launches a series of action plans, particularly at Air France where the heavily-loss-making short and medium-haul operations are restructured. In addition to the downsizing of the medium-haul and regional fleets and an improvement in staff productivity, the airline reorganizes this activity around three complementary business units with a new pricing strategy. Air France now operates the flights feeding the CDG hub, the routes with a high proportion of Business customers in France and elsewhere in Europe, and the flights on departure from the provincial bases. The French regional division, regrouped under the Hop! brand, operates the flights on departure from Orly and French provincial cities and while feeding the CDG hub on behalf of Air France. Lastly, Transavia operates flights to destinations in Europe and the Mediterranean rim on departure from Orly and the French regional capitals.

Ongoing development of the SkyTeam alliance and strategic partnerships

- During 2012, SkyTeam benefits from the arrival of four new members, increasing the number of airlines to nineteen. The membership of two Middle Eastern airlines, Saudi Arabian Airlines and Middle-East Airlines-Air Liban, a South-American carrier, Aerolinas Argentinas and a Chinese carrier, Xiamen Airlines, extends the reach of the alliance network to more than 1,000 destinations world-wide.
- Air France, KLM and Etihad Airways sign code share agreements enabling to offer, in addition to flights between Paris, Amsterdam and Abu Dhabi, five destinations on departure from Paris and five destinations out of Amsterdam to Asia and Australia to Air France and KLM passengers, together with access to ten European destinations for Etihad passengers.

Investment to reinforce the quality of the product offering

- Since customer satisfaction remains a strategic focus, the Group decides to invest some €500 million by 2015 on improving the product. The renewal of the Business and *La Première* classes, improving the quality of catering, the development of e-services and the new fare offers are all examples of innovation aimed at increasing levels of customer satisfaction.
- The opening of a new boarding satellite at Roissy's terminal 2E enables Air France to streamline its operations by regrouping its international activity at terminal 2E while 2F is now exclusively for European flights. Terminal 2G is dedicated to the regional airlines. The Group's customers thus benefit from simpler, optimized routing in the airport's most up-to-date infrastructures.

- In partnership with Panasonic Avionics, Air France and KLM launch a joint connectivity program on board their long-haul flights with trials due to begin in 2013.
- The Air France-KLM Group's maintenance business inaugurates a new engine test bench at Paris CDG. This €43 million investment will enable the Group to develop its client portfolio, particularly in Asia.

A resolute commitment to sustainable development

- In June, KLM operates its first commercial trans-Atlantic flight linking Amsterdam to Rio de Janeiro in Brazil in the Boeing B777-200 using biofuel made from recycled cooking oil.
- In September 2012, the Air France-KLM Group is confirmed sustainability leader of the airline sector for 2012 and remains a component of the two Dow Jones Sustainability Indices – DJSI World and DJSI Europe – for the eighth consecutive year.

2.2 Market and environment

In the space of a century, civil aviation has transformed the way in which we live and work by acting as a catalyst in terms of job creation and economic development. Via 35,000 routes, the air transport industry generates, directly and indirectly, 57 million jobs and US$2.2 trillion of economic activity. In 2013, some 3.1 billion passengers are expected to be carried, demonstrating that the need for human contact for professional and personal reasons remains intact *(Source 1).* Reciprocally, the health of the air transport industry is intimately linked to that of the global economy, and to geopolitical and geophysical events.

While the value of business travel has been proven and remains a means of development, the economic slowdown in 2012 which is expected to extend into 2013 has prompted businesses to adopt a resolute wait-and-see attitude. Whatever the industry, travel budgets have been curtailed and the growth in European activity has slowed. In terms of individual travel, the crisis and the rise in unemployment in most European countries has significantly held back migration activity and traffic linked to family-related travel and tourism. The decline in purchasing power available for leisure and the political situation in countries which have traditionally been tourist destinations (the Maghreb countries, Egypt) has also changed consumer behavior with the latter preferring to holiday in more stable countries, particularly in Europe.

In air transportation, the competition is more intense in Europe than elsewhere in the world. For the moment, long-haul activity is still subject to restrictions in terms of traffic rights but nevertheless remains very fragmented. In the medium-haul business, over the past decade, the growth of the low cost carriers has revolutionized the leisure industry both in terms of how travel is organized – development of an *à la carte* service to the detriment of tour operator packages – and the choice of destinations. Currently, they are honing their commercial offer to achieve greater penetration of the business travel segment. They are also offering individual seat allocation, serving airports close to city centres and developing fares tailored to business customers. Furthermore, the airlines are increasingly under pressure from other participants in the economic chain and now face a multitude of players all of whom are competing for the value added: retailers, the major travel agency networks, booking systems, online agencies, airlines, airports and Google, soon to be followed by other leading web-based players.

Furthermore, since it operates in public spaces, the air transportation industry is subject to monopolies, regulations and obligations imposed by States: airport monopolies, safety and security measures, various taxes, participation in the European Union Emission Trading Scheme.

In conclusion, air transportation is a highly-cyclical, low-margin industry which is extremely competitive but which generates growth and development by connecting people and goods. The structural growth of some 4% to 5% annually, a trend that has been confirmed over the past thirty years, should be maintained with IATA forecasts pointing to an annual 3.6 billion travellers for the 2012-16 period *(Source 1).* Within this context, governments need to take action to reduce the excessive costs to which the airlines are subject (taxes, infrastructures, regulations), and improve the capacity and efficiency of airports and air navigation services.

2.2.1 The economic environment

Real GDP growth rate

	2010	2011	2012
World	4.0	2.8	2.3
European Union • Of which France	2.0	1.6	-0.2

	1.6	1.7	0.0
NAFTA (North American Free Trade Agreement)	2.6	2.0	2.3
Asia-Pacific • Of which China	7.3 10.5	4.6 9.3	4.8 7.7
Middle East	5.9	5.0	3.3
Africa (North and sub-Saharan)	4.7	1.1	5.0

Source: Global Insight, January 15, 2013

2012: a year of weak global growth at 2.3%

Economic and geopolitical context

The euro crisis reached its height although the much-feared implosion in the Euro-zone did not in the end materialize thanks to the strengthening in governance for the zone and the decisive intervention from the European Central Bank in support of the banking system and the financing needs of heavily-indebted countries. On the other hand, the implementation of an austerity policy in Europe led to an economic recession which gradually had a much greater-than-expected impact on the European Union as a whole: -0.2% in 2012 after +1.6% in 2011 *(Source 2).*

Unlike Europe, the United States opted to support growth, which accelerated to +2.3% in 2012 (+1.8% in 2011), prioritizing a reduction in unemployment to the detriment of the public debt (*Source* 2). This policy prompted a period of significant uncertainty at the year end as the Fiscal Cliff deadline loomed. The threat of recession was averted following a last-minute conservative fiscal agreement between the Republicans and Democrats. However, the problem of the US public debt has only been partially resolved in the absence of agreement on the lifting of the debt ceiling and the conditions for reducing budgetary expenditure.

Japan's economic performance was disappointing with growth of only 2% in 2012 (-0.5% in 2011): a stronger recovery had been expected driven by the post-tsunami reconstruction programs but the deterioration in trading relations with China following a territorial conflict plunged Japan into recession during the second half *(Source 2)*.

The emerging countries also saw an economic slowdown although to different extents: Brazil virtually stagnated with growth of 1% in 2012 (+2.7% in 2011); the slowdown in China was confirmed while maintaining a high level of growth at 7.7% in 2012 (+9.3% in 2011); while India posted growth of 5.1% in 2012 (+6.9% in 2011) *(Source 2).*

The consequences for air transportation

The annual number of passengers increased by 5.0% relative to 2011 at global level, driving an 8.5% increase in revenues. The air transport industry as a whole should generate a positive net result of US$6.7 billion in 2012, down by around 30% compared with 2011 (US$8.8 billion in 2011) and an operating margin of 2.1%, down by 0.8 of a point on the 2011 level (+2.9%) *(Sources 3 and 4)*.

International traffic increased by 6.0% in 2012 (+6.9% in 2011) for capacity growth of 4.1% (+8.2% en 2011). The international load factor gained 1.6 points relative to 2011 to stand at 78.5% *(Sources 5 and 6)*. The strongest increase in international traffic came from the Middle Eastern airlines (+15.4%), followed by the Latin American carriers (+8.8%). The African airlines posted growth well above the 2011 level (+7.5% compared with +2.3%) *(Sources 5 and 6).* This outcome makes Africa the third international market in the 2012 growth chapter, mainly due to the performance of the North African airlines. Europe saw modest growth in international traffic over the year (+5.5% in 2012 versus +9.5% in 2011) and Asia/Pacific was the last but one region in terms of traffic growth (+4.9%). Despite a satisfactory performance from the Canadian carriers, North America recorded the lowest growth rate of all the international markets. In terms of volume, however, this growth was considerable *(Sources 3 and 6).*

In Europe, the AEA member airlines saw modest traffic growth (excluding domestic flights) (+2.4% versus +7.1% in 2011). With capacity having increased by just 2.0% (+8.9% in 2011), the load factor gained 1.7 points to 79.1%. They carried 370 million passengers, or 8.7 million more than in 2011 *(Sources 7 and 8).* One of the strongest growth rates was seen on the Europe/North African axis which returned to its traffic level of prior to the 2011 turmoil. The emerging Latin American and Asian economies also acted as growth drivers, enabling a significant increase in traffic to these countries. By comparison, intra-European traffic saw a modest increase (+1.5%). These encouraging results were, however, not reflected in the financial performance of the airlines which posted a deterioration in their profitability (a €1.3 milliard operating loss versus a profit of €1.5 billion in 2011) explained, amongst other things, by a steep increase in costs, increasingly onerous regulations and competitive distortions generated by these regulations *(Sources 7, 8 and 9).*

The Premium customer segment (Business and *La Première* traffic) was the most affected by the various crises. In long haul on departure from Europe, the trend in premium traffic measured in RPK (revenue passenger-kilometers) has been stable since the summer of 2011 but, in terms of passenger numbers, has regained its level of prior to the 2008 crisis. In terms of market share, 2012 traffic remained one point down on its 2008 level at 13.5%. Between January and October 2012, premium traffic between Europe and the rest of the world increased by 2% relative to the same period in 2011. On the Europe-Asia and Europe-South America axes, it increased by a respective 4% and 3% relative to its levels of 2011. On the Europe-North Atlantic axis, traffic was stable *(Source 10).*

2013: Stabilization in global growth at 2.2%

Economic and geopolitical context

The recovery in the real estate market, the development of energy independence and a continued accommodative monetary policy linked to the significant reduction in unemployment should all support the outlook for US growth which is forecast at 1.7% in 2013 *(Source 2).*

In Europe, no growth is expected given the ongoing austerity programs. The positive effects of structural reforms will not come through until 2014 as growth returns. The quasi-zero growth for the European Union (+0.1% in 2013) hides a more contrasted underlying picture with the Southern European countries expected to see a weaker recession than in 2012 while the Northern European countries post slower growth *(Source 2).*

The weakness of exports and domestic demand will continue have a major impact on growth in Japan. Despite intervention from the Bank of Japan, growth should be zero in 2013 (+0.0%) relative to 2012. This absence of growth in 2013 masks a positive dynamic during 2012 *(Source 2).*

Chinese growth should be maintained at around 8.0%, underpinned by the dynamism of external demand from Asia and the United States, and the return to an accommodative monetary policy to support consumption and investment within an environment of inflation under control *(Source 2).*

India should also pursue its growth at a rate of 5.8% in 2013 *(Source 2).*

Oil price

In the past few years, fuel has become the main cost item for airlines, representing 14% of costs in 2003 before rising to 33% in 2012 *(Source 4).*

In 2012, all the factors combined to drive the oil price higher: renewed tensions in the Middle East and, in particular, the European Union embargo against Iranian crude, monetary expansion from the central banks and the gradual increase in risk appetite. Oil prices nonetheless remained moderate given, notably, the progressive decline in US imports, no major crisis in Iran and the Chinese slowdown in early 2012.

In 2013, the gradual increase in non-OPEC production (particularly in the United States, Canada, Brazil and Kazakhstan) is likely to introduce more volatility even if the long-term trend remains upwards.

Trend in the oil price

Brent London US$ per barrel	**2012**	**2011**	**2010**	**2009**
Average price	111.64	110.67	80.42	62.72
High	128.40	126.99	95.20	80.26
Low	88.49	92.37	67.87	39.35

Source: Marketcap

Currency volatility

Currency volatility is also an issue for the airlines and particularly for the European carriers whose costs are, for the most part, linked to the US dollar while their revenues are sensitive to all currencies. Any depreciation in the euro relative to all currencies makes them more competitive at commercial level. On the other hand, a fall in the euro relative to the dollar alone has a negative impact on costs. Any appreciation in the euro relative to all currencies or only the dollar has the inverse effects. The hedging strategies put in place by the airlines aim to reduce the effects of currency volatility.

Trend in currency exchange rates

For €1	**2012**	**2011**	**2010**	**2009**
USD	1.2842	1.3917	1.3261	1.3949
GBP	0.8105	0.8678	0.8580	0.8909
Yen	102.43	110.93	116.35	130.33
CHF	1.2053	1.2326	1.3810	1.5101

Source: Marketcap

2.2.2 The industry context

Capacity forecasts for 2013: discipline to the fore

For the first half of 2013, capacity growth in long-haul on departure from Europe is forecast at around 2% relative to the corresponding period in 2012. While this trend is liable to change, it is relatively modest and confirms the discipline in terms of capacity.

The forecasts by route are as follows:

- Europe-Middle East: +11% under the influence of the Gulf State carriers;
- Europe-Asia: + 0.7%;
- Europe-Latin America: +2.7%;
- Europe-North America: +1.0%
- Europe-sub-Saharan Africa-Europe: -1.2%

On intra-Europe, the capacity of the legacy carriers appears to be stable (-0.1%) relative to last year although this network is probably the most sensitive to late capacity additions *(Source 26).* Furthermore, the low cost airlines are also seeing a more modest growth rate relative to previous years.

The French domestic market is dominated by the TGV with a market share of some 82% in 2011. New sections of the high-speed rail network will be extended but the next notable developments will only take place as of 2016 with the extension of the LGV Est to Strasbourg and the Le Mans rail line through to Rennes. In 2017, the Tour-Bordeaux and Nîmes-Montpellier rail lines will come into service.

In Southern Europe, the financial crisis has delayed the scheduled extensions in high-speed rail lines: in Spain, while the first trains will run from Perpignan to Barcelona as of April 2013, on the Atlantic coast the Valladolid-Irun connection will not be built before 2018; in Italy, the coming into service of the Milan-Venice line will only be completed as of 2019.

Ever-stricter European and International regulations

Whether new or simply subject to stricter enforcement, the European and international regulations are increasingly onerous for the air transport industry leading, for some carriers, to serious distortions in terms of competition.

A two-speed policy on climate preservation

Climate preservation is a key priority for the air transport industry. It is the first industry in the world to have set itself a target for reducing CO_2 emissions. On January 1, 2012, as part of the fight against global warming, Europe implemented a Directive imposing the European Emission Trading Scheme on all airlines operating in the European Economic Space, prompting robust opposition from some countries (China, United States, Russia, India, etc.). As a result, ahead of an eventual agreement on sector regulation at the level of the ICAO, in November 2012 the European Commission announced a one-year postponement in the application of this quota trading system to non-European flights.

Consumer protection rights continue to be reinforced

The regulatory trend is increasingly towards the reinforcement of consumer rights in both Europe and the United States. In October 2012, the European Court of Justice confirmed that compensation for passengers whose flights have been delayed for three hours or more would be assimilated with denied boarding (European Court of Justice ruling of October 23, 2012, case C-581/10). Generally speaking, the European Court of Justice issued an interpretation to ruling 261/2004 relating to compensation and the care of passengers in the event of disembarkation and flight cancellation or delay that is very favorable to consumers. A strike thus no longer systematically qualifies as an exceptional circumstance. Furthermore, the commercial regulations tend to be differentiated, with individual countries adopting different versions. For example, since last summer, a passenger denied boarding on a flight from the United States to Israel via a connection in Europe can request different levels of compensation in respect of the US, European and Israeli regulations. Similarly, since December 2012, the Philippine government has banned denied boarding leaving no alternative other than to cancel the flight. These multiple areas of jurisprudence have significant financial repercussions for the European airlines in particular. As a result, a revision of the Regulation is currently being studied and the European Commission is expected to propose a revised draft during the first quarter of 2013.

Since January 1, 2012, in the United States, any ticket purchased at least one week prior to the departure of the flight has been reimbursable at no cost for a period of 24 hours following purchase. The D.O.T has also extended the application of the national rules to non-US airlines operating in the United States; four hours is now the maximum tarmac delay on delayed international flights, financial compensation in the event of denied boarding has been increased and all the taxes applying to the ticket must be shown on the airline's website (baggage fees. meals. cancellation or change in reservation. upgrading. etc.).

The regulations regarding flight slots are under review

At the end of 2011, the European Commission presented a proposed change to the regulation governing the allocation of take-off and landing slots, the quality of airport services and the limitation of noise disturbance from airports. In terms of the allocation of flight slots, the Commission proposed to restrict "grandfather rights" to historic airport slots and to formalize the sale of slots between airlines. In 2012, the European Parliament approved only the principle of the implementation of slot trading between States. At global level a number of marginal initiatives are emerging. The Indian government envisages organizing auctions to allocate the available slots during peak hours at saturated airports. Were these texts to be adopted in their current form, the airlines might have to pay for a resource that has been free to date, again risking a significant increase in their costs and a constraint on their competitiveness.

Laborious progress on the Single European Sky

A cross-border organization for air space management by air traffic control is currently being established. In 2004, the European Union adopted the principle of a Single European Sky but its implementation remains very slow. The international treaty of December 2010 establishing the FABEC (Functional Airspace Block Europe Central), regrouping the Benelux, German and French air spaces, was nonetheless ratified in December 2012. This block enables the air regulation zones of each center to be defined according to traffic and no longer based on national borders.

Since 2012, the air traffic control authorities have been required to reach a series of performance targets based on punctuality, flight efficiency and cost effectiveness. Unfortunately, due to traffic weakness, the regulatory targets were not reached. However, note the encouraging operational results from French air traffic control with only a 30-minute average delay per flight excluding strikes (45 minutes including strikes compared with a target of 50 minutes) (pre-block delay awaiting CFMU slots due to en route regulation).

Onerous safety measures

Since September 11, 2011, safety measures have been significantly stepped up to the point that the multiples checks are now very inconvenient for passengers. Airlines and airports are engaged in cooperation at international level to reconcile the need for safety measures with customer satisfaction and reasonable costs. To this end, in June, Europe and the United States reached a mutual recognition agreement for their respective safety procedures on air freight, eradicating the need for dual checks. At the passenger handling level, progress is slower: following negative detection trials, in July 2012 the European Commission decided to prolong the ban on liquids in hand baggage beyond April 2013. There is, however, some progress expected in 2013. Starting from April 2013, the French government will increase the airport tax discount applying to transfer passengers coming from a Schengen country from 10% to 40% if the airport is equipped with dedicated connecting channels as is the case for passengers arriving at terminal 2F in CDG.

Customers increasingly well-informed, pragmatic and demanding

While safety remains a major factor in customer decision-making, it is not the only criterion. Customer behaviour has undergone a profound transformation in recent years and the airlines have to adapt to these new requirements or risk losing their customers for whom the image and quality of the product have become more important than national preference.

Customers are increasingly better informed and sensitive to the value of the service offered. They are paying attention to how much they spend with value for money assuming a primordial role in their purchasing. The need for a personalized service is growing, whatever the class of travel. To meet their requirements, customers are increasingly asking the airlines to compete, with e-purchasers visiting an average of 22 websites prior to booking their trips *(source 1).* Customers are more demanding and pragmatic and are increasingly looking to package their own travel so they are free to determine the balance between price, time, convenience, level of comfort and status.

The customer relationship is evolving beyond the notion of time and space. The online share of bookings continues to grow and, in terms of e-commerce, travel now ranks number one thanks to ticket sales. Smartphones, with which passengers are increasingly at ease, are replacing other booking channels.

Customers permanently connected to the internet expect rapid responses and tend to communicate more and more via social media such as Facebook, Blogs, Twitter and tripadvisor. The individual is occupying an increasingly important place in an environment which is globalizing.

2.2.3 Competition

The European airlines

The major European airlines are continuing their in-depth restructuring.

As with the second-line airlines, the European majors are extending their existing cost-saving and profitability improvement programs. In some cases the targets have even been revised upwards (*Turbine* at Air Berlin in addition to its *Shape & Size* program which plans €400 million of cost savings by 2014; Iberia's restructuring plan aimed at a €600 million uplift in profitability by 2015; the *4 Excellence Next Generation* program at SAS targeting annual savings of €1 billion). For its part, Lufthansa is continuing to implement its *SCORE* program which looks for a €1.5 billion improvement in profitability by 2015. These restructuring programs are generally accompanied by payroll measures: some 3,000 jobs to go at Lufthansa and 1,000 at LSG Sky Chef; reduction in 900 jobs at Air Berlin; 4,500 job losses at Iberia ; 6,000 job losses for SAS Group of which 1,000 at subsidiary Scandinavian Airlines in addition to an average salary reduction of 15%; 5,000 jobs at Air France, etc. At Iberia, in addition to a 25% reduction in headcount, the restructuring plan also foresees a 33% cut in payroll expenses and a reduction in the fleet involving five fewer long-haul and 25 medium-haul aircraft relative to 2012.

The European airlines are adapting their short and medium-haul operations. Within Lufthansa Group, as of 2013, all the European flights of Lufthansa Passenger Airlines not serving Frankfurt and Munich are now operated by its low cost Germanwings subsidiary. For its part, in July 2012, Austrian Airlines transferred its operational activities to its Tyrolean Airways subsidiary. In April 2012, Iberia launched the Iberia Express brand in short and medium-haul. In addition, IAG is now looking to acquire the remaining 54% in Vueling (46% owned by Iberia) to integrate it as an independent entity within IAG. Finnair is looking for a partner to sub-contract its European flights and concentrate on its long-haul activity. In January 2013, Air France launched the restructuring of its medium-haul activity thanks to an improvement in the productivity of flight crew and ground staff, enabling a reduction in the fleet, a review of the network and a new commercial offer. In parallel, the regional operation has also been restructured around the French subsidiaries.

The two European low cost airlines continue to develop their model. EasyJet reported an increase in its financial results and is highlighting the success of its model. The latter is maintaining its strategy of a targeted offer directed at both business and leisure customers. For the business segment (18% of its client base in 2011 and 6% growth in the number of business passengers in 2012), easyJet has recently extended seat allocation to the whole of its network. In 2011, the company also launched its *easyJet lean* cost-cutting program *(source 1).* For its part, Ryanair is maintaining a high degree of seasonality in its flight schedule (reflected in80 aircraft grounded during the Winter season) accompanied by an increase in the proportion of temporary staff (56% in IATA 2011 versus 40% in IATA 2008).

United States

With the exception of American Airlines and benefiting from restructuring and/or consolidation, the major US airlines (Delta, United-Continental, US Airways, Southwest, Alaska Airlines) are reporting good financial results: a total of US$3.5 billion in net income for 2012 *(source 2)*. Perpetuating this consolidation trend, Delta has recently purchased Singapore Airlines' 49% stake in Virgin Atlantic and acquired a 4% shareholding in Aeromexico *(Source 2).*

In 2012, Delta also purchased an oil refinery for US$150 million to be able to source its fuel needs internally, thereby securing the supply for its network in the North East of the United States. Delta estimates the saving generated by this acquisition at an annual US$300 million (i.e.10% of its fuel bill for 2012) *(Source 3).*

American Airlines has been under Chapter 11 protection since November 2011 with a potential exit in April 2013. It is gradually implementing its US$2 billion annual cost-cutting program and increasing its revenues by some US$1 billion a year. It is also studying plans for a potential merger with US Airways.

Asia is experiencing a complete transformation

In South East Asia, the market is still very buoyant, driven by both the growth of the low cost carriers which represent 50% of the seat capacity and the creation of new airlines. Five airlines were launched in 2012: AirAsia Philippines; Scoot, the low cost long-haul subsidiary of Singapore Airlines; Mandala in Indonesia; and Thai Smile and Lao Central Airlines (*Source 4)*. The Asian airlines are backed by the economic growth in the region and the strong demand for intra-Asian travel. However, although the trend remains positive overall for the coming months, growth is expected to start to slow since a number of markets are gradually reaching maturity. Growth should be driven by activity in Indonesia, Thailand, Malaysia, Singapore and the Philippines. Vietnam and Burma have been identified as markets of the future.

Within this context, Air Asia is pursuing its pan-Asian brand strategy: present in 18 ASEAN countries, it had a total of some 18 million passengers in 2011 *(source 5 and 6)*. Its current order book including, for example, 260 Airbus A320 Neos and 50 options in the most recent order placed in December 2012, should help support strong growth in Asia for the next few years *(source 7).* To counter this rapid growth, the legacy carriers like Malaysian Airlines and All Nippon Airways have opted to enter alliances with Air Asia or with its competitor JetStar. Some airlines, like Singapore Airlines and Qantas, are launching their own brands known, respectively, as Scoot and RedQ.

The four Chinese carriers (Air China, China Southern, China Eastern and Hainan Airlines) remain mostly focused on domestic traffic which contributes some 90% of their passenger traffic *(Source 8).* They now have ambitions to increase their market share of international traffic and are gradually developing their business particularly through partnerships and joint ventures (Air France-KLM with China Southern since 2012; Air France-KLM with China Eastern and Qantas with China Eastern expected in 2013). For its part, the HNA Group which owns, amongst other operators, Hainan Airlines and Hong Kong Airlines, is investing in foreign airlines. It has thus purchased a 48% shareholding in Aigle Azur (October 2012) and is pursuing its strategy based on gaining market share and the creation of overseas joint-ventures: in Turkey (cargo company ACT), Ghana (Africa World Airlines) and the Philippines (Zest Air).

In India, the situation remains unstable for the airlines. Kingfisher lost its licence to fly in December 2012 and Air India's future is unclear. Its membership of Star Alliance has been postponed. Only Indigo is benefiting from Kingfisher's recent difficulties and is continuing to expand its domestic and international network.

The Asian region as a whole does, however, benefit from one strong attraction: the global airlines are all looking for a growth relay there.

The Gulf State airlines (Emirates, Qatar Airways, Etihad) and Turkish Airlines

The Gulf State airlines are all in robust financial health. For the 2011 financial year, Etihad reported a first positive net result of US$14 million, which subsequently tripled in 2012 (*Source: Reuters News, February 4, 2013*). For IATA 2011, Emirates reported net income of €456 million despite a significant impact from the increased fuel price. Every year since 2002, Turkish Airlines has reported a positive net result. Only Qatar Airways announced a net loss for its latest financial year *(Source 9).*

Between 2005 and 2012, the fleet of the Gulf State airlines (Emirates, Etihad, Qatar) and that of Turkish Airlines grew at an annual rate of 13.5%. Between 2013 and 2017, the forecast average annual growth in their fleet stands at 13% totaling more than 500 aircraft between now and 2017 compared with some 300 aircraft currently in service. In total, a quarter of the current aircraft orders is destined for one of these airlines. In 2012, Emirates capacity increased by 18%, that of Qatar Airways by 9% and that of Etihad by 15%. The growth of Turkish Airlines is stronger still with a capacity increase of 24% in 2012. In the ranking of the global airlines based on international traffic, Turkish Airlines moved up from 27th place in 2006 to twelfth place in 2011 *(Sources 10,11 and 12).*

This growth is characterized by multiple route openings, e.g. six new destinations are planned in 2013 for Qatar Airways, four for Etihad. The Gulf State carriers are now tending to focus on the Americas and Africa. Emirates opened five American destinations in 2012 (Rio de Janeiro, Buenos Aires, Dallas, Seattle and Washington). Qatar Airways is looking to open services to Boston, Atlanta and Detroit and a flight to Chicago in 2013 – the fourth entry point to the United States – and opened three outstations in Africa in 2012. Eithad is launching a service to Washington and a flight to Addis Ababa in the summer of 2013, having launched three services to Africa in 2012. Turkish Airlines opened nine destinations in Africa in 2012, i.e. a total of sixteen openings between October 2011 and December 2012 (S*ource 13),* virtually doubling its number of outstations and offering thirty-three destinations. In time, Turkish Airlines is banking on becoming the leading carrier for the African continent. It is seeking growth relays by attempting to capture passengers transiting between Europe, Asia, the Middle East and Africa. In parallel, the Gulf State airlines are multiplying partnerships to extend the reach of their networks and invest beyond their historical scope. Etihad now has shareholdings in Air Berlin, Aer Lingus, Air Seychelles and Virgin Australia and a potential option on Jet Airways. Qatar is going to join oneworld by 2014 at the latest, while Emirates has signed a strategic partnership with Qantas and Turkish Airlines, and is studying the options on closer collaboration with Lufthansa. Furthermore, they are increasing their influence by gaining key appointments within the industry (the Chairman and Chief Executive Officer of Qatar Airways, Al Baker, has been appointed to the IATA Board of Directors). Etihad has signed code share agreements with the Air France-KLM Group on the routes between Abu-Dhabi, Paris and Amsterdam.

Africa

Currently the local airlines do not capture much of the traffic to/from this continent: 80% of the market share for Africa is held by non-African airlines. Through its *Vision 2025* plan, Ethiopian Airlines is looking to become a serious player in the Africa continent and, more specifically, on the Africa-Asia and Africa-South America routes, particularly Africa-Brazil. The company continues to reinforce its Addis Ababa hub banking on its strong position in the African market. Ethiopian Airlines' results of the past couple of years have been seen as encouraging given its target of increasing total sales to more than US$10 billion by 2025 *(Source 14).*

In 2012, fastjet emerged with the investment of Stelios Haji-Ionnou, the founder and owner of easyJet. It was created following the acquisition of the Kenyan airline Fly540 and began its deployment in East Africa with flights out of its Dar Es Salam base. There are plans to open other bases, starting with Kenya, then in Ghana and Angola to develop the business in West Africa. Fastjet operates a fleet of Airbus A319s and offers one-way fares starting at $20 (excluding taxes and various charges). Fastjet has also acquired the South African 1Time Airlines (in insolvency since September 2012), gaining access to traffic rights in Southern Africa. In parallel, fastjet and Emirates have initiated discussions on a potential code share agreement *(Source 15).*

Airline sector consolidation: alliances, partnerships and joint-ventures

Sector consolidation remains a key factor behind improving margins in the air transport industry. Having started in 2010, the consolidation momentum continued in 2011 through mergers, alliances and partnership agreements albeit at a slower pace. In 2012, LAN Airlines and TAM officially achieved their merger, giving birth to the LATAM Group. American Airlines is currently studying the possibility of a merger with US Airways. At the level of the so-called traditional alliances and despite the integration of new members (Aerolineas Argentinas, Middle-East Airlines and Saudi Arabian Airlines for Skyteam, Avianca-TACA and Copa Airlines at Star Alliance and Air Berlin at oneworld), 2012 was characterized by some profound changes. Cooperation moves increased between the Gulf State airlines and alliance members while new partnerships emerged. The Gulf carriers, which had hitherto been reluctant to join global alliances – for fear of holding back their own growth – have recently changed their position given their mutual competition and their determination to maintain high rates of growth without compromising their profitability. With new partners, it becomes easier to access more profitable markets, obtain traffic rights and launch services at centrally-located airports.

Mirroring Etihad's partnership with Virgin Australia, Emirates and Qantas have signed a strategic ten-year agreement putting an end to partnerships with British Airways and Air France on the Europe-Australia network. Initially, this agreement takes the form of a code share and optimization of the networks of the two airlines in North Africa, Europe, the Middle East, the Pacific and South East Asia but, in time, Emirates and Qantas want to extend their cooperation with a real commitment to a global presence. Qatar Airways has announced its entry into oneworld (expected by 2014 at the latest) although oneworld is the alliance the most affected by the recent announcements, with Qantas and Air Berlin set to leave LATAM to rejoin the alliance. These recent changes are accompanied by a process of reflexion on the meaning and definition of the alliances which could herald a move towards fully-fledged global players that are integrated at world-wide level. This model would revolve around the Gulf State airlines.

