

Management Report **2013**

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 expiration dates for these terms of office are staggered to facilitate the smooth renewal of the Board of Directors.

During the 2013 financial year, the Board of Directors saw a number of changes (summarized in the following table): replacement of the three Board directors representing the French State, expiration of one independent Board director's term of office and the appointment of a new independent Board director.

Furthermore, at the Air France-KLM Board of Directors' meeting of March 25, 2013, Mr. Jean-Cyril Spinetta and Mr. Leo van Wijk announced that they would be stepping down as, respectively, the Group's Chairman and Chief Executive Officer, and Vice-Chairman of the Board and Deputy Chief Executive Officer, on July 1, 2013, Mr. Spinetta also having decided to step down as a Board director as of the same date. Following the proposal of its Appointments Committee, the Board of Directors appointed Mr. Alexandre de Juniac to succeed Mr. Jean-Cyril Spinetta as Chairman and Chief Executive Officer of Air France-KLM as of July 1, 2013, and appointed Mr. Peter Hartman as Vice-Chairman of the Board from the same date.

Lastly, Ms. Patricia Barbizet resigned her Board director's mandate on December 31, 2013.

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, for example, the company's articles of incorporation, the internal regulations of the Board, the Registration Document and the latest press releases issued by the company.

Summary of the changes in the composition of the Board of Directors during the 2013 financial year:

Date	Event	Board function
January 29, 2013	Resignation of Marie-Christine Saragosse	Director representing the French State
January 30, 2013	Appointment of Jean-Dominique Comolli	Director representing the French State
February 20, 2013	Resignation of David Azéma	Director representing the French State
February 22, 2013	Resignation of Claude Gressier	Director representing the French State
March 21, 2013	Appointment of Solenne Lepage	Director representing the French State
March 22, 2013	Appointment of Régine Brehier	Director representing the French State
May 16, 2013	End of Jean-Marc Espalioux's term of office	Independent director
May 16, 2013	Appointment of Isabelle Bouillot	Independent director
June 30, 2013	Jean-Cyril Spinetta steps down as Chairman and Chief Executive Officer and as a Board director	Chairman and Chief Executive Officer
June 30, 2013	Leo van Wijk steps down as Deputy Chief Executive Officer and Vice-Chairman of the Board of Directors	Deputy Chief Executive Officer and Vice-Chairman of the Board
July 1, 2013	Appointment of Alexandre de Juniac as Chairman and Chief Executive Officer	Chairman and Chief Executive Officer
July 1, 2013	Appointment of Peter Hartman as Vice-Chairman of the Board of Directors	Vice-Chairman of the Board of Directors
December 31, 2013	Resignation of Patricia Barbizet	Independent director

In addition, during its meeting of June 25, 2013, the Board of Directors decided to grant Mr. Spinetta the title of Honorary Chairman from July 1, 2013 and to entrust him with the task of representing Air France-KLM, on an unpaid basis, for a period of 24 months.

1.1.1 Composition of the Board of Directors

At December 31, 2013, the Board of Directors comprised 14 members:

- 11 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 December 31, 2013, the Board of Directors numbered five women directors, i.e. a proportion of 35.7% (30.7% at January 1, 2014 taking into account the resignation of Ms. Barbizet as a Board director on December 31, 2013), in line with the AFEP-MEDEF recommendations 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

Alexandre de Juniac

Chairman and Chief Executive Officer (since July 1, 2013)

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

Born November 10, 1962, 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 Conseil d'Etat 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 was appointed Chairman and Chief Executive Officer of Air France on November 16, 2011 before becoming **Chairman and Chief Executive Officer of Air France-KLM** on July 1, 2013.

Other directorships and offices

French company

- Member of the Vivendi* Supervisory Board since April 30, 2013.

Other

- Member of the IATA (International Air Transport Association) Board of Governors (Canada) (since July 1, 2013)

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

- Chairman and Chief Executive Officer and Director of Air France until June 30, 2013
 - Chief of Staff to Christine Lagarde, Minister for the Economy, Industry and Employment from 2009 to 2011
 - Senior Vice-President, Asia, Africa, Middle East and Latin America, Thales, from 2008 to 2009.
-

Professional address :

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

* Listed company

Peter Hartman

Vice-Chairman of the Board of Directors

First appointed as a Board director:

July 8, 2010.

Expiration date of current term of office:

2017 Shareholders' Meeting

Number of shares held in the company's stock:

12,960

Expertise and professional experience

Born April 3, 1949, 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 KLM Managing Board in 1997 then Vice-President of the Managing Board before becoming President and Chief Executive Officer of KLM between 2007 and 2013. Since July 1, 2013, he has been **Vice-Chairman of the Air France-KLM Board of Directors***.

Other directorships and offices

Non-French companies

- Member of the Supervisory Board of Royal Ten Cate N.V.* (Netherlands) since April 18, 2013
- Member of the Supervisory Board of Delta Lloyd N.V.* (Netherlands)
- Member of the Supervisory Board of Fokker Technologies Group B.V. (Netherlands)
- Chairman of the Supervisory Board of Texel Airport N.V. (Netherlands)
- Director of Alitalia CAI (Italy) (until January 13, 2014)

Other

- Chairman of Connekt (Netherlands) (independent network of public and private companies aiming to connect different entities to facilitate sustainable travel in the Netherlands)

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

Non-French companies

- Member of the Supervisory Board of Stork B.V.* (Netherlands) until January 1, 2013
- Member of the Supervisory Board of Kenya Airways Limited (Kenya) until July 1, 2013
- President of the Managing Board of KLM (Netherlands) until July 1, 2013

Other

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

Professional address:

KLM, AMS/AF, PO Box 7700, 1117 ZL Schiphol Airport, Netherlands

* Listed company

Maryse Aulagnon

*Independent director
Chair of the Audit Committee*

First appointed as a Board director:

July 8, 2010.

Expiration date of current term of office:

2017 Shareholders' Meeting

Number of shares held in the company's stock:

1,500

Expertise and professional experience

Born April 19, 1949, Maryse Aulagnon, honorary Master of Petitions at the Conseil d'Etat, 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 in 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: Chair 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
- Director of Veolia Environnement
- Member of the B.P.C.E. Group (Banques Populaires Caisses d'Épargne) Supervisory Board

Non-French companies

- Affine Group: Chair of Banimmo (Belgium) and director of Holdaffine BV (Netherlands)
-

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

French companies

- Affine Group: Director of Affiparis S.A. until December 7, 2012, Member of the Executive Committee of Business Facility International SAS from 2005 until February 2010

Other

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

Professional address:

Affine, 5 rue Saint-Georges, 75009 Paris

* Listed company

Patricia Barbizet

Independent director until December 31, 2013

Member of the Appointments Committee and the Remuneration Committee

First appointed as a Board director:

September 15, 2004**

Term of office ended:

December 31, 2013

Number of shares held in the company's stock:
2,270.

Expertise and professional experience

Born April 17, 1955, 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/Kering Group*: Director of Artémis, Director and Vice-Chair of the Kering* Board of Directors, Member of the Supervisory Board of Yves Saint-Laurent, Member of the Supervisory Board and Chief Executive Officer (non-Director) 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, Director of the FNAC Group
- Member of the PSA Peugeot Citroën* Supervisory Board since April 24, 2013
- Director of Total*
-

Non-French companies

- Artemis /Kering*: Non-executive Director of Kering Holland (formerly known as Gucci Group N.V.) (Netherlands), Director (*Amministratore & Amministratore Delegato*) of Palazzo Grassi (Italy) Chair of the Board of Directors of Christie's International Plc (United Kingdom)
-

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

French companies

- Director of the Fonds Stratégique d'Investissement and Chair of the Investment Committee until July 12, 2013
- Bouygues Group: Director of Bouygues* and TF1* until April 2013
- Deputy Chief Executive Officer of the Société Nouvelle du Théâtre Marigny until January 2012
- Director of Fnac S.A. until May 2011

Non-French companies

- Director of Gucci Group N.V. until April 9, 2013
 - Non-executive Director of TAWA* (United Kingdom) until June 2012
-

Professional address:

Artémis, 12 rue François 1^{er}, 75008 Paris

** Date of first appointment as a Board director at Société Air France: January 3, 2003 (c.f. justification on page 19)

* Listed company

Isabelle Bouillot

Independent director
Member of the Remuneration Committee

First appointed as a Board director:

May 16, 2013.