Based on the same model as the North Atlantic and trans-Pacific joint-ventures, the Europe-Asia transcontinental joint-ventures are developing: Air France and KLM have signed agreements with Chinese carriers while the Lufthansa Group has a joint-venture with ANA on the Europe-Japan axis. This alliance materialized in 2011 and will be extended to Swiss and Austrian as of the spring of 2013. Similarly, from the summer of 2013, British Airways and Japan Airlines will launch their cooperation on the same axis.

2.2.4 Conclusion

The combination of the economic crisis, which is impacting Europe in particular, and the high fuel price is having a significantly negative impact on the profitability of the European airlines. All these companies are now engaged in restructuring plans aimed at restoring their competitiveness particularly relative to competitors who either benefit from a more dynamic environment or have completed their transformation to a sustainably profitable model like in the United States, for example. Similarly, the European public authorities are beginning to realize the vital importance of an industry which makes a substantial contribution to the wealth of the continent *(Source 27*). However consolidation, which is key to ensuring the return to an industry with high levels of performance, is seeing little progress barring the disappearance of some airlines. Currently, the airlines' limited financial resources and interventionism from a number of States vis-à-vis national flag-carriers is holding back this move even though it remains inevitable. There is, nonetheless, no doubt that, once their margins have been restored and within a more positive economic context, the European airlines could then leverage their attractions and notably be one of the major markets and destinations in the world.

Sources: 1) source: IATA Remarks of Tony Tyler, Global Media Day, Geneva December 13, 2012; 2) Global Insight Jan 15 ,2013; 3) ICAO Press release COM 30/12 ; 4) Industry Financial Forecast Dec 2012; 5) 2011 full year; IATA Air transport Market Analysis December 2012; 6) 2012: only the first 11 months available; IATA Air transport Market Analysis November 2012; 7) AEA European airline members Press Release January 16, 2013; 8) AEA European airline members, Press Release January 19, 2011 9) AEA European airline members Press Release December 13, 2012; 10) All the figures concern the January to October 2011 period for 2011 and January to October 2012 period for 2012 ; IATA ODS October 2012 ; 11) website investors relations easyJet – Results publication 2012 12) Investors Relations website Delta United-Continental, US Airways, SouthWest, JetBlue, Alaska Air group –FY 2012 results (pre-exceptional net profit) 13) Delta Press Room – 30/04/2012 14) CAPA – Centre for Aviation & OAG. UBM Aviation Business 15) Air Asia – About Air Asia website 16) Air Asia investor relations website –FY 2011 results publication 17) Airbus press room website –December 13, 2012 18) IATA WATS 2011 19) Investors Relations websites Etihad, Emirates,Turkish Airlines – publication of 2011 FY results 20/ Ascend – current fleet November 2012 21) Innovata- December 2012 schedule 22) IATA WATS 2011 & 2006 23/ Qatar Airways Story (December 2012) & SRS 24) Ethiopian Airlines CEO speaking at World Air Forum (Amsterdam – Oct 2012) 25) Gabon National Civil Aviation Agency – January 2013 26) Global capacity in Available Seat-Kilometers source Innovata; 27) source: http://register.consilium.europa.eu/pdf/fr/12/st14/st14333.fr12.pdf

2.3 Strategy

In early 2012, the Air France-KLM Group launched Transform 2015, a three-year transformation plan (2012-14). While this plan aims to generate the financial resources required to return to a path of sustained growth, it does not call into question the Group's strategy of continuing to invest in products and customer services, reinforcing its presence in growth markets, stepping up cooperation with both its US and Chinese partners and securing agreements with new partners within the SkyTeam alliance, and developing its fundamental strengths.

2.3.1 Fundamental strengths

A strong presence in all the major markets

The Air France-KLM Group currently operates the largest network between Europe and the rest of the world. Of the 163 long-haul destinations served directly by the three main European players in the Summer 2012 season, Air France-KLM accounted for 116, or 71% of the total, compared with 62% for IAG (British Airways + Iberia + BMI) and 49% for the Lufthansa Group (Lufthansa + Swiss + Austrian Airlines + BMI + Brussels Airlines). Furthermore, the Group offers 39 unique destinations which are served by neither IAG (28 unique destinations) nor the Lufthansa Group (13 unique destinations).

Given its presence in all the major air transport markets, the Group's network is balanced, with no single market representing more than a third of passenger revenues. These markets also behave differently, enabling the Group to mitigate the negative impact of any crises.

Two coordinated hubs at developing airports

The Group's network is coordinated around the two intercontinental hubs of Roissy-Charles de Gaulle and Amsterdam-Schiphol, which are two of the four largest connecting platforms in Europe. Their efficiency is supplemented in southern Europe by the airports of Rome and Milan where Alitalia, the Group's strategic partner since January 2009, operates. Furthermore, these hubs, which are organized in waves known as banks, combine connecting with point-to-point traffic. This large-scale pooling of limited flows gives small markets world-wide access and optimizes the fleet, enabling the use of larger aircraft, thereby reducing noise and carbon emissions. The second bank at the Roissy-Charles de Gaulle hub is thus organized around the arrival of 61 medium-haul flights and the departure of 28 long-haul flights, thus offering 1,797 possible combinations in under two hours with only 89 aircraft.

The Group's network is organized around airport platforms whose development potential will further strengthen the role of the large intercontinental hubs. The opening of the S4 satellite in terminal 2E has enabled Air France to move from 2D, regrouping its medium-haul flights to Schengen destinations in terminal 2F and its international flights (long-haul and non-Schengen medium haul) in terminal 2E. The regional flights have also been regrouped in terminal 2G.

A balanced customer base

The Air France-KLM Group's policy of meeting the expectations of all its customers in terms of networks, products and fares has enabled it to build a balanced customer base. Around 40% of passengers travel for business purposes and 60% for personal reasons. The Group also benefits from a balanced breakdown between transfer and point-to-point passengers. At Air France connecting passengers represent 45% while, at KLM, this figure is more than 60% (*source MRN 2011*). Furthermore, the Group's passenger loyalty strategy (frequent flyer program and corporate contracts) underpins the majority of revenues.

SkyTeam, the number two global alliance

At December 31, 2012, SkyTeam, the number two global alliance in terms of market share with 19%, brought together 19 European, American and Asian airlines: Aeroflot, AeroMexico, Air Europa (Spain), Air France and KLM, Alitalia, China Airlines, China Eastern, China Southern, Czech Airlines, Delta, Kenya Airways, Korean Airways, Tarom, Vietnam Airlines, Aerolineas Argentinas, MEA (Lebanon), Saudi Arabian Airlines and Xiamen Airlines (the fifth Chinese carrier). Garuda Indonesia plans to join the alliance in 2014.

The SkyTeam alliance enables the Group to offer its passengers an extensive network by giving access, principally, to numerous regional destinations thanks to the hubs of its partners.

Strategic partnerships

Since April 2009, Air France, KLM, Alitalia and Delta have been working together within the framework of a joint-venture agreement on the North Atlantic. The scope of this agreement is very wide covering all the flights between North America, Mexico and Europe through integrated cooperation and flights between North America and Mexico to and from the Mediterranean basin, Africa, the Gulf States and India together with flights from Europe to and from Central America, Colombia, Venezuela, Peru and Ecuador through close coordination. This contract enables the sharing of revenues and costs.

Air France-KLM chose to step up its cooperation with Alitalia through an operational partnership agreement, cemented with a 25% equity stake in the Italian company. This operation, which took place in January 2009, has significant advantages for the two groups.

Lastly, Air France-KLM has signed a code share agreement with Etihad on flights between Paris, Amsterdam and Abu Dhabi together with destinations in Australia, Asia and Europe.

A modern fleet

The Group has continuously invested in new aircraft and currently operates one of the most efficient and modern fleets in the sector. This enables it to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments by reducing noise disturbance for local communities and greenhouse gas emissions. The measures implemented within the framework of the Transform 2015 plan to limit investment in the fleet will have little impact on its age curve through to 2014. Furthermore, the Group will start to take delivery of its first Boeing B787s as of 2016 and its first Airbus A350s in 2018.

A commitment to sustainable development

The Air France-KLM Group's sustainable development approach has won plaudits and awards on numerous occasions. Amongst these many awards, in 2012 the Group was named airline sector leader in the DJSI indices for the eighth year running. The Group intends to pursue this commitment aimed at consolidating the reputation of the brands with, amongst other objectives, a very high level of operational safety, establlishing an ongoing dialogue with stakeholders such as customers, suppliers and local communities, contributing to combating climate change and applying the best corporate governance principles.

2.3.2 The Transform 2015 plan

In January 2012, Transform 2015, a three-year transformation plan, was announced in response to the objectives set by the Air France-KLM Group's Board of Directors: rapidly reducing debt, restoring competitiveness and restructuring the short- and medium-haul operations.

The priority objective is to reduce net debt from €6.5 billion at December 31, 2011 to €4.5 billion by the end of 2014 with a net debt/EBITDA ratio below 2 (4.8 at December 31, 2011) based on EBITDA of between €2.5 billion and €3 billion at the end of 2014. Furthermore, the Group is targeting an adjusted operating margin of between 6% and 8% in 2015. .

Restoring the Group's competitiveness will require a reduction in costs. Within a context of low capacity growth and persistent inflation, and despite permanent cost control, the unit cost per EASK ex-fuel would have seen a slight increase between 2011 and 2014, moving from 4.8 euro cents to 4.9 euro cents. The measures implemented within the framework of the Transform 2015 plan should, however, enable a reduction in the unit cost per EASK of 0.5 of a euro cent to 4.4 euro cents, i.e. a 10% decline.

The medium-haul network remains a cornerstone of the Group's development, ensuring not only its presence throughout Europe but also feeding the long-haul flights departing from the dual hubs of Paris-CDG and Amsterdam. Since the 2008-09 financial crisis, despite the NEO plan implemented as of 2010 and the launch of the provincial bases for French domestic operations, the structural decline in unit revenues has led to deepening operating losses in this business which escalated by some €100 million in 2012 to €800 million. Since the long-haul operations are also facing increased competition, they cannot alone offset these losses and medium-haul must return to break even.

During 2012, the Group established solid foundations for its successful turnaround: in addition to the rapid implementation of cost-saving measures and a downwards revision in capacity and the investment plan, the Group finalized the:

• Renegotiation of working conditions with the signature of new collective labor agreements for the three staff categories (Ground Staff, Flight Deck Crew, Cabin Crew)

• Establishment of action plans for each of its businesses

• Definition of its new corporate governance, and the

• Improvement in its financial situation.

Capacity growth and a downwards revision in investment

Given the uncertain economic environment and the persistent imbalance between transport supply and demand, the Group has opted for a limited increase in capacity in both passenger and cargo. For the passenger business, after growth of 0.6% in 2012, capacity should increase by 1.5% in 2013 followed by 2% in 2014.

As a result, the Group revised its fleet plan and investment program with the exception of investments aimed at the ongoing improvement in operational safety and customer services (€500 million over the three years of the plan). Investment was reduced from an average gross figure of €2.1 billion until 2011 to €1.6 billion in 2012, €1.2 billion in 2013 and €1.4 billion in 2014. This decision led the Group to adjust its medium-term fleet plan combining, for example, the deferral of aircraft deliveries and the non-exercise of options. The Group also decided to limit sale and leaseback transactions (€0.6 billion in 2012, €0.1 billion in 2013 and none in 2014).

Renegotiating the new working conditions

Within the Air France Group, returning to a satisfactory level of profitability requires a very significant improvement in productivity across the company implying the renegotiation of the employment conditions in the existing collective agreements. The negotiations with the organizations representing the different categories of staff resulted in the signature of new collective labor agreements in 2012 for ground staff and flight deck crew and, in February 2013, a pre-agreement with cabin crew. These new collective agreements aim to establish an organization and compensation and career system adapted to the new air transport environment. Applicable since the beginning of 2013, these agreements foresee an improvement in productivity across all categories of staff. For ground staff, the number of working days has increased by between ten and twelve days; flight deck and cabin crew have accepted an increase in flight hours, particularly in medium-haul. There will also be wage moderation via the freeze in salaries and promotions in 2012 and 2013 but also a reduction of around half a point in the seniority creep. Lastly, the Group has launched a voluntary departure plan for 2,700 ground staff and 220 pilots. For cabin crew, the voluntary departure plan will be defined once the new agreement has been signed.

The collective labor agreements at KLM apply for a limited period. During 2012, the company renewed its collective labor agreements through to January 1, 2015. These agreements include a salary freeze in 2013 and 2014, an increase in the number of days worked, a new compensation grid for cabin crew and mobility initiatives for ground staff.

In total, these measures should enable a €400 million reduction in payroll expenses, excluding the impact of the revised IAS 19R, accompanied by a headcount reduction of around 8,500 between 2011 and 2014.

Action plans

The Group has launched a series of action plans for each of its businesses.

Passenger business

The Group has launched action plans for the two segments of its passenger business. In long-haul, the aim is to reinforce profitability by phasing out the least-efficient aircraft from the fleet, improve schedule productivity and, in particular, reposition the product in line with the industry best in class. In medium-haul, given the level of operating losses amounting to €800 million in 2012 for which Air France is largely responsible, the latter has launched a restructuring project.

Restructuring plan for medium haul

Air France has been working on the following structural measures:

• A higher utilization rate for aircraft and assets thanks to the reinforcement of productivity across all employee categories;

• A restructuring of the main and regional networks;

• A redefinition of the product;

• The development of Transavia France.

The improvement in staff productivity has enabled a downwards revision in the medium-haul fleet which is greater than the planned capacity reduction. The fleet will thus be downsized from 146 aircraft in the summer of 2012 to 127 in summer 2014. In 2013, the fleet has been reduced by 10%, i.e. 16 fewer aircraft, for a 2% decline in capacity. The daily utilization rate of the fleet should thus gain one hour on average.

In addition to route closures, the restructuring of the main network includes the provincial bases. Launched in 2011 and 2012, the three bases (Marseilles, Nice and Toulouse) have yet to break even at operating level. While the measures already taken – downwards revision in the fleet, revised schedule to take seasonality into account, marketing efforts in local markets – are not sufficient, a decision on the future of the provincial bases will be taken at the end of the Summer 2013 season. The restructuring of the French regional activity was planned during 2012. The Britair and Régional subsidiaries together with Airliner will be regrouped under a single commercial brand known as Hop! The fleet is also being reduced from 116 aircraft in the Summer 2012 season to 98 aircraft in 2013 followed by 92 in the summer of 2014.

In commercial terms, Air France has reviewed its offering with, for example, the *MiNi* offer in economy class and the enhancement of the in-flight product.

Lastly, the company has decided to develop the activity of its Transavia France leisure subsidiary which will grow to 11 aircraft in 2013 and some 20 in 2015 (8 in 2012) with the opening of new services and the operation of some routes also operated by Air France to extend the range of offers on routes which combine transfer, business and leisure traffic like, for example, Venice and Lisbon.

Cargo business

The Group has also implemented measures to reduce the operating losses in this business which is facing a very difficult economic environment and a situation of overcapacity.

These measures include the definitive retirement of unused freighters, strict capacity discipline and a new commercial strategy. This business will also benefit from the full implementation of the Transform 2015 plan. The aim is to generate, in 2013, a €140 million improvement in the operating result.

Maintenance business

The strategy for the maintenance business focuses on the development of high added-value activities (engines and components) and downsizing the heavy maintenance activity where Europe is no longer competitive in terms of labor costs. The Group is also looking to locate its operations closer to emerging country clients who are more sensitive to a local presence. The Group also continues to modernize its maintenance infrastructure.

New governance

To accompany the implementation of the Transform 2015 plan, the Group decided to introduce a new governance framework with the centralization of the corporate functions at the level of the holding company and, in particular, the functions relating to the three business lines like the marketing strategy, the network strategy, revenue management and alliances, etc. This new organization is aimed at accelerating decision-making, capturing all the available synergies and promoting a new generation of managers.

2.4 Passenger business

Activity in the 2012 financial year is compared with the same periods in the 2011 financial year.

The passenger business is Air France-KLM's main activity, contributing some 80% of the Group's revenues in 2012.

2012 was characterized by capacity discipline at the level of both Air France-KLM and the air transport industry, enabling improved but still-insufficient unit revenues given the further increase in the fuel bill. Air France-KLM carried 77.4 million passengers (+1.8%) for revenues of €20.19 billion while the operating loss amounted to €235 million.

The seasonality effect and a particularly difficult start to the year explain the difference in performance between the two halves.

First half (January-June 2012)

The financial performance of the passenger business was very different between the two quarters. Despite a favorable comparison base due to the different geopolitical events unfolding in early 2011, the first quarter ended with a loss of €504 million (a loss of €367 million one year earlier). The improvement in unit revenue linked to the increase in volumes was not sufficient to offset the increase in the fuel bill. However, the second quarter saw an improvement in the performance of the passenger business. Although still negative, the operating loss was divided by three to €46 million (a loss of €140 million at June 30, 2011).

Over the first half, the Group's capacity increased by 0.9% and traffic by 3.9%, the load factor gaining 2.4 points to 82.2%. The unit revenue per available seat-kilometer rose by 5.7% and by 3.9% excluding currency. With 37.4 million passengers (+3.2%), total passenger revenues stood at €9.56 billion (+7.7% after a positive currency impact of 1.7%). The operating loss stood at €551 million after a €400 million rise in the fuel bill (a loss of €507 million at June 30, 2011).

Second half (July-December 2012)

During this half, benefitting from the more dynamic summer period, the passenger business continued to improve its performance relative to the previous year. The increase in traffic followed that of capacity (+0.4%), enabling the load factor to remain stable at a high 84.0%. The unit revenue per available seat-kilometer increased by 6.2% and by 2.6% excluding currency. The weakness in the euro relative to other currencies enabled the Group to gain market share. Forty million passengers were carried on the network (+0.6%), generating total revenues of €10.63 billion after a positive currency effect of 3.6% (€9.96 billion at December 31, 2011). The operating result was positive to the tune of €316 million (€132 million in the previous year) thanks to €453 million of operating income during the third quarter.

2012 Financial Year

During 2012, the passenger business saw a 2.1% increase in traffic for modest growth in capacity (+0.6%), enabling the load factor to gain 1.2 points to 83.1%. Thanks to a 5.9% increase (+3.2% excluding currency) in the unit revenue per available seat-kilometer (RASK), revenues stood at €20.19 billion (+6.6%) including €19.26 billion of scheduled passenger revenues (+6.6%) and €924 million of ancillary revenues (+10.5%). After a €785 million increase in the fuel bill, the operating result was negative to the tune of €235 million (a loss of €404 million at December 31, 2011).

Key figures by network

At December 31 (12 months)	Destinations *(Summer season)* 2012	2011*	Capacity in ASK *(In million)* 2012	2011*	Traffic in RPK *(In million)* 2012	2011*	Load factor *(In %)* 2012	2011*	No. of passengers *(In thousands)* 2012	2011*	Scheduled passenger revenues *(In € million)* 2012	2011*
Europe	123	124	59,036	57,349	43,938	42,394	74.4	73.9	53,301	51,897	6,605	6,394
North America	24	24	57,156	60,368	50,548	51,949	88.4	86.1	7,255	7,402	3,631	3,349
Latin America	11	11	28,159	24,495	24,771	21,385	88.0	87.3	2,353	2,262	1,616	1,364
Asia-Pacific	25	25	60,519	58,789	51,947	50,175	85.8	85.3	5,971	5,856	3,441	3,150
Africa-Middle East	54	54	35,388	35,925	28,527	28,234	80.6	78.6	5,137	5,163	2,567	2,408
Caribbean-Indian Ocean	16	16	29,040	30,654	24,155	25,208	83.2	82.2	3,325	3,474	1,401	1,406
Total	**254**	**254**	**269,299**	**267,578**	**223,887**	**219,346**	**83.1**	**82.0**	**77,448**	**76,053**	**19,262**	**18,071**

* After reclassification of the Martinair leisure business in passenger

The long-haul network

With a fleet of 167 aircraft in operation, like in 2011, the Group carried 24.1 million passengers on the long-haul network to 130 destinations (Summer season: April-October 2012) in 69 countries. The dual hub (Paris and Amsterdam) gives access to the destinations offered by one or other airline. On the shared destinations, it enables a wide choice of flight times, particularly for transfer passengers who have the choice of transiting through either Paris or Amsterdam. The weight of the long-haul network remained stable on the previous year, representing around 80% of traffic and 78% of capacity. Long-haul traffic increased by 1.7% for stable capacity, leading to a 1.4 point gain in load factor to 85.6%.

The long-haul network's contribution to total scheduled passenger revenues amounted to 66%, or a 1.1 point increase relative to 2011. Revenues stood at €12.66 billion (+8.4% after a positive currency effect of 3.2%). The unit revenue per available seat-kilometer was significantly higher (+8.4%) in both the premium (+10.2%) and economy (+8.4%) classes.

The respective weight of each long-haul network did not change significantly relative to the previous year.

The **North and Latin American market** remained the Group's first network in terms of both traffic (34%) and capacity (32%), carrying 9.7 million passengers (+0.5%) to 35 destinations in 10 countries and generating revenues of €5.25 billion (+11.3% after a positive currency effect of +3.9%). The proportion of scheduled passenger revenues contributed by this network increased by one percentage point to 27%. Traffic increased by 2.7% while the increase in capacity was limited to 0.5%, reflecting a very different situation between the two markets.

- In North America, within the framework of the joint venture with Delta, it was decided to reduce capacity to contend with less dynamic demand. The Air France-KLM Group thus reduced its capacity by 5.3%. With the traffic decline limited to 2.7% and a 2.4 point improvement in load factor to 88.4%, the unit revenue per available seat-kilometer progressed by 14.5%, or 10.4% excluding currency.
- In Latin America, traffic (+15.8%) followed capacity (+15.0%), resulting in a 0.7 point increase in load factor to 88.0%. Despite this sharp rise in capacity, the unit revenue per available seat-kilometer proved resilient (+2.9% and -1.3% excluding currency).

The **Asia-Pacific** network was the Group's second network with 23% of traffic and 22% of capacity, as 2011. The Group carried some six million passengers (+2.0%) to 25 destinations in 11 countries. Japan, which had been very badly affected by the earthquake followed by the tsunami in March 2011, regained its pre-crisis level of activity. Traffic increased by 3.5% for a capacity increase of 2.9%, the load factor gaining a half point to 85.8%. The unit revenue per available seat-kilometer rose by 5.9% (+1.8% excluding currency). The revenues from this network amounted to €3.44 billion (+9.2% after a positive currency effect of 4.1%). This network accounted for 18% of total scheduled passenger revenues, like in the previous year.

With 54 destinations in 40 countries, **Africa-Middle East** remained the Group's third long-haul network. While the network in Africa saw a recovery, some parts of the Middle East continued to suffer from political instability meaning that capacity on this network was down by 1.5%. Thanks to Africa, traffic increased by 1.0% and the load factor gained two points to 80.6%. The unit revenue per available seat-kilometer remained positively oriented (+8.1% and +5.7% excluding currency). The Group carried 5.1 million passengers (-0.5%), generating revenues of €2.57 billion, up by 6.6% after a positive currency impact of 2.3%. Its share of total scheduled passenger revenues was stable at 13%.

The **Caribbean and Indian Ocean** network offered 16 destinations in five countries visited by 3.3 million passengers (-4.3%). After the strong increase in 2011, the Group decided to reduce capacity by 5.3% in 2012. As a result, traffic declined by 4.2% enabling a near-one-point improvement in the load factor to 83.2%. The unit revenue per available seat-kilometer increased by 6.2% and by 5.4% excluding currency, enabling revenues to remain stable at €1.40 billion despite the significant reduction in capacity. This network's share of total scheduled passenger revenues fell by one percentage point to 7%.

The medium-haul network

The medium-haul network was the Group's third network with 20% of traffic and 22% of capacity, a slight increase on 2011. It covers France, the other European countries and North Africa and offers 124 destinations in 36 countries (Summer season: April-October 2012). This network mainly links Europe with the rest of the world thanks to the Group's two hubs. The French domestic market is mostly served out of Orly, with the *La Navette* shuttle service linking Paris to the main French regional capitals. The Group's regional subsidiaries, Brit Air, Régional, CityJet, VLM and KLM Cityhopper, participate in the medium-haul business either by linking secondary French and European cities or by offering intra-domestic routes. The regional airlines in the Air France Group sharply reduced their capacity (-21%) ahead of the reorganization of this division which took place at the beginning of 2013. On the other hand, after Marseilles in 2011, the Group opened its second provincial base in Nice, followed by a third in Toulouse in 2012, thereby contributing to the increase in capacity. Capacity effectively increased by 2.9% year-on-year and, with traffic having increased by 3.6%, the load factor Improved by half a percentage point to 74.4%.

With a fleet of 352 aircraft in operation, of which 166 regional aircraft, the Group carried 53.3 million passengers (+2.7%) and generated €6.61 billion of scheduled passenger revenues (+3.3%). This network represented 34% of total scheduled passenger revenues (down one point relative to 2011).

The level of unit revenue per available passenger-kilometer (+0.3% and -1.3% excluding currency) did not recover during the financial year. The weakness of the French economy and the challenging launch of the provincial bases weighed on the results of the medium-haul business which moved from a €700 million loss in 2011 to a €800 million loss at December 31, 2012 (*see paragraph 2.3 Strategy – restructuring plan for medium haul above*).

Key figures for the passenger business

12-month financial year to	December 31, 2012	December 31, 2011* (pro forma)	December 31, 2011 (pro forma reported)
Number of passengers (*in thousands*)	77,448	76,053	75,781
Capacity (*in ASK million*)	269,299	267,578	264,897
Traffic (*in RPK million*)	223,887	219,346	248,532
Load factor	83.1%	82.0%	82.0%
Total passenger revenues (*in €m*)	20,186	18,941	18,834

Scheduled passenger revenues (*in €m*)	19,262	18,071	17,998
Unit revenue per ASK (*in € cents*)	7.15	6.75	6.80
Unit revenue per RPK (*in € cents*)	8.60	8.24	8.29
Unit cost per ASK (*In € cents*)	7.24	6.90	6.86
Income/(loss) from current operations (*in €m*)	(235)	(404)	(375)

* After reclassification of the Martinair leisure business in passenger

In the 2012 financial year, the unit revenue per available seat-kilometer (RASK) was up by 5.9% and by 3.2% on a constant currency basis. The unit revenue per revenue passenger-kilometer (RRPK) increased by 4.4% and by 1.7% on a constant currency basis. The unit cost per available seat-kilometer rose by 4.9% but fell by 0.3% on a constant currency and fuel price basis.

2.5 Cargo business

Activity in the 2012 financial year is compared with the same periods in 2011.

Cargo is the second of the Group's businesses, accounting for some 12% of total revenues.

For the second year running, the air cargo market experienced a decline with a fall of 1.5% in 2012 after a 0.6% reduction in 2011. This business is suffering from the weakness in global trade and from changes in the type of products traded. The expansion in the emerging economies stimulated demand for bulk products transported by sea while the weakness in the Western economies weighed on demand for high-value-added consumer goods carried by air. The capacitities of the IATA member airlines increased by just 0.2% over the year and the load factor stood at 45.2%. The European operators saw demand fall by 2.9% and their load factor reduced to 47.2% *(source: IATA January 31, 2013).*

Within this much weaker environment, the Group carried 1.4 million tons of cargo (-5.7%) for revenues of €3.06 billion. The weakness in demand weighed on both unit revenue per available ton-kilometer (RATK) and unit revenue per revenue ton-kilometer (RRTK). Their level was insufficient to offset the increase in the fuel bill. The loss from current operations stood at €222 million.

First half (January-June 2012)

During this first half, the Group reduced cargo capacity (-2.5%), particularly in full freighters, but this was not sufficient to offset the decline in traffic (-6.5%), resulting in a 2.8 point decline in load factor to 64.5%. The Group carried 0.68 million tons (-6.3%). While the Group managed to protect the unit revenue per revenue ton-kilometer which increased by 1.6% (-1.4% excluding currency), the lack of volume penalized the unit revenue per available ton-kilometer which declined by 2.5% (-5.4% excluding currency). Revenues were down by 3.8% to €1.51 billion and the loss from current operations stood at €130 million (a loss of €23 million at June 30, 2011).

Second half (July-December 2012)

The end of the second half is usually characterized by strong activity linked to the festive season. In the past two years, however, the last quarter of the year has not seen a rebound in activity although this division's operating performance did improve relative to the first half. Over this six-month period, traffic declined by 6.2% for capacity down by 4.5%, the load factor falling by 1.1 points to 64.4%. The unit revenue per available ton-kilometer increased by 2.5% after a positive currency effect of 4.6%. Revenues amounted to €1.55 billion (-1.7%) while the loss from current operations stood at €92 million (a loss of €37 million in the 2011 second half).

2012 Financial Year

Over the 2012 financial year, capacity and traffic declined by a respective 3.5% and 6.3%, resulting in a 1.9 point fall in load factor to 64.5%. While the unit revenue per revenue ton-kilometer proved relatively resilient (+3.0% and -0.9% excluding currency), the unit revenue per available ton-kilometer was stable (-3.8% excluding currency). These levels of unit revenues were not sufficient to offset the €122 million increase in the fuel bill. Revenues declined by 2.7% to €3.06 billion and the loss from current operations stood at €222 million (a loss of €60 million at December 31, 2011).

Key figures by network

At December 31 (12 months)	Capacity in ATK *(In million)*		Traffic in RTK *(In million)*		Load factor *(In %)*		No. of tons *(In thousands)*		Cargo transportation revenues *(In €m)*	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Europe	533	555	69	80	12.9	14.5	49	55	54	56
North and Latin America	6,597	6,591	4,229	4,495	64.1	68.2	519	557	1,168	1,191
Asia/Pacific	5,387	5,988	4,197	4,557	77.9	76.1	489	521	899	975
Africa/Middle East	2,742	2,777	1,636	1,718	59.7	61.9	268	276	603	603
Caribbean/Indian Ocean	1,150	1,100	446	443	38.8	40.3	58	58	148	152
Total	**16,409**	**17,011**	**10,577**	**11,294**	**64.5**	**66.4**	**1,383**	**1,467**	**2,872**	**2,977**

As the Group's premier cargo network, the **Americas** network represents 40% of capacity, traffic and cargo transportation revenues. Over the year, traffic increased by 5.9% for stable capacity (+0.1%), the load factor falling by 4.1 points to 64.1%. The Group carried 519,000 tons (+0.9%), generating revenues of €1.17 billion (-1.9%).

The **Asia-Pacific** network accounted for 33% of capacity and 40% of traffic. Despite a reduction in capacity from both the European and Asian carriers, cargo activity between Europe and Asia suffered from the slowdown in the European economy. For its part, the Group sharply reduced its capacity (-10.0%), particularly on departure from Hong-Kong. Traffic also declined but not as much as capacity (-7.9%) enabling the load factor to gain 1.8 points to 77.9%. The Group carried 489,000 tons for revenues of €899 million (-7.8%).

Africa-Middle East is the Group's third network with 15% of capacity and 17% of traffic. The various political crises continued to weigh on activity such that traffic was down by 4.8% for a 1.3% capacity reduction. The load factor thus lost 2.2 points to 59.7%. Tonnage transported stood at 268,000 tons (-2.9%) while revenues were stable at €603 million.

The **Caribbean-Indian Ocean** network posted traffic and capacity increases of, respectively, 0.7% and 4.5%, the load factor declining by 1.5 points to 38.8%. With 57,000 tons transported, revenues amounted to €148 million (-2.6%).

Key figures for the cargo business

12-month financial year to	**December 31, 2012**	**December 31, 2011 (pro forma)**
Tonnage transported (*in thousands*)	1,383	1,467
Capacity *(in thousands of ATK*)	16,409	17,011
Traffic *(in thousands of RTK*)	10,577	11,294
Load factor	64.5%	66.4%
Total cargo revenues (*in €m*)	3,057	3,143
Freight transport revenues (*in €m*)	2,872	2,977
Unit revenue per ATK (*in € cents*)	17.50	17.50

Unit revenue per RTK (*in € cents*)	27.15	26.37
Unit cost per ATK (*in € cents*)	18.85	17.86
Income/(loss) from current operations (*In €m*)	(222)	(60)

In 2012, the unit revenue per available ton-kilometer (RATK) was stable and declined by 3.8% on a constant currency basis. The unit revenue per revenue ton-kilometer (RRTK) increased by 3.0% and declined by 0.9% on a constant currency basis. The unit cost per available ton-kilometer was up by 5.6% but down by 1.2% on a constant currency and fuel price basis.

2.6 Maintenance business

Activity in the 2012 financial year is compared with the same period in 2011.

Aircraft maintenance is the Air France-KLM Group's third business with third-party revenues accounting for some 4% to 5% of the Group total. These third-party revenues generated with external customers represent around one third of the total revenues from this activity.

The Group generated total revenues of €3.13 billion (+1%), of which €1.10 billion with third-party clients. The revenue growth was limited by a negative dollar effect. Income from current operations stood at €145 million versus €110 million at December 31, 2011 after €23 million of additional costs linked to the in-line maintenance strike. The engine and components activities saw a significant improvement in their profitability relative to 2011. The heavy maintenance business remained loss-making but there was no deterioration relative to the previous year.

Key figures for the maintenance business

12-month financial year to	**December 31, 2012**	**December 31, 2011 (pro forma)**
Total revenues (*in €m*)	3,134	3,112
Third-party revenues (*in €m*)	1,096	1,040
Income from current operations (*in €m*)	145	110

2.7 Other businesses

Activity in the 2012 financial year is compared with the same period in 2011.

The main activities in this sector are the catering business and the leisure business. The Martinair leisure business having been reclassified within the KLM passenger business in November 2011, the figures for the 2011 financial year have been restated to facilitate comparison.

Total revenues from these other businesses amounted to €1.29 billion (+3.4% relative to December 31, 2011 restated) while income from current operations stood at €12 million versus break-even at December 31, 2011 restated.

Leisure business

Since January 1, 2012, the leisure business has been solely operated by Transavia. As a result, the figures for the 2011 financial year have been restated.

With a fleet of 39 aircraft (38 aircraft in the previous year), Transavia generated revenues of €889 million, up by 8.9%. At December 31, 2012, after a €62 million increase in the fuel bill, the operating result was broadly at break-even (a loss of €1 million versus a loss of €5 million at December 31, 2011).

Key figures of the leisure business

12-month financial year to	December 31, 2012	December 31, 2011* (pro forma)	December 31, 2011 (pro forma reported)
Capacity (*in ASK million*)	17,683	17,105	19,799
Traffic *(in RPK milion*)	15,406	14,794	16,965
Load factor	87.1%	86.5%	85.7%
Total passenger revenues (*in €m*)	889	816	911
Scheduled passenger revenues (*in €m*)	851	784	878
Unit revenue per ASK (*in € cents*)	4.81	4.58	4.43
Unit revenue per RPK (*in € cents*)	5.53	5.30	5.17
Unit cost per ASK (*in € cents*)	4.82	4.61	4.47
Income/(loss) from current operations (*in €m*)	(1)	(5)	(33)

* After reclassification of the Martinair leisure business in passenger

Catering business

The catering business generated total revenues of €928 million of which €355 million in third-party revenues (€376 million at December 31, 2011). Operating income stood at €6 million at December 31, 2012 versus €25 million in the previous year.

Key figures for the catering business

12-month financial year to	December 31, 2012	December 31, 2011 (pro forma)

Total revenues (*in €m*)	928	955
Third-party revenues (*in €m*)	355	376
Income from current operations (*in €m*)	6	25

2.8 Fleet

The comparisons are made over a twelve-month period (January 1-December 31).

At December 31, 2012, the Air France-KLM Group fleet comprised 605 aircraft, of which 573 were operational compared with, respectively, 609 and 586 aircraft at December 31, 2011.

The main operational fleet consisted of 407 aircraft (413 aircraft at December 31, 2011), of which 167 were long-haul aircraft (167 at December 31, 2011), 15 were cargo aircraft including six at Martinair and 225 were medium-haul aircraft (229 at December 31, 2011) including 39 aircraft in the Transavia Group fleet (38 aircraft at December 31, 2011). The regional fleet in operation comprises 166 aircraft (173 at December 31, 2011).

At December 31, 2012, 40% of the total Group fleet was fully owned (45% at December 31, 2011), 22% under finance lease (19% at December 31, 2011), and 38% under operating lease (36% at December 31, 2011). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €1.19 billion (€2.02 billion at December 31, 2011) plus €175 million corresponding to non-monetary transactions (see note 38.4 to the consolidated financial statements). Disposals of flight equipment stood at €705 million, of which €632 million in sale and leaseback transactions (€1.15 billion and €995 million respectively at December 31, 2011).

There were firm orders outstanding for 43 aircraft at December 31, 2012, including 25 Boeing B787s for delivery between 2016 and 2026. Options stood at 63 (73 at December 31, 2011) of which 25 were for Boeing B787s. The Airbus A350 order is in the negotiation process with Airbus and Rolls Royce and is thus not included in the figures at December 31, 2012.

Change in the Air France-KLM Group order book	**December 31, 2011**	**Deliveries during the period**	**New orders**	**Option conversion**	**December 31, 2012**
Main fleet	53	11	-	-	53
Regional fleet	8	7	-	-	8
Total	**61**	**18**	**-**	**-**	**43**

Change in the Air France-KLM Group option portfolio	**December 31, 2011**	**Exercise during the period**	**Options cancelled or expired**	**New options**	**December 31, 2012**
Main fleet	52	-	10	-	42
Regional fleet	21	-	-	-	21
Total	**73**	**-**	**10**	**-**	**63**

2.8.1 The Air France Group fleet

The comparisons are made over a twelve-month period (January 1-December 31).

The Air France Group fleet totalled 396 aircraft at December 31, 2012, of which 257 aircraft in the main fleet and 139 in the subsidiaries. Firm orders amounted to 24 aircraft, of which 23 aircraft for Air France.

The changes in the fleet were as follows.

	Fleet at December 31, 2011	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2012
Long-haul fleet	104	5	3	106
Medium-haul fleet (including Transavia France)	156	2	6	152
Cargo	7	-	-	7
Regional fleet	135	7	11	131
Total	**402**	**14**	**20**	**396**

* *Deliveries, operating lease and financial lease.*

The Air France fleet

The Air France fleet comprised 257 aircraft at December 31, 2012, with 248 in operation (259 and 254 respectively at December 31, 2011). The fleet includes 104 long-haul aircraft, 144 medium-haul aircraft and seven freighters. At December 31, 2012, the average age of the fleet was 9.7 years, with 9.2 years for the long-haul fleet, 10.2 years for the medium-haul fleet and 7.4 years for the cargo fleet. At December 31, 2011, the average age had been 9.3 years, with 9.1 years for the long-haul fleet, 9.6 for the medium-haul fleet and 6.3 years for the cargo fleet.

Within the fleet, 105 aircraft are fully owned (41%), 39 are under finance lease (15%) and 113 under operating lease (44%).

During the 2012 financial year, the company took delivery of three Boeing B777-300s, two Airbus A380s and two Airbus A320s. In parallel, two Boeing B747-400s, one Airbus A340-300, four Airbus A320s and two Airbus A319-20s were withdrawn from the fleet. Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €703 million plus €175 million of non-monetary transactions, and disposals to €471 million, including €444 million of sale and leaseback transactions.

The fleet of the regional subsidiaries and Transavia

The fleet of the regional subsidiaries is organized around four aircraft families: the Embraer family at Régional, the Bombardier family at Brit Air, the Fokker family at VLM and the Avro fleet operated by CityJet. At December 31, 2012, the total fleet of these four companies comprised 131 aircraft, with a seat capacity of up to 100, of which 118 in operation. The average age of the fleet in operation was 10.8 years at December 31, 2012: 7.8 years for the Brit Air fleet, 8.7 years for Régional, 13.9 years for CityJet and 23 years for the VLM fleet.

During the 2012 financial year, seven aircraft entered the regional fleet (five Embraer 170s at Régional and two CRJ 1000s at Brit Air) and 11 were withdrawn (four aircraft at both Brit Air and Régional, two at CityJet and one at VLM). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €30 million over the financial year and disposals to €9 million.

Eighty-one aircraft are fully owned (62%), 25 are under finance lease (19%) and 25 are under operating lease (19%). At December 31, 2012, the order book stood at one aircraft under firm order.

The Transavia France fleet comprises eight Boeing B737-800s, all in operation and under operating lease (eight aircraft at December 31, 2011). The average age of this fleet is 7.4 years.

2.8.2 The KLM Group fleet

The comparisons are made over a twelve-month period (January 1-December 31).

The KLM Group fleet totalled 209 aircraft at December 31, 2012 (207 aircraft at December 31, 2011) of which 160 in the main fleet and 49 in the regional fleet. Firm orders stood at 19 aircraft, all of which are for KLM.

KLM Group fleet	Fleet at December 31, 2011	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2012
Long-haul fleet	63	5	2	66
Medium-haul fleet (including Transavia Netherlands)	81	2	3	80
Cargo (including Martinair)	15	-	1	14
Regional fleet	48	5	4	49
Total	**207**	**12**	**10**	**209**

* *Deliveries, operating lease and financing lease.*

The KLM fleet

The KLM fleet comprises 119 aircraft with 114 in operation. There are 66 long-haul aircraft, 4 freighters and 49 medium-haul aircraft. At December 31, 2012, the aircraft in the fleet had an average age of 9.5 years, with 11.7 years for the long-haul fleet, 6.7 years for the medium-haul fleet and 8.6 years for the cargo fleet. At December 31, 2011, the average age of the fleet had been 9.2 years, including 11.9 years for the long-haul fleet, 5.7 years for the medium-haul fleet and 7.5 years for the cargo fleet. Twenty-eight aircraft were fully owned (24%), 42 aircraft were under finance lease (35%) and 49 under operating lease (41%).

During the financial year, two Boeing B777-300s and three Airbus A330-300s joined the fleet while two MD11s, one Boeing B737-400 and one Boeing B737-300 were withdrawn. Investment in flight equipment amounted to €361 million (including advance payments on orders, spare parts and ground-based maintenance operations) and disposals to €75 million including €49 million of sale and leaseback transactions.

The fleet of the subsidiaries

Other non-regional fleet

The Transavia Netherlands fleet comprised 31 aircraft, of which ten Boeing B737-700s and 21 Boeing B737-800s. Thirty-two per cent was under finance lease and 68% under operating lease. The average age of the aircraft in the fleet was 8.5 years. Sale and leasebacks stood at €36 million.

Martinair had a fleet of 10 freighters, of which six were in operation given the capacity reduction strategy in force within the cargo business. Three aircraft were fully owned (30%), two were under finance lease (20%) and five were under operating lease (50%). The average age of this fleet was 16.9 years.

Regional fleet

The KLM Cityhopper fleet comprised 49 aircraft, of which 48 were operational at December 31, 2012 as at December 31, 2011. The average age of the aircraft in operation in the regional fleet was 10.4 years. Twenty-seven aircraft were fully owned (55%), 13 were under finance lease (27%) and nine aircraft under operating lease (18%). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €99 million and disposals to €114 million, including €103 million in sale and leaseback transactions.

Air France fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
B747-400	3	-	1	+1	3	-3	7	-2	7	-2
B777-200/300	28	-1	9	+2	25	+2	62	+3	62	+3
A380-800	1	-1	3	+2	4	+1	8	+2	8	+2
A340-300	9	-1	3	+1	2	-1	14	-1	11	-4
A330-200	3	-	2	-	10	-	15	-	15	-
Long-haul	**44**	**-3**	**18**	**+6**	**44**	**-1**	**106**	**+2**	**103**	**-1**
B747-400	2	-	-	-	3	-	5	-	3	-
B777-F Cargo	2	-	-	-	-	-	2	-	2	-
Cargo	**4**	**-**	**-**	**-**	**3**	**-**	**7**	**-**	**5**	**-**
A321	6	-5	6	+5	13	-	25	-	25	-
A320	20	-3	3	-	36	+1	59	-2	56	-3
A319	20	-1	5	+1	17	-2	42	-2	41	-2
A318	11	-2	7	+2	-	-	18	-	18	-
Medium-haul	**57**	**-11**	**21**	**+8**	**66**	**-1**	**144**	**-4**	**140**	**-5**
Total	**105**	**-14**	**39**	**+14**	**113**	**-2**	**257**	**-2**	**248**	**-6**

Regional fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
Brit Air										
Canadair Jet 1000	13	+2	-	-	-	-	13	+2	13	+2
Canadair Jet 700	6	-	9	-	-	-	15	-	15	-
Canadair Jet 100	12	-	1	-	-	-	13	-	9	-4
4F100-100	-	-3	-	-	-	-1	-	-4	-	-
Total	**31**	**-1**	**10**	**-**	**-**	**-1**	**41**	**-2**	**37**	**-2**
CityJet										
AVRO RJ 85	11	-2	-	-	11	-	22	-2	19	-2
Total	**11**	**-2**	**-**	**-**	**11**	**-**	**22**	**-2**	**19**	**-2**
Régional										
EMB190	4	-	-	-	6	-	10	-	10	-
EMB170	8	-	2	-	6	+5	16	+5	16	+6
EMB145-	11	+1	11	-1	1	-3	23	-3	23	-3

EP/MP										
EMB135-ER	4	-	2	-1	-	-	6	-1	-	-4
Total	**27**	**+1**	**15**	**-2**	**13**	**+2**	**55**	**+1**	**49**	**-1**
VLM Airlines										
Fokker 50	12	-	-	-	1	-1	13	-1	13	-1
Total	**12**	**-**	**-**	**-**	**1**	**-1**	**13**	**-1**	**13**	**-1**
Total regional	**81**	**-2**	**25**	**-2**	**25**	**-**	**131**	**-4**	**118**	**-7**

Other fleet

	Owned		**Finance lease**		**Operating lease**		**Total**		**In operation**	
Aircraft type	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
Transavia France										
B737-800	-	-	-	-	8	-	8	-	8	-
Total	**-**	**-**	**-**	**-**	**8**	**-**	**8**	**-**	**8**	**-**
Total Air France Group	**186**	**-16**	**64**	**+12**	**146**	**-2**	**396**	**-6**	**374**	**-13**

KLM fleet

	Owned		**Finance lease**		**Operating lease**		**Total**		**In operation**	
Aircraft type	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
B747-400	13	-	4	-	5	-	22	-	22	-
B777-300	-	-	7	+2	-	-	7	+2	7	+2
B777-200	-	-	6	-	9	-	15	-	15	-
MD11	7	-1	1	-1	-		8	-2	6	-4
A330-200	-	-	6	-	5	-	11	-	11	-
Long-haul	**20**	**-1**	**24**	**+1**	**22**	**+3**	**66**	**+3**	**64**	**+1**
B747-400	-	-	3	-	1	-	4	-	4	-
Cargo	**-**	**-**	**3**	**-**	**1**	**-**	**4**	**-**	**4**	**-**
B737-900	1	+1	1	-1	3	-	5	-	5	-
B737-800	4	-6	6	+3	13	+3	23	-	23	-
B737-700	-	-	8	-	10	-	18	-	18	-
B737-400	3	-1	-	-	-	-	3	-1	-	-
B737-300	-	-1	-	-	-	-	-	-1	-	-
Medium-haul	**8**	**-7**	**15**	**+2**	**26**	**+3**	**49**	**-2**	**46**	**-**
Total	**28**	**-8**	**42**	**+3**	**49**	**+6**	**119**	**+1**	**114**	**+1**

Regional fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
KLM Cityhopper										
F100	1	-4	-	-	-	-	1	-4	-	-5
F70	26	+3	-	-3	-	-	26	-	26	-
EMB 190	-	-	13	-	9	+5	22	+5	22	+5
Total	**27**	**-1**	**13**	**-3**	**9**	**+5**	**49**	**+1**	**48**	**-**

Other fleet

	Owned		Finance lease		Operating lease		Total		In operation	
Aircraft type	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
Transavia Netherlands										
B737-800	-	-2	5	+2	16	+1	21	+1	21	+1
B737-700	-	-	5	-	5	-	10	-	10	-
Total	**-**	**-2**	**10**	**+2**	**21**	**+1**	**31**	**+1**	**31**	**+1**
Martinair										
B747-400 BCF	-	-	-	-	3	-1	3	-1	-	-1
MD-11-CF	3	-	-	-	1	-	4	-	4	-
MD-11-F	-	-	2	-	1	-	3	-	2	-1
Total	**3**	-	**2**	-	**5**	**-1**	**10**	**-1**	6	**-2**
Total Other Fleet	**3**	**-2**	**12**	**+2**	**26**	**-**	**41**	**-**	**37**	**-1**
Total KLM Group	**58**	**-11**	**67**	**+2**	**84**	**+11**	**209**	**+2**	**199**	**-**

Air France-KLM Group fleet

	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2012	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**	**12/31/2012**	**YoY ch.**
Total	**244**	**-27**	**131**	**+14**	**230**	**+9**	**605**	**-4**	**573**	**-13**

2.9 Highlights of the beginning of the 2013 financial year

The two main highlights of the beginning of the 2013 financial year are as follows:

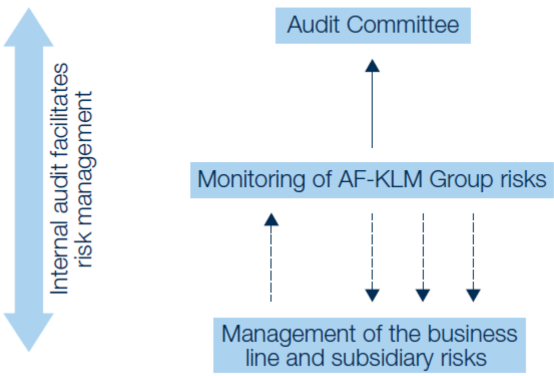
● On February 14, 2013, within the framework ok the €150 million shareholder convertible loan for Alitalia, Air France-KLM accepted to subscribe an amount in line with its holding in the Italian company's share capital.

● On February 20, 2013, Air France signed a set of decisions with the unions representing the cabin crew enabling the drafting of a new collective agreement organizing the required productivity gains within the framework of the Transform 2015 plan. Between now and March 14, 2013, the three unions plan to consult their members regarding the basis content of this agreement.

3 Risks and risk management

3.1 Risk management process

The Air France-KLM Group is exposed to the general risks associated with air transport and running a business, and has consequently implemented a system to identify and monitor risks. Strategic risk mapping and operating risk mapping processes have been established by all the relevant entities, supervised by internal audit. These risk maps are regularly updated and consolidated by subsidiary (Air France and KLM) and for the Air France-KLM Group. Market risks (fuel, currencies and interest rates) are managed by the Risk Management Committee *(See Market risks and their management).* Every three months, each Group entity updates the scope of its major operating risks including market risks by indicating the risk itself, the probability it will occur and its potential financial impact. These risks are discussed within the management teams with ownership of the risks. Both risks specific to each entity and transverse risks potentially affecting the whole Group are the subject of reporting. For each of the risks, the senior executives concerned at the level of the General Management are responsible for reviewing the measures implemented to manage them. On a quarterly basis, a presentation on the most significant operating and market risks is made by internal audit to the Executive Committee and the Audit Committee, together with the measures in place for their management. Within the framework of the process to establish the Air France-KLM Group's strategy (Group Strategic Framework), the Management evaluates the strategic risks (competition, economic growth, etc.) and determines the related action plans. These risks and action plans are the subject of a presentation and discussion during the yearly meeting of the Board of Directors devoted to the Group's strategy.



The risk management process complies with international regulatory standards including the European Union 8th Directive.

3.2 Risk factors and their management

3.2.1 Risks relating to the air transport activity

Risks linked to the situation of the air transport sector and to competition from other air and rail transport operators

While the growth forecasts for air transport demand remain positively oriented (+150% over the next two decades), the doubling in the fleet by 2030 (*source Boeing Current Market Outlook 2011*) could create a situation of overcapacity, leading to pressure on unit revenues.

The air transport industry is extremely competitive. The liberalization of the European market on April 1, 1997 and the ensuing increased competition between carriers has led to a reduction in tariffs. Furthermore, within the framework of the Open Skies agreement between the European Union and the United States, European airlines are authorized to operate flights to the United States from any European airport. While this agreement potentially opens the way to increased competition for Roissy-Charles de Gaulle and Schiphol, it has also enabled Air France and KLM to extend their networks and strengthen cooperation within the

SkyTeam alliance, particularly within the framework of the implementation of a trans-Atlantic joint-venture with their partners Delta and Alitalia.

On its short and medium-haul flights to and from France, the Netherlands and other European countries, the Group competes with alternative means of transportation. In particular, the high-speed TGV rail network in France competes directly with the Air France *Navette,* a shuttle service between Paris and the regional French capitals. Air France and KLM's flights to London are in direct competition with the Eurostar train service. An extension of high-speed rail networks in Europe is liable to have a negative impact on the Group's activity and financial results. Air France and KLM also face competition from low-cost airlines for some European point-to-point traffic and, between Europe and Asia, from the Gulf State airlines which are being granted new traffic rights by European governments.

In response to this competition, the Group has launched a restructuring of its medium-haul business while, in long-haul, it is developing partnerships. For example, the Group recently signed a code share agreement with the Gulf State airline Etihad (*see also paragrapgh 2.3 - Strategy, page 57*).

Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter and a higher probability of operational risks linked to bad weather during the winter months. Consequently, the operating results for the first and second halves of the financial year are not comparable.

Risks linked to the cyclical nature of the air transport industry

Local, regional and international economic conditions can have an impact on the Group's activities and, hence, its financial results. Periods of crisis or post-crisis, such as the one being traversed currently with an unstable economic environment, are liable to affect demand for transportation, both for tourism and business travel. Furthermore, during such periods, the Group may have to take delivery of new aircraft or be unable to sell unused aircraft under acceptable financial conditions (*see also paragraph 2.8 – Fleet, page* 72.

Risks linked to terrorist attacks, the threat of attacks, geopolitical instability, epidemics and threats of epidemics

The terrorist attacks of September 11, 2001 in the United States had a major impact on the air transport sector. Airlines experienced falling revenues and rising costs notably due to the fall in demand and to higher insurance and security costs. Some aircraft also saw a decline in their value. The SARS epidemic resulted in a sharp fall in air traffic and revenues generated in Asia. In 2011, the geopolitical situation resulting from natural disasters occurring in Japan and political events (Arab and African countries) significantly impacted the company's operations to and from these regions.

- → In terms of safety, the airlines in the Group comply with European and international regulations and submit regular reports to the competent authorities of the measures and procedures in place.
- → The Group has also developed emergency plans and procedures enabling it to adapt to changing environments and ensure that it can respond effectively to different situations were an epidemic, geopolitical or other type of event to occur. The aim of these plans is the effective protection of passengers and staff, operational and service continuity, and the preservation of the long-term viability of the Group's businesses. These plans are regularly adjusted to take into account the lessons learnt from events experienced.

The occurrence of political instability, attacks, threat of an attack, military action, epidemic or perception that an epidemic could occur (e.g. Influenza A/H1N1) could have a negative impact on both the Group's passenger traffic, and thus its revenues, and on the level of operating expenses.

The Group has no hedging in place for operating losses but is insured for the consequences of an attack on one of its aircraft (*See also paragraph 3.2.4 - Insurance risks, page 90*).

Risks linked to changes in international, national or regional regulations and laws

Air transport activities remain highly regulated particularly with regard to the allocation of traffic rights for extra-community services and the conditions relating to operations (standards on safety, aircraft noise, CO_2 emissions, airport access and the allocation of time slots). Within this context, the EU institutions notably adopt regulations which may be restrictive for airlines and are liable to have a significant organizational and/or financial impact. The European Commission has published its White Paper entitled *Roadmap to a Single European Transport Area* which emphasizes the need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development. In terms of its content, the main positive measure is the Commission's commitment to developing biofuels as well as the implementation of the Single European Sky. The White Paper also, however, envisages introducing a tax on air transportation, levying VAT on international flights, stepping up initiatives in the passenger rights area, pursuing a pro-active policy on rail development and reviewing the regulation governing the allocation of time slots on the European platforms. Any changes to regulations and legislation could increase the Group's operating expenses or reduce its revenues.

The Air France-KLM Group actively defends its positions with the French and Dutch governments and European institutions directly or through industry bodies such as the Association of European Airlines (AEA) regarding both changes in European and national regulations and a reasonable and balanced allocation of traffic rights to non-European airlines.

Risks of loss of flight slots or lack of access to flight slots

Due to the saturation at major European airports, all air carriers must obtain flight slots, which are allocated in accordance with the terms and conditions defined in Regulation 95/93 issued by the EC Council of Ministers on January 18, 1993. Pursuant to this regulation, at least 80% of the flight slots held by air carriers must be used during the period for which they have been allocated. Unused slots will be lost by this carrier and transferred into a pool. The regulation does not provide for any exemptions for situations in which, due to a dramatic drop in traffic caused by exceptional events, air transport companies are required to reduce activity levels substantially and no longer use their flight slots at the required 80% level during the period in question. The European Commission can, however, decide to temporarily suspend Regulation 95/93 governing the loss of unused flight slots as was recently the case in 2009.

In 2010, the European coordinators accepted that the closure of the airspace following the volcanic eruption constituted, in respect of the community regulation, an exceptional circumstance justifying the suspension of the *use it or lose it* regulation at the relevant airports.

Any loss of flight slots or lack of access to flight slots due to airport saturation could have an impact in terms of market share, results or even development.

As a general rule, the Group manages this risk at the preventive and operational level. At the preventive level, two months before the beginning of a season, the Group analyzes the reductions to be considered for commercial reasons (holidays, long weekends and bank holidays, for example). As a result, so as to avoid the under-utilization of this portfolio of flight slots, it does not request the slots corresponding to these flights. At operational level, the Group uses tools shared by the schedule regulation unit and by the operations control center which warn of any under-utilization risk.

Risks linked to the consumer compensation regulations

Within the European Union, passenger rights are defined by regulation 261/2004 which came into force in 2005, applying to all flights, whether scheduled or not, departing from an airport located in a Member State of the European Union. This regulation establishes the common European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

The ruling from the European Court of Justice on November 19, 2009 (known as the Sturgeon ruling) gives passengers experiencing delayed arrival at their final destination the same right to compensation as passengers whose flights are cancelled. They can thus invoke the right to compensation provided in article 7 of this ruling when they reach their final destination more than three hours after the scheduled arrival time.

At the request of IATA and three airlines (British Airways, easyJet and TUI) who challenged the application of this ruling by the UK Civil Aviation Authority, the UK High Court of Justice referred a number of questions back to the European Court of Justice which upheld the afore-mentioned Sturgeon ruling in October 2012.

Since 2004, in addition to the rulings from the European Court of Justice, there have been a number of events impacting the application of the Regulation. This is notably the case for the adoption of new regulations governing passenger rights in other forms of transportation.

Some events have highlighted the need to limit the responsibility of carriers in terms of the assistance and care due to passengers, but also the need to clarify a number of these fundamental rights, particularly those relating to the definition of so-called "extraordinary" circumstances.

Thus, consistent with its intention communicated In April 2011, the European Commission has drafted a proposed revision of the Regulation which is currently the subject of intra-departmental consultation, with a view to official publication in late February 2013[5].

The search for a better balance between the economics of the European air transport industry and a strengthening in passenger protections is likely to remain the Regulation's guiding principle. During the legislative process, however, the text could be made more severe by the European Parliament.

The lengthening of the thresholds triggering compensation or the limitation of assistance due to passengers in some circumstances may not be voted through while an obligation to set up information points with properly-qualified staff to identify immediate solutions to problems encountered by passengers, the monitoring of websites to put an end to alleged uncompetitive practices and the protection of passengers in the event of an airline going bankrupt could be included.

On this last point, since there is already insurance available on the market to cover this risk, the airlines and their representative associations are in favor of any information measure encouraging passengers to take out such policies.

The ever-stricter regulations applying to the European airlines, but only partially applicable to airlines of third-party countries, only increase the existing distortions to competition.

In the United States, the Regulation increasing US airline passenger protections came into effect on August 23, 2011, and its provisions are now in force.

The provisions of the Regulation mostly aim to strengthen the disclosure requirements, particularly in terms of advertised fares and baggage policies, but also cover the banning of any post-purchase price increases, the possibility of cancelling a reservation with no penalty for 24 hours after the reservation is made, notification of any changes in flight status and the policy on the carriage of baggage during journeys involving several carriers and sold as "Interlining[6]".

On September 26, 2011, the US Department of Transportation also issued a Supplemental Notice of Proposed Rulemaking, proposing to require airline websites aimed at the US public and automated airport kiosks in the United States to be accessible to individuals with disabilities.

These US protections, aimed at strengthening passenger rights, cannot be compared with the European Regulation 261/2004 since they do not have the same reasoning, including as regards compensation. They provide for compensation for passengers involuntarily bumped off over-booked flights which is proportional to the price of the ticket and the final delay on arrival. Only the reimbursement of the ticket is mentioned in the event of flight cancellation or a major delay. On the other hand, in the event of flight cancellation or involuntary bumping of a passenger, the European regulation proposes a flat rate of compensation with no correlation to the ticket price or the delay on arrival.

[5] A proposal for review was submitted to the European Commission on 13 March 2013.

[6] The "Interlining" means the sales between airline companies.

The US regulations in terms of passenger rights apply to all airlines operating in the US territory and/or marketing flights to/from the United States which means that the Air France-KLM Group is concerned by these new US protections.

IATA has collated some fifty national regulations in a database to be able to monitor changes more effectively.

Generally speaking, the industry is seeing ever-stricter regulations and, with each country having its own requirements in terms of consumer rights, the accumulation of stricter and increasingly-detailed provisions can sometimes prove contradictory or inconsistent. This is increasing the obligations of airlines, along with their costs and procedural risks.

The Group complies with the regulations in force on passenger assistance and compensation in the countries where it operates. However, in order to keep the effects of these regulations as far as possible within financially-bearable limits, the Group engages in lobbying, both directly and through the air transport industry's professional associations (IATA, AEA) of the national and European institutions to obtain reasonable obligations which create no competitive distortions (*see also paragraph 6.7.2 of the 2011 Reference Document – European legislation – Passengers rights, page 285*)

Environmental legislation

The air transport industry is subject to numerous environmental regulations and laws governing areas such as aircraft noise and engine emissions, the use of hazardous substances and the treatment of waste products and contaminated sites. Over the last few years, the national and European authorities have adopted various regulations notably regarding noise pollution and the performance of aircraft, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations.

The aviation sector is now included in the European Union Emissions Trading System (SCEQE or EU-ETS) pursuant to European Directive no.2008/101/EC of November 19, 2008, in force since January 1, 2012.

The principle of the European Emissions Trading System consists of setting an annual budget of quotas or CO_2 emission rights (key figure: one ton of fuel burned = 3.15 tons of CO_2 emitted), with each relevant company then being allocated a number of personalized quotas (one quota corresponding to one ton of CO_2). At the end of each year, companies must return an amount of emission allowances that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell quotas (exchangeable quotas). For the aviation sector, the free quotas were distributed to each operator on a pro rata basis based on their revenue ton-kilometers (RTK) generated in 2010. In 2010, for the first time, air transport operators were thus required to declare their CO_2 emissions together with their traffic data (revenue ton-kilometers). On the basis of these declarations, the Air France-KLM Group obtained some 23 million free annual quotas for the 2012-2020 period.

The European directive applies to all European and non-European airlines flying into and out of the European Economic Space, something which has raised strong opposition from non-European countries and their airlines. This unilateral approach has been contested by third-party countries since its inception and this confrontational situation has resulted in continued uncertainty even after the coming into force of the Directive.

However, consistent with the proposals for an overall sector approach supported by the air transport industry, a global response looks to be taking shape under the aegis of the United Nations with the adoption of an International Civil Aviation Organization resolution during its meeting in October 2010. The ICAO has committed to submitting an overall approach for the aviation sector to its triennial Assembly in the autumn of 2013. A working group of 17 high-level representatives of the Member States was set up in early November 2012 to accelerate the work on this.