Expiration date of current term of office

2017 Shareholders' Meeting

Number of shares held in the company's stock:

230

Expertise and professional experience

Born May 5, 1949, Isabelle Bouillot holds an advanced degree in Public Law and is a graduate of the Institut des Etudes Politiques de Paris and the Ecole Nationale d'Administration.

Having occupied various positions in the French Public Administration, among them Economic Advisor to the President of the Republic between 1989 and 1991 and Budget Director at the Ministry of Economy and Finance between 1991 and 1995, Ms. Bouillot was Deputy Chief Executive Officer in charge of the financial and banking activities at the Caisse des Dépôts et Consignations between 1995 and 2000 then Chair of the Management Board of the Investment Bank of the CDC IXIS Group from 2000 to 2003. Since 2006, she has been **President of China Equity Links (SAS)**.

Other directorships and offices

French companies

- Director of Saint Gobain*
- Majority Manager of IB Finance

Non-French company

- Director of Umicore (Belgium)

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

French company

- Director of Accor* until February 2009

Non-French company

- Director of Dexia* (Belgium) until May 2012
-

Professional address:

China Equity Links, 9 avenue de l'Opéra, 75001 Paris

Jean-François Dehecq

Independent director
Chairman of the Appointments Committee and a member of the Audit Committee

First appointed as a Board director:

September 15, 2004**.

Expiration date of current term of office:

2016 Shareholders' Meeting

Number of shares held in the company's stock:

523.

Expertise and professional experience

Born January 1, 1940, 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 July 2010, Mr. Dehecq has been **Vice-Chairman of the National Industry Council**.

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
- Chairman of the Maori Supervisory Board.

Others

- Honorary Chairman of Sanofi-Aventis*
- Chairman of the Sanofi Espoir Corporate Foundation
- Chairman of the Strategy Committee of the Commission des Titres d'Ingénieurs (French engineering accreditation institution).

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

French companies

- Chairman of the Strategy Committee of the Fonds Stratégique d'Investissement until July 2013
- 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
-

Professional address:

Sanofi-Aventis, 262 Boulevard Saint Germain, 75007 Paris

** Date of first appointment as a Board director at Société Air France: January 25, 1995 (c.f. justification on page 19)

* Listed company

Jaap de Hoop Scheffer

*Independent director
Member of the Remuneration Committee*

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**

Born April 3, 1948, 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 2012, Mr de Hoop Scheffer has **taught international politics and diplomacy at the La Haye campus of Leiden University** (Netherlands).

Other directorships and offices**Non-French company**

- Member of the International Advisory Board of Royal Ten Cate N.V. (Netherlands)

Others

- Chairman of the Supervisory Board of Rijksmuseum (Netherlands).
- Vice-Chairman of the Franco-Dutch Cooperation Council
- Co-President of the Security & Defence Agenda (Brussels)
- Member of the European Council on Foreign Relations (London).
- President of the Advisory Council on International Affairs (Netherlands)

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

- 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

Cornelis J.A. van Lede

*Independent director
Member of the Audit Committee and the Remuneration Committee*

First appointed as a Board director:

September 15, 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**

Born November 21, 1942, 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 and currently holds a number of **company directorships**.

Other directorships and offices**French company**

- Director of L'Air Liquide.

Non-French companies

- Chairman of the Supervisory Board of Royal Imtech (Netherlands) since August 2013
- Member of the Supervisory Board of Philips Electronics (Netherlands).

Directorships and offices held during the last five years and having expired**Non-French companies**

- Chairman of the Heineken* (Netherlands) Supervisory Board until April 2013
- Director of DE Master Blenders*(1) (Netherlands) until February 27, 2013
- Director of Sara Lee Corporation (United States) until June 2012 (1).

Others

- Member of the Board of Directors of INSEAD (France) until 2010
- Chairman of the Board of Directors of INSEAD until January 2009

(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.

Professional address:

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

** Date of first appointment as a Board director at Société Air France: June 24, 2004 (c.f. justification on page 19)

* Listed company

Leo M. van Wijk

Board director
Chairman of the Remuneration Committee

First appointed as a Board director:

September 15, 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

Born October 18, 1946, 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*, an office he held until June 30, 2013. He has been **Chairman of the SkyTeam Governing Board** since 2007.

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)
- Member of the Supervisory Board of AFC Ajax N.V.* (Netherlands)

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

French company

- Deputy Chief Executive Officer and Vice-Chairman of the Board of Directors of Air France-KLM* until June 30, 2013.
-

Professional address:

KLM, AMS/AF, PO Box 7700, 1117 ZL Schiphol Airport, Netherlands

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.

Régine Bréhier

Board director representing the French State

First appointed as a Board director:

March 22, 2013.

Expiration date of current term of office:

March 2017

Expertise and professional experience

Born December 10, 1960, Régine Bréhier is a graduate of the Ecole Polytechnique, the University of Berkeley and the Ecole Nationale des Ponts et Chaussées. Ms. Bréhier has spent most of her career in the French Ministry of Equipment, in decentralized services and in central administration, heading various departments with responsibility for road services and major infrastructure works. In 2006, she became Director of Research and Scientific and Technical Coordination then, from 2008 to 2012, Director of Research and Innovation. Since April 2012, she has been **Director of Maritime Affairs at the French Ministry of Ecology, Sustainable Development and Energy.**

Other directorships and offices representing the French State

French companies and public institutions

- Director of the Société Nationale Maritime Corse Méditerranée (SNCM)
- Director of the Musée de la Marine
- Alternate Director at the Ecole Nationale Supérieure Maritime

Other

- Director of the European Maritime Safety Agency (EMSA) (Portugal)

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

French companies and public institutions

- Alternate Director at Météo France until July 29, 2013
 - Director of the Service Hydrographique et Océanographique de la Marine (SHOM) until June 26, 2013
 - Director of Aéroports de Paris* until April 26, 2013
 - Director of a number of public institutions within the framework of her functions as Director of Research and Innovation
-

Professional address:

Direction des Affaires Maritimes – Ministère de l'Ecologie, du Développement Durable et de l'Energie – Arche Sud – 92055 La Défense Cedex

** Date of first appointment as a Board director at Société Air France: June 24, 2004 (c.f. justification on page 19)

* Listed company

Solenne Lepage

Board director representing the French State
Member of the Audit Committee

First appointed as a Board director:

March 21, 2013.

Expiration date of current term of office:

March 2017

Expertise and professional experience

Born February 7, 1972, Solenne Lepage holds a philosophy degree and is a graduate of the Ecole Nationale des Chartes, the Institut d'Etudes Politiques de Paris and the Ecole Nationale d'Administration. Having begun her career in 2002 within the Ministry of the Economy and Finance as a deputy civil administrator reporting to the heads of various offices (Public Banks, Energy, Chemicals, European Coordination and Strategy), between 2006 and 2009 she was Customer Relations Manager for Large Companies in the banking and insurance sector at HSBC France.

In 2009, she became Head of the "EDF and Other Shareholdings" office in the Agency for State Shareholdings.

Ms. Lepage has been **Deputy Director, "Transport and Audiovisual", at the Agency for State Shareholdings** since October 8, 2012.