Given the progress on the negotiations within the ICAO and to encourage their conclusion, the European Union suspended the application of its CO2 Emissions Trading System for flights to and from non-European airports for 2012 although the Directive remains fully applicable for 2013 ahead of the outcome of the ICAO

Assembly in October 2013. In 2012, operators could choose between compliance over the initial scope or over the reduced scope of intra-European flights. In the latter case, operators will firstly have to return the free quotas for 2012 relating to intercontinental activities and secondly restitute a number of permits equivalent to their intra-European flights before April 30, 2013 as planned. Air France-KLM opted for compliance in medium haul and its exposure is thus reduced for 2012. As a result, the Air France-KLM Group passed an €11 million provision for 2012, linked to the application of the Emission Trading System limited to intra-European flights and at a carbon price per ton which declined from €7 in late 2011 to €5 at the end of 2012. Given the low level of the carbon ton price, a draft European Regulation is in the discussion process aimed mainly at the suspension of the carbon credit auction system which would effectively see the offer dry up and thus increase the price of a ton of carbon.

Furthermore, the Air France-KLM Group is committed to exploring all avenues which could reduce its fuel consumption and carbon emissions:

- At its own initiative: modernization of the fleet and engines, improved fuel management, fuel savings plan, reduction in weight carried, improved operating procedures.
- In cooperation with the authorities: SESAR project (Single European Sky, optimization of traffic control), operating procedures. The Group supports and calls on research into the development and use of new more environmentally-friendly fuels (biofuels).

Lastly, the Group has implemented a futures-based hedging strategy. At December 31, 2012, the value of the derivatives portfolio amounted to a negative €10 million.

The Group also acts with the relevant national, European and international authorities and bodies (EU, DGAC, French Ministry of Ecology, Energy and Sustainable Development) and participates in the work of the airline industry (AEA, ICAO, IATA) to promote effective solutions for the environment which are also balanced in terms of competition.

Risks linked to the oil price

The fuel bill is the second largest cost item for airlines meaning that oil price volatility represents a risk for the air transport industry. A sharp increase in the oil price, such as seen since early 2011, can have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges or if they are unable to implement effective hedging strategies *(See also paragraph 2.2.1 – The economic environment page 46).*

Lastly, for the European airlines, any appreciation in the dollar relative to the euro results in an increased fuel bill.

The Air France-KLM Group has a policy in place to manage this risk *(See also paragraph 3.3 – Market Risks and their Management page 92)*. The Group also makes a consistent effort to reduce its fuel consumption and is developing a series of procedures and innovative solutions enabling fuel consumption to be optimized.

Operating risks

Natural phenomena leading to exceptional circumstances

Air transportation depends on meteorological conditions and can be affected by other natural phenomena (earthquakes, volcanic eruptions, floods, etc.) which can lead to operational disruption such as flight cancellations, delays and diversions. Generally speaking, the duration of such adverse natural events tends to be short and their geographical range limited but they may require the temporary closure of an airport or airspace. They can, however, involve significant financial costs (repatriation and passenger accommodation, schedule modifications, diversions, etc.). On the other hand, the closure of an airspace lasting several days as was the case in April 2010 in Europe following the eruption of an Icelandic volcano, has very major commercial, human and financial consequences for the airlines and their passengers. Similarly, the bad weather in late 2010 at a number of European airports had significant operational and financial repercussions for the activity of the Air France-KLM Group given the regulations requiring the company to assist passengers in the European Union territory.

Within this context, the Air France-KLM Group is lobbying, either directly or through representative bodies, both the French and European authorities to develop robust crisis management tools and, secondly, to obtain an adjustment in the regulation regarding the company's responsibilities vis-à-vis passengers in such exceptional circumstances. The Group has no hedging in place for operating losses.

With its partners, the Group has deployed procedures aimed at guaranteeing its services as far as possible and also minimizing the consequences of such situations for its customers.

Airline accident risk

Accident risk is inherent to air transportation which is why airline activities (passenger and cargo transportation, aircraft maintenance) are heavily regulated by a series of European regulatory procedures, transposed into French law. Compliance with these regulations governs whether an airline is awarded the CTA (Certificate of Air Transport) which is valid for three years.

The national civil aviation authority carries out a series of checks on a continuous basis covering notably the:

- Designation of a senior executive and managers responsible for the principal operating functions;
- Appropriate organization of flight, ground, cargo and maintenance operations;
- Deployment of a Safety Management System;
- Implementation of a quality system.

In addition to this regulatory framework, the IATA member airlines have defined and comply with the IATA Operational Safety Audit certification which is renewed every two years.

At Air France, the Independent Safety Review Team, created in September 2009, produced its final report in January 2011, formulating 35 recommendations covering the organization and operating modes with an impact on flight safety. Given its commitment to the highest possible standards of flighty safety, the company immediately implemented these recommendations. The Flight Safety Committee within the Air France Board of Directors thus meets every quarter to analyze the flight safety indicators for the Air France Group. The results of the in-flight observations campaign, the LOSA (Line Operations Safety Audit), a practice already used by other airlines in the United States, Asia and Australia, were presented in December 2011 and are the subject of an action plan which forms part of the ongoing process to improve safety.

The implementation process for the Safety Management System, launched in 2009, was completed by January 1, 2011 pursuant to the decree of December 22, 2008. This system has four pillars: Policy and Objectives, Safety Risk Management, Safety Assurance and Safety Promotion which have all been deployed across the operating divisions. On this occasion, the Corporate Safety Policy – a priority for the Air France Group – was reaffirmed and the members of the Executive Committee made a personal commitment to implementing an "equitable" management policy aimed at reinforcing the functioning of the feedback system, a key element of any safety policy. Safety Management System training modules, adapted to each user group, are currently deployed in all areas of the company.

Although it is not subject to the same regulatory requirements, KLM deploys a similar approach to that of Air France.

The materialization of this risk could have an impact on the Group's reputation and legal or financial consequences. This risk is covered by the aviation insurance policy (*See also paragraph 3.2.4 - Insurance risks, page 90*).

Risk of food poisoning

The in-flight service policy provides for food to be served to passengers during most long and medium-haul flights. These meals are prepared in dedicated airline-catering facilities belonging either to the Group's airline catering entities or to independent service providers. However, as with all food preparation, there is a risk of food poisoning. The materialization of this risk could have a reputational, legal or financial impact.

To limit any potential damage to its reputation arising from the materialization of this risk, the Air France-KLM Group has taken preventive measures requiring suppliers, whether internal or external, to contractually guarantee the respect of regulatory obligations (granting of the relevant approvals, traceability, ISO 9001 Quality Management certification, etc.). Furthermore, bacteriological analyses based on random sampling carried out by approved laboratories and audits of compliance are regularly conducted at service provider premises.

This risk is covered by the aviation insurance policy (*See also paragraph 3.2.4 - Insurance risks, page 90*).

Risks of air navigation constraints in Europe

Given its still-fragmented, national nature, the organization of European air navigation does not always enable the optimization of flows with the lowest-possible environmental footprint. This has consequences for the airlines in terms of costs and efficiency.

The European airlines continue to lobby the national and European authorities regarding the establishment of an effective air navigation management system in Europe, rapidly and at a reasonable cost, which increases safety and the capacity of the air space and airports while reducing the environmental impact.

3.2.2 Risks linked to the Group's activity

Risk of failure of a critical IT system, IT risks and cyber criminality

The IT and telecommunications systems are of primordial importance when it comes to the Air France-KLM Group's day-to-day operations. They comprise the IT applications in the operating centers which are used through the networking of tens of thousands of terminals (micro-computers, mobile systems, automated airport kiosks, etc.)

The IT systems and the information they contain may be exposed to risks concerning continuity of functioning, data security and regulatory compliance. These risks have diverse origins both inside and outside the Group. The materialization of one of these risks could have an impact on the Group's activity, reputation, revenues and costs, and thus its results.

The Air France-KLM Group monitors the secure functioning of the IT systems on a permanent basis. Dedicated help centers and redundant networks guarantee the availability and accessibility of data and IT processing in the event of major incidents.

The Group's IT division implements security rules aimed at reducing the risks linked to new technologies, particularly mobile data terminals. The access controls to IT applications and to the computer files at each work station together with the control over the data exchanged outside the company all comply with rules in line with international standards. Campaigns to raise the awareness of all staff to the potential threats and encourage best practices are regularly carried out. Specialized companies, external auditors and internal audit regularly evaluate the effectiveness of the solutions in place.

Data security is a priority for the Air France-KLM Group, particularly the protection of data of a personal nature pursuant to the laws and regulations requiring strict confidentiality. Specialists within each company ensure that the processing of personal information complies with the relevant legislation (IT and Data Protection Officer within Air France and Privacy Officers within KLM).

The risk of damage to the IT facilities is covered by an insurance policy but not the risk of the operating losses that such damage might entail.

As with any business making extensive use of modern communication and IT data processing technologies, the Group is exposed to threats of cyber criminality.

To protect itself against this risk, the Group deploys substantial resources aimed at ensuring business continuity, data protection, the security of personal information pursuant to law, and the safeguarding of at-risk tangible and intangible assets.

Risks linked to non-respect of the competition rules

Cases of non-respect of the competition rules can have an impact on the Group's reputation, together with legal and financial repercussions *(see also Notes 30.2 and 30.3 to the consolidated financial statements for the year ended December 31, 2012).*

Following the inquiries conducted by the anti-trust authorities in a number of States concerning alleged anti-competitive agreements or concerted actions involving 25 companies in the air freight sector including the Air France-KLM Group, Air France-KLM has reinforced its procedures to prevent any breach of competition law. Since 2007, Air France-KLM has developed its policy to prevent anti-competitive practices by circulating the Air France and KLM *Manual Relating to the Application of the Competition Rules* which is available in three languages. This Manual was updated at the end of 2010 and is available to all employees.

A number of other prevention-based tools are available to the Group's employees including a hotline dedicated to competition law. In late 2010, a second online training module on the application of the competition rules was introduced to supplement the first module created in 2008. Having followed this training and passed an evaluation test, employees sign an individual declaration promising to respect the competition rules applying to their function.

Risks linked to the regulatory authorities' inquiry into the commercial cooperation agreements between carriers

Alliance operations and commercial cooperation are subject to the competition legislation in force. The airlines are required, particularly in Europe, to ensure that their operations comply in full with the applicable competition rules. At any time, the European Commission also has the right to open inquiries into any cases of cooperation it considers of interest to the European Community. In January 2012, the Directorate General for Competition announced the closure of the inquiry dating back nearly a decade concerning the SkyTeam alliance, together with the opening of a new procedure concerning only the members of the trans-Atlantic joint venture (Air France-KLM, Delta, Alitalia) and limited to some routes.

The European Commission is thus adopting a consistent approach by successively examining the effects on the European market of the three existing trans-Atlantic joint ventures. This new procedure does not call into question the continued implementation of the company's cooperation with partners on the trans-Atlantic routes. For their part, the US authorities have already published their conclusions, recognizing the benefits for competition of this joint venture. In this regard, the joint venture between Air-France-KLM, Delta and Alitalia has benefited from antitrust immunity (ATI) out of the United States since 2008.

The parties in the joint venture are continuing their discussions with the DG Competition. In the event that the European Commission were to maintain its position, Air France-KLM and its partners could be required to make a number of concessions, notably in making slots available to competitor airlines at some airports.

Risks linked to commitments made by Air France and KLM to the European Commission

For the European Commission to authorize Air France's business combination with KLM, Air France and KLM had to make a certain number of commitments, notably with regard to the possibility of making landing and takeoff slots available to competitors at certain airports. The fulfilment of these commitments should not have a material negative impact on the activities of Air France and KLM. Note that no request for slots has, to date, been made.

Risks linked to the implementation of the three-year Transform 2015 plan

(*See also paragraph 2.3 – Strategy, page 57*)

Within the framework of the priorities set by the Air France-KLM Board of Directors on November 9, 2011, the Group has implemented a three-year plan to enable the generation of €2 billion of free cash flow to reduce its debt. The achievement of this target largely depends on the improved productivity of all employee categories and a series of action plans.

In 2012, negotiations with the organizations representing the Air France employees enabled the definition of a new collective labor agreement framework with Flight Deck Crew and Ground Staff. Concerning Cabin

Crew, the negotiations resulted in a pre-agreement in February 2013.. Within KLM, new collective labor agreements have been signed for a three-year period.

Furthermore, the Group has undertaken the restructuring of its heavily-loss making medium-haul business together with measures aimed at winning back customers.

Any strike or stoppage of work linked to the implementation of these new working conditions could have a negative impact on the Group's activity, financial results and reputation. Furthermore, the ultimate terms and conditions of these collective agreements and the measures taken within the framework of the restructuring of some of its activities could prove insufficient to achieve the objectives set.

Risk linked to pension plans

In December of each year, the Dutch Central Bank indicates the parameters to be used to calculate the solvency levels of the funds. As a function of the results of these regulatory calculations, the company is required to submit to the Central Bank a plan to return to the required level of solvency. Such plans comprise commitments from the company and temporary or structural proposals from the Board of Directors of the fund. For example, the company may commit to increasing its contribution and the Board of Directors of the fund may recommend the temporary suspension of the inflation-indexing on current and future benefits.

The Group's main commitments in terms of defined benefit schemes are the three KLM pension funds for ground staff, cabin crew and flight deck crew based in the Netherlands.

At the end of December 2012, the regulatory solvency levels of the three KLM funds were calculated and, based on the results obtained, the company's contribution should not see a significant increase in 2013.

The potential risks fall into three categories :

Firstly, given the revised IAS 19 applicable as of January 1, 2013, the Group is exposed to changes in external financial parameters (discount rate, future inflation rate) which could lead to fluctuation in the results and stockholders' equity with no impact on cash. The changes in pension obligations together with the level of plan assets linked to changes in actuarial assumptions will be recognized in stockholders' equity and will never be taken against profit and loss. The current calculations lead to the three KLM pension funds figuring as an asset in the balance sheet, the assets in the funds being higher than the value of the liabilities.

In the financial statements, the potential volatility is explained in the *Accounting policies on provisions for pensions and other employee benefits* paragraph and in note 30.1 Employee Benefits to the consolidated financial statements.

Secondly, if the solvency levels in application of the Dutch regulation fall below the required thresholds, based on the current financing agreements KLM could be required to make additional payments. The period during which these additional contributions are made could last anything between one and 15 years depending on the deficit relative to the required solvency threshold. For 2013, this additional payment risk is mitigated by the improvement in solvency levels noted since December 31, 2012.

Thirdly, the European Union could establish, based on a recommendation from the European Insurance and Occupational Pensions Authority (*Autorité des assurances et des fonds de pension du travail* - EIOPA), a new Directive for pension institutions (IORP) requiring pension funds to again increase their reserves. This would impact, in particular, defined benefit plans like those of KLM in the Netherlands.

The impacts of the revised IAS 19 on retirement benefit obligations are presented in note 4.1.2 to the consolidated financial statements for the year ended December 31, 2012, and correspond to the following adjustments:

- a negative adjustment in the opening equity of the first comparative published year, i.e. as of January 1, 2012, amounting to about €1.5 billion gross reduced by the tax effect to €1.1 billion net of tax;
- an adjustment in the 2012 result amounting to about €(39) million gross reduced by the tax effect to €(33) million net of tax;

- a negative adjustment in equity as of December 31, 2012 amounting to about €1.9 billion gross reduced by the tax effect to €1.3 billion net of tax.

The sensitivity analysis regarding the change in the rate of return on the pension plan assets is presented in note 30.1 to the consolidated financial statements for the year ended December 31, 2012 .

Risks linked to the use of third-party services

The Group's activities depend on services provided by third parties, particularly air traffic controllers and public security officers. Furthermore, the Group increasingly uses sub-contractors over which it does not have direct control. Any interruption in the activities of these third parties (as a result of a series of strikes), or any increase in taxes or the price of the services concerned could have a negative impact on the Group's activity and financial results or damage its reputation.

To secure supplies of goods and services, the contracts signed with third parties provide, whenever possible, for service quality and responsibility clauses. In some cases, sustainable development partnerships are signed with suppliers. Furthermore, business continuity plans are developed by the Group's different operating entities to ensure the long-term viability of the operations through alternative arrangements.

Risks of competition from aircraft, engine and component manufacturers in maintenance

Aircraft, engine and component manufacturers are looking to reinforce their positioning in the maintenance market through a policy of generating value from their intellectual property, notably based on the marketing of licences.

In the context of its maintenance activity, the Air France-KLM Group plans, for its part, to defend a multi-product offering in a competitive market, thereby enabling airlines to maintain control over their maintenance costs.

3.2.3 Legal risks and risks of legal arbitration proceedings

Within the normal exercise of their activities, the company and its subsidiaries are involved in disputes which may give rise to provisions in the consolidated accounts and information in the notes regarding potential liabilities *(see also Notes 30.3 and 30.5 to the consolidated financial statements for the year ended December 31, 2012)*.

3.2.4 Insurance risks

Since December 1, 2004, Air France and KLM have pooled their airline risks on the insurance market in order to capitalize on the scale effect. There are no material risks within the Air France-KLM Group that are not insured. The Group has no air transportation operating insurance.

Insurance policies taken out by Air France

In connection with its air transport activities, Air France has taken out an airline insurance policy on behalf of itself and its French and European airline subsidiaries, covering accidental or incidental damage to aircraft and the resulting costs, liability in relation to passengers and general liability to third parties in connection with its activity.

In accordance with French legislation, this policy was taken out with Axa, a leading French underwriter and with co-insurers with international reputations.

The policy covers the civil liability of Air France for up to $2.2 billion as well as specific cover against terrorist acts for damage caused to third parties for up to $1 billion and $1.2 billion for the operation of the Airbus A380s.

Additionally, Air France participates in the payment of claims for damage to its aircraft through a captive reinsurance company whose maximum liability is limited to $2.5 million annually.

Lastly, within the framework of its risk management and financing policy designed to ensure its activities, employees and assets are better safeguarded, Air France has taken out a number of policies to insure its industrial sites in the event of material damage and, consequently, loss of income, and its property portfolio and activities ancillary to air transportation, with different levels of cover depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

Air France has also taken out a number of specific or local policies in order to comply with the regulations in force in the countries in which it has a representative office.

Insurance policies taken out by KLM

KLM has taken out an airline insurance policy to cover its operational risks on behalf of itself, its subsidiaries and Kenya Airways Ltd to cover damage to aircraft, liability with regard to passengers and general third-party liability in connection with its activity. It covers KLM's civil liability for up to $2.2 billion and also includes specific cover against terrorist acts for damage caused to third parties for up to $1 billion.

In addition, KLM participates in the payment of claims for damage to its aircraft through a Protected Cell Company (PCC) whose maximum liability is limited to $3.6 million annually.

Lastly, within the framework of its risk management and financing policy designed to ensure its activities, employees and assets are better safeguarded, KLM has taken out a number of policies to insure its industrial sites in the event of material damage and, consequently, loss of income, and its property portfolio and activities ancillary to air transportation, with different levels of cover depending on the guarantees available on the market and on the quantification of risks that can reasonably be anticipated.

3.3 Market risks and their management

3.3.1 Organization of the Air France-KLM Group

The aim of the Air France-KLM Group's risk management strategy is to reduce its exposure to these risks and their volatility. Market risk coordination and management is the responsibility of the Risk Management Committee (RMC) which comprises the Chairman and Chief Executive Officer of Air France-KLM, the Chairman and Chief Executive Officer and Chief Financial Officer of Air France and the President and Chief Financial Officer of KLM.

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, the principal currency exchange rates, interest rates and counterparties and to decide on the hedging to be implemented: targets for hedging ratios, the time periods for the respect of these targets and, potentially, the types of hedging instrument to be prioritized. The decisions taken by the RMC are formalized then implemented by the cash management and fuel purchasing departments within each company, in compliance with the procedures governing the delegation of powers. Each company centralizes the management of the market risks of its subsidiaries.

Regular meetings are organized between the Fuel Purchasing and Cash Management departments of the two companies on the hedging instruments used, strategies planned and counterparties. In order to implement the strategy most appropriate to each circumstance, any type of instrument may be used so long as it is qualifies as hedging within IFRS. Any exception to this rule must be approved by the Risk Management Committee. As a general rule, no trading or speculation is allowed.

The Cash Management departments of each company circulate information daily on the level of cash and cash equivalents to their respective General Managements. The level of the Air France-KLM's consolidated cash is communicated every week and at the end of the month to the Group's General Management.

Every month, a detailed report including, amongst other information, the interest rate and currency positions, the portfolio of hedging instruments, a summary of investments and financing by currency and the monitoring of risk by counterparty is sent to the General Managements.

The policy on fuel hedging is the responsibility of the fuel purchasing departments which are also in charge of purchasing fuel for physical delivery. The General Managements receive a weekly fuel report, mainly covering the transactions carried out during the week, the valuation of all the positions, the percentages hedged as well as the breakdown of instruments and underlyings used, the average hedge levels and the resulting net prices. All this data covers a rolling 24 months. Furthermore, a weekly Air France-KLM Group report (known as the GEC report) consolidates the figures from the two companies relating to fuel hedging and carries out a budget update.

3.3.2 Market risks and their management

Currency risk

(see also Notes 33.1, 33.2 and 33.5 to the consolidated financial statements for the year ended December 31, 2012)

Most of the Air France-KLM Group's revenues are generated in euros. However, because of its international activities, the Group incurs a currency risk. The management of the currency risk for the subsidiaries of the two companies is centralized by each company.

The principal exposure relates to the US dollar. Since expenditure on items such as fuel, aircraft operating leases and components exceeds the amount of revenues in dollars, the Group is a net buyer of US dollars, which means that any significant appreciation in the dollar against the euro could result in a negative impact on the Group's activity and financial results.

Conversely, Air France-KLM is a net seller of other currencies, the level of revenues in these currencies exceeding its expenditure. This exposure is far less significant than with the US dollar and the risks principally concern Sterling and the Yen. As a result, any significant decline in these currencies against the euro would have a negative effect on the Group's financial results.

The management of the Group's exchange rate risk is carried out on the basis of the forecast net exposure for each currency. Currencies which are highly correlated to the US dollar are aggregated with the US dollar exposure.

Operational exposure

For each currency hedged, the time span of the hedging is a rolling 24-month period, the first four quarters having more hedging than the following four. The RMC sets the hedging targets for the dollar, sterling and the yen.

2013 operational exposure *(In millions of currencies at December 31, 2012)*	**US Dollar**	**Sterling**	**Yen**
Net position before hedging	(4,814)	668	66,135
Currency hedge	2,856	(201)	(34,150)
Net position after hedging	(1,958)	467	31,958

For 2013, the maximum impact on income before tax of a 10% currency variation relative to the euro is shown in the following table. These results cannot be extrapolated due to the use of option-based contracts.

(In € million)	**US Dollar**	**Sterling**	**Yen**
10% increase relative to the euro	(139)	59	29
10% fall relative to the euro	125	(52)	(17)

Investment exposure

Aircraft and spare parts are purchased in US dollars, meaning that the Group is exposed to an appreciation in the dollar relative to the euro in terms of its investment in flight equipment.

The hedging strategy provides for the implementation of a graduated level of hedging between the date aircraft are ordered and their delivery.

The net investments figuring in the table below reflect the contractual commitments at December 31, 2012.

(In US$ million)	**2013**	**2014**	**2015**	**2016**
Investments	(574)	(587)	(580)	(466)
Currency hedge	533	452	285	136
Hedge ratio	93%	77%	49%	29%

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2012, 87% of the Group's gross debt, after taking into account derivative instruments, was euro-denominated, thereby significantly reducing the risk of currency fluctuation on the debt. The exchange rate risk on debt denominated in other currencies mostly concerns the yen (6%), the dollar (4%) and the Swiss franc (3%).

Interest rate risk

(see also Notes 33.1, 33.2 and 33.5 to the consolidated financial statements for the year ended December 31, 2012)

At both Air France and KLM, debt is generally contracted in floating-rate instruments. However, given the level of interest rates, Air France and KLM have used swap strategies involving the use of derivatives to convert a significant proportion of their floating-rate debt into fixed rates in order to limit its volatility. After swaps, the Air France-KLM Group's debt contracted at fixed rates represents 71% of the overall total. The average cost of the Group's debt after swaps stood at 3.69% at December 31, 2012 (3.80% at December 31, 2011).

Exposure to interest rates *(In € million at December 31, 2012)*	
Financial assets at floating rates	3,834
Financial liabilities at floating rates	5,351
Net exposure before hedging	1,517
Hedging	(2,099)
Net exposure after hedging	(582)

The Group's net interest rate exposure amounts to €582 million. A 1% rise in interest rates over twelve months would have a positive impact of €5.8 million.

Fuel price risk

(see also Notes 33.1, 33.2 and 33.5 to the consolidated financial statements for the year ended December 31, 2012)

Risks linked to the jet fuel price are hedged within the framework of a hedging strategy defined by the RMC for the whole of the Air France-KLM Group.

The hedging strategy, approved by the Board of Directors, sets the time span of the hedges at two years (a rolling 24 months) and the target hedging ratio at 60%. The underlyings can be Brent, which is preferred due to the level of forward prices and liquidity, or middle distillates (fuel oil and jet fuel) enabling the core risk to be hedged but at a higher cost. Furthermore, the hedging is based on the use of simple instruments that are either un-capped (collars, swaps, calls, etc.) or capped (four ways, call spread, etc.). These hedging instruments must also be compatible with IAS 39.

Within the framework of a dynamic approach, the Group has implemented the monitoring of indicators capping the potential maximum loss and the potential maximum gain (value of the portfolio prompting its restructuring). Lastly, an indicator enabling the extreme risk of the portfolio to be measured has been deployed. The level of this *Value at Risk* indicator is calculated and analyzed every week and may also trigger a restructuring of the portfolio.

At January 1, 2013, the Air France-KLM Group's fuel exposure, based on futures prices at December 31, 2012 ($106.94 a barrel for 2013 and $101.97 a barrel for 2014), was as follows:

(In US$ million)	**2013**	**2014**
Gross expenditure before hedging	9,559	9,461
Hedge percentage	62%	23%
Gain on hedging	90	37
Net expenditure	9,469	9,424

Based on the forward curve at December 31, 2012, an increase of $10 per barrel over 2013 would give an average price of $116.94 per barrel and would lead to a $570 million increase in the fuel bill after hedging, i.e. a total fuel bill of $10.04 billion in 2013. Symmetrically, a fall of $10 per barrel over 2013 would give an average price of $96.94 per barrel and would lead to a $639 million reduction in the fuel bill after hedging, i.e. a total expense of $8.83 billion in 2013.

Counterparty risk

(see also Note 33.1 to the consolidated financial statements for the year ended December 31, 2012)

The Group applies rules for managing counterparty risk under the authority of the RMC which reviews the Group's counterparty portfolio quarterly and, if necessary, issues new guidelines.

Except in the event of express dispensation from the RMC, counterparties must benefit from a minimum rating of A- (S&P) with the exception of mutual funds where the risk is considered negligible. The maximum commitments by counterparty are determined based on the quality of their ratings. The RMC also monitors the trend in the respective proportion each counterparty represents of the overall hedging portfolio (fuel, currency and interest rate). The positions of both Air France and KLM, together with those of the holding company, are taken into account in the assessment of the overall exposure. A monthly report is established and circulated to the members of the General Management in the two companies. It is supplemented by real-time information in the event of any real risk of a rating downgrade for counterparties.

Equity risk

(see also Note 33.1 to the consolidated financial statements for the year ended December 31, 2012)

Air France and KLM cash resources are not directly invested in the equity market or in equity mutual funds. However, at December 31, 2012, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth a net €704 million, principally comprising Amadeus shares valued at €659 million as of December 31, 2012. The Group is mainly exposed to the risk of fluctuation in the value of Amadeus shares. As a result, in November 2012, Air France-KLM entered into a hedging transaction with Société Générale to protect the value of 12,000,000 Amadeus shares, or one third of its shareholding. An overall variation of 1% in the unhedged portion of the shareholding would represent a risk of €4.3 million.

Liquidity risk

At December 31, 2012, Air France had an undrawn, fully-available credit facility of €1.06 billion, negotiated with an expanded pool of 15 banks. This credit facility matures on April 4, 2016.

This credit facility is subject to the Air France Group respecting the following financial covenants:

- EBITDAR must amount to more than 2.5 times net interest charges added to one third of operating lease payments.
- Non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and define certain conditions for the interest payments on the loan. They were respected at December 31, 2012.

KLM has a fully-available €540 million credit facility maturing in July 2016, negotiated with a consortium of international banks.

This credit facility is subject to the KLM Group respecting the following financial covenants:

- EBITDAR must amount to more than 2.5 times net interest charges added to one third of operating lease payments.
- Non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and were respected at December 31, 2012.

For its part, in October 2007, the Air France-KLM holding company put in place a €250 million ten-year financing facility, undrawn at December 31, 2012. This credit facility is reduced by €50 million per year as of October 2013.

This credit facility is subject to the Air France-KLM Group respecting the following financial covenants:

- Net interest charges added to one third of operating lease payments must not represent more than two-thirds of EBITDAR.
- Non-current assets in the balance sheet, not pledged as collateral, must be at least equal to unsecured net debts.

These ratios are calculated every six months and were respected at December 31, 2012.

Given the conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €3.9 billion at December 31, 2012 and the available credit facilities (a total of €1.85 billion), the Group considers that it incurs no liquidity risk. It does, however, closely monitor its cash flows and the structure of its traditionally negative working capital requirement. Note that the Group has granted €628 million of pledges to financial institutions in respect of the guarantee given to the European Union on the anti-trust litigation and the swap contract signed with Natixis on the OCEANE 2005.

Financing risks

(see also Note 31 to the consolidated financial statements for the year ended December 31, 2012)

Financing strategy

The two subsidiaries are responsible for their own financing policies. This strategy effectively enables the individual companies to take full advantage of their relationships with partner banks. Furthermore, this segmentation enables the different companies in the Group to benefit, if applicable, from export credit financing. This does not stop the two companies exchanging information on their financing strategies and the type of operations planned.

In view of its investment program, particularly in the fleet, the Air France-KLM Group plans to be active in the financing market. Since the current conditions in the financial markets do not call into question the access to long-term financing for aircraft, the Group plans to finance new aircraft using collaterialized debt and to refinance some unsecured assets (aircraft and real estate). These financing or refinancing operations will, as usual, be the subject of requests for proposals. Furthermore, the Group already has commitments from the export credit agencies to support the financing of a number of aircraft deliveries.

In anticipation of the application of the Basel III prudential standards and in view of the deterioration in their results, the European banks are expected to rein in their balance sheets in future years and consequently reduce the volume of lending offered to businesses. This risk is higher for US dollar-denominated financing.

The Group plans to contend with this risk by adapting its financing strategy:

- The proportion of the credit portfolio contributed by the four French banks which are major players in asset financing represents less than 20% of the Air France-KLM Group’s gross debt;
- Financing, including aircraft financing, is mostly euro-denominated;
- The number of banking counterparties remains high, with particular attention given to establishing long-term relationships with Asian financing institutions which will not be subject to the same prudential ratios.

Air France Group

The Air France Group prioritizes long-term resources for its investment by financing new aircraft with conventional bank debt and (mostly secured by these assets) and, since 2008, by export credit for its Régional and Brit Air subsidiaries.

It has also diversified the sources of its principally bank funding through the securitization of flight equipment in 2003, by issuing bonds convertible into new or existing shares (OCEANE), by issuing plain vanilla bonds and, more recently, contracting debt secured with Asian financial institutions *(see also Notes 31.2 and 31.8 to the consolidated financial statements for the year ended December 31, 2012)*.

KLM Group

To finance its aircraft, KLM is able to access the export credit system, which enables the company to take advantage of guarantees from the leading export credit agencies for financing Boeing aircraft in the US and Airbus aircraft in Europe. KLM has also concluded several financing deals in the banking market for the refinancing of existing aircraft *(see also Notes 31.1 and 31.8 to the consolidated financial statements for the year ended December 31, 2012)*.

Air France-KLM holding company

The Air France-KLM holding company has realized three bond issues, with its subsidiaries Air France and KLM as guarantors, raising €661 million of convertible bonds with a six-year maturity in June 2009, €700 million of plain vanilla bonds in October 2009 maturing in October 2016 and, in December 2012, €500 million of plain vanilla bonds maturing in 2018 *(see also Notes 31.2 and 31.3 to the consolidated financial statements for the year ended December 31, 2012)*.