Other directorships and offices representing the French State

French companies and public institutions

- Director of the SNCF
- Director of Réseau Ferré de France
- Director of Aéroports de Paris^{*}
- Director of the Régie Autonome des Transports Parisiens (RATP)

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

French companies and public institutions

- Director of France Télévisions until September 4, 2013
 - Director of External Audiovisual for France until September 4, 2013
 - Member of the Supervisory Board of Aéroports de la Côte d'Azur until May 6, 2013
 - Member of the Supervisory Board of Le Havre Grand Port Maritime until March 19, 2013
 - Director of the Société de Financement et d'Investissement pour la Réforme et le Développement (SOFIRED) until January 28, 2013
 - Director of the French Fractionation and Biotechnologies Laboratory (LFB) until October 26, 2012
 - Director of the Société d'économie mixte d'aménagement et de gestion du marché d'intérêt national de la région parisienne (SEMMARIS) until October 23, 2012.
-

Professional address:

Agence des Participations de l'État, Ministère de l'économie, des finances et de l'industrie, 139 rue de Bercy, 75572 Paris Cedex 12

^{*} Listed company

Jean-Dominique Comolli

Board director representing the French State

Member of the Appointments Committee and the Remuneration Committee

First appointed as a Board director:

December 14, 2010

Expiration date of current term of office:

January 2017

Expertise and professional experience

Born April 25, 1948, 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 representing the French State

French companies and public institutions

- Director of France Télévisions since September 4, 2013
- Director of the Établissement Public 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 Seita Board of Directors 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) until September 2010
-

Professional address:

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

* Listed company

Board directors representing the employee shareholders

Pursuant to articles L.6411-9 of the Code of Transport and article 17 of the articles of incorporation, 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 employee 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. The employees and former employees are invited to choose their candidates for each of the two colleges (flight deck crew and other employees), the election taking place based on a majority vote in two rounds. The candidate having obtained the absolute majority of the votes cast in each college, in either the first or second round, is then proposed to the Shareholders' Meeting.

Christian Magne

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

First appointed as a Board director:

September 15, 2004[†].

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
Born August 20, 1952, 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 exercised numerous functions linked to defending the interests of Air France employees. He is currently an **Executive**.

Other directorships and offices

- Titular member (elected) of the Supervisory Board of the Aeropelican employee shareholder FCPE
- Alternate member (elected) of the Supervisory Board of the Concorde employee shareholder FCPE
- Member (elected) of the Supervisory Boards of three dedicated diversified savings funds (titular member of the Horizon Epargne Mixte and Horizon Epargne Taux funds and alternate member of the Horizon Epargne Action fund)

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*

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 8,136 FCPE units.

Expertise and professional experience
Born July 10, 1961, Mr. 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 747-400. In 1999, he became an Airbus A320 Flight Captain then, in 2006, **Flight Captain on the Boeing 777**.

Other directorships and offices

- Chairman of the Supervisory Board of the Majoractions employee shareholder FCPE

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

French company

- Director of Air France representing flight deck crew until July 2010.

Professional address:

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

[†]Date first appointed as a Board director at Société Air France : September 14, 2001 (c.f. justification on page 19)

Board directors whose terms of office ended during the 2013 financial year

Jean-Cyril Spinetta

Honorary Chairman (since July 1, 2013)

First appointed as a Board director: September 15, 2004**	Expertise and professional experience Born October 4, 1943, 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 in 2004 at the time of the merger until 2009 when he stepped down as Chief Executive Officer of Air France and Air France-KLM while remaining Chairman of the two Boards of Directors. On the reunification of the Chairman and Chief Executive Officer functions in October 2011, he again served as Chairman and Chief Executive Officer of Air France-KLM until June 30, 2013. Since July 1, 2013 he has been Honorary Chairman of Air France-KLM.
Term of office ended: June 30, 2013	
Number of shares held in the company's stock: 65,349	

Other directorships and offices

French company

- Director of Alcatel-Lucent*.

Other

- Member of the Board of Paris Europlace.

Non-French company

- Director of Alitalia CAI (Italy) (until January 13, 2014).

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

French companies and public institutions

- Chairman and Chief Executive Officer of Air France-KLM* until June 30, 2013
- Chairman of the Areva¹ Supervisory Board until June 24, 2013
- Director of Saint-Gobain* until June 6, 2013
- Chairman of the Board of Directors then Chairman and Chief Executive Officer of Air France until November 16, 2011
- Chairman of the Board of Directors of Air France-KLM* 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.

Other

- Member of the IATA (International Air Transport Association) Board of Governors (Canada) until June 30, 2013
-

Professional address:

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

** Date of first appointment as a Board director at Société Air France: September 23, 1997 (c.f. justification page 19)

* Listed company

Jean-Marc Espalioux

Independent director until May 16, 2013

First appointed as a Board director:

September 15, 2004**.

Term of office ended:

May 16, 2013

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

Expertise and professional experience

Born March 18, 1952, 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 Vivendi and Veolia 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 Financière 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

- Chairman of the Supervisory Board of Axiom SAS (BVA Group holding company) since March 2013
- Director of Constructa since February 2013
- NJM permanent representative in the Paprec Holding Board of Directors
- Director of Demos
- Chairman of Penthièvre SAS
- 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

- Director of Paprec Holding until March 27, 2013
 - 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 Board 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'Épargne until July 2009.
-

Professional address:

Montefiore Investment, 17 rue de Miromesnil, 75008 Paris

Claude Gressier

Board director representing the French State until February 22, 2013

First appointed as a Board director:

September 15, 2004***.

Term of office ended:

February 22, 2013

Expertise and professional experience

Born July 2, 1943, 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 1998 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.**

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

Public institutions

- Director of the SNCF until February 25, 2013
-

Professional address:

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

** Date of first appointment as a Board director at Société Air France: September 14, 2001 (c.f. justification page 19)

* Listed company

*** Date of first appointment as a Board director at Société Air France: June 24, 2004 (c.f. justification page 19)

David Azéma

Board director representing the French State until February 20, 2013

First appointed as a Board director:

October 1, 2012.

Term of office ended:

February 20, 2013

Expertise and professional experience

Born November 22 1960, 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 then 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

- BPI-Group (since July 20, 2013): Director of BPIFrance (BPI-Group), BPIFrance Participations and BPIFrance Investissement
- Director of Thales* since March 26, 2013
- Director of EDF^{*}
- Director of Renault*

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

French companies and public institutions

- Director of the Fonds Stratégique d'Investissement until July 12, 2013
 - Member of the Supervisory Board of Areva* until March 26, 2013
 - Chairman of Keolis Management Board from June to 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 from 2008 to 2012.
-

Professional address:

Agence des Participations de l'État, Ministère de l'économie, des finances et de l'industrie, 139 rue de Bercy, 75572 Paris Cedex 12

Marie-Christine Saragosse

Board director representing the French State until January 29, 2013

First appointed as a Board director:

July 27, 2011.

Term of office ended:

January 29, 2013

Expertise and professional experience

Born March 24, 1960, 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 France Médias Monde** (formerly known as French External Audiovisual) since October 6, 2012.