Investment risks

(see also Note 33.1 to the consolidated financial statements for the year ended December 31, 2012)

The cash resources of Air France, KLM and the holding company are invested so as to maximize the return for a very low level of risk. They are thus invested in money market mutual funds, and in debt securities and term deposits with highly-rated banks.

To reduce the currency risk on the debt, a portion of KLM's liquid assets is invested in foreign-currency AAA and AA+ rated bonds.

4 Social, corporate citizenship and environmental information

4.1 Social information

The number of Full Time Equivalent (FTE) employees in the Air France-KLM Group (excluding external labor) averaged 100,744 in the 2012 financial year (excluding external labor), a 1.25% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	**Air France-KLM**			**Air France Group**			**KLM Group**		
Financial year	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Ground staff	71,267	70,705	69,994	50,506	50,202	49,795	20,761	20,503	20,199
Cabin crew	22,453	22,749	22,347	14,771	14,869	14,640	7,683	7,880	7,708
Flight deck crew	8,706	8,560	8,403	5,339	5,236	5,119	3,367	3,324	3,284
Total	102,426	102,014	100,744	70,616	70,307	69,553	31,811	31,707	31,191

Taking into account external labor, averaging a respective 2,828 in Full Time Equivalent during the 2012 financial year and 3,684 in Full Time Equivalent for 2011, the number of employees in the Air France-KLM Group as a whole declined by 2%: 70,720 FTE for the Air France Group (71,957 in 2011) and 32,852 FTE for the KLM Group (33,741 in 2011). Sixty-eight per cent of staff were employed by the Air France Group and 32% by the KLM Group.

Eighty-nine per cent of the Group's employees are based in continental France and the Netherlands, and 11% located internationally.

Sixty-five per cent of the Group's employees are between 30 and 50 years old.

Pursuant to article 225 of the application decree of the French *Grenelle II* legislation of July 12, 2010 and the European Prospectus Directive (EC 809/2004), the social reporting is shown in the three tables of indicators (see pages 116 to 120) and covers 96% of the Group's employees. Virtually all the reported indicators are the subject of verification by one of the Group's Statutory Auditors. The indicators marked with a √ are the subject of verification with a limited level of assurance based on the ISAE 3000 audit standard.

4.1.1 A high-quality workplace dialogue to contend with the economic challenges

Air France-KLM's human resources and employment policy is based on the respect of fundamental rights such as the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work. In its Corporate Social Responsibility Declaration, the Group defines its commitment to promoting respect of the environment, social equity and local development. This commitment is reinforced by the Social Rights and Ethics Charter, signed in February 2008 by Air France, KLM and all their European subsidiaries. This Charter forms the shared foundation of the Group's commitments by reaffirming the values and fundamental rights that guide the Group's social and ethical policy. However, the differences in employment legislation between France and the Netherlands require the HR polices to remain separate.

4.1.1.1 Air France-KLM

Implementation of the HR dimension of the Transform 2015 plan

In 2012, within a globalized and extremely competitive air transport sector and faced with continued negative results, Air France-KLM launched a transformation plan that should enable a recovery in the Group's competitiveness over the next three years. This plan has been adapted within each company to ensure the most appropriate response to achieving the strategic priorities (*see paragraphe 2.3 – Strategy, page 57*).

Within this framework, each company carried out a comprehensive review of all the collective labor agreements relating to the payroll, employees, working time and social security contributions. Throughout the year, as part of the ongoing workplace dialogue, a negotiation process specific to each company enabled the establishment of new working conditions aimed at achieving the Plan's objectives.

In addition to immediate measures concerning investment, costs, revenues and the HR domain, a series of more structural measures were defined at Air France via the negotiation process aimed at a 20% improvement in economic efficiency by 2014 relative to the 2011 results using the different levers in the workplace agreements: control over the payroll, crew optimization, increasing the number of hours worked, adapting scheduling when necessary and facilitating mobility.

For KLM, the social dimension of Transform 2015 aims to improve productivity and reduce costs. Furthermore, the company has set an objective of a 10% reduction in support staff, without recourse to layoffs.

Workplace dialogue

The Air France-KLM Group recognizes the constraints and risks to which it is exposed and the need to adapt to a more rapid pace of change. At the same time it needs to maintain cohesion by fostering a high-quality workplace dialogue and pursuing a policy based on treating people with respect.

Throughout the year, during 26 meetings of the Air France Works Council, the elected employee representatives were consulted and/or informed of the major orientations relating to the company's overall functioning and, notably its results, and the measures to ensure the successful turnaround.

Three meetings of the European Works Council (bringing together representatives of staff in subsidiaries whose operations or head offices are based in the European Community) were also held during 2012 for information or consultation on subjects such as the transformation of the Air France-KLM Finance function and changes in Air France-KLM's organization and governance.

At KLM regular monthly meetings are held with the unions representing Flight Deck Crew, Cabin Crew and Ground Staff to discuss issues surrounding the collective labour agreements. In addition to these monthly meetings, 29 meetings were scheduled to reach a common understanding on the financial situation and for negotiations on the new collective labor agreements relating to the implementation of the Transform 2015 plan.

In 2012, a total of 73 agreements were signed, 63 within the Air France Group and 10 at the KLM Group.

4.1.1.2 Air France

A new collective agreement framework

In late March 2012, framework and methodology agreements were signed at Air France for each of the three categories of employees (Ground Staff, Flight Deck Crew and Cabin Crew) to enable the signatories, who were concerned about the airline's situation, to establish a working methodology offering them the opportunity to participate, directly and via dialogue, in the Group's recovery. These agreements target a 20% improvement in economic efficiency over the scope of the entire Group and also set, for each of the three employee categories –governed by separate workplace and HR agreements – a method for working and discussion, a calendar and the main negotiating themes.

These framework and methodology agreements, which represented a first, necessary stage in the company's transformation process, enabled the launch of in-depth negotiations aimed at achieving a series of coherent agreements in 2012.

The revision process conducted with the representative unions began in the spring of 2012. These negotiations were aimed at enabling the implementation of the measures required to achieve the 20% improvement in economic efficiency in return for the preservation of the airline's scope of operations, the guarantee of no layoffs and no salary reductions.

The negotiations resulted in the signature of a productivity agreement with the Flight Deck Crew in November 2012 and, for Ground Staff, in a new Collective Agreement signed in October 2012. A Human Resources and Skills Planning agreement for Ground Staff was also signed in July 2012, followed by an agreement on the organization of working hours, signed in January 2013.

The Collective Agreement for Ground Staff has been revised with new provisions concerning paid leave, compensation, job classification and career planning, and job transfers. These provisions contribute to the key objective of an improvement in the company's economic efficiency but equally of the modernization of HR management tools.

The productivity agreement signed with the Flight Deck Crew includes salary measures, new rostering and dimensioning rules to increase the number of annual flight hours, new provisions concerning crew composition and the reduction in lay-over costs. These new provisions came into force in early 2013.

The discussions with the Cabin Crew representatives were extended beyond December 2012. The first staff productivity improvement measures did, however, start to come through in 2012 via a number of changes to products and the composition of crews.

Agreements establishing the basis for a managed reduction in employment

Managing overstaffing

Forecasts on the trend in Ground Staff for 2012 and 2013 are characterized by the overall fall in resource requirements. Given the departures already realized in 2012 and the expected natural departures, the overstaffing in the ground operations in December 2013 is estimated at 2,767 in Full Time Equivalent employees.

Following the signature of the agreements, and consistent with its commitment, Air France implemented measures to manage the overstaffing in the ground operations with a Voluntary Departure Plan, support for individual professional and personal projects, and the incentivization of retirement departures.

The measures implemented respond to three key requirements: respect for the voluntary nature of departures, guaranteed confidentiality with regard to individual plans, and ease of access to free information.

The information campaign, launched on October 1, 2012, facilitated access to comprehensive information on the Voluntary Departure Plan through a guide sent to the homes of eligible employees, a dedicated intranet site and regular communication. For more personalized totally confidential information, a free hotline was also put in place. As of mid-October, localized information and support centers were also opened.

Candidates were invited to come forward from November 6, 2012 with the first departures taking place as of November 20. At December 28, 1,412 voluntary departure applications had been approved. The deadline for applications to the Voluntary Departure Plan is March 15, 2013.

In addition to the Voluntary Departure Plan, ground staff were also offered a series of alternative options with an effective deadline on December 31, 2014 including unpaid leave and assisted part-time working.

The productivity agreement concerning the Flight Deck Crew also enables a departure plan to reduce pilot overstaffing within the framework of the Employment Preservation Plan. This comprises two employment management measures based on voluntary departures:

- A Voluntary Departure Plan for 220 pilots, open between late November 2012 and the end of January 2013.
- Assisted measures to achieve a temporary reduction in staff (equivalent to 80 pilots): a three-year secondment to Transavia; unpaid leave and alternate working hours.

The negotiations with the Cabin Crew representative bodies, which were ongoing as of December 31, 2012, should enable the conditions for the management of the overstaffing in this employee category to be clarified.

Despite the economic context, Air France continues to assume its responsibility vis-à-vis young people entering the employment market. By welcoming students every year, the company offers young people in both vocational training and higher education the chance to gain valuable professional experience. The signature, at the end of 2011, of the sixth three-year Internship Charter reflects this commitment. In 2012, Air France reinforced its commitment to internship with the proportion of interns doubling from 0.5% to 1% of employees, representing 500 in Full Time Equivalent over the year and 1,000 new recruits.

Facilitating internal mobility

The hiring freeze for the 2012-14 period means that resource requirements need to be filled by internal transfers, a process for which support is foreseen in the agreement signed on July 6, 2012.

The simplification of the job classification system for executive and non-executive ground staff, involving a reduction in the number of hierarchical grades and the regrouping of professions, contributes to facilitating the required mobility. It accompanies the streamlining of organizational structures, makes it easier to transfer between the professions internally, and contributes to containing the payroll. The new system came into effect on January 1, 2013.

Furthermore, Air France is developing a Human Resources and Skills Planning process including the introduction of help tools to support career planning and mobility such as the Mobility Space and the *Observatoire des Métiers*. In 2012, professional mobility saw a modest decline after a very dynamic 2011. The Jobs Exchange remains an important tool for the realization of professional mobility.

Organization of working time

The average length of the working week applied within the company is consistent with that stipulated by the law in force. The percentage of employees working part time in France increased from 20.5% in 2011 to 21.1% in 2012.

The absentee rate for sickness, maternity or work-related accidents amounted to 5.3% in 2012, a decline on the level in 2011 (5.6%).

Compensation and sharing the value creation

The implementation of the immediate measures on deployment of the first phase of the Transform 2015 plan led to a freeze on general salary increases in 2012 and 2013 and a freeze on promotion for Ground Staff in 2012 together with equivalent measures for Flight Crew.

Individual salary increases in respect of promotion and seniority impacted the basic salary trend which increased by around 1% for ground staff present in 2011 and 2012, a figure significantly lower than in previous years.

Senior managers benefit from a variable compensation scheme: 30% based on the company's results, 50% on the achievement of targets linked to the position and 20% on the achievement of targets in terms of personal development. Given the company's results in 2012, the portion linked to the results was set at 0%.

In respect of the incentive payment for the 2011 financial year, the partial achievement of the qualitative targets on punctuality and productivity enabled the payment of €3.24 million in 2012. This amount corresponds to a nine-month financial year (April to December 2011) due to the return to a calendar year accounting period. For the fourth year running, no profit-share was paid in respect of this financial year.

In order to give all employees access to a retirement savings product, Air France set up a PERCO collective retirement scheme through a collective agreement in October 2008. No voluntary contributions were made by the company to the PEE and PERCO schemes in 2012.

This scheme is in addition to the supplementary pension schemes (article 83 and PERE – *Plan d'Épargne Retraite d'Entreprise*) established by the collective agreement of May 2006 for ground staff executives, cabin crew and pilots. In 2012, the supplementary pension scheme was modified by the termination of the PERE when, for ground staff and cabin crew executives, it was merged into a single supplementary pension contract (*Contrat de Retraite Complémentaire*, Art. 83). For the pilots, this scheme was transformed into a specific *Article 83* contract for optional individual payments in addition to an unchanged *Article 83* contract with contributions from the company.

An Individual Employee Report was posted on line for every employee on a permanent contract in France. This unique, personalized document sets out all the components of the overall employee compensation package provided by the company, showing the trend in their individual compensation and the amounts paid in respect of social security benefits.

4.1.1.3 KLM

KLM pursues a sustainable employment policy for all employees, based on developing their skills and qualifications, encouraging professional mobility and promoting healthy lifestyles. KLM is constantly adapting to the new constraints and challenges of the air transport sector and this policy of change management implies a culture with a strong accent on mobility. Geographical mobility and access to vocational training represent opportunities for employees to acquire new skills and develop their employability.

Negotiation of new collective labor agreements

For KLM, the HR dimension of the Transform 2015 - *Securing Our Future* plan aims to improve productivity and reduce support staff by 10% without recourse to layoffs. To fill positions left vacant following departures, an internal mobility scheme was established.

The limited external hiring since 2008 has led to the implementation of new measures to promote mobility within the company, in agreement with the unions. Given the non-replacement of departures, the search for internal candidates for highly specialized and entry- level positions has proven difficult.

Within the framework of the implementation of the Transform 2015 plan, as of February 2012 the unions participated in information meetings on KLM's financial situation and its consequences for the social model. New collective labor agreements were negotiated for Flight Deck Crew, Cabin Crew and Ground Staff. Conducted in a positive spirit, these negotiations are contributing to the achievement of the Transform 2015 objectives aimed at improving productivity and containing costs to prepare for KLM's future.

Furthermore, as part of the newly-adopted collective labour agreements KLM reaffirmed its commitment to avoiding layoffs as far as possible (*Keeping the family together*), subject to greater flexibility from both employees and the company. Within the framework of the agreement, the other measures include a limited reduction in working time and temporary transfers to part-time working with a guaranteed return to full time if the employee so desires.

The number of interns remained stable with over 800 young people welcomed by the company in 2012. Despite the difficult financial environment, KLM continues to assume its responsibility vis-à-vis students by offering them the opportunity to gain valuable work experience to prepare them to enter the jobs market. Short and long-term internships are offered to students in both vocational training and further education.

The high number of internship applications testifies to KLM's attractiveness as an employer, something which was reflected in the results of a 2012 LinkedIn study in which KLM was ranked amongst the ten best Dutch employers. This ranking was confirmed by the employees of the company as seen in the *VNU Media and Effectory Best Employer* survey in which KLM was placed number two in the *Best Employer* category of this survey in which 190,000 individuals were asked to evaluate their employer.

Employment and mobility

The principle of limited recourse to external hiring, adopted back in 2008, was maintained in 2012. As in the previous year, this led to measures to incentivize internal mobility within the company, in cooperation with the unions.

Given the low level of external recruitment, the number of employees hired on permanent and temporary contracts in 2012 stood at 492 for the KLM Group (versus 2,241 new hires in 2011). In 2012, for the KLM Group, departures stood at 1,403 versus 2,614 in 2011.

Taking into account the number of new recruits and departures, the KLM Group had 34,617 employees at the end of 2012, compared with 35,590 in 2011.

Professional mobility within KLM remained a priority in 2012 since offers the opportunity to acquire new skills, thereby developing employability. It is also an important tool when external recruitment is not possible.

Given the non-replacement of staff policy in place for the past few years, a new selection tool was deployed to identify internal candidates and match them with positions left vacant following departures.

Programs were developed to encourage employees to be more mobile such as *Room for Growth* within the Commercial division. The *Open Doors to Your Future* workshops enable employees to understand more effectively the role they can play in their career development, by addressing subjects such as how to overcome obstacles, seize opportunities and embrace change as a stepping stone to career progression.

The 255 employees within the maintenance division (E&M) impacted by the withdrawal of the B747s from the KLM fleet all found new positions in 2012. A training program and personalized support for each employee accompanied this mobility initiative which was also assisted by the unions and the Works Council.

Organization of working time

In the Netherlands, legal provision is made for part-time working, enabling all employees to reduce their hours except in the event this would entail employer bankruptcy. Part-time working is thus very widespread, particularly for women. In 2012, the proportion of employees working part time increased to 38.6%, a modest increase on the previous year (36.7% in 2011).

The legal right to parental leave was extended from 13 weeks to 26 weeks. As part of the new collective labor agreements, KLM agreed to maintain its pension contributions during these additional weeks.

Compensation policy

On January 1, 2012, salaries were increased by 1.25%. Additionally, on April 1, 2012, all employees received a one-off payment corresponding to 1.25% of salary calculated over six months.

KLM has three main pension funds for KLM Ground Staff, Cabin Crew and Flight Deck Crew. Each fund is independent and has its own Board with members appointed by both the employer and the employees.

As part of the 2012-2014 collective labor agreements, KLM and the unions agreed to discuss upcoming new pension legislation and the design of a future-proof pension scheme.

4.1.2 Training

Training is one of the main levers supporting the transformation of the business and employees' individual projects. Within a challenging economic context, Air France and KLM maintained a high level of training.

4.1.2.1 Air France

In 2012, the training rate represented 7.8% of the company's payroll and an investment of €205 million (€208 million in 2011).

At Air France, 95% of the company's targets in terms of training were realized, a five percentage point increase relative to 2011. The development of *Blended Learning* training courses incorporating classroom-based and e-learning modules contributed to increasing this rate of access to training in all employee categories and sectors, and also met the need for personalized apprenticeship.

The training carried out within the framework of personal training entitlements (DIF or *Droit Individuel à la Formation*) at Air France saw a slight increase relative to 2011, or 14.5% of the hours of training in 2012. For the first time in 2012, cabin crew were able to undertake DIF training during their working hours (until 2011 this training was only possible outside working hours), with this training already representing 15% of the training hours realized in 2012.

Professional training still represents a significant proportion of overall training, reaching 78% in 2012. The training carried out in the transverse areas common to several professions accounted for more than 21% of the overall total (Flight and Individual Safety, Security, Customer Relations, Languages and Intercultural, Management and IT).

In total, during 2012, Air France carried out 1,808,305 hours of training, i.e. an average of 31 hours per employee.

All the above illustrate the reaffirmation of Air France's ongoing commitment to measures supporting changes in the jobs, organization and tools of individual employees, and to developing their skills and qualifications.

Lastly, in December 2012, the Training Campus, the entity which is responsible for transverse training programs, saw its ISO 9001 certification renewed for a three-year period.

4.1.2.2 KLM

At KLM, training is a key lever in increasing staff employability, thereby supporting career progression and mobility.

Within the framework of the Transform 2015 plan, KLM set a series of specific goals for 2012 and 2013 aimed at increasing the number of employees trained while containing the costs.

New training programs were deployed to optimize skills transfer within the company with managers being offered tools to facilitate the effectiveness of training initiatives in the workplace.

Furthermore, training contracts with external suppliers were reviewed in order, where necessary, to reduce the costs relating to such training. In 2012, training expenses thus amounted to €60.8 million for the Netherlands, representing an investment of €2,539 per employee, a 12% reduction relative to 2011.

The KLM Academy, an in-house training center for executives, continued its program of training and master classes and new training tools for executives and HR managers were launched to support change management in their teams.

With the framework of management training, 13 KLM employees benefited from the *Operational Excellence* program, enabling candidates to acquire and develop new operations management skills. The *HR Journey of Inspiration* program comprises a series of talks given by KLM experts to "inspire" HR staff. The concept of *Servant Leadership* and the social media were just two of the themes explored in 2012.

Air France-KLM's *Develop Yourself and Your Team* training program, aimed at international outstation managers, has a range of different modules in both English and French, all focusing on different aspects of management.

Lastly, in 2012, KLM continued its efforts to enable more employees to acquire a formal diploma through the VPL (Validation of Prior Learning) scheme resulting in some 164 employees being awarded an intermediate vocational education diploma.

4.1.3 Health and safety in the workplace

Safeguarding employee health and safety in the workplace is a priority for the Air France-KLM Group and, at the heart of its Transform 2015 plan, vocational safety is reaffirmed as one of the Group's fundamental principles. Within a challenging economic context, the Group plans to step up the initiatives already underway and improve the results in this area where there can be no compromise.

4.1.3.1 Air France

In 2012, this commitment was reflected in further progress whose concrete manifestation was a 3% decline in the number of occupational accidents and a 2% decline in the severity rate.

The Executive Committee's ongoing resolute commitment is applied in each sector and is enshrined in a three-year agreement aimed at an improvement in results in this area.

Air France recorded some fifty occupational sickness declarations in 2012 (unchanged on the 2011 level), of which two-thirds were recognized as work-related. The pathologies included musculoskeletal disorders linked to repetitive strain injuries or heavy lifting, benign and malignant conditions arising from previous asbestos exposure and deafness. The frequency of vocational disorders at Air France is very significantly below the French national figures (Source: 2010 Management Report from the French National Health Insurance Agency for Wage Earners – CNAMTS).

Managing a reduction in occupational accidents

The policy aimed at reducing occupational accidents is monitored in Management Committee status reports and periodic reviews by Air France's Executive Committee. The company's senior executives formalize their commitment to reducing occupational accidents through preventive action plans based on contracts setting specific targets for each entity.

Identifying potential problems and sharing feedback to ensure more effective prevention

Prevention is at the heart of the process to achieve high standards of health and safety in the workplace at Air France.

The inclusion of the safety dimension in project management, the development of ergonomic approaches during the design of infrastructure and processes, and the deployment of new tools all enable the potential risks to be anticipated and the collective appropriation by organizations. In addition to a Central Ergonomics Unit, the company also has ergonomics experts based in the operational divisions. In 2012, Air France again secured the commitment of ergonomics consultants in the form of framework contracts, enabling responsiveness to be combined with economic efficiency.

The commitment of in-field management and employees, supported by a network of Health and Safety point people, enables the identification of at-risk areas and encourages a safety-first culture. The creation or reinforcement of Health and Safety units within the ground and flight operations teams helps encourage feedback.

In parallel, a weekly feedback process is in place focused on occupational health and safety, enabling feedback on safety-related incidents and their handling to be shared. Regular in-depth analysis identifying the developments and risks complete the accident-prevention system.

The sharing of Health and Safety best practices was stepped up in 2012. Having been highlighted during the annual Health and Safety at Work convention, during which individual workshops were chaired by members of the company's senior management, these best practices are seen as key to achieving satisfactory standards of safety in the workplace. They are set out in special handbooks with everyone receiving an individual copy. The annual Forum on vocational risks was again the opportunity to reiterate the company's commitment in this area with safety briefings and round tables focused on issues such as the post-accident vocational re-integration of employees and safety incident analysis.

The organization of forums and seminars on vocational Health and Safety enables the gradual deployment of a safety-first culture and an emphasis on safety issues across the company. In-field forums are thus organized for the operating and functional entities in both continental France and the French overseas territories. The organization of benchmarking forums on specific themes such as psychosocial risks, the Quality of Life in the Workplace, the danger of falling, musculoskeletal disorders and ergonomic approaches also testifies to an openness to ideas from outside the company.

Training and coordination to promote a safety-first culture

Training in risk prevention is provided for front-line staff and managers with both in-field operational training and e-learning being deployed to instill a safety-first culture. This training is regularly adapted to reflect changes in regulations and the development of tools. The training modules on the risks relating to electricity, fire and road-use were, for example, updated in 2012.

The management collectively attends the annual Health and Safety at Work convention during which trophies for high standards of safety performance are awarded to the managers of operating entities, recognizing effective initiatives in this area.

Raising levels of performance by improving quality of life in the workplace

2012 saw the continued deployment, at both corporate and local level, of the three-year agreement on the Method for the Prevention of Psychosocial Risks and Promoting Quality of Life in the Workplace agreement, signed in 2010.

Within the framework of the Transform 2015 plan, a program to support quality of life in the workplace was presented to the Air France professional organizations. Training and awareness-raising are being stepped up with a particular focus on the Managing through Quality of Life in the Workplace training course.

The agreement was rolled out across the company by multidisciplinary teams comprising managers, human resources, occupational physicians and nurses and representatives from the CHSCTs (Committee for Hygiene, Safety and Working Conditions), who deployed the in-field action plans and verified the appropriateness of the measures in place. These action plans are based on the results of the Evaluation and Monitoring of Professional Stress diagnostic tool.

Based on a framework document, all the entities across the company contributed input to the unique Evaluation of Vocational Risks document.

Collective agreements relating to health and safety in the workplace

A number of the agreements in force at Air France concern Health and Safety in the workplace including, for example, the three-year agreement on Method and Prevention of Psychosocial Risks and Quality of Life in the Workplace, the Charter to prevent harassment in the workplace and the Charter to prevent risks linked to alcohol abuse.

4.1.3.2 KLM

With three serious accidents, KLM reached its goal of less than four serious accidents involving hospitalization. The goal of remaining below the ratio of 4.1 “accidents involving time off work per million hours worked” was however missed by 0.63 of a point. The 2013 goal for serious occupational accidents has been maintained below four. Concerning safety, KLM has set itself an ultimate goal of zero accidents.

Concerning the declaration of occupational illnesses at KLM, the recent establishment of a new system for compiling this information means that the final data for 2012 are not yet available.

Establishing a number of guiding principles

In order to achieve its ultimate goal of zero accidents, KLM has established a number of guiding principles to promote a safety-first culture aimed, in particular, at managers.

KLM's five safety principles

1. Work Safely
– Never compromise on Safety!
– Work safely yourself (you must lead by example)
– Ensure that your team can work safely
– Ensure that your team wants to work safely
2. Stick to the rules
– You must lead by example
– Establish the appropriate level of easily-understandable guidelines which are SMART (Specific, Measurable, Acceptable, Realistic, Time-bound)
3. Report unsafe situations
– Ensure that unsafe situations can be reported
– Provide an appropriate reporting system with rapid, timely feedback
– Create a transparent environment in which employees feel they can be frank
4. Help and challenge each other
– Create an environment where people help each other and are responsive
– Ensure that feedback is seen as positive
5. Create a realistic working environment
– Ensure that your team has good working conditions

For the past two years, the Safety Management System deployed in all the Air France and KLM entities has ensured the identification, analysis and management of risks. In 2012, this system was applied to all major changes and investments.

KLM's Cargo and Maintenance divisions have deployed a *Work Permits* system guaranteeing respect of the KLM safety standards for staff working in sub-contractors, thereby ensuring safer workplace conditions for everyone.

Awareness-raising initiatives to prevent accidents

Awareness-raising campaigns aimed at reinforcing safety took place in 2012 and new initiatives were also implemented.

First developed in the Cargo division, the *Ergo-coach* scheme was subsequently deployed in KLM Engineering & Maintenance, enabling the training of KLM employees in vocational health and safety, who are now able to mentor colleagues. The *Basic Back* program aimed at injury prevention was launched in November 2012 with some twenty employees. The Ergo-coaches are able to give advice on lifting and carrying heavy loads without injury and also maintain a list of at-risk practices. The remit of the Ergo-coaches has changed and, having concentrated on issues linked to the carrying of heavy loads, they are now also working on the risks surrounding irregular working hours. The number of Ergo-coaches in the Cargo division has risen to 40 and those having been in position since 2011 were offered a refresher course. In-field presentations and the introduction of a distinctive safety jacket have increased their visibility to co-workers.

New measures were also implemented to reduce the number of accidents involving in-flight burns to cabin crews. Packaging has been improved for hot meals produced in the Netherlands and the overseas out-stations, and some items of in-flight catering equipment like coffee pots have been located lower in the storage bins to make them easier to reach and therefore prevent burns.

Promoting a safety-first culture

Since November 2012, the Safety F@cts program has offered managers a monthly interactive training module on vocational risks. This two-year program, which will come to an end in November 2014, is structured around KLM's five safety principles to be consulted by all managers. An identical version is available for staff. The training module aims to present how a safety-first culture can be put into practice across the company and how trust and understanding are key to evaluating the circumstances of an incident.

Within the framework of the five safety principles and to encourage HR managers to become safety advocates, all of KLM's HR managers were invited to participate in an interactive workshop. Five such workshops were organized in 2012, each bringing together some 60 participants, with the last workshop scheduled for 2013.

Improving quality of life in the workplace

The New World of Work program, trialed last year in KLM's IT and Human Resources departments, was developed during 2012 in other divisions like marketing. The aspects relating to ergonomics are being discussed with the Works Councils. This program offers employees the opportunity to achieve a better work-life balance by prioritizing the workplace environment best suited to the tasks at hand.

The *More Energy Study* program conducted in partnership with Amsterdam's VU University enabled the development of a smartphone and tablet application for pilots aimed at improving their quality of life. The application offers specific, personalized advice based on data input on flight schedule, sleep patterns, light exposure and nutrition. This program, launched in November 2012, aims to reduce pilot fatigue and improve their well-being in the workplace. The results are expected in late 2013.

Agreements relating to health and safety in the workplace

KLM's Declaration on Occupational Health and Safety, signed in 1996 and defining the main orientations of its policy framework, remains current. This Declaration reaffirms the company's commitment to an ongoing improvement in health, safety and well-being in the workplace aimed at minimizing the current and future risks with respect to physical and mental health.

In previous years, and again in 2012, KLM's Works Council was consulted on a series of health and safety-related measures, on matters as diverse as returning to work after sick leave, fire emergency evacuation, psychosocial stress and radiation. Additionally, initiatives to improve, for example, current practices relating to absenteeism were discussed with the Works Council.

4.1.4 Fostering diversity and combating discrimination

Consistent with the commitments made in the Air France-KLM Group's Social Rights and Ethics Charter, the Air France-KLM Group pursues an employment policy based on vocational integration, equal opportunity, preventing discrimination and promoting diversity to reflect that of society.

4.1.4.1 Air France

Combating any form of discrimination

To support the Human Resources network and managers in the implementation of this policy, Air France has introduced a new range of support and information tools including a *Diversity and Management* e-learning training module, an information booklet on Diversity, a practical guide on *Religious Diversity in the Workplace*, etc.

More targeted initiatives to raise awareness and promote diversity were also launched in some entities with, for example, the availability of a *Managerial Tool Box* for in-field managers, the inclusion of an equal opportunity and prevention of discrimination training module in the training to access executive positions and the organization of a human resources seminar on the themes of Diversity, Handicap and Psychosocial risks.

To inform employees and raise their awareness, a *Diversity and Prevention of Discrimination* e-learning training module was also introduced and entities were able to renew their poster campaigns and offer staff information forums on these themes.

The company is also pursuing its different partnerships with equal opportunity organizations like the French Association of Diversity Managers (*Association Française des Managers de la Diversité* - AFMD), the Corporate Social Responsibility Observatory (*Observatoire de la Responsabilité Sociétale des Entreprises* - ORSE) and *IMS-Entreprendre pour la Cité*.

Fostering equal opportunity

The commitment to fostering equal opportunity applies, in particular, to the collective recruitment and internal selection processes.

Since June 2006, for its external recruitment, Air France has used a web-based software application enabling candidates to submit their applications online using a universal CV. Furthermore, any individual liable to use the selection tools, consult job application files or have access to confidential information is required to respect the ethical and moral obligations set out in the Ethics Charter of the Recruitment, Selection and Redeployment department. This Charter is updated annually as a function of regulatory changes and in the light of best practices for the profession.

To ensure the control and quality of the recruitment processes, the ISO 9001 certification was renewed for a three-year period and extended to the internal selection activities on January 1, 2011. The guarantee provided by this certification ensures, in particular, that the compliance guidelines are respected.

Promoting professional gender equality

For some ten years, Air France has reaffirmed professional gender and wage equality as a major objective for the business and an area in which the company would like to make progress in terms of human resources management. This is an issue on which Air France would like to move forward by way of a constructive workplace dialogue.

- Good Parenting Charter: Through the Charter signed in 2008, to encourage parenthood to be taken more into account and thereby contribute to a better work-life balance, Air France has made a commitment to developing parental representation across the business, creating a positive environment for employees who are also parents (particularly for pregnant women) and respecting the principle of non-discrimination in the career progression of employees with children.
- Collective agreement on professional gender equality: since 2002, three three-year Gender Equality Agreements have been unanimously signed by all the unions representing employees across the company, with the third agreement in force since January 1, 2011.
- Salary policy - wage equalization measures between men and women: Within the framework of its collective agreement-based policy, the company is committed to reducing any wage disparities between men and women. Since 2008, the annual wage agreements have enabled the implementation of a specific wage equalization measure (limited to a statistically significant observation) whose conditions were presented to the unions. This measure was again applied in 2012.