Directorships and offices held during 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 Francées between 2006 and 2008.
-

Professional address:

France Médias Monde, 80 rue Camille Desmoulins, 92130 Issy-Les-Moulineaux

* Listed company

Composition of the Board of Directors at December 31, 2013

Board director (Age at December 31, 2013)	Functions within the Board of Directors	Date appointed to the Air France-KLM Board	Mandate expiry date	Principal current position
Alexandre de Juniac (51 years)	Chairman and Chief Executive Officer of Air France-KLM	January 11, 2012	2015 AGM	Chairman and Chief Executive Officer of Air France-KLM
Peter Hartman (64 years)	Vice-Chairman of the Air France-KLM Board of Directors	July 8, 2010	2017 AGM	Vice-Chairman of the Board of Directors of Air France-KLM
Maryse Aulagnon (64 years)	Independent director Chair of the Audit Committee	July 8, 2010	2017 AGM	Chair and Chief Executive Officer of Affine
Patricia Barbizet⁽¹⁾ (58 years)	Independent director Member of the Appointments and Remuneration Committees	September 15, 2004	2014 AGM ⁽¹⁾	Chief Executive Officer and Director of Artémis
Isabelle Bouillot (64 years)	Independent director Member of the Remuneration Committee	May 16, 2013	2017 AGM	President of China Equity Links
Régine Bréhier⁽²⁾ (53 years)	Director representing the French State	March 22, 2013	March 2017	Director of Maritime Affairs
Jean-Dominique Comolli⁽³⁾ (65 years)	Director representing the French State Member of the Appointments and Remuneration Committees	December 14, 2010	January 2017	Honorary Civil Administrator
Jean-François Dehecq (73 years)	Independent director Chairman of the Appointments Committee and member of the Audit Committee	September 15, 2004	2016 AGM	Vice-Chairman of the National Industry Council
Jaap de Hoop Scheffer (65 years)	Independent director Member of the Remuneration Committee	July 7, 2011	2015 AGM	Professor, Leiden University (Netherlands)
Cornelis van Lede (71 years)	Independent director Member of the Audit and Appointments Committees	September 15, 2004	2016 AGM	Company director
Solenne Lepage⁽⁴⁾ (41 years)	Director representing the French State Member of the Audit Committee	March 21, 2013	March 2017	Deputy Director, Transport and Audiovisual, Agency for State Shareholdings
Christian Magne (61 years)	Director representing the employee shareholders Member of the Audit Committee	September 15, 2004	2014 AGM	Executive
Bernard Pédamon (52 years)	Director representing the employee shareholders Member of the Audit Committee	July 8, 2010	2014 AGM	Boeing 777 Flight Captain
Leo van Wijk (67 years)	Board director Chairman of the Remuneration Committee	September 15, 2004	2016 AGM	Chairman of SkyTeam

⁽¹⁾ Resigned on December 31, 2013.

⁽²⁾ Appointed by ministerial order on March 22, 2013 replacing Claude Gressier who resigned on February 22, 2013

⁽³⁾ Appointed by ministerial order on December 14, 2010 and January 30, 2013 (interruption in mandate between October 1, 2012 and January 29, 2013 inclusive) replacing Marie-Christine Saragosse who resigned on January 29, 2013

⁽⁴⁾ Appointed by ministerial order on March 21, 2013 replacing David Azéma who resigned on February 20, 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

Combined functions of Chairman and Chief Executive Officer

At the Board meeting of March 25, 2013, Mr. Jean-Cyril Spinetta and Mr. Leo van Wijk informed the Air France-KLM Board of Directors that they would be stepping down as, respectively, the Group's Chairman and Chief Executive Officer, and Vice-Chairman of the Board and Deputy Chief Executive Officer, on July 1, 2013, Mr. Spinetta having also decided to step down as a Board director effective from the same date. Following the proposal of its Appointments Committee, the Board of Directors appointed Mr. Alexandre de Juniac to succeed Mr. Jean-Cyril Spinetta as Chairman and Chief Executive Officer of Air France-KLM from July 1, 2013, and appointed Mr. Peter Hartman as Vice-Chairman of the Board as of this same date.

The reunification of the functions of Chairman of the Board of Directors and Chief Executive Officer (which had been separate between January 2009 and October 2011) 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 Officer 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, following the proposal of the Appointments Committee the Board of Directors adopted the following position during its meeting of February 19, 2014:

- six of the directors (Ms. Aulagnon, Ms. Bouillot, Ms. Barbizet, Mr. Dehecq, Mr. de Hoop Scheffer and Mr. van Lede) may be deemed to be independent in that:
 - none of these six directors 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 government¹, pursuant to the agreements signed in October 2003),
 - Mr. Dehecq's term of office is deemed to begin in 2004, when Air France-KLM modified its corporate purpose to become the holding company for the Group (see explanation hereafter),
- The other directors are either representatives of the French State (Ms. Bréhier, Ms. Lepage and Mr. Comolli), representatives of the employee shareholders (Mr. Magne and Mr. Pédamon), and senior executives or former senior executives of Air France-KLM, Air France and KLM (Mr. de Juniac, Mr. Hartman and Mr. van Wijk) and, in this capacity, may not be deemed to be independent,
- In view of the above, and pursuant to the provision of the AFEP-MEDEF Code by which directors representing employee shareholders are not counted in the calculation of the percentages of independent shareholders within Boards of Directors and its Committees (§9.2 and 16.1 of the Code), the percentages of independent directors at December 31, 2013 were:
 - 50% of the Board of Directors
 - 75% of the Audit Committee (chaired by an independent director)
 - 75% of the Appointments Committee (chaired by an independent director)
 - 60% of the Remuneration Committee

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.

The appointment in 2014 of an independent director to fill the post left vacant following the resignation of Ms. Barbizet does not change this analysis.

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 June 2013 and available on the AFEP (www.afep.com) and MEDEF (www.medef.com) websites. 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
<p>Criteria governing whether Board directors are deemed to be independent if their term in office dates back more than 12 years</p> <p><i>"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 between 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" (§9.4 of the AFEP-MEDEF Code)</i></p>	<p>The public exchange offer successfully launched by Air France for KLM shares led, on May 5, 2004, to the takeover of KLM and the privatization of Air France. In view of this privatization, and pursuant to the law of April 9, 2003, the shareholders were convened to a Shareholders' Meeting on June 24, 2004 to renew the composition of the Board of Directors. Some directors already in office before June 24, 2004 were reappointed, their mandates nonetheless being exercised within a radically different context.</p> <p>At the end of the exchange offer on September 15, 2004, the company's assets, liabilities, activities and staff, and notably all the activity of the air transport services branch, were transferred to the current company Air France. Air France thus replaced Air France-KLM in respect of all the goods, rights and obligations of the latter whose corporate purpose was subsequently modified to reflect its new holding company role. These operations led to the constitution of the dual-nationality Air France-KLM Group with an enlarged scope, comprising a holding company with no operational activity (Air France-KLM) and two operational subsidiaries (Air France and KLM). In view of the above and given the profound changes intervening that same year in the governance and legal organization of these companies together with the division of their activities, the Air France-KLM Board of Directors considered it appropriate to date Mr. Dehecq's term of office from 2004.</p>
<p>Evaluation of the Board of Directors – actual contribution of each director</p> <p><i>"The evaluation should have three objectives: (...)</i></p>	<p>The annual evaluation covers the collegial functioning of the Board of Directors and its Committees and does not present an individual</p>

¹ The Dutch State is not a shareholder in Air France-KLM

- measure the actual contribution of each director to the Board's work through his or her competence and involvement in discussions" (§10.2 of the AFEP-MEDEF Code)

report for each of the directors.

On the occasion of the evaluation realized in early 2014, the directors expressed a positive opinion on the collegial functioning of the Board of Directors and its Committees that can only result from satisfactory individual contributions and a high level of attendance (see attendance rates mentioned in sections 1.1.5 and 1.1.6).

The question of competence and the individual contribution of directors to the Board's work and that of its Committees are notably addressed on the renewal of Board directors' mandates.

Meetings for non-executive directors outside the presence of the executive or "in-house" directors

"It is recommended that the non-executive directors meet periodically without the executive or "in-house" directors. The internal rules of operation of the Board of Directors must provide for such a meeting once a year, at which time the evaluation of the Chairman's, Chief Executive Officer's and Deputy Chief Executive's respective performance shall be carried out, and the participants shall reflect on the future of the company's executive management." (§10.4 of the AFEP-MEDEF Code)

The current practice is that the main questions concerning executive directors (appointment, performance and remuneration) are discussed by the Board of Directors outside the presence of the interested parties, after hearing the opinion of, as required, the Appointments or Remuneration Committees.

Chairmanship of the Remuneration Committee

"The Committee in charge of compensation (...) must be chaired by an independent director." (§18.1 of the AFEP-MEDEF Code)

On the occasion of the change in the composition of the Remuneration Committee on May 16, 2013, the Board of Directors decided to entrust the chairmanship to Mr. van Wijk due to his extensive knowledge of the Group, the moral authority that he enjoys within both Air France and KLM and the specificities of the French and Dutch remuneration systems.

This appointment is justified, in particular, to support the Group's integration phase initiated on July 1, 2013, aimed at ensuring the Group's enduring economic and financial recovery and a new more-integrated mode of functioning.

Compliance rules

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.

In the past five years, to the company's knowledge, no Board director has been subject to a fraud conviction or official public sanction by the statutory or regulatory authorities, associated with a bankruptcy, a sequestration of goods or liquidation nor has, lastly, 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.

Potential 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, 2013, also holds 50.6% 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.

At December 31, 2013 there were 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.

Board activity during the 2013 financial year

During the 2013 financial year, the Board of Directors met twelve times (nine meetings in 2012), including four extraordinary meetings. Board meetings averaged more than three hours and the attendance rate for directors was 91% (94% in 2012).

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,
- reorganization of the Group,
- change in the Group's governance and the composition of the Board of Directors' Committees,
- monitoring of the shareholding in Alitalia,
- trans-Atlantic joint-venture with Delta,
- alliance strategy,
- issue of bonds convertible and/or exchangeable into shares,
- change in Air France's shareholding in Amadeus,
- status report on aviation safety,
- compensation of the executive directors.

In October 2013, the Board of Directors held its annual meeting devoted to the Group's strategy, paying particular attention to the short and medium-haul and cargo activities.

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

In early 2014, the members of the Board of Directors carried out an auto-evaluation of the Board's functioning and that of its Committees with respect to the 2013 financial year.

A number of themes were addressed during this evaluation, notably the:

- ◆ organization and functioning of the Board of Directors,
- ◆ effectiveness of the Board of Directors,
- ◆ principal changes and areas requiring improvement.

The results of the evaluation, carried out by a questionnaire sent to each Board director, were handled under the seal of anonymity and were the subject of a presentation to and discussion by the Board of Directors on February 19, 2014.

Generally speaking, the operational functioning of the Board and its Committees has continued to improve since the last evaluation carried out by an independent firm in 2013. The auto-evaluation notably revealed that the succession of the Chairman and Chief Executive Officer had unfolded in good conditions in 2013 and that the standards of presentations and debates within the Board had been high.

Some additional improvements were suggested concerning, in particular, the information provided to the Board of Directors on the Group's competitors or the knowledge of senior executives of the principal subsidiaries (other than Air France and KLM).

It was noted that a number of recommendations arising from the previous evaluation carried out by an independent firm had been implemented, contributing to the on-going improvement in the functioning of the Board of Directors. A particular effort had thus been directed at the format of presentations which are now more summarized. Furthermore, to enable monitoring of the implementation conditions for decisions taken by the Board of Directors, a regular status report was given during 2013 on subjects such as the Transform 2015 plan, the monitoring of the shareholding in Alitalia and budget realization. Lastly, during the Board meetings held during 2013, particular emphasis was put on the reorganization of the Group and the application of new governance.

Additionally, for the first time in July 2013, the Audit Committee realized an auto-evaluation of its functioning. This auto-evaluation revealed that the composition of the Committee together with the number, content and duration of the meetings were satisfactory. The Committee members appreciated the taking into account of their comments and recommendations concerning, in particular, the financial statements and draft press releases. They also noted significant progress in the monitoring of the Group's operations thanks to the quarterly comparison between the budgeted and actual figures. In terms of the effectiveness of the internal control procedures, they highlighted the quality of the information supplied by the internal auditors and, notably, the content of the operational and strategic risk sheets.

The Committee members also suggested some improvements like, for example, the establishment of an annual work program, the regular comparison of the Group's results with those of its main competitors and the presentation of more detailed information on the procedures in force to guarantee the independence and objectiveness of the Statutory Auditors and/or the level of their fees.

Regulated agreements and commitments

On March 20, 2013, pursuant to the authorization granted by the Board of Directors on March 18, 2013, Air France-KLM launched an issue of bonds convertible and/or exchangeable into Air France-KLM shares maturing on February 15, 2023, raising €550 million and with Air France and KLM as guarantors. To this end, 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.

Furthermore, in parallel with the granting to Mr. Spinetta of the title of Honorary Chairman of Air France-KLM from July 1, 2013, the Board of Directors decided, during its meeting of June 24, 2013, to entrust Mr. Spinetta, for a period of 24 months dating from July 1, 2013, with a representation mission for the company Air France-KLM and the Air France-KLM Group on an unpaid basis, putting resources at his disposal (office, secretary, chauffeur-driven car) for this purpose.

These agreements, together with those approved during previous financial years which continued to apply during the 2013 financial year, are outlined in the Statutory Auditors' report on the regulated agreements and commitments.

1.1.5 The Board of Directors Committees

The Audit Committee

Composition

At December 31, 2013, the Audit Committee comprised the following six members: Maryse Aulagnon (Chair of the Committee), Jean-François Dehecq, Solenne Lepage, Cornelis van Lede, Christian Magne and Bernard Pédamon.

At its meeting of November 9, 2011 the Board of Directors adopted the position whereby, 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 competency in finance or accounting in the person of Ms Aulagnon. It 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 and/or accounting competencies which also 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 forward-looking information 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 audit.

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 2013 financial year, the Audit Committee met five times (six in 2012) with an attendance rate for members of 100% (83.33% in 2012). The meetings lasted an average of three hours. The following matters were notably reviewed by the Audit Committee during the 2013 financial year.

■ *Review of the financial statements*

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

■ *Monitoring of the internal control and risk management procedures*

At each of the Audit Committee meetings, internal audit presented its quarterly activity report. Furthermore, in 2013, a special presentation was made on the prevention of fraud.

Although the company is no longer required to comply with the obligations of the Sarbanes-Oxley Act, it continues to apply high standards of financial disclosure and corporate governance, and maintains a rigorous level of internal control across the Group.

■ *Risk assessment*

The Audit Committee reviewed the summary sheet of all the operating and/or strategic risks on a quarterly basis. Each year the Committee devotes a meeting to the financial risks (fuel and emission quotas, interest and currency exchange rates, financing).

■ *Statutory Auditors*

In July 2013, the Audit Committee deliberated on the procedure to adopt in view of the forthcoming expiry, in May 2014, of KPMG's term of office as Statutory Auditor.

In view of the information communicated (notably the effective functioning of the KPMG/Deloitte college, the regular rotation of the partners and the amount of fees), the Committee considered that there was no need to proceed with a call to tender and that it was appropriate to recommend that the Board proposes the renewal of the KPMG mandate to the Shareholders' Meeting.

■ *Others*

The Audit Committee also reviewed the following matters:

- bond issue
- pension commitments and other elements liable to impact the balance sheet and the change in the financial situation of the KLM pension funds
- liquidity position and the fuel hedging strategy
- financial authorizations for submission to the Shareholders' Meeting
- evaluation of the functioning of the Audit Committee (see section 1.1.4 above).

The Remuneration Committee

Composition

At December 31, 2013, the Remuneration Committee comprised the following five members: Leo van Wijk (Chairman of the Committee), Patricia Barbizet, Isabelle Bouillot, Jaap de Hoop Scheffer and Jean-Dominique Comolli.