To ensure respect of equal treatment between men and women, a series of male-female comparative indicators have been included in the monitoring of human resources policies and management processes (training, careers, vocational safety, remuneration, etc.). These indicators are monitored annually within the framework of an audit carried out with each division.

On the occasion of International Women's Day 2012, at the initiative of Flight Operations, a flight was operated with a women-only crew. At the initiative of employees in the Engineering and Maintenance Division, Air France's management is also supporting the creation of a women's network.

Policy on disability

The Air France employment rate for workers with disabilities increased from 3.92% to 4.17% between 2010 and 2011. Given the initiatives carried out this year to promote the direct and indirect employment of workers with disabilities, this rate should again have increased in 2012.

In 2012, Air France hired 47 new disabled workers. The company also ensured the maintained employability of staff with disabilities through numerous support programs and the adaptation of work stations.

Furthermore, the company's commitment is extended to businesses and organizations in the adapted and sheltered employment sector; spending on procurement from this sector amounted to €15 million in 2012.

The company has also established numerous partnerships, particularly with associations, to help achieve its objective of recruiting and promoting the vocational integration of disabled workers, and changing how disability is perceived.

4.1.4.2 KLM

Gender equality and respect for sexual orientation

KLM's commitment to fostering equal opportunity for all employees, promoting diversity and combating all forms of discrimination is enshrined in the Group's Social and Ethical Charter.

The company supports the equitable treatment of sexual orientation, a commitment reaffirmed during its sustainable development week. The *Over the Rainbow* social network, launched in 2010 by KLM and bringing together homosexual, bisexual and transgender employees, provides advice and ensures their equitable treatment, whatever their sexual orientation. The network numbered some 300 members in 2012.

KLM's IT Division regularly organizes *Eat & Meet* lunch meetings to encourage colleagues to get to know each other better and promote diversity: 200 employees participated in 2012.

KLM has introduced measures to facilitate the promotion of women to managerial positions within the Commercial division. The KLM in-house network of women executives was also extended to all those with managerial responsibilities with meetings organized to swap experiences.

Vocational integration of persons with disabilities

Within the framework of Dutch legislation, KLM is committed to furthering the vocational integration of disabled persons and to maximizing their potential contribution. This represents a common goal for both KLM and its employees. An employee is considered to be disabled if he or she is unable to perform their duties or accept a position at a comparable salary level. Based on government guidelines, occupational physicians evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and employees on the adjustment in working hours, types of work and work station adaptation that are required to optimize the potential of employees with disabilities.

In the Netherlands, companies are financially responsible for their employees who become disabled for a two-year period and, in 2010, KLM extended this period to twelve years.

The return to work for employees with disabilities now receives pro-active support from KLM. When KLM employees unable to return to their jobs due to disability, they are automatically offered an appropriate position without having to go through a new application process. An Advisory Committee has also been established to support the monitoring of these measures and propose improvements. Since its creation in 2010, the Committee has reviewed over 625 cases, offering each case manager advice on how to increase the chances of finding employees new positions or enabling them to return to their previous jobs.

On return from sick leave, when employees are considered to be in a situation of permanent disability, even if they have changed jobs and now occupy positions adapted to their disabilities, they are deemed to be disabled for legal purposes.

At KLM, the number of employees with disabilities increased from 656 in 2011 to 696 in 2012. In close cooperation with the Works Council, the company renewed its policy of support for employees returning from sick leave.

4.2 Note on the methodology for the reporting of the social performance indicators

In 2005-06, under the aegis of the Disclosure Committee, and validated by the college of Statutory Auditors, the Air France-KLM Group's social performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Economiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

In 2011, work to optimize these indicators was undertaken to align, as of this year, the NRE social reporting with the requirements of article 225 of the application decree for the Grenelle II legislation. This update to the social performance indicators was submitted to the statutory auditors, KPMG Audit, for review before the beginning of the 2011 NRE social reporting process.

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit. These indicators are shown by the symbol √ in the tables on pages 116 to 120. They are the subject of verification with a limited[7] level of assurance.

The comprehensiveness of the social, corporate citizenship and environmental information disclosed in the 2012 Registration Document with regard to the requirements of article R.225-105-1 of the Code of Commerce has been reviewed by one of the Statutory Auditors, KPMG Audit.

Reporting scope

The Air France-KLM Group's social reporting consolidation scope is based on the number of employees (expressed as headcount) on the payroll at the end of the calendar year.

The NRE reporting scope covers 96% of the average employees in the Air France-KLM Group at the end of the calendar year, expressed in full-time equivalent.

The subsidiaries of Air France and KLM over which the Group has at least 50% control, whose acquisition dates back at least one full year and which have at least 300 employees are included in this NRE social reporting scope.

Note that the number of employees for Air France and KLM comprises their entire workforce including staff employed internationally.

- For the 2012 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Bluelink, BritAir, CityJet, VLM, CRMA, Regional, Servair Group (ACNA, Bruno Pegorier, CPA, Jet Chef, Orly Air Traiteur, Servair SA, Passerelle and Base Handling), Sodexi and Transavia France, representing 75% of the employees of the subsidiaries in the Air France Group

- For the 2012 financial year, the KLM consolidated subsidiaries are: Cygnific, Cobalt Ground Solutions, KLM UK Engineering Limited, KLM Cityhopper (UK and B.V.), Transavia, KLM Catering Services Schiphol B.V. and Martinair, representing 92% of the employees in the subsidiaries of the KLM Group.

In 2012, the reporting scope of the Air France subsidiaries and KLM subsidiaries remains unchanged.

The reference number of employees for calculating the coverage rate of the NRE social reporting is the average number of employees in full time equivalent during 2012 derived from the Management Control Division's BFC tool.

[7] The review work was conducted in accordance with the International Standard on Assurance Engagements (ISAE 3000), specific to the verification of extra-financial data verification.

The reporting period for the Group's social information is based on the calendar year to ensure consistency with the social performance indicators of other French companies. Note that, since 2011, the financial year has also been based on the calendar year.

Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating SYstem for ReportIng on Sustainability) reporting software at the disposal of contributors from Air France, KLM and their subsidiaries across the entire reporting scope. Precise definitions of each indicator and user guides for contributors to the Osyris tool are available in both French and English.

Consistency tests have also been incorporated within the tool. The data are verified and approved locally at the level of each subsidiary by a local verifier who is responsible for the HR statistical data.

This system is supplemented by a general reporting procedure which defines the process for compiling, calculating and consolidating the indicators, based on an instruction memorandum circulated by the Air France-KLM Group's Finance Division.

The consolidation of the Air France-KLM Group's social information is carried out by Air France's Sustainable Development department.

Details and methodology/Commentary on changes in the indicators

"Consolidated data for the Air France-KLM" Group table

This table presents the indicators relating to employees, recruitment, departures, the proportion of women employees and the percentage working part time. These indicators are consolidated at the level of the Air France-KLM Group.

The notes below refer to the references in the tables on pages 116 to 120.

Employees

Note 1: The number of people employed by the Group (expressed as headcount) on both permanent (CDI) and fixed-term contracts (CDD) on December 31 of the reference year.

Recruitment on permanent contracts

Note 2: The indicator concerns employees hired on permanent contracts (CDI).

For Air France, the calculation of the number of employees recruited on permanent contracts includes those initially recruited on fixed-term contracts (CDD) transferring to permanent contracts (CDI) during the year.

For KLM, only employees recruited directly on permanent contracts are taken into account.

Departures

Note 3: The reasons for departure are detailed in the notes to the Air France-KLM's 2012 Corporate Social Responsibility Report.

Note the significant number of departures in 2011, i.e. 11,612 employees, most of which were due to the non-renewal of fixed-term contracts. The other reasons include departures within the framework of the voluntary departure plan launched in 2010 (1,264 employees) and departures due to retirement, resignation, decease and termination of contracts during the trial period.

Only redundancies of employees under permanent contract are taken into account in the number of redundancies (including economic).

Percentage of women - Organization of working time

Note 4: These indicators enable the percentage of women to be evaluated relative to the workforce and the proportion of part-time employees on both permanent and fixed-term contracts at December 31 of the reference year.

Employees by geographical zone at December 31

Note 5: In 2011, the few KLM employees in the Caribbean and Indian Ocean geographical zone have been included in the number of employees in the North and South American zone.

In 2012, the Air France Group employees in the French Overseas Territories and Dominions, i.e. 754 employees, are included in the Caribbean and Indian Ocean geographical zone.

"Other social data" tables

The indicators reported in the other social data tables are subject to **different qualification and legal reporting obligations** in France **and the Netherlands,** meaning that they are not comparable and need to be presented separately for Air France and KLM. The subsidiaries concerned in these tables are listed in the Reporting scope section above.

Absenteeism - Health and safety in the workplace

A significant portion of the work-related accidents reported by Air France is due to cases of **barometric otitis and musculoskeletal disorders which are recognized as work-related accidents in France** whereas they are recorded as **sick leave by KLM** in accordance with Dutch law.

The absenteeism rate is not communicated for the Air France and KLM subsidiaries in 2012, the follow-up measures being in the verification process at the level of these entities.

Air France

Note 1: The absenteeism rates are calculated on the basis of a ratio of the days of absence over the days theoretically worked (excluding leave).

KLM and KLM subsidiaries

Note 1: In the Netherlands, there is no difference between the management of absence following a work-related accident or due to illness. Absences due to illness or work-related accidents are handled in the same way. For this reason, all the days of sick leave or absence due to work-related accidents are taken into account in the rate of absenteeism for illness.

Health and safety – work-related accidents

There are significant differences in the definition's criteria for work-related accidents between France and the Netherlands (see paragraph on absenteeism).

Air France and Air France subsidiaries

Note 2: The Air France's group definition of work-related accidents is in line with the definition under French law (at least one day of absence from work). Travel-related accidents are not included in the indicator but are the subject of specific monitoring and action plans.

Air France

Note 2: The number of fatal accidents in 2011 has been corrected due to the rejection, by the French health insurance department, of the "occupational accident" qualification after the figures for the 2011 Registration Document were established. The adjusted number is in line with the figure published in the 2011 HR report.

KLM and KLM subsidiaries

Note 2: The KLM Group's definition of work-related accidents only takes into account accidents with at least one day of absence from work. Travel-related accidents are not included in the indicator but are the subject of specific monitoring and action plans.

Note 3: The frequency and severity rates are calculated based on:

For Air France:

• For ground staff, the actual paid hours worked.

• For flight crews, the hours of commitment.

For KLM and KLM subsidiaries

• For all staff based on the theoretical hours worked.

For KLM subsidiaries

For the KLM subsidiaries the increase of the frequency and severity rate in 2012 is due to more accidents requiring absence of more than 24 hours being reported this year, notably by Cobalt Ground Solutions. Some of those accidents cause several weeks of absence, which explains the increase in severity rate.

Training

Air France and Air France subsidiaries

Note 4: The "Number of training hours by employee" indicator is calculated based on all the training sessions, independently of whether or not their nature requires them to be included in the 2483 Regulatory Declaration.

The hours of training for the subsidiaries of the Air France Group are calculated without the data related to the Transavia France subsidiary.

KLM and KLM subsidiaries

Note 4: KLM does not currently have a centralized reporting system solely for the costs of training within KLM and its subsidiaries. Note that the disclosure of the total number of training hours is not required by Dutch law.

Number of disabled employees

Air France and Air France subsidiaries

Note 5: For Air France, the number of disabled employees reported are those for whom a valid certificate, pursuant to French law (article L5212-2 of the French labour code), is available, whatever their ability to perform the tasks involved in their position. Note that the data for international employees is reported based on local legislation.

The number of disabled employees recruited corresponds to the number of permanent and fixed-term employment contracts signed during the year; an employee recruited on a fixed-term contract who then transfers to a permanent contract during the year will be reported twice.

Note that the rate of employment of disabled employees for 2012 was not yet known on the date the figures for the reporting of the NRE social indicators were produced within the framework of the Management Report and Registration Document.

KLM and KLM subsidiaries

Note 5: For KLM, an individual is deemed to be disabled if unable to carry out his or her work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to government benefits to compensate for any difference.

Since 2011, the number of disabled employees in the KLM subsidiaries has been calculated including the data related to the subsidiary Martinair.

4.3 Social indicators for the Group

4.3.1 Consolidated social data for the Air France-KLM Group

NRE social data (1)	**Air France-KLM Group**				**Air France Group***				**KLM Group****			
Headcount at 12/31 (permanent contracts and fixed-term contracts)					**Total Air France Group**		**Of which Air France**		**Total KLM Group**		**Of which KLM**	
	2010	**2011**	**2012**	**12/11**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Scope of *NRE* social reporting √	***96%***	***96%***	***96%***	***0.0%***	***95%***	***95%***	***100%***	***100%***	***98%***	***98%***	***100%***	***100%***
Total staff √	105,928	106,618	**104,130**	-2.3%	71,028	**69,513**	58,065	**56,893**	35,590	**34,617**	29,424	**28,698**
Ground staff	70,747	71,277	**69,516**	2.5%	49,472	**48,337**	38,957	**38,066**	21,805	**21,179**	17,501	**17,043**
Cabin crew	26,144	26,380	**25,863**	2.0%	16,187	**15,941**	14,988	**14,762**	10,193	**9,922**	9,175	**8,973**
Flight deck crew	9,037	8,961	**8,751**	2.3%	5,369	**5,235**	4,120	**4,065**	3,592	**3,516**	2,748	**2,682**
Staff under permanent contract	102,045	101,603	**100,273**	-1.3%	68,307	**67,201**	56,586	**55,728**	33,296	**33,072**	28,119	**27,819**
Recruitment under permanent contract at 12/31 √ (2)	1,383	2,481	**848**	-65.8%	*1,409*	**707**	773	**309**	1,072	**141**	1,007	**103**
Recruitment under fixed-term contract at 12/31√	3,084	6,621	**4,313**	-35%	5,452	**3,962**	3,053	**1,863**	1,169	**351**	589	**134**
Departures at 12/31 (3)	8,816	11,612	**8,571**	-26%	8,998	**7,168**	6,194	**4,315**	2,614	**1,403**	859	**935**
Of which redundancies (incl. economic) √	662	995	**640**	-36%	338	**542**	149	**247**	657	**98**	54	**71**

NRE social data (1)	Air France-KLM Group				Air France Group*				KLM Group**			
					Total Air France Group		Of which Air France		Total KLM Group		Of which KLM	
Headcount at 12/31 (permanent contracts and fixed-term contracts)	**2010**	**2011**	**2012**	**12/11**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Percentage of women at 12/31 √ (4)	**42.5%**	**42.8%**	**42.8%**	**0%**	42.9%	**43.1%**	44.6%	**44.54%**	42.4%	**42.1%**	43.6%	**43.3%**
Percentage of part-time employees at 12/31 √ (4)	24.4%	24.5%	**25.5%**	4.2%	18.4%	**19.0%**	20.5%	**21.1%**	36.7%	**38.6%**	38.3%	**39.9%**
Breakdown of staff by age at 12/31												
<= 29 year √	N.A.	10,052	**8,222**	-18.2%	6,353	**5,254**	4,696	**3,807**	3,699	**2,968**	2,445	**1,944**
between 30 and 39 years included √	N.A.	33,065	**30,305**	-8.3%	23,456	**21,422**	19,478	**17,802**	9,609	**8,883**	7,827	**7,206**
between 40 and 49 years included √	N.A.	37,101	**37,255**	0.4%	23,834	**24,266**	19,507	**19,857**	13,267	**12,989**	11,263	**10,999**
50 years and above √	N.A.	26,400	**28,348**	7.4%	17,385	**18,571**	14,384	**15,427**	9,015	**9,777**	7,889	**8,549**
Breakdown of staff by geographical area at 12/31												
Europe (except France and The Netherlands) √	N.A.	5,072	**4,607**	-9.2%	2,661	**2,346**	1,913	**1,652**	2,411	**2 261**	988	**931**
North & South America √	N.A.	2,255	**2,013**	-10.7%	1,862	**1,655**	1,549	**1,369**	393	**358**	392	**357**
Caribbean/Indian Ocean (including French overseas territories) √ (5)	N.A.	1,118	**1,109**	-0.8%	1,118	**1,047**	878	**839**	0	**62**	0	**62**
Asia/Pacific √	N.A.	1,710	**1,678**	-1.9%	776	**744**	771	**739**	934	**934**	934	**933**
Africa/Middle East √	N.A.	1,594	**1,607**	0.8%	1,118	**1,048**	1,101	**1,025**	476	**559**	476	**559**

NRE social data (1)	Air France-KLM Group				Air France Group*				KLM Group**			
Headcount at 12/31 (permanent contracts and fixed-term contracts)					Total Air France Group		Of which Air France		Total KLM Group		Of which KLM	
	2010	2011	2012	12/11	2011	2012	2011	2012	2011	2012	2011	2012
The Netherlands √	N.A.	31,533	**30,562**	-3.1%	178	**161**	26	**24**	31,355	**30,401**	26,613	**25,814**
Continental France √	N.A.	63,336	**62,554**	-1.2%	63,315	**62,512**	51,827	**51,245**	21	**42**	21	**42**

√ ***Indicators verified by KPMG for 2012 (limited level of assurance).***

* ***Air France Group:*** *Air France and Air France subsidiaries.*
Air France subsidiaries: *Aero Maintenance Group, BlueLink, Brit Air, CRMA, CityJet, VLM, Régional, Sodexi, Transavia France and Servair Group: ACNA, Base Handling, Bruno Pegorier, CPA, Jet Chef, OAT, Passerelle, Servair SA. The scope was extended to two new subsidiaries in 2011: Aero Maintenance Group and Jet Chef (in the Servair Group).*

** ***KLM Group:*** *KLM and KLM subsidiaries.*
KLM subsidiaries: *Cygnific, Cobalt Ground Solutions, KLM Cityhopper (UK and BV), Transavia, KLM Catering Services Schipol B.V., KLM UK Engineering Limited, Martinair.*

N.A.: Not available.

4.3.2 Other social data for the Air France Group (according to local legislation)

Air France (100% of the staff headcount, registered and paid at the end of the calendar year)*

	2011	2012	12/11
Absenteeism (1)			
Due to illness √	*3.83%*	*3.74%*	*-2%*
Due to work accidents √	*0.61%*	*0.54%*	*-11%*
Maternity leave √	*1.15%*	*1.06%*	*-8%*
Health and safety			
Total workplace accidents √ (2)	2,139	2,070	-3%
Number of fatal workplace accidents (2)	1	**0**	-100%
Frequency rate of workplace accidents √ (3)	*26.23*	***26.20***	*-0.1%*
Severity rate of workplace accidents √ (3)	*1.07*	***1.05***	*-2%*
Training			
Number of training hours by employee √ (4)	32	**31**	-1%
Disabled staff (5)			
Total staff with disabilities √	1,634	**1,691**	3%
Total staff with disabilities recruited during year √	30	**20**	-33%
Collective agreements √	18	**40**	

* *Data in italics concerns only Air France in Continental France and the French overseas territories.*

Air France subsidiaries

	2011	2012	12/11
Scope of reporting for Air France subsidiaries	**76%**	**75%**	**-1%**
Health and safety			
Total workplace accidents √ (2)	870	**993**	14%
Training			
Number of training hours by employee √ (4)	21	**20**	-4%
Disabled staff (5)			
Total staff with disabilities √	481	**543**	13%
Total staff with disabilities recruited during the year √	32	**27**	-16%
Collective agreements √	43	**23**	

√ ***Indicators verified by KPMG for 2012 (limited level of assurance).***

4.3.3 Other data for KLM (according to local legislation)

KLM (100% of the staff headcount, registered and paid at the end of the calendar year)*

Absenteeism (1)	2011	2012	12/11
Due to illness	6.11%	**5.24%**	-14%
Maternity leave	0.63%	**0.55%**	-13%
Health and safety			
Total workplace accidents √ (2)	217	**219**	1%
Number of fatal workplace accidents	0	**0**	0%
Frequency rate for workplace accidents √ (3)	4.54	**4.73**	4%
Severity rate of workplace accidents √ (3)	0.16	**0.16**	0%
Training (4)			
Total training costs in K€ √	69,422	**60,777**	-12%
Total training costs in € per full time equivalent	2,891	**2,539**	-12%
Disabled staff			
Total staff with disabilities √ (5)	656	**696**	6%
Collective agreements √	0	**3**	

* *KLM: data concerns KLM without international staff.*

KLM Subsidiaries

	2011	2012	12/11
Scope of reporting for KLM subsidiaries	**93%**	**92%**	-1%
Health and safety			
Total workplace accidents √ (2)	70	**92**	31%
Number of fatal workplace accidents	0	**0**	0%
Frequency rate for workplace accidents √ (3)	5.88	**8.46**	44%
Severity rate of workplace accidents √ (3)	0.08	**0.15**	88%

Training (4)			
Total training costs in K€ √	21,206	**19,736**	-7%
Total training costs in € per full time equivalent	2,961	**2,939**	-1%
Disabled staff			
Total staff with disabilities √ (5)	81	**88**	9%
Collective agreements √	4	**7**	
√ ***Indicators verified by KPMG for 2012 (limited level of assurance).***			

4.4 Corporate citizenship information

4.4.1 Dialogue with stakeholders

Listening, sharing and engaging with stakeholders are all integral to Air France-KLM's corporate citizenship commitment. The Group pays a great deal of attention to the expectations of its customers, employees and suppliers, and to local communities, associations, local authorities and players in civil society, such as NGOs.

Stakeholders are identified by analyzing their expectations vis-à-vis the Group's four key priorities. For each stakeholder group, the issues and risks have been assessed and the consultation methods defined. Relationships with the various stakeholders are re-evaluated on an annual basis.

The Group assesses employee perception by carrying out surveys and organizing forums several times per year. For external stakeholders, Air France and KLM have established various forms of dialogue, including through customer surveys, materiality tests with focus groups, feedback from shareholders and SRI investors and recommendations from non-financial rating agencies.

This ongoing dialogue helps the Group to better understand the changes taking place in wider society, and the issues and challenges with which it is faced. In 2012, stakeholder dialogue enabled Air France-KLM to further develop its biofuel policy and to consider new ways in which to reduce its overall environmental footprint.

Dialogue also promotes the exchange of ideas between different business sectors. Air France and KLM share best practice in CSR through their membership of associations or company forums. For example, KLM is a member of the Dutch Sustainable Growth Coalition, a forum for discussion on sustainable development created in 2010 on the initiative of seven Dutch companies who are DJSI front-runners in their sectors.

Stakeholder expectations can also have a significant impact on the Group's operations. For example, in 2012 following complaints about a particular noise produced by A320s from residents living close to the airport, Air France and the DGAC asked Airbus to investigate its origin, leading to changes in the design of new aircraft. KLM has improved its responsible catering offer thanks to dialogue with the Dutch Beter Leven Keurmerk association for animal protection and well-being: since 2012, the airline has served *Beter Leven* seal of approval chicken in its World and European Business Classes, a commitment which will be rolled out to all flights departing from Amsterdam next year.

Air France and KLM have also implemented consultation mechanisms enabling their stakeholders to express the reasons for any dissatisfaction. Air France and KLM's Customer Care departments are responsible for handling incidents affecting customers in a timely fashion. Both airlines are members of working groups (*Commissions consultatives de l'environnement* in France and *Alders Table* in The Netherlands) which bring together local community representatives, airlines and airports to discuss local environmental issues.

Lastly, feedback from stakeholders also has an influence on the Group's reporting, and particularly the 2012 Corporate Social Responsibility Report and its websites.

4.4.2 Fair commercial practice

Air France-KLM's commitment to sustainability is enshrined in its Corporate Social Responsibility Statement, in which the Group undertakes to foster respect for the environment, social equity and local development.

As a signatory of the United Nations Global Compact, Air France-KLM is committed to respecting and applying within its sphere of influence the universal principles relating to human rights and the fight against corruption.

Embracing the principles of human rights

In its Corporate Social Responsibility Statement, Air France-KLM undertakes to respect human rights and oppose all forms of child and forced labor. The Group is also committed to promoting these principles among its suppliers.

The Social Rights and Ethics Charter affirms the Group's commitment to fostering a climate of trust and mutual respect in the workplace. The Charter applies to all Air France and KLM employees, as well as to their European subsidiaries. The Charter also stipulates that the Group will ensure that fundamental social rights are respected by all of its sub-contractors, everywhere in the world.

The Group has identified the human rights-related risk factors within its businesses and introduced measures to counter these risks, ranging from the protection of customers' personal data to an agreement on psychosocial risks at Air France and a CSR Charter for suppliers.

Since 2011, CSR audits have been carried out at supplier premises focusing, in particular, on working conditions.

Affirming our business conduct rules

Air France-KLM ensures that ethical principles are respected in the way it does business. As a framework for its operations, Air France-KLM has formalized these principles by producing documented rules governing business conduct. Some of these rules apply to all members of staff while others apply to specific areas. For example, the Air France-KLM Procurement and Air France recruitment departments both have codes of ethics in force which are signed by all members of staff.

The Board of Directors has adopted a Compliance Charter and a Financial Code of Ethics. The Compliance Charter requires company officers, senior executives and employees of the company with access to insider information to respect the rules relating to trading in the company's shares while the Financial Code of Ethics sets out the rules concerning financial information with which they must comply.

KLM has a Code of Conduct setting out the main principles concerning financial and business integrity, confidentiality and commitment to CSR. This Code serves as an overall framework for KLM initiatives in these areas.

Air France-KLM combats any form of bribery, extortion or corruption. In line with the evolving international legislative and regulatory context, an Air France and KLM anti-corruption manual was drawn up in 2012 and will be circulated in 2013. Available in both French and English, this manual will be accessible to all members of staff and will be supported by a training module.

Lastly, to enable members of staff to signal any serious issues of which they may become aware, such as accounting and financial fraud or corruption, Air France and KLM have established a whistle blower procedure. This confidential procedure is accessible to everyone with no risk of sanction for the whistle blower.

Compliance with competition law

Since 2007, Air France-KLM has established a compliance policy to prevent anti-competitive practices via the publication and circulation of the Air France and KLM Competition Law Compliance Manual which is available to all employees. In addition to this Manual, several other means of prevention have been made available to the Group's employees, including a telephone hotline dedicated to competition law.

An e-learning module on the application of competition law is now mandatory for all Air France and KLM executives holding positions which require knowledge of the relevant regulations. After this online training and having passed an evaluation test, employees sign a declaration in which they commit to complying with the competition laws applying to their functions

4.4.3 Measures to ensure consumer health and safety

Flight safety and risk management

Safety is the absolute priority for Air France-KLM. It is vital to maintaining the trust of both customers and staff, and imperative for its activities and the long-term viability of air transportation.

All of the Group's businesses are subject to extensive controls and certification, and meet extremely strict standards and the highest level of regulations in the industry, both at European level with the European

Aviation Safety Agency (EASA) and globally with the International Air Transport Association (IATA), whose IOSA operational safety audit is a benchmark within the industry.

To achieve the highest attainable standard of flight safety, the Safety Management System (SMS) has been deployed across the two airlines. The SMS deals specifically with the management of aviation risks, and is supported by a commitment at the highest level of management within the Group, and by training and awareness-raising initiatives among all members of staff.

More generally, flight safety is an integral part of the risk management procedures (*see paragraph 3 – Risks and Risk Management, page 80*).

Measures to safeguard consumer health

The Group must guarantee the integrity of its in-flight catering for both customers and flight crew. The manufacturing and supply of food products are governed by European regulations which impose multiple requirements: the auditing of caterers, micro-biological and temperature analyses, staff training in the best hygiene practices, etc.

The two airlines have established a quality-first procedure to be able to respect these requirements. For example, Air France has based its Quality system on the ISO 22000 standard (food safety) becoming, in 2006, the first airline in the world with this certification.

Additionally, all Air France and KLM cabin crew are qualified in first aid and individual aircraft are systematically equipped with first aid kits and automatic defibrillators. To prevent the risk of thrombosis, an in-flight video on long-haul flights screens prevention exercises for passengers. Air France's Airbus A380s have a fully-equipped medical area.

The Group also offers a number of health-related services to passengers. For example, KLM Health Services offers passengers a three-stage service: during the flight, on arrival at their destinations and on the return flight. Air France's commercial website includes a health and well-being section and Air France has an ISO 9001-certified vaccination center in Paris.

In partnership with the Valk Foundation and Leiden University, KLM offers a program to overcome the fear of flying based on in-depth research into its causes. Air France also offers similar courses to help its passengers overcome their phobia of aircraft.

4.4.4 Contributing to regional economies

Employment and regional development

Roissy-CDG and Amsterdam-Schiphol airports offer multiple connections, forming an extensive, high-quality network and generating an attractive business environment.

With 89% of the Group's employees based in France and the Netherlands, Air France and KLM make a significant contribution to job creation in the regions surrounding their hubs. KLM is the third largest private sector employer in the Netherlands with 30,000 of the 60,000 direct jobs at Schiphol airport. Air France's more than 44,000 employees in the Ile-de-France region make it the leading private sector employer in the Paris region. In 2012, the airline demonstrated its commitment to the Paris region with new investments such as the ZEPHYR Engine Test Bench (BER) at Roissy. For its part, Régional has opened a new maintenance center in Clermont-Ferrand again highlighting the Group's enduring commitment to mainland France.

The Group's businesses also generate numerous direct and indirect jobs around the hubs: ground handling and catering services, the cleaning and sub-contracting services required for aircraft operation. Sixty per cent of the Air France Group's procurement in France (excluding fuel) comes from the Paris region, representing a total of €1.27 billion.

Roissy-CDG airport generates almost 248,000 direct, indirect and spin-off jobs including 86,000 with the 700 businesses based in the airport catchment area.

Through its extensive global network, the Group participates in the dynamism of the regional economic and social fabric. This dynamism involves recourse to local production and spin-off economic activity. The Group makes a pro-active contribution to developing the economic regions where its operations are based.

The wide range of professions and services required for the Group's out-station activity generates a significant number of direct and indirect jobs. For example, Air France subsidiary Servair is present in more than 50 international airports where the company prioritizes local employment.

A permanent dialogue with local communities

Air France and KLM maintain a pro-active and transparent dialogue with all the regional stakeholders. These regular discussions are the key to successful cooperation on issues such as noise and the quality of life around airports.

Association Pays de Roissy-CDG

Created in 2003 at the initiative of Air France, the association brings together companies, local elected representatives and residents of the Roissy-CDG catchment area, enabling projects concerning economic development, housing, transportation, culture, training and research to come to fruition. Through this association, Air France reinforces its territorial foundations by working in partnership with the local players.

Environmental Advisory Committees (CCE) and Advisory Committees for Resident Assistance (CCAR)

Active in the main French airports, the Environmental Advisory Committees constitute the main forum for dialogue between the operators and local communities, thereby helping to orientate the environmental measures accompanying airport development. The CCARs are advisory bodies specially dedicated to helping sound proof housing in communities located near to airports. Air France is a member of all the CCEs and CCARs in France.

Grand Roissy and Grand Paris

Air France also takes part in discussions on planning to shape the areas surrounding its hubs over the coming twenty years, such as the consultation process on the *Grand Paris* and *Grand Roissy* projects. Air France thus participated in the *Grand Roissy* Area Conference in February 2012 by representing the FNAM (*Fédération Nationale de l'Aviation Marchande)* at the *Roissy Conseil de Pôle*, whose role is to determine the area's development strategy. Air France is also contributing to the *Grand Roissy Economique*, a commission that aims to provide coordination to the business community in the area.

Alders Table

KLM and stakeholders ranging from Dutch Government Ministers to local communities and air transport professionals all come together around the *Alders Table*. This dialogue fosters a better understanding of the factors influencing the noise environment around Schiphol so as to achieve the optimum balance between the increase in aircraft movements and a reduction in noise.

CROS

KLM has been investing for several years in dialogue and cooperation with inhabitants of the Schiphol Airport zone, mainly through the Schiphol Regional Review Board (CROS).