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 twice during the 2013 financial year (one meeting in 2012) and the attendance rate for members was 100%, as in 2012.

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 *Compensation of the Company Officers* section below, established with the cooperation of the Remuneration Committee). It was also informed of the policy regarding the compensation of the principal directors who are not executive officers of Air France-KLM, Air France and KLM which notably led to the formulation of recommendations concerning the compensation of the Chairman and Chief Executive Officer of Air France and the President and Chief Executive Officer of KLM. In this regard, the Committee considered it useful, subject to structural factors relating to the remuneration of senior executives in France and the Netherlands, to in future move towards the alignment of the remuneration of Air France's Chairman and Chief Executive Officer with that of the President and Chief Executive Officer of KLM and, more generally, between the remuneration of the Group's senior executives.

The Appointments Committee

Composition

At December 31, 2013, the Appointments Committee comprised the following four members: Jean-François Dehecq (Chairman of the Committee), Patricia Barbizet, Jean-Dominique Comolli 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 2013 financial year, the Appointments Committee met six times (once in 2012) with an attendance rate for members of 100%, as in 2012. In view of the decision by Mr. Spinetta and Mr. van Wijk to step down from their executive functions on June 30, 2013, several meetings of the Appointments Committee were held early in the 2013 financial year aimed at the submission to the Board of Directors of proposals relating to the appointment of a new Chairman and Chief Executive Officer for both Air France-KLM and Air France.

During its meeting of March 25, 2013, following the proposal of its Appointments Committee, the Board of Directors appointed Mr. de Juniac to succeed Mr. Spinetta as Chairman and Chief Executive Officer of Air France-KLM and Mr. Hartman to succeed Mr. van Wijk as Vice-Chairman of the Board of Directors from July 1, 2013.

Mr. Gagey and Mr. Eurlings were respectively appointed Chairman and Chief Executive Officer of Air France and President and Chief Executive Officer of KLM as of the same date by the competent corporate bodies in each of the two entities.

The Committee also formulated proposals relating to the renewal of the mandates of two Board directors (Ms. Aulagnon and Mr. Hartman), the appointment of an independent director (Ms. Bouillot) and the change in the composition of the Board of Directors Committees.

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 for the whole Board of Directors at €800,000 by the Shareholders' Meeting of June 24, 2004.

The modalities for the payment of individual Board directors' fees applied in respect of the 2013 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.

The representatives of the French State are entitled to directors' fees, which are paid directly to the General Directorate of Public Finances.

To comply with the new provision in the AFEP-MEDEF Code introduced in June 2013 recommending that directors' fees should predominantly comprise the variable portion, at its meeting of February 19, 2014 the Board of Directors decided to change the proportions of the fixed and variable portions as of the 2014 financial year as follows:

- €15,000 as fixed compensation
- €25,000 as variable compensation based on Board of Directors and Shareholders' meeting attendance

The amount of additional directors' fees for non-resident directors, together with the specific fees for the Chairman and members of the Committees remain unchanged.

Compensation granted to directors other than the executive directors

The directors' fees and other compensation paid in respect of the 2013 and 2012 financial years were as follows:

	Rate of participation in Board meetings and the Shareholders' Meeting (2013 Financial Year)*	Amount of compensation paid (in €)	
		In respect of the 2013 Financial Year	In respect of the 2012 Financial Year**
Alexandre de Juniac	100%	375,000 ⁽¹⁾	735,000 ⁽²⁾
Directors' fees		0	0
Other compensation		375,000 ⁽¹⁾	735,000 ⁽²⁾
Peter Hartman	92%	1,197,494	1,252,334
Directors' fees		45,462 ⁽³⁾	23,500 ⁽³⁾
Other compensation		1,152,032 ⁽⁴⁾	1,228,834 ⁽⁵⁾
Maryse Aulagnon	100%	52,000	26,000
David Azéma ⁽⁶⁾	100%*	3,077 ⁽⁷⁾	4,000 ⁽⁷⁾
Patricia Barbizet	85%	46,923	24,000
Isabelle Bouillot ⁽⁸⁾	67%*	17,885	N/A
Régine Bréhier ⁽⁹⁾	80%*	27,692 ⁽⁷⁾	N/A
Jean-Dominique Comolli	92%	40,962 ⁽⁷⁾	16,000 ⁽⁷⁾
Jean-François Dehecq	100%	55,500	27,750
Jean-Marc Espalioux ⁽¹⁰⁾	57%*	25,673	25,250
Claude Gressier ⁽¹¹⁾	100%*	7,754 ⁽⁷⁾	24,000 ⁽⁷⁾
Jaap de Hoop Scheffer	92%	50,462	26,000
Cornelis J.A. van Lede	85%	56,923	28,000
Solenne Lepage ⁽¹²⁾	100%*	35,569 ⁽⁷⁾	N/A
Christian Magne ⁽¹³⁾	100%	48,000	24,000
Bernard Pédamon ⁽¹³⁾	100%	48,000	24,000
Marie-Christine Saragosse ⁽¹⁴⁾	N/A	0	16,000
Leo van Wijk	92%	18,077 ⁽¹⁵⁾	N/A ⁽¹⁵⁾
Total		2,106,991	2,252,334
<i>Of which directors' fees</i>		579,959	288,500**
<i>Of which other compensation</i>		1,527,032	1,963,834

* Information given for the number of meetings convened during the period for which the director was in function, for directors whose mandates began or ended during 2013.

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

⁽¹⁾ The Air France Board of Directors granted Mr. de Juniac, in his capacity as Chairman and Chief Executive Officer of Air France for the period from January 1 to June 30, 2013, fixed compensation of €300,000 and variable compensation of €150,000. To participate in the Group's recovery efforts, Mr. de Juniac waived half his variable compensation in respect of 2013. He therefore received total compensation of €375,000 for the period from January 1 to June 30, 2013. The remuneration due and paid since July 1, 2013 in his capacity as Chairman and Chief Executive Officer of Air France-KLM is outlined in the following section devoted to the executive directors.

⁽²⁾ The Air France Board of Directors granted Mr. de Juniac, in his capacity as Chairman and Chief Executive Officer of Air France, fixed compensation of €600,000 and variable compensation of €270,000 in respect of the 2012 financial year. Mr. de Juniac waived half of his variable compensation in respect of the 2012 financial year to participate in the turnaround efforts at Air France. He thus received total compensation of €735,000 in respect of the 2012 financial year.

⁽³⁾ Amount paid to KLM.

⁽⁴⁾ Compensation paid to Mr. Hartman in his capacity as President and Chief Executive Officer of KLM in respect of the 2013 financial year: €731,449 in fixed compensation and €420,583 in variable compensation.

⁽⁵⁾ Compensation paid to Mr. Hartman in his capacity as President and Chief Executive Officer of KLM in respect of the 2012 financial year: €731,449 in fixed compensation and €497,385 in variable compensation.

⁽⁶⁾ Director until February 20, 2013.

⁽⁷⁾ Amount paid to the General Directorate of Public Finances

⁽⁸⁾ Director since May 16, 2013.

⁽⁹⁾ Director since March 22, 2013.

⁽¹⁰⁾ Director until May 16, 2013.

⁽¹¹⁾ Director until February 22, 2013.

⁽¹²⁾ Director since March 21, 2013.

⁽¹³⁾ The two directors representing the employee shareholders receive remuneration in respect of their employment contracts with Air France, with no link to their Board director mandates within Air France-KLM.

⁽¹⁴⁾ Director until January 29, 2013.

⁽¹⁵⁾ Directors' fees for the period after July 1, 2013. The remuneration due and paid to Mr. van Wijk until June 30, 2013 in his capacity as Deputy Chief Executive Officer of Air France-KLM is outlined in the following section devoted to the executive directors.