Landschap Noord-Holland

In 2010 KLM, started a three-year partnership with Landschap Noord-Holland Foundation as part of the KLM commitment to supporting nature conservation and biodiversity in the territories served by KLM including the home base in the Netherlands. Amongst the Foundation's many projects, KLM sponsors the Ilperveld region. This area of reclaimed land is a stunning example of Dutch water management as well as being rich in bird and plant life.

Contributing to skills development, the vocational integration of young people and the social integration of the vulnerable

Air France and KLM encourage initiatives promoting access to training leading to professions in the airline industry through a number of different associations and education programs for young people. The two companies notably support the following initiatives:

OPEN - *Ouvrons nos Portes à tous les Elèves Naturellement*

Spearheaded by Air France in 2010, this project aims to enable teenagers with little or no access to the business environment to spend one week learning about the Air France professions. In 2012, this initiative was repeated and 14 school pupils (three of whom with disabilities) were able to gain an understanding of the business environment.

Airemploi

Air France is a founder member of this association which offers information on career opportunities and training courses in the air transport and aeronautical professions. In 2012, within the framework of the *Hirsch-Ouvrir Les Possibles* project (a pilot-led program to discourage children from dropping out of science classes in Seine-Saint-Denis), the Association visited 11 schools. It also took part in 173 *Terre et Ciel* conferences with 3,342 school children, 41 *Terre et Ciel* conferences with 409 careers advisors, 13 *Découverte des Métiers* workshops with 283 career advisors, and 66 trade fairs and seminars in the Ile-de-France and the French regions attended by 14,540 people. Airemploi also participates in programs to raise school childrens' awareness of the aeronautics professions which are traditionally seen as a male preserve, such as *Féminisons les Métiers de L'aérien* and *Place aux Filles*.

JEREMY, Jeunes en Recherche d'Emploi à Roissy et Orly

Air France is a founder member of this association which promotes the vocational integration of local young people without formal qualifications who are excluded from the workplace through a scheme combining training with professional experience and counselling. In 2012, thanks to this association, 1,100 candidates attended collective information meetings and 339 interns completed a foundation course leading to a qualification. These initiatives are implemented in partnership with the region, the French department of Education, the Apprenticeship Training Centers (CFA), and regional institutions and associations.

Fondation de la Deuxième Chance

Since 2005, through its Sodesi subsidiary, Air France has been committed to the Second Chance Foundation for which it coordinates the airport catchment area site located in Roissy. This Foundation contributes to the realization of professional projects by vulnerable people.

ROC

KLM continues to invest in education programs alongside Regional Education Centers (ROC). The Amsterdam-based education centers and KLM Engine Services offer gas turbine mechanic and sheet metalwork training with the Leiden center, while KLM also assists with internships and training to develop skills. KLM provides professional training for careers in aircraft maintenance at two schools with a two-year contract as a mechanic at the end of the course.

Global Start

Every year KLM donates computers and servers to this training program dedicated to ICT training for potential school dropouts and the long-term unemployed.

Partnership and sponsorship initiatives

Historically, the Group has always played an active role in international development assistance, particularly through its support of NGOs and projects led by its own employees. Concretely, Air France-KLM supports development projects in various different ways:

Long-term programs and humanitarian partnerships

Air France works to help disadvantaged children through its Corporate Foundation which, this year, celebrated its twentieth anniversary. In 2012, the Foundation assisted 102 support projects for sick, disabled and vulnerable children wherever the company has operations.

For more than thirty years the airline has partnered the Acting for Life NGO, which promotes child protection, economic development and sustainable tourism. In 2012, the organization supported 51 projects in Africa, Asia and Latin America. Air France has also provided long-term support for humanitarian air transport missions carried out by *Aviation Sans Frontières* (Aviation Without Borders). It also acts as an information conduit by raising passenger awareness of the damage caused by child sex tourism, by financing ECPAT International's prevention campaign and by distributing literature during flights to at-risk destinations.

KLM's AirCares program supports seven partners in the areas of education, health and sanitation: *Close the Gap, Medical Knowledge Institute, Aflatoun, Doctor2Doctor, Aviation Without Borders, Wings of Support,* and *Get it Done.* KLM analyzes the impact on beneficiaries of AirCares programs at the beginning and end of each project. A total of 13.3 million air miles were donated by *Flying Blue* members to these partners who also took part in a KLM event designed to broaden mutual cooperation, generate synergies and add value to their respective projects.

Logistical support

In 2012, 626 Air France tickets and free transportation of excess baggage were donated to 35 NGOs principally involved in providing medical assistance. Twenty-five other Air France-approved organizations also benefited from discounted fares for transporting personnel and equipment. In 2012, KLM donated tickets and transported 1,400kg of cargo and 500kg of excess baggage for its AirCares program partners as part of the logistical support in the KLM AirCares program.

4.4.5 Sub-contracting and suppliers

Pursuing a responsible procurement policy

As a service company, Air France-KLM's business activity is heavily dependent on procurement which represented €16 billion in 2012 and some 4,200 contractual suppliers. Fuel purchasing amounts for more than 50% of its expenses, followed by airport & navigation fees, airport handling and engineering & maintenance. Given the significant proportion of external expenses relative to total revenues, optimizing, innovating and ensuring sustainability principles are adopted throughout the supply chain are priorities for the Group and contribute to improving the Group's profitability. Air France-KLM can exercise significant leverage via its procurement policy and purchasing volume which it can use to encourage responsible practices across the supply chain.

For a number of years, the Air France-KLM combined Procurement function has aimed to incorporate corporate social responsibility principles in its relations with suppliers by reinforcing control over ethical, social and environmental risks. To this end, the procurement process takes place in the following manner.

The buyer sends the supplier a supplier questionnaire addressing CSR themes such as health, safety, environmental management and HR policy.

The supplier is invited to sign the CSR Charter for suppliers based on the principles of the UN Global Compact or submit their own equivalent document which may be approved following analysis. In 2012, the proportion of suppliers having demonstrated their CSR commitment increased to 71%.

The specification sheet attached to the tender documentation lists the criteria enabling the evaluation of the environmental impact of the product or service which is then taken into account during the evaluation of the different supplier proposals. This is an integral part of the assessment of the total cost of ownership and the life cycle analysis.

The supplier contract includes an ethical and environmental clause.

Besides quality audits of suppliers, since 2011 the Group has carried out supplier CSR audits with 13 such audits being performed in 2012. These audits, carried out in countries deemed to be at-risk in terms of corruption, human rights and environmental policy enabled the identification of areas requiring improvement. The follow up on the environmental findings established that 60% of these issues had been resolved thanks to corrective actions put in place by the suppliers. In 2013, a CSR self-evaluation campaign for suppliers will be added to the onsite audit program, enabling a larger scope of suppliers to be reached and gaining a better insight into their management systems and best practices.

Empowering the buyers

In addition to sharing the Group's CSR commitments, the Air France-KLM buyers are encouraged to sign a Code of Ethics outlining the ethical rules to be respected in their dealings with suppliers. This document and the CSR Charter for suppliers are available on the Procurement website. Furthermore, an internal process has been established to guide buyers towards responsible purchasing decisions including internet links to learn more about the best environmental practices together with training and seminars to raise buyer awareness and develop their skills, enabling them to take environmental and social criteria more effectively into account in their work.

Dialogue with suppliers

Via performance-monitoring meetings, special events and participation in forums and working groups, the procurement function maintains an ongoing dialogue with suppliers. Suppliers can also find information on how procurement is organized, the procurement policy and the function's commitment to Corporate Social Development at a dedicated website (www.af-klm.com/procurement) with access to documents like the procurement Code of Ethics and the Corporate Social Responsbility Report.

Procurement also cooperates with associations and companies in the sheltered sector on multiple projects representing a total €15 million of the Group's procurement (e.g.: re-packaging of audio headsets in Economy class, cleaning of blankets in Economy and Business). The Group participates jointly with Procurement in responsible purchasing working groups organized by the ORSE and AFNOR.

Mobilizing suppliers

The Procurement function sees suppliers as bona fide partners in a mutually-beneficial form of growth. In this capacity, it supports their research and development to identify innovative solutions and analyze the environmental impact of products. During the drawing up of a product specification, the prescriber and buyer work together to identify the environmental and corporate citizenship characteristics which encourage the supplier to not only develop the environmental performance of its products but also engage in a wider commitment to sustainability.

Partnering local development

The services sub-contracted by Air France-KLM represent a significant number of direct jobs, of which more than two-thirds are based in Europe. The Group also contributes to the development of suppliers in some sectors in the regions where the two hubs are located and at flight destinations through cooperation with local suppliers. For example, the Group contributes to developing the French regions (more than €400 million of contractual procurement in 2012, excluding aircraft and fuel).

Substantial sub-contracting

To identify the direct portion of sub-contractor procurement, an estimate has been made based on the external expenses of the Air France-KLM Group. Based on this estimate, the amount of external expenses, excluding fuel, potentially linked to sub-contracting procurement (catering, airport handling, aircraft sub-contracting and maintenance, other sub-contracting) amounted to €2.5 billion in 2012.

Taking into account corporate citizenship and environmental priorities

The obligations of sub-contractors in terms of the environment and occupational health and safety are stipulated in the product or service specification.

To prevent the risks linked to joint-activity during interventions, the establishment of prevention plans is systematic. This approach is the subject of a General Occupational Health and Safety Procedure. For Air France, the accident record of sub-contractors is the subject of a performance indicator which is tracked through the company's social reporting.

Furthermore, an environmental clause figures in Air France's catering contracts which includes measures to reduce the environmental footprint, such as the sorting and recycling of waste and the use of seasonal products.

KLM Inflight Services deploy a responsible supplier charter for their food and non-food sourcing, stipulating KLM's requirements in terms of responsible in-flight catering and contributing to the preservation of biodiversity.

4.5 Environmental information

For many years the Air France-KLM Group has been committed to a growth strategy that respects the environment and these environmental concerns are now at the heart of an ambitious, common strategy across the Group.

The Air France-KLM Group is aware of the impact of its activity on climate change and seeks to reduce its greenhouse gas emissions through the various initiatives in its Climate Action Plan[8].

In January 2008, within the framework of the French National Conference on the Environment (*Grenelle de l'Environnement*), Air France signed the Air Transport Sector Agreement with the French State, aimed at pursuing and stepping up French efforts towards air transportation that is increasingly respectful of the environment.

KLM has subscribed to the *Dutch Knowledge and Innovation Agenda,* defining the environmental and sustainable development vision and targets for airlines in the Netherlands. The company is also committed to the *Dutch National Agreement on Sustainability* (sector agreement on Transport, Logistics and Infrastructure for 2008-2020).

4.5.1 Overall environmental policy

Organization and responsibilities

Air France and KLM each have their own environmental management systems however the two Environment Divisions closely coordinate their activities, collectively establishing the Group's environmental strategy and working together on a wide range of issues. In particular, they carry out a common environmental reporting process through the Group's Corporate Social Responsibility Report.

Air France's Environment and Sustainable Development Division is responsible for formulating proposals on the company's environmental policies and priorities to be submitted to the General Management and the Executive Committee.

Each division of the company is responsible for applying the environmental policy thus defined and for regulatory compliance, supported by the Quality-Safety-Environment network.

The Environment and Sustainable Development Division ensures the consistency of the action plans in the entities and coordinates the environment network in which the Air France subsidiaries participate.

Each division has an environmental coordinator, generally reporting to the Quality-Safety-Environment manager, who is responsible for:

- Deploying the company's environmental policy in their entities through multiple strategic, training and communication initiatives;
- Coordinating the departments' environmental approaches and action plans;
- Establishing indicator dashboards, analyzing the results and identifying preventive and corrective measures.

For KLM, the Executive Committee (EXCOM) approves the company's environmental policy and the related environmental action plans.

The Corporate Social Responsibility (CSR) and Environmental Strategy department drafts this policy and is responsible for the proper functioning of the Environmental Management System.

All the departments have their own environmental coordinators who report to the Quality Managers and Executive Committee members who are themselves members of the Operational Safety & Environment Board which is responsible for controlling environmental compliance and performance.

[8] For further details see the Air France-KLM Group's Corporate Social Responsibility Report on the website http://corporate.airfrance.fr

Environmental management/ISO 14001 certification

Air France and KLM have established proprietary Environmental Management Systems based on the ISO 14001 standard.

This international standard is based on the principle of continuous improvement (Deming total quality model): plan the objectives, do (implement), check and management review. For each entity of the company, the processes are identified, planned, monitored and verified. There are also a series of internal and external audits to monitor the effectiveness of the Environmental Management System.

Air France has been ISO 14001 certified for all its ground operations in metropolitan France and all its flight operations since 2008. This certification was renewed in 2011 and is the subject of an annual audit.

KLM has deployed its ISO 14001-compliant environmental management system since 1999. Within the framework of its commitment to developing its environmental policy, KLM has implemented an extensive annual program aimed at ensuring a continuous improvement in environmental performance, guaranteeing environmental management and actively developing internal and external communication.

The environmental results of KLM Cityhopper, KLM Catering Services, KLM Equipment Services and KLM Health Services are included in KLM's environmental performance indicators while those of Martinair and Transavia.com are also partly included.

Environmental reporting/Verification of extra-financial data

The Air France and KLM Groups generate and report environmental indicators using systems which are proprietary to each company.

The Air France Group generates environmental reporting using the OSYRIS (Operational SYstem for ReportIng on Sustainability) IT application centralizing the population, verification and consolidation of the data for all the ground operations. For flight operations, the data are calculated using the DataWareHouse tool.

The KLM Group manages and reports its environmental indicators in a similar fashion using the CaeSar database which is widely deployed across the company.

The environmental reporting procedure is outlined in a Group environmental instruction memorandum common to Air France and KLM containing the definitions and the scope of the indicators.

In anticipation of the *Grenelle II* legislation, a selection of Air France-KLM's environmental indicators have been verified by one of the Group's Statutory Auditors since 2008. The indicators that are the most significant for air transportation, namely CO_2 emissions and fuel consumption in flight operations, are verified with the highest level of assurance known as reasonable assurance with a limited level of assurance for the other indicators.

Employee training and information on environmental protection

The Air France-KLM Group's in-house communication on its environmental information is ensured through a number of different channels:

● During the company's Sustainable Development Week, Air France and KLM organize conferences and workshops on various themes such as climate change, biofuels, reducing resource consumption and the company's support for NGOs.

● Newsletters on sustainable development issues are regularly circulated within the Group to keep employees in touch with the latest environmental news concerning Air France and KLM.

● In 2011, e-learning modules were introduced on Corporate Social Responsibility covering the important environmental aspects for Air France-KLM. This training, which is accessible under the DIF scheme and recommended for managers and members of the QSE network, had already been used by more than 3,000 employees at the end of 2012.

● The Environment and Sustainable Development Division helps the business divisions to deploy eco-design and, in 2012, launched a number of pilot projects around this theme (e.g. practice of eco-design as of a need arising, testing of an eco-design tool, ACV comparative studies, inclusion of environmental criteria in supplier specifications, etc.).

● KLM regularly organizes a Corporate Social Responsibility Café where employees can cooperate on sustainable development matters.

● The environmental management system deployed in the different Air France and KLM divisions and subsidiaries also raises the awareness of employees across the board on the need to reduce their environmental footprints.

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

The identification and management of environmental risks is an integral part of the ISO 14001 management system. Within the framework of these systems, the risks are identified, their impact evaluated and preventive and corrective measures implemented through the action plans of the different entities.

A feedback system has been established in all the Air France and KLM Operational Divisions to record environmental incidents, enabling risk prevention plans to be established and implemented at Group level.

See also paragraph *3.2.1 – Risks relating to the air transport activitiy – Environmental legislation*, page 84.

Environmental expenditure and investment

Air France's policy is to fully integrate environmental management within the business operations. This means that it is difficult to identify precise expenditure and investment on environmental management since investments are not made exclusively for environmental purposes (fleet renewal, for example).

KLM does, however, itemize a list of the most significant expenditure that can be directly linked to environmental legislation or management. This concerns expenditure relating to noise disturbance and the sound-proofing of buildings. KLM's other significant item of expenditure is taxes on waste (€3 million).

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage risks up to a sum of €50 million per claim and per year, including specific limits depending on location and/activity. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries including those with air operations (Régional/Brit Air/Transavia France/CityJet/VLM).

In terms of risk prevention, the main Air France divisions and subsidiaries exposed to environmental risk have in-house QSE (Quality Safety Environment) units, which regularly participate in site sensitivity studies, particularly when these are required by insurers.

KLM's aviation insurance covers environmental damage due to an aircraft crash, fire, explosion or collision. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable. The only exception is the provision made within the framework of the agreement between KLM and the WWF-NL on the 1% target for biofuel use in 2015.

Measures taken to guarantee the Air France-KLM Group's compliance with legal and regulatory environmental requirements

In 2011, a monitoring and regulatory compliance tool was deployed across the company covering all the applicable environmental requirements. This tool also enables the monitoring of new regulations and the level of their adoption by each Division within the company.

Any cases of non-compliance arising from the evaluation questionnaires are formalized and dealt with by an action plan. The CRMA, Régional and Brit Air subsidiaries also have similar tools.

In the maintenance sites listed as ICPE environmental protection facilities (*Installations classées pour la protection de l'environnement*), Air France produces a solvent management plan which is sent every year to the French administration, detailing the quantities of solvents consumed and the related emissions of volatile organic compounds, together with the measures in place to reduce these emissions.

To ensure compliance with the legal and regulatory requirements relating to Air France and KLM's ground operations outside their respective countries, Air France and KLM have adopted an environmental code of best practice in their outstations (GEP = Good Environmental Practices).

Amount of environmental indemnities paid during the financial year as a result of legal rulings

Air France and KLM paid no environmental indemnities during the financial year.

4.5.2 Pollution and waste management

Prevention, reduction and reparation of air, water and ground emissions with a serious environmental impact

Flight operations

The Air France-KLM Group monitors its atmospheric emissions, including low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO_2, SO_2, NOx and HC.

Ground operations

The effluents released from the Air France-KLM Group's maintenance operations are the subject of regular checks in order to ensure that the thresholds defined by the prefectural decrees are fully respected for each of their sites. The main effluents monitored are pH, nitrogen, phosphorus, metals, COD (Chemical Oxygen Demand) and BOD (Biological Oxygen Demand).

Prevention, recycling and evacuation of waste

The recycling of onboard waste is an ongoing priority for the Air France Group and is one of numerous initiatives such as the recycling of some 80% of equipment used (meal trays, drawers, covers, trolleys) and the development of eco-design to acquire the means to improve the environmental evaluation of products and reduce their overall impact.

A waste sorting system has been established at Air France's principal tertiary sites, enabling the recycling of hundreds of tons of paper every year. As part of the initiative to reduce paper consumption, a system of shared printers has been deployed across the company by the IT division.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracking system and its management harmonized in the different maintenance sites. This approach is also reflected in the optimized management of suppliers and costs, and the contribution of more relevant solutions with reference to regulatory changes.

Since 2009, Air France and KLM have had a common program aimed at recovering metal from used aircraft parts to make new components and re-use those that are still in good condition.

Measures taken to limit noise pollution

The totality of the Air France fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm in terms of the acoustic quality of civil aircraft.

In addition to renewing its fleet, Air France implements the following measures to reduce the noise impact of its flight operations:

- Application of *less noise* procedures, such as continuous descent approaches in collaboration with the DGAC, the French civil aviation authority. In 2012, Air France applied the continuous descent approach at Roissy-CDG pursuant to the decisions taken during the hearings of the *Grand Roissy* initiative.
- Reduction of night traffic: at CDG, Air France has given up 725 of the 818 annual slots abandoned by the airline industry as a whole since 2003.

Air France continued its investment effort by taking delivery of two new A380 aircraft for the fleet, taking the total to eight aircraft. The A380 is currently the most advanced aircraft in terms of acoustic quality and it already meets the noise standards that will become mandatory as of 2020/25. KLM uses the higher-altitude operational approach procedure for its night flights. Furthermore, KLM has implemented a number of route optimizations which have led to a reduction in noise pollution for 18,000 local residents.

After a trial lasting two years, an innovative fixed radius turn was successfully introduced on a Standard Instrument Departure (SID) to reduce the noise around the departure routes. KLM's Boeing B737 aircraft are the first to use this navigation technique to reduce noise. The extension of this procedure to the other aircraft types and companies is currently being studied.

Indemnities paid and actions carried out to neutralize environmental impacts

The French and Dutch governments have consistently reaffirmed their commitment to reducing the noise impact on populations. They have implemented policies aimed at adapting urbanization as a function of the exposure to aircraft noise. These include preventive measures aimed at avoiding the settlement of new inhabitants and remedial measures to sound-proof existing homes.

In 2012, Air France paid the French State a total of €18 million in Airport Noise Tax (TNSA) levied on every takeoff. The proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise.

In 2012, KLM paid €16 million in noise taxes for the sound-proofing and compensation for loss of value in real estate around Schiphol airport in respect of Article 77 of Dutch aviation law.

4.5.3 Sustainable use of resources

Water consumption and the water supply as a function of the local constraints

Given its activity, the Air France-KLM Group is not converned by the "water supply as a function of the local constraints" theme.

The Air France-KLM Group has considerably reduced its water consumption through better control over its processes, making its teams more accountable and by the integration of environmental criteria in the design and realization of its tools and work stations.

For example, the Air France maintenance division has established an aircraft washing process which uses much less water (around 8,000m^3/year), using cloths and biodegradable products.

For its part, Servair continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely. This has resulted in a saving of some 60,000m^3 in water consumption since 2009.

The action undertaken to reduce water consumption includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

Consumption of resources and the measures taken to optimize their use

The Air France-KLM Group has made a long-term commitment to mitigating the effects of climate change by reducing its carbon footprint. The high cost of fuel and environmental regulations justify the Group's ongoing efforts. An ambitious Fuel Plan has been deployed across the two companies aimed at reducing fuel consumption and improving energy efficiency. The main levers of improvement are based on the:

• Renewal of its fleet (the Air France-KLM Group fleet has an average age of 9.7 years) to ensure that it comprises modern, more energy-efficient aircraft with some of the best performance standards in the market. For example, the CO_2 emissions of the A380, the latest arrival in the Air France fleet, are 15% lower than for other modern four-engine aircraft. Across the entire Air France network, for all fleets, the average consumption is 3.6 liters per passenger over 100km, a 15% reduction since 2000.

• Continuous improvement in operating procedures to reduce fuel consumption, like flight trajectory optimization, reduced waiting times and appropriate altitudes. The impact of European air traffic control on Air France's fuel consumption has been estimated at 6% per year. Since 2011, Air France has operated daily optimized trans-Atlantic flights in the A380 between New York and Paris. On each of these flights, Air France reduces its CO_2 emissions by three to five tons by optimizing each phase in coordination with air traffic control.

• Lightening the mass loaded on board aircraft is also a non-negligible factor: a one kilogram reduction in the weight of an Air France aircraft represents a CO_2 saving of some 76 tons every year. Air France has thus replaced its baggage containers on long-haul flights with bins which are some 11kg lighter, saving some 2,000 tons of kerosene per year.

For a number of years, the Air France-KLM Group has been actively involved in the development of sustainable biofuels with a low carbon footprint and no harmful environmental or social impact. To this end, the Group is participating in the European Biofuel Flightpath 2020 initiative which aims to produce two million tons of sustainable biofuels in Europe by 2020.

Sustainable biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon emissions. On September 25, 2008, the company signed a sustainable biofuels charter drawn up in conjunction with NGOs such as the WWF and the Natural Resources Defense Council. The Group is also a stakeholder in research carried out by the Roundtable on Sustainable Biofuels (RSB), whose 12 sustainability criteria have been recognized by the European Commission since July 2011.

In late 2011, KLM launched a first series of 100 flights using biofuel between Amsterdam and Paris followed, in February 2012, by a second series of 100 flights this time using recycled cooking oil.

On June 19, 2012, KLM operated the longest-ever flight powered by biofuel on a Boeing B777-200, flying passengers from Amsterdam to Rio de Janeiro on the occasion of the Rio +20 Conference. KLM thus inaugurated the BioFUel program (an innovative service giving customers the opportunity to offset part of the CO2 emissions linked to their travel on biofuel flights) in the presence of the Dutch Infrastructure and Environment Secretary. The aircraft was partly powered by biofuel derived from used cooking oil supplied by SkyNRG.

Within the framework of its partnership with the WWF-NL, KLM plans to use around 1% sustainable biofuels in its fleet by 2015.

Energy consumption and measures taken to improve energy efficiency and the use of renewables

For its ground operations, Air France has implemented IT-based monitoring of the fuel consumption in its vehicle fleet and is finalizing the same process for its 2,000-strong fleet of runway equipment. The commitment to the HQE approach/certification at the design stage for new buildings and facilities also testifies to a focus on energy efficiency. Air France is also implementing an HQE approach/certification for the operation of all these new buildings.

Furthermore, in 2011, Air France made a commitment to the WBCSD (World Business Council for Sustainable Development) to reduce its energy consumption and signed the Manifesto for Energy Efficiency in Buildings.

Air France has deployed a company travel plan in the Ile de France, which proposes solutions aimed at contributing to the reduction in pollutant emissions arising from the journeys employees make between their homes and workplaces. This year the plan took on a new dimension with the signature of an Inter-Company Travel Plan at Orly, based on the one signed for Roissy in 2011.

For its part, KLM has equipped its Amstelveen headquarters with a sustainable energy facility, using 90% less gas and 30% less power.

Since 1989, KLM has deployed a range of electricity-saving measures in the KLM buildings in the Netherlands, enabling an average annual reduction of some 2% in its energy consumption. In 2008, KLM signed a third multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, aimed at optimizing the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 2% annually through to 2020.

KLM participated in the Dutch Mobility Task Force and consequently signed the multi-party Mobility Convention, aimed at a 10% reduction in employee-car-kilometers between 2008 and 2012.

Both KLM and Air France encourage their employees to support initiatives to reduce energy consumption.

Soil use conditions

In view of its activity, Air France-KLM has a limited impact on soil use conditions.

Pursuant to the rules and regulations, the Group collects or commissions sub-soil samples prior to any new construction at a site in order to guarantee their compliance with safety standards.

4.5.4 Contribution to adaptation and combating global warming

Greenhouse gas emissions and taking into account the impact of climate change

The Air France-KLM Group's contribution to combating climate change is based on its Climate Action Plan.

The Air France-KLM Group actively supports international efforts to reach a global climate agreement in which the aviation sector would make an ambitious, just and equitable contribution to the collective effort. The company continues to modernize its fleet, support aeronautics research and promote energy efficiency and the reduction in CO_2 emissions across the entire supply chain. It encourages employees to propose sustainable solutions to, for example, saving fuel and mitigating the emissions of the ground operations, and supports renewable energy research programs, such as biofuels for use in aviation. It also supports environmental protection research programs developed by NGOs. The company also gives its customers access to transparent, reliable information on the CO_2 emissions linked to their journeys using a calculator based on actual operating data and offers them the opportunity to offset this.

On October 8, 2010 in Montreal, 190 member countries of the International Civil Aviation Organization (ICAO) adopted a resolution on the reduction in the sector's emissions, representing a first at global level. This agreement includes a targeted 2% annual improvement in the energy efficiency of international aviation through to 2050 and commits the sector to stabilizing its net emissions and establishing a regulatory offsetting framework based on the market. The Air France-KLM Group welcomes the adoption of this resolution which finally recognizes the need for an overall sector commitment to combating global warming.

The Air France-KLM Group actively contributed to the establishment of initiatives to demonstrate the feasibility of a just and equitable involvement of international aviation in mitigating greenhouse gas emissions, either through the AEA (Association of European Airlines) or a specially-convened group of other deeply-committed partners (Aviation Global Deal Group). These initiatives aim to propose an overall sector approach for international aviation, reconciling the principle of common but differentiated responsibilities of the Rio Summit with that of the equality of treatment between operators in the Chicago Convention.

The Air France-KLM Group actively participates in the work of the International Air Transport Association aimed at proposing operational solutions enabling the environmental targets adopted by the General Assembly in 2009:

- By 2020, a 1.5% annual improvement in energy efficiency (excluding economic measures);
- From 2020, stabilization and neutral growth in CO_2 emissions;
- By 2050, a 50% reduction in CO_2 emissions relative to the 2005 level.

Since January 1, 2012, the European Directive implementing the European Emission Trading System (EU-ETS) has been extended to aviation. This European Directive now applies to all European and non-European airlines flying into and out of the European Economic Space, prompting firm opposition from non-European countries and their national airlines. This unilateral approach has been contested by third-party countries since its inception. This confrontational situation has resulted in continued uncertainty even after the coming into force of the Directive.

However, the negotiations underway within the ICAO following its 2010 resolution have been stepped up with a view to submitting a proposal to its triennial Assembly during the autumn of 2013. A working group of 17 high-level representatives of the Member States was established in early November 2012 to accelerate the work on this.

Given the progress on the negotiations within the ICAO and to encourage their conclusion, the European Union suspended the application of its CO_2 Emissions Trading System for flights to and from non-European airports for 2012. The Air France-KLM Group's exposure was thus reduced for 2012 but the Directive remains fully applicable for 2013 ahead of the outcome of the ICAO Assembly in October 2013.

Furthermore, this regulation foresees an exemption for the use of sustainable biofuels. For further information, please see the Air France-KLM Corporate Sustainability Report which can be a accessed at http://corporate.airfrance.fr. Sustainable biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon emissions while guaranteeing supply security. They will be crucial to achieving the Group's emission reduction targets and those of the whole airline industry which has no alternative to the use of liquid fuels. Air France is thus partnering a biofuel from forestry waste demonstration project, headed by the CEA, France's Atomic and Renewable Energy Commission, most of whose production could be used to fuel aircraft engines. Air France will also be participating in the company SYNDIESE, which is responsible for the industrial production.

In 2009, in cooperation with North Sea Group and Spring Associates, KLM created the company SkyNRG to develop a sustainable fuel supply, from purchase to delivery. SkyNRG is now the world leader in the biokerosene market, supplying more than 15 airlines, including Air France-KLM. Together with ClimateKIC partners, KLM is developing biojet fuel supply chains and is currently investigating other partnerships.

The Air France-KLM Group supports the European Commission's ITAKA initiative (Initiative Towards sustainable Kerosene for Aviation). This project, which is funded under the 7th European Framework Program for Research and Technological Development (FP7), will establish links between farmers, biofuel producers, distributers and users to break down the barriers to commercial rollout. KLM has already signed an advance biofuel purchase agreement with ITAKA.

4.5.5 Protecting biodiversity

Measures to protect biodiversity by reducing deleterious impacts on the biological equilibrium, natural habitats and protected plant species

Air France and KLM are involved in biodiversity preservation projects.

Since 2008, Air France has been involved in a vast project to combat deforestation in Madagascar in partnership with the GoodPlanet Foundation and the WWF. This program, covering more than 500,000 hectares of forestry, aims to reduce the current level of deforestation, thereby preserving the potential storage of some 50 million tons of carbon.

With €5 million invested in the program and more than 60 people employed by partners, the aims include:

- Developing new protected areas and preserving biodiversity;
- Replanting and restoring depleted forestry;
- Training local communities in the development of new farming methods and land management.

Four years into this forestry conservation program, Air France asked ONF International, a world-renowned environmental consultancy firm, to produce an initial report on the actions taken in the field. All the objectives have been achieved, making this project an outright success:

- 470,000 hectares of new protected areas have been created, aimed at forestry and biodiversity conservation;

● 25,000 hectares have been restored or reforested;
● 34,000 families are now aware of sustainable alternatives to clearing land for agriculture by burning forestry.

Furthermore, the project has helped to advance the scientific methods and measurement of forest carbon stocks in Madagascar.

For its part, KLM supports three nature preservation programs within the framework of its partnership with WWF-NL: the Coral Triangle in Indonesia, the Bonaire sea turtles and a reforestation program in Brazil.

In 2012, KLM continued its participation in the *Inspirational Programme for Ecosystems* program. With 11 other Dutch companies, the Group signed a statement of intent with the IUCN NL[9] to work on short, medium and long-term projects contributing to safeguarding and restoring biodiversity and ecosystems. The signatories of this program regularly participate in workshops on eco-services and initiatives to reduce their carbon footprints (REDD programs[10]).

The investment in these projects on the knowledge and preservation of biodiversity also contribute to understanding the challenges involved in biofuels production. The Air France-KLM Group is committed to ensuring the use of sustainable biofuels leading to a substantial reduction in CO_2 emissions and a minimum impact on biodiversity and the food chain, with no deforestation.

Note: Please see paragraph *4.4.5 – Sub-contracting and suppliers*, page 126 for the environmental aspects of the Air France-KLM Group's responsible catering.

[9] International Union for the Conservation of Nature, National Committee of the Netherlands.

[10] United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries.

4.6 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Since the 2007-08 financial year, the Group has chosen to have a selection of environmental indicators (indicated by the symbols √ and √√**)** verified by one of the Statutory Auditors, KPMG Audit, with the highest level of assurance, reasonable assurance[(1)], for fuel consumption and the related CO_2 emissions for air operations (√√) and a limited level of assurance [(1)] for the other verified indicators (√).

4.6.1 Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- All the Air France commercial flights under the AF code operated by Air France and its subsidiaries Brit Air, Régional and CityJet. The flights operated by Transavia France have also been included since 2011.
- All the KLM commercial flights under the KLM code operated by KLM and its subsidiary KLM Cityhopper (KLC). The flights operated by KLM's Transavia and Martinair subsidiaries were included as part of the KLM Group as of 2010. They are not included in the indicators for low altitude emissions of HC, NO_x and SO_2.

For the ground operations, the consolidation scope for the environmental reporting is unchanged on that of last year and covers 100% of the sites in France and the Netherlands. The international outstations are not taken into account.

- The Air France consolidated subsidiaries are: Brit Air, Régional, CRMA, Sodexi, BlueLink and Servair and its subsidiaries (only for the activities in France). Transavia France and CityJet are not included in the reporting scope.

  Furthermore, for Air France, the indicators for the domestic outstations are not reported when there is no detail available on the fixed charges invoiced by airports. The contribution of the domestic outstations affected by this issue is, however, marginal compared with the reported data.

  Concerning the Air France Group, the reporting scope is based on worldwide premises representing around 87% of the Group.

- The KLM consolidated subsidiaries are KLC (KLM CityHopper), KES (KLM Equipment Services), KCS (KLM Catering Services) and KHS (KLM Health Services), and Transavia NL and Martinair (for a portion of the indicators).

Since 2011, the reporting period for the Group's environmental data has been changed to a rolling twelve months from October 1 N-1 until September 30 N. This results from the change in the reporting period for the financial statements from the IATA year (April 1 to March 31) to the calendar year.

The national figures for greenhouse gas emissions will be published at a later stage and remain based on the calendar year.

4.6.2 Reporting tools

The environmental indicators are compiled at local level via two reporting tools: Osyris (Enablon software) for Air France and CaeSaR for KLM, which are available, respectively, at each Air France and KLM subsidiary.

[(1)] The review work was conducted in accordance with the International Standard for Assurance Engagements (ISAE 3000) specific to the verification of extra-financial data.

The reliability of the reporting process is supported by definitions of each indicator and user guides for contributors available in both French and English. Consistency tests have also been implemented.

The consolidation of the Air France-KLM Group's environmental data is carried out by the Air France Environment department.

4.6.3 Details and methodology, comments on variations

At Air France-KLM Group level, the regulatory requirements and the reporting and consolidation principles are outlined in a document entitled the Instruction Memo Environment, which is updated annually. The modalities for the compilation of the data, calculation methodologies and consolidation are defined in procedures which are specific to Air France and KLM, and which are harmonized whenever possible.

Within the framework of an approach based on continuous improvement, the precision of the methodologies used for some performance indicators is constantly being improved and, notably, their definitions. When these changes have a significant impact on the data, comparison with the figures for previous years is not meaningful.

When the data is not available, the figure reported for the year is estimated based on the value reported for the previous year. In 2012, this estimation method was not used.

4.6.4 Flight operations

CO_2 emissions

The Air France-KLM Group's CO_2 emissions remained stable between 2011 and 2012, activity having seen little variation from one year to the other.

Note that there are differences between the scope of the CO_2 emissions reported and those of the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), which means that they are not comparable.

SO_2 emissions

The calculation of the SO_2 emissions from flight operations is based on the average sulphur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms which is applied, respectively, to all fuel used during the year by KLM, Air France and the Air France subsidiaries.

The fall in SO_2 emissions from the Group's flight operations between 2011 and 2012 is mainly due to the 11% reduction in the average sulphur content in the fuel.

For the KLM Group, the increase is due to the rise in the average sulphur content of the fuel used.

NO_X and HC low altitude emissions (LTO)

The methodology used for the calculation of low altitude emissions (i.e. below 3,000 feet) is common to Air France and KLM. It is based on the LTO (Landing-Takeoff) cycle and on engine data communicated by the ICAO[2]. The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note, however, that the actual taxiing time not being available for Transavia France, the standard ICAO values have been used for this subsidiary.

Note: Following a review of the materiality of the reported indicators in the light of the *Grenelle II* legislation, it was decided to no longer report total NOx and HC emissions but to concentrate on low altitude emissions impacting mostly air pollution around airports.

As a result, starting from 2012, Air France-KLM has reported only NOx and HC low altitude emissions.

In-flight fuel jettison

An exceptional operation (less than one flight in 10,000 in 2012) involving the jettisoning of a quantity of fuel in flight to avoid an overloaded plane on landing whenever a flight is aborted. Each operation is effected in

(2) International Civil Aviation Organization.

close coordination with air traffic control under strict conditions governing geographical location (avoiding urban areas) and altitude (generally at or above 2,000 meters).

Total noise energy

This indicator was established by the Air France-KLM Group to manage the evolution in the noise footprint of its activity. The total noise energy indicator is calculated according to the methodology defined by the DGAC[(3)]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

The noise energy calculation for the KLM Group excludes the B747-400 ER aircraft which are operated by Martinair.
The trends in noise energy and traffic are determined by comparing the total noise energy calculated for the calendar year with the figure for 2000.

4.6.5 Ground operations

Water consumption

The consumption of water is taken into account for all ground activities. Water used on board flights is not included.

Consumption of other energies

The indicator includes the following sources of energy:

- Natural gas for heating buildings, aircraft painting workshops in Maintenance and cooking (the catering activity in particular). The conversion of the quantity of gas used as energy is calculated by taking into account the characteristics of the gas specific to France and the Netherlands;
- Superheated and iced water for climate comfort. For Air France, superheated and iced water is supplied by ADP (Aéroports de Paris) at the Orly and Roissy sites. The KLM facilities do not consume this type of energy;
- Jet fuel A1 for engine test benches;
- Domestic Fuel Oil (DFO) for power generators;
- Off-road diesel fuel for a portion of the Air France runway equipment;
- Petrol and diesel fuel for Air France and Servair vehicles and Air France and KLM ground support equipment.

The decline seen between 2011 and 2012 for the Air France Group is partly explained by the energy efficiency measures in place.

Emissions from ground operations (CO_2, SO_2 and NOx)

CO_2, SO_2 and NO_X emissions and their trends are linked to the energy consumption listed above.

For Air France, the sharp reduction in SO_2 emissions is due to the change in fuel for runway equipment. The domestic fuel oil which had been used until 2011 was replaced by off-road diesel fuel whose maximum sulphur content is 100 times lower.

NO_X emissions related to engine testing are calculated based on a methodology similar to the one used for flight operations which reflects the actual testing conditions.

VOC Emissions (Volatile Organic Compounds)

VOC emissions are calculated based on the direct emissions of solvents contained in the products used; VOCs contained in evacuated waste are excluded.

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(3) French Civil Aviation Authority (Direction Générale de l'Aviation Civile).

For the Air France Group, the increase between 2011 and 2012 is mainly due to more aircraft in the paint workshop in 2012 (22 aircraft in 2012 versus 9 in 2011).

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fuelling.

Hazardous industrial waste

When the quantity of hazardous waste has not been communicated by service providers at the end of the reporting campaign, the quantity mentioned in the specification slip on exiting the site is taken into account. This is, however, estimated to be marginal.

The reprocessing channels taken into account are those in the European regulation.

For KLM, the significant increase in the quantity of hazardous waste since 2011 is due to the evacuation, as hazardous waste, of water infiltrating into a KLM Cityhopper building.

Effluents

Both Air France and KLM entities are required to comply with the French and Dutch legislation on effluents. Each relevant site has regulatory limits on effluents and the frequency of measurement.

The reported data reflects the number of times a regulatory threshold is exceeded relative to the number of measurements for each type of effluent.

For 2012, the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements were, respectively:

- For Air France, 0/4 for Nitrogen compounds, 1/50 for Phosphorus compounds and 14/742 for metals.
- For KLM, 0/52 for Nitrogen compounds, 0/52 for Phosphorus compounds and 0/280 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.7 Environmental indicators for the Group

4.7.1 Air Operations

			Air France-KLM Group				Air France Group [1]				KLM Group [2]			
Environmental indicators		**Unit**	**2010**	**2011**	**2012**	**12/11**	**2010**	**2011**	**2012**	**12/11**	**2010**	**2011**	**2012**	**12/11**
Consumption														
Consumption of raw materials: fuel√√		ktonnes	8,534	8,950	8,956	0.1%	4,860	5,047	5,078	0.6%	3,674	3,903	3,878	-0.6%
Emissions														
Greenhouse gas emissions	CO_2 √√	ktonnes	26,879	28,193	28,210	0.1%	15,308	15,899	15,997	0.6%	11,571	12,294	12,213	-0.7%
	NO_x low altitude (< 3 000 ft) √	ktonnes	8.7	9.0	9.2	2.2%	6.1	6.2	6.3	1.6%	2.6	2.8	2.9	3.6%
	SO_2	ktonnes	10.2	10.4	9.9	-4.8%	6.6	7.2	6.4	-11.1%	3.6	3.2	3.5	9.4%
	SO2 low altitude (< 3 000 ft) √	ktonnes	0.7	0.8	0.7	-12.5%	0.5	0.6	0.5	-16.7%	0.2	0.2	0.2	0.0%
In-flight fuel jettison	Occurrences of fuel jettison √	number	39	29	41	41.4%	27	23	27	17.4%	12	6	14	133.3%
	Fuel jettisoned √	tonnes	1,671	1,152	1,839	59.6%	1,180	945	1,210	28.0%	491	207	629	203.9%
	HC low altitude(< 3 000 ft) √	ktonnes	0.8	0.8	0.8	0.0%	0.6	0.6	0.6	0.0%	0.2	0.2	0.2	0.0%
Noise impact														
Global noise energy indicator √		10^{12} kJ	1.65	1.65	1.69	2.4%	1.10	1.11	1.16	4.5%	0.55	0.54	0.53	-1.9%

√ *Figures verified by KPMG for 2012 (limited level of assurance).*

√√: *Figures verified by KPMG for 2012 (reasonable level of assurance).*

(1) *Air France Group scope: All the flights under AF code operated by Air France, Brit Ai,. Régional and CityJet, and flights operated by Transavia France from 2011. The subsidiaries are excluded for the total HC and NO_x emissions.*

(2) *KLM Group scope: All the KLM flights operated by KLM and KLM Cityhopper. Transavia and Martinair are included for fuel consumption and CO_2 and SO_2*

emissions but excluded for low altitude HC,. NO_x and SO_2 emissions.

4.7.2 Ground operations

			Air France-KLM Group				Air France Group [1]				KLM Group [2]			
		Unit	2010	2011	2012	12/11	2010	2011	2012	12/11	2010	2011	2012	12/11
Consumption														
Water consumption √		Thousand m^3	951	886	812	-8.4%	749	694	624	-10.1%	202	192	188	-2.1%
Electricity consumption √		MWh	416,149	408,408	392,223	-4.0%	321,818	309,655	293,406	-5.2%	94,331	98,753	98,817	0.1%
Consumption of other energies √		MWh	470,552	543,749	513,562	-5.6%	367,748	316,650	295,757	-6.6%	102,804 [3]	227,099	217,805	-4.1%
Emissions														
Greenhouse gas emissions	CO_2 √	tonnes	92,569	89,841	85,680	-4.6%	47,850	38,975	36,841	-5.5%	44,719	50,866	48,839	-4.0%
Emissions of substances contributing to acidification and eutrophication	Émissions of volatilie organic compounds (VOC)√	tonnes	167	129	146	13.2%	132	90	102	13.3%	35	39	44	12.8%
	HC emissions	tonnes	161	167	145	-13.2%	106	108	86	-20.4%	55	59	59	0%
Emissions of substances contributing to acidification and eutrophication	NO_x √	tonnes	879	810	773	-4.6%	605	541	508	-6.1%	274	269	265	-1.5%
	SO_2 √	tonnes	13.2	19.6	16.1	-17.9%	9.8	16.6	12.9	-22.3%	3.3	3.0	3.2	6.7%
Waste														
Waste production	Quantity of non-hazardous industrial waste√	tonnes	58,756	58,964	57,060	-3.2%	42,309	42,155	40,236	-4.6%	16,447	16,809	16,824	0%
	Quantity of hazardous industrial waste √	tonnes	5,914	7,000	7,009	0.1%	4,569	4,748	4,474	-5.8%	1,345	2,252	2,535	12.6%
	% hazardous industrial waste recovered √	%	47%	45%	58%	+13pts	36%	28%	43%	+15pts	84%	81%	85%	+4pts

Effluents														
Compliance rate of effluents with regulatory limits	Nitrogen compounds √	%	100%	100%	100%	0pt	100%	100%	100%	0pts	100%	100%	100%	0pt
	Phosphorus compounds √	%	100%	100%	99%	-1pt	100%	100%	98%	-2pts	100%	100%	100%	0pt
	Metals (4) √	%	100%	99%	98%	-1pt	100%	99.5%	98%	-1.5pts	100%	98.5%	100%	1.5pts

√ Figures verified by KPMG for 2012 (limited level of assurance).

(1) Air France and subsidiaries: Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi, CRMA and BlueLink. City Jet and Transavia France are not included.

(2) KLM and its subsidiaries: KLM Cityhopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS) and KLM Health Services (KHS). Transavia and Martinair are partially included.

(3) KLM Group did not yet include the consumption of vehicles and runway equipment or the fuel used in engine test benches.

(4) Cr. Cd. Ni. Cu. Pb. Sn and Zn.

5 Comments on the financial statements

5.1 Consolidated results for the financial year to December 31, 2012

There were no significant changes in the consolidation scope in the financial year to December 31, 2012.

During the 2011 financial year, the Group changed the date of its accounting year end from March 31 to December 31. This change in accounting year end became effective as of the financial year ending December 31, 2011, reducing the 2011 financial year to a period of nine months. Pro forma financial statements over a 12-month period to December 31, 2011 were also established.

The consolidation scope comprised 161 fully consolidated companies and 39 companies consolidated by the equity method. The two main subsidiaries, Air France and KLM, represented 89% of revenues and 73% of the balance sheet. The other subsidiaries were principally involved in air transport (Brit Air, Régional, CityJet, VLM, KLM Cityhopper and Martinair), maintenance, catering (Servair Group and KLM Catering Services) and aircraft financing. At December 31, 2011, the financial statements of the Air France parent company, established under French accounting standards, had shown stockholders' equity at less than 50% of its issued capital. As required by law, during 2012, the Group proceeded to reconstitute the Air France parent company's stockholders' equity via a reduction in issued capital. This transaction had no impact on the Group's financial situation. No subsidiary or sub-subsidiary presents any specific risks whose nature is likely to influence the Group's activity and financial situation.

(In € million)	**December 31, 2012**	**December 31, 2011 (12-month pro forma)**	**% Ch.**
Revenues	25,633	24,363	5.2
EBITDA*	1,448	1,344	7.7
EBITDAR**	2,405	2,192	9.7
Income/(loss) from current operations	(300)	(353)	15.0
Income/(loss) from operating activities	(880)	(480)	(83.3)
Net income/(loss) from continuing operations	(1,187)	(805)	(47.5)
Net income/(loss), Group share	(1,192)	(809)	(47.3)
Basic earnings/(loss) per share, Group (*In €*)	(4.03)	(2.73)	(47.6)

* *Operating result before amortization, depreciation and provisions*

** *Operating result before amortization, depreciation, provisions and operating leases.*

Revenues

Consolidated revenues for the period amounted to €25.63 billion, up by 5.2% on the previous financial year after a positive currency effect of 2.7%. In the passenger business, the year was characterized by capacity discipline from both Air France-KLM and the industry which enabled an improvement in unit revenues. The cargo activity, however, continued to suffer from the weakness of global trade and a situation of overcapacity. Measured in EASK (equivalent available-seat kilometers), the unit revenue increased by 5.0% and by 2.2% excluding currency.

Revenues in the passenger business rose by 7.2% and those of the maintenance business were 5.4% higher. Cargo business revenues declined by 2.7% while revenues from the other businesses declined by 3.9% due to a reclassification of activity.

Operating expenses

Operating expenses rose by 4.9% to €25.93 billion after a negative currency impact of 3.0%. Excluding fuel, the increase was limited to 1.8%. The unit cost per EASK (equivalent available seat-kilometer) increased by 4.7% but declined by 0.6% on a constant currency and fuel price basis for virtually stable production measured in EASK (+0.2%).

External expenses increased by 5.9% to €16.43 billion versus €15.52 billion over the previous twelve months. Excluding fuel, external expenses were unchanged relative to the previous twelve months.

The breakdown of external expenses was as follows:

(In € million)	**December 31, 2012**	**December 31, 2011 (12-month pro forma)**	**% Ch.**
Aircraft fuel	7,328	6,438	13.8
Chartering costs	556	571	(2.6)
Aircraft operating lease costs	957	848	12.9
Landing fees and en route charges	1,862	1,818	2.4
Catering	595	577	3.1
Handling charges and other operating costs	1,389	1,342	3.5
Aircraft maintenance costs	1,151	1,172	(1.8)
Commercial and distribution costs	876	847	3.4
Other external expenses	1,718	1,904	(9.8)
Total	**16,432**	**15,517**	**5.9**

The main changes over twelve months were as follows:

- **Aircraft fuel:** fuel expense for the year increased by €890 million due to the increase in the oil price. This increase was the combined result of a -0.3% volume effect, a negative currency impact of 10% and a 6% rise in the fuel price after hedging.
- **Chartering costs** incurred through leasing aircraft capacity from other airlines fell by €15 million relative to the previous year in which the Group had incurred chartering expenses during the in-line maintenance strike and the industrial action by cabin crew.
- **Operating lease** costs increased by €109 million under the influence of the decline in the euro and the leasing of 14 aircraft including eight regional aircraft. In parallel, eight aircraft were returned, three of which were regional aircraft. Lastly three aircraft were the subject of operating lease financing transactions.
- **Landing fees and en route charges** relating to air navigation services and the use of airports rose by 2.4%, in line with activity.
- **Catering** costs relating to in-flight services rose by 3.1%. These expenses comprise the expenses incurred for services provided on board the Air France KLM Group's own aircraft and those incurred by its catering subsidiary for third-party customers.
- **Handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. They increased in line with activity.
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. They fell by 1.8% over the period.
- **Commercial and distribution costs** increased by €29 million under the effect, notably, of the rise in interline commissions.

- **Other external charges** principally comprise rental charges, telecommunications costs, insurance and fees. They declined by €186 million principally due to the cost-saving measures in the Transform 2015 plan.

Salaries and related costs amounted to €7.66 billion versus €7.46 billion at December 31, 2011, i.e. a rise of 2.7%. The average headcount declined (-1.2%) to 100,744 employees. At a constant level of pension charges, salaries and related costs increased by only 1.4%.

Taxes other than income taxes stood at €184 million versus €191 million at December 31, 2011, a fall of 3.7%.

Amortization, depreciation and provisions totalled €1.59 billion versus €1.64 billion at December 31, 2011. Some €29 million of this €51 million reduction is explained by the review of the utilization periods on some aircraft.

Net allocations to provisions amounted to €157 million versus €55 million during the previous year, the swing being largely due to provisions made within the framework of maintenance on aircraft under operating lease.

Income/(loss) from current operations

The **result from current operations** was a loss of €300 million (versus a loss of €353 million at December 31, 2011).

The contributions to revenues and income/(loss) from current operations by sector of activity were as follows:

	December 31, 2012		**December 31, 2011 (12-month pro forma)**	
(In € million)	**Revenues**	**Income/(loss) from current operations**	**Revenues**	**Income/(loss) from current operations**
Passenger	20,186	(235)	18,834	(375)
Cargo	3,057	(222)	3,143	(60)
Maintenance	1,096	145	1,040	110
Others	1,294	12	1,346	(28)
Total	**25,633**	**(300)**	**24,363**	**(353)**

Income/(loss) from operating activities

The result from operating activities was a €880 million loss versus a loss of €480 million at December 31, 2011.

Over the financial year ended December 31, 2012, the result from operating activities included €471 million of restructuring charges within the framework of the roll-out of the Transform 2015 plan, of which €370 million of provisions for various staff reduction measures including the voluntary departure plan, and €98 million for fleet restructuring including a €50 million provision covering three loss-making lease contracts on Martinair's B747s.

Furthermore, within the framework of the Transform 2015 restructuring plan as presented to the Works Councils of the relevant companies in late August, the Air France Group decided to reorganize its regional business by separating the French activity, which was regrouped within a French Regional Division, from the other regional airlines notably in Ireland and Belgium. To this end, the Group conducted a review of the assets of City Jet and of its VLM subsidiary which will henceforth be valued independently. This analysis led the Group to depreciate all the goodwill attached to VLM for an amount of €168 million.

The result from operating activities also includes €97 million corresponding to the capital gain generated, on March 1, 2012, by the Group within the framework of the private placing of a portion of its Amadeus IT Holding SA shares.

Lastly, the Group recorded an exceptional tax of €17 million on salaries in the Netherlands, linked to the economic crisis in Europe, and an additional €20 million provision related to the proceedings underway concerning cargo in Switzerland, Brazil and the United States.

Net cost of financial debt

The net cost of financial debt declined to €353 million versus €371 million during the previous year. This fall was largely due to a €27 million reduction in the cost of gross debt.

Other financial income and expenses

Other net financial expenses amounted to a positive €139 million at December 31, 2012 versus a negative €180 million at December 31, 2011.

The breakdown was as follows:

- A currency gain of €62 million (versus a loss of €116 million at December 31, 2011);
- A €62 million positive variation in the fair value of financial assets and liabilities (a negative variation of €66 million at December 31, 2011) mostly due to the €38 million positive impact of the OCEANE 2020 swap;
- Provision write-backs of €15 million versus €2 million at December 31, 2011.

Net income/(loss) – Group share

Income taxes amounted to €27 million versus proceeds of €245 million at December 31, 2011.

In France, tax losses can be carried forward for an unlimited period. The amended 2011 finance law did, however, introduce a change in the amount of fiscal loss recoverable each year, effectively extending the recovery period. In view of the above and the income projections taken into account, the recoverability of the deferred tax asset net position amounts to a period of 11 years. The Group consequently opted to limit the recognition of its deferred tax asset net position as of the third quarter of the financial year ended December 31, 2011. The effective tax rate is thus not significant.

In the Netherlands, tax losses can be carried forward over nine years, with no limit on the amount of fiscal loss recoverable each year. Based on the forecasts of taxable profits, the recoverability horizon stands at six years for the Dutch scope.

Associates contributed a loss of €66 million at December 31, 2012 versus a negative contribution of €19 million in the previous year. This essentially comprised the negative contribution from the Alitalia Group amounting to €61 million (a negative €30 million at December 31, 2011).

The net income/(loss), Group share stood at a loss of €1.19 billion at December 31, 2012 versus a loss of €809 million at December 31, 2011.

The contributions to the net result by quarter were, respectively, €(368) million at March 31, 2012, €(895) million at June 30, 2012, €306 million at September 30, 2012 and €(235) million at December 31, 2012.

Basic earnings/(loss) per share, Group share, amounted to €(4.03) at December 31, 2012 versus €(2.73) at December 31, 2011.

5.1.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €1.47 billion over the financial year versus (€2.43 billion at December 31. 2011) of which €564 million of investment in the fleet, €513 million in maintenance, €115 million in components and €280 million in the ground operations and intangible assets.

Proceeds on disposals of tangible and intangible assets including sale and leaseback transactions amounted to €745 million versus €1.17 billion at December 31, 2011.

During the financial year ended December 31, 2012, the Group acquired an A380 aircraft under finance lease for €149 million and a building dedicated to the handling of delayed baggage for €25 million. The Group also proceeded to qualify under finance lease an amount of €12 million relating to a contract renewal on a B747-400 aircraft and re-qualified under finance lease the contract on an A340 aircraft for €14 million. Neither the acquisition nor the debt attached to the above four items had any impact in the cash flow statement.

Operating cash flow was positive to the tune of €851 million (€934 million at December 31, 2011) given the €49 million positive change in working capital requirement.

At December 31, 2012, the Group had €3.9 billion of net cash, of which €3.42 billion in cash and cash equivalents. Furthermore, the Group has un-drawn credit facilities amounting to a total of €1.85 billion.

Net financial debt amounted to €5.97 billion at December 31, 2012 (€6.51 billion at December 31, 2011). Stockholders' equity stood at €4.98 billion versus €6.09 billion at December 31, 2011, the difference being mainly due to the €1.19 billion net loss.

The Group's gearing ratio stood at 1.2 versus 1.07 at December 31, 2011.

5.1.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2012.

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and its expenses mostly comprise financial communication expenses. Statutory Auditors' fees and expenses linked to the compensation of company officers. At December 31, 2012, the operating result was thus positive to the tune of €4 million.

The net result was a €116 million loss, mainly due to the financial costs on the bond issues during the 2009-10 financial year and provisions on shares. No dividend was paid in respect of 2011.

Pursuant to the provisions of article 39.5 and article 223 quinquies of the French Tax Code relating to expenses in the statement of general expenses excluded from non-tax-deductible expenses, note that no amount was recognized during the financial year.

Pursuant to the provisions of article 39.4 and article 223 quatar of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable

At December 31, 2012, accounts payable stood at €25 million of which €3 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At December 31, 2011, accounts payable stood at €11 million of which €2 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.1.4 Revision to IAS 19 "Employee Benefits"

The revised IAS 19 "Employee Benefits" will be applicable from January 1, 2013.

The main principle of the revised IAS 19 is the removal, when a scheme leaves the 10% corridor, of the option enabling the amortization of actuarial gains and losses. From now on, these actuarial differences will have to be recognized directly in other comprehensive income. Pursuant to the standard, the application starting from January 1, 2013 will result in a:

- A negative adjustment in stockholders' equity at December 31, 2012 amounting to €1.9 billion gross reduced by the tax effect, i.e. €1.3 billion net of tax (€1.5 billion gross reduced by the tax effect, i.e. €1.1 billion net of tax in the opening stockholders' equity at January 1, 2013);

- An adjustment in the 2012 result amounting to €(39) million gross reduced by the tax effect to €(33) million net of tax.

5.2 Key financial indicators

Restated net income

The Group has opted to restate the net result only in the event of transactions involving exceptional amounts such as, for example, asset disposals like the Amadeus IPO.

Adjusted operating margin

In accordance with generally accepted practice for analyzing the air transport sector, operating leases are capitalized at seven times for the capital employed and gearing ratio calculations. Consequently, income from current operations is adjusted by the portion of operating leases considered to be financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, in stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011 pro forma**
Income/(loss) from current operations	(300)	(353)
Portion of operating leases considered to be financial charges	325	288
Adjusted income/(loss) from current operations	25	(65)
Revenues	25,633	24,363
Adjusted operating margin	0.1%	(0.3)%

Gearing ratio

The gearing ratio expresses net debt as a percentage of stockholders' equity. Net debt is the result of deducting cash (cash and cash equivalents and investments, minus bank overdrafts, from short and long-term debt.

The cash pledges within the framework of the four-year swap contract with Natixis relating to the OCEANE 2.75% 2020 is deducted from the corresponding debt. Deposits, constituted during the implementation of aircraft finance lease transactions and charged to the balance of the debt when the option is exercised, are deducted from debt. Within the framework of the appeal regarding the amount of the cargo fine filed with the European Union Court of Justice, the Group chose to set up bank guarantees pending the final ruling. These guarantees are held as available cash pledges, the Group having the option of rapidly substituting other assets.

12-month financial year to *(In € million)*	**December 31, 2012 pro forma**	**December 31, 2011 pro forma**
Current and non-current financial debt	10,999	10,402
Accrued interest	(112)	(122)
Deposits linked to financial debt	(650)	(491)
Financial assets pledged (OCEANE swap)	(393)	(393)
Currency hedge on financial debt	4	4

Gross financial debt	**9,848**	**9,400**
Cash and cash equivalents	3,420	2,283
Marketable securities	328	359
Available cash pledges	235	235
Deposits (bonds)	156	165
Bank overdrafts	(257)	(157)
Net cash	**3,882**	**2,885**
Net debt	**5,966**	**6,515**
Consolidated stockholders' equity	4,980	6,094
Net debt/consolidated stockholders' equity	**1.20**	**1.07**
Net debt/consolidated stockholders' equity excluding fair value of hedging instruments	**1.19**	**1.08**

Financial cover ratios

Although the gearing ratio deteriorated due to a decline in stockholders' equity, the cover ratios on interest charges improved.

Within the framework of the Transform 2015 plan, the Group has set a target of reducing debt to €4.5 billion and the net debt/EBITDA ratio to below 2 times by the end of 2014. This ratio is calculated based on the following metrics from the consolidated financial statements:

- Net debt: see above table
- EBITDA: operating result before amortization, depreciation and provisions.

Net debt/EBITDA ratio

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011 pro forma**
Net debt	5,966	6,515
EBITDA	1,448	1,344
Net debt/EBITDA	**4.1x**	**4.8x**

EBITDA/net interest charges

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011 pro forma**
EBITDA	1,448	1,344
Net interest charges	353	371
EBITDA/net interest charges ratio	**4.1x**	**3.6x**

Adjusted net debt /EBITDAR ratio

Adjusted net debt includes in net debt the annual amount of operating leases capitalized at seven times. EBITDAR corresponds to the operating result before amortization, provisions and operating leases.

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011** **pro forma**
Net debt	5,966	6,515
Operating leases x 7	6,699	5,936
Total adjusted net debt	**12,665**	**12,451**
EBITDAR	**2,405**	**2,192**
Adjusted net debt/EBITDAR	**5.3x**	**5.7x**

EBITDAR/adjusted net interest charges

The net adjusted interest charges include the portion of operating leases corresponding to interest charges (34%).

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011** **pro forma**
EBITDAR	2,405	2,192
Net interest charges	353	371
Portion of operating leases corresponding to interest charges (34%)	325	288
Total adjusted net interest charges	**678**	**659**
EBITDAR/ adjusted net interest charges	**3.5x**	**3.3x**

Return on Capital Employed (ROCE)

Return on capital employed measures the return on invested capital by expressing adjusted income from current operations (after the application of a normative tax rate of 31%) as a percentage of capital employed.

It is calculated from the following aggregates to be found in the consolidated financial statements.

- Capital employed: consolidated stockholders' equity net of the valuation of derivatives (a negative €25 million at December 31, 2012 and a negative €56 million at December 31, 2011) and the badwill linked to the KLM pension fund surplus (€928 million) recognized on the adoption of IFRS. Net debt and annual operating leases, capitalized at seven times in accordance with the rule used by analysts following the Air Transport sector and the rating agencies, are then added to this figure;
- Adjusted income from current operations after income taxes.

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011** **pro forma**
Stockholders' equity excluding the pension fund surplus and derivatives	4,077	5,110

Net debt	5,966	6,515
Operating leases x 7	6,699	5,936
Capital employed	**16,742**	**17,561**
Adjusted income/(loss) from current operations after taxation	**18**	**(45)**
ROCE	***0.1%***	***(0.3)%***

Cost of capital

12-month financial year to *(In € million)*	**December 31, 2012**	**December 31, 2011 pro forma**
Cost of stockholders' equity	14.6%	13.3%
Marginal cost of debt, post tax	4.6%	4.5%
Percentage of stockholders' equity/target debt		
• Stockholders' equity	31%	33%
• Debt	69%	67%
Weighted average cost of capital after taxation	**7.7%**	**7.4%**