Compensation of the executive directors

Principles for determining compensation prior to June 30, 2013

In line with the recommendations of the Remuneration Committee, for the period from October 17, 2011 to June 30, 2013:

■ **Chairman and Chief Executive Officer**

The Board of Directors decided to grant Mr. Spinetta, in his capacity as Chairman and Chief Executive Officer, a fixed compensation with no variable portion.

■ **Deputy Chief Executive Officer**

The Board of Directors decided to grant Mr. van Wijk, in his capacity as 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.

Principles for determining compensation since July 1, 2013

2013 financial year (period from July 1* to December 31, 2013)

In line with the proposals formulated by the Remuneration Committee, during its meeting of June 24, 2013 the Board of Directors decided to:

- maintain Mr. de Juniac's fixed compensation in his capacity as Chairman and Chief Executive Officer of Air France-KLM at the same level as the fixed compensation set in November 2011 in his capacity as Chairman and Chief Executive Officer of Air France;
- maintain the magnitude of Mr. de Juniac's variable compensation at the same level as the variable compensation set by the Air France Board of Directors in November 2011, with a target value of 80% of his fixed compensation and a maximum of 100% of this compensation. Additionally, the Air France-KLM Board of Directors decided to maintain identical performance criteria as set in November 2011 but over the scope of the Group, with their breakdown as follows:

	Breakdown of the variable portion	
	Target: 80% of fixed compensation	Maximum: 100% of fixed compensation
Quantitative performance Air France-KLM adjusted operating result relative to the budget	40%	50%
Quantitative performance change in Air France-KLM's net debt	20%	25%
Qualitative performance	20%	25%

2014 financial year

In line with the proposals formulated by the Remuneration Committee, during its meeting of February 19, 2014 the Board of Directors decided, for the 2014 financial year, to:

- maintain Mr. de Juniac's annual fixed compensation in his capacity as Chairman and Chief Executive Officer at the same level for the third year running;
- set the criteria for determining his variable compensation as follows:

	Breakdown of the variable portion	
	Target: 80% of fixed compensation	Maximum: 100% of fixed compensation
Quantitative performance: Air France-KLM operating result operating result compared with the budget	40%	50%
Quantitative performance: Air France-KLM free cash flow free cash flow compared with the budget	20%	25%
Qualitative performance <ul style="list-style-type: none"> - Passenger satisfaction (indicators presented to the Board each quarter) - CSR performance (measured by the professional indices) - Progress on the Group's integration process 	20% (the 3 criteria being equally weighted)	25%

* Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM. The compensation due and paid to Mr. de Juniac before this date is outlined in the previous section dedicated to the compensation granted to directors other than the executive directors.

Compensation of Mr. Spinetta in his capacity as Chairman and Chief Executive Officer until June 30, 2013

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

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

Summary of Mr. Spinetta's compensation until June 30, 2013

In respect of the 2013 financial year, Mr Spinetta's total compensation thus amounted to €100,000, Mr. Spinetta having stepped down as Chairman and Chief Executive Officer and Board director on June 30, 2013.

> Summary table of the compensation, options and shares granted to Mr. Spinetta until June 30, 2013

(In €)	2013 Financial Year (January 1 to June 30*)	2012 Financial Year
Compensation due in respect of the financial year	100,000	200,000
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	100,000	200,000

* Date on which Mr. Spinetta stepped down as Chairman and Chief Executive Officer and Board director.

> Summary table of the gross compensation due to Mr. Spinetta until June 30, 2013

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts due in respect of the 2013 financial year (January 1 to June 30*)	100,000	0	0	0	0	100,000
Reminder of 2012	200,000	0	0	0	0	200,000

* Date on which Mr. Spinetta stepped down as Chairman and Chief Executive Officer and Board director.

> Summary table of the gross compensation paid to Mr. Spinetta until June 30, 2013

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts paid in respect of the 2013 financial year (January 1 to June 30*)	100,000	0	0	0	0	100,000
Reminder of 2012	200,000	0	0	0	0	200,000

* Date on which Mr. Spinetta stepped down as Chairman and Chief Executive Officer and Board director.

Compensation of Mr. van Wijk in his capacity as Deputy Chief Executive Officer until June 30, 2013

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 were due in addition to this fixed compensation.

Summary of Mr. van Wijk's compensation until June 30, 2013

In respect of the 2013 financial year, Mr. van Wijk's compensation amounted to €75,000, Mr. van Wijk having stepped down as Deputy Chief Executive Officer on June 30, 2013.

> Summary table of the compensation, options and shares granted to Mr. van Wijk

(In €)	2013 Financial Year (January 1 to June 30*)	2012 Financial Year
Compensation due in respect of the financial year	75,000	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	75,000	150,000

* Date on which Mr. van Wijk stepped down as Deputy Chief Executive Officer.

Since he was no longer an executive director of Air France-KLM for this period, the directors' fees paid to Mr. van Wijk in his capacity as a Board director from July 1 to December 31, 2013 are mentioned only in the table of compensation paid to Board directors at the beginning of section 1.1.6.

> **Summary table of the gross compensation due to Mr. van Wijk until June 30, 2013**

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts due in respect of the 2013 financial year (January 1 to June 30*)	75,000	0	0	0	0	75,000
Reminder of 2012	150,000	0	0	0	0	150,000

* Date on which Mr. van Wijk stepped down as Deputy Chief Executive Officer.

Since he was no longer an executive director of Air France-KLM for this period, the directors' fees paid to Mr. van Wijk in his capacity as a Board director from July 1 to December 31, 2013 are mentioned only in the table of compensation paid to Board directors at the beginning of section 1.1.6.

> **Summary table of the gross compensation paid to Mr. van Wijk until June 30, 2013**

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts paid in the 2013 financial year (January 1 to June 30*)	75,000	0	0	0	0	75,000*
Reminder of 2012	181,250 ⁽¹⁾	0	0	0	0	181,250

* Date on which Mr. van Wijk stepped down as Deputy Chief Executive Officer

Since he was no longer an executive director of Air France-KLM for this period, the directors' fees paid to Mr. van Wijk in his capacity as a Board director from July 1 to December 31, 2013 are mentioned only in the table of compensation paid to Board directors at the beginning of section 1.1.6.

(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.

Mr. de Juniac's compensation in his capacity as Chairman and Chief Executive Officer since July 1, 2013*

Mr. de Juniac's variable compensation in his capacity as Chairman and Chief Executive Officer of Air France-KLM for the period from July 1 to December 31, 2013 was set at €150,000 by the Board of Directors during its meeting of February 19, 2014.

This amount corresponds to:

- 25% of fixed compensation in respect of the quantitative performance: 0% in respect of the operating result (the latter being significantly improved but below budget) and 25% in respect of the reduction in net debt (€5.97 billion at December 31, 2012 reduced to €5.35 billion at December 31, 2013);
- 25% of fixed compensation in respect of the qualitative performance, evaluated with regard to the Chairman and Chief Executive Officer's overall performance for the period taking into account the turnaround in the Group's results and the implementation of the Transform Plan within a difficult economic context.

Summary of Mr. de Juniac's compensation in respect of the 2013 financial year

The Air France-KLM Board of Directors granted Mr. de Juniac, in his capacity as Chairman and Chief Executive Officer for the period from July 1 to December 31, 2013, fixed compensation of €300,000 and variable compensation of €150,000. In that Mr. de Juniac waived half his variable compensation in respect of 2013 to participate in the Group's recovery efforts, **he finally received total compensation of €375,000 for the period from July 1 to December 31, 2013.**

> **Summary table of the compensation, options and shares granted to Mr. de Juniac since July 1, 2013***

(In €)	2013 Financial Year* (July 1*-December 31)	2012 Financial Year
Compensation due in respect of the financial year	375,000**	N/A
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	375,000**	N/A

* Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.

Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors at the beginning of section 1.1.6.

** The Air France-KLM Board of Directors granted Mr. de Juniac, in his capacity of Chairman and Chief Executive Officer for the period from July 1 to December 31, 2013, fixed compensation amounting to €300,000 and variable compensation of €150,000. In that Mr. de Juniac waived half his variable compensation in respect of 2013 to participate in the Group's recovery efforts, he finally received total compensation of €375,000 for the period from July 1 to December 31, 2013.

> **Summary table of the gross compensation due to Mr. de Juniac since July 1, 2013***

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts due in respect of the 2013 financial year (July 1* to December 31)	300,000	75,000**	0	0	0	375,000**
Reminder of 2012	N/A	N/A	N/A	N/A	N/A	N/A

* Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.

Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors at the beginning of section 1.1.6.

** The Air France-KLM Board of Directors granted Mr. de Juniac, in his capacity of Chairman and Chief Executive Officer for the period from July 1 to December 31, 2013, fixed compensation amounting to €300,000 and variable compensation of €150,000. In that Mr. de Juniac waived half his variable compensation in respect of 2013 to participate in the Group's recovery efforts, he finally received total compensation of €375,000 for the period from July 1 to December 31, 2013.

> **Summary table of the gross compensation paid to Mr. de Juniac since July 1, 2013***

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees	Benefits in kind	Total
Amounts paid during the 2013 financial year (July 1* to December 31)	300,000	0	0	0	0	300,000
Reminder of 2012	N/A	N/A	N/A	N/A	N/A	N/A

* Date on which Mr. de Juniac became Chairman and Chief Executive Officer of Air France-KLM.

Since he had not yet become an executive director of Air France-KLM, the compensation paid to Mr. de Juniac before July 1, 2013 is mentioned only in the table of compensation paid to Board directors at the beginning of section 1.1.6.

Other commitments made in respect of the executive directors

Mr. de Juniac does not benefit from the separate collective pension scheme for Air France senior executives established following a deliberation of the Board of Directors on January 15, 2004.

Mr. Spinetta, who opted to start receiving payments from his pension schemes as of January 1, 2009, does benefit from this additional collective pension scheme. Since that date, the company's commitments in his regard have ceased and no longer figure in the Group's financial statements, the capital on which the income is generated having been transferred to an insurance company which guarantees the payment. Until July 1, 2013, this pension scheme had guaranteed the Air France senior executives, once they fulfill 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. Since this scheme is now closed to new members, only the individuals eligible on that date and the potential beneficiaries⁽¹⁾ of rights continue to be beneficiaries⁽¹⁾.

For his part, Mr van Wijk, who opted to start receiving payments from his pension schemes as of January 1, 2009, benefits from the pension scheme for members of the KLM Managing Board established in 2002. This scheme guarantees its beneficiaries a level of annual pension corresponding to a maximum of 65% of their last year of remuneration. Since this scheme is now closed to new members, only the individuals eligible on that date and the potential beneficiaries of rights on the closure date for the scheme continue to be beneficiaries. Since 2009, there has been no expense booked in respect of this commitment to Mr. van Wijk in the Group's financial statements.

There are no non-compete indemnities or specific severance packages provided in the event of the departure of the executive directors.

> **Summary table of the situation of the executive directors in function at December 31, 2013**

Executive directors	Employment contract		Additional pension scheme (see above)		Indemnities or benefits due or potentially due on a cessation or a change in function		Indemnities relating to a non-compete clause		
	Yes	No	Yes	No	Yes	No	Yes	No	
Alexandre de Juniac		X					X		X

Loans and guarantees granted to company officers

None.

⁽¹⁾ For indicative purposes, 25 eligible executives at December 31, 2013.

Stock subscription or purchase options granted to the company officers of Air France-KLM

Air France-KLM 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*

Air France and KLM have not recently put in place any stock subscription or purchase option schemes to the benefit of their employees. The last option plan implemented by KLM in 2007 became null and void in 2012.

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

Since the 2008-09 financial year, KLM has established compensation plans index-linked to the change in the Air France-KLM share price and settled in cash (PPS) which correspond to share-based plans with settlement in cash. Since 2008, this scheme has replaced the option plans. 150 031 PPS, 146,004 PPS, 144,235 PPS, 145,450 PPS, 136,569 PPS and 153,080 PPS were, respectively, granted by KLM on April 1, 2013, April 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009 and July 1, 2008 (See also note 30.2 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)

None.

1.2 The Group Executive Committee

The new organization of the Group Executive Committee has been in place since July 1, 2013.

Chaired by the Chairman and Chief Executive Officer of Air France-KLM, the Group Executive Committee comprises 14 members:

- the two Chairmen and Chief Executive Officers of Air France and KLM and the Chief Operating Officers of both companies; and
- the nine Heads of the Group's functions.

In 2013, the total remuneration paid to the Group Executive Committee members (fixed and variable) amounted to €6.5 million (€5.9 million in 2012).

Group Executive Committee at December 31, 2013

Members	Age at December 31, 2013	Relevant professional experience	
		Sector	Experience
Alexandre de Juniac Chairman and Chief Executive Officer of Air France-KLM	51 years	Public Service, Industry Air Transport	9 years 14 years 2 years
Frédéric Gagey Chairman and Chief Executive Officer of Air France	57 years	Air Transport	20 years
Camiel Eurlings President and Chief Executive Officer of KLM	40 years	Public Service Air Transport	16 years 3 years
Alain Bassil Chief Operating Officer, Air France	59 years	Air Transport	34 years
Pieter Elbers Managing Director and Chief Operating Officer of KLM	43 years	Air Transport	21 years
Patrick Alexandre Executive Vice President, Commercial – Passenger Business, Air France-KLM	59 years	Air Transport	32 years
Pieter Bootsma Executive Vice President, Commercial Marketing – Passenger Business, Air France-KLM	44 years	Air Transport	18 years
Bram Gräber Executive Vice President, Strategy – Passenger business, Air France-KLM	48 years	Consulting Air Transport	5 years 18 years
Wim Kooijman Executive Vice President, Human Resources, Air France-KLM	63 years	Industry Air Transport	25 years 16 years
Jean-Christophe Lalanne Executive Vice President, Information Technology, Air France-KLM	52 years	Industry, IT Services Air Transport	20 years 9 years
Jacques Le Pape Executive Vice President, Corporate Secretary, Air France-KLM	47 years	Public Service Transport	23 years 1 year
Pierre-François Riolacci Chief Financial Officer, Air France-KLM	47 years	Industry	23 years
Franck Turner Executive Vice President, Engineering & Maintenance, Air France- KLM	53 years	Air Transport	25 years
Erik Varwijk Executive Vice President, Cargo, Air France-KLM	52 years	Air Transport	25 years

Secretarial services to the Executive Committee are provided by the Head of the Air France-KLM Chairman and Chief Executive Officer's office.

Guy Zacklad Secretary to the Group Executive Committee, Air France-KLM	47 years	Public Service Air Transport	11 years 12 years
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The Group Executive Committee meets every two weeks, alternating between Paris and Amsterdam to define and order the implementation of all the key decisions concerning the Group within the framework of the strategy approved by the Board of Directors,

1.3 Share capital and shareholder structure

1.3.1 Share capital

At December 31, 2013, 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 (in €)	Number of shares
December 31, 2011	300,219,278	300,219,278
December 31, 2012	300,219,278	300,219,278
December 31, 2013	300,219,278	300,219,278

Autorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of May 16, 2013 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. At December 31, 2013, the company had not used these authorizations.

Nature of the operation	Maximum amount of issuance	Balance available at December 31, 2013
1. Capital increase via the issue of shares or other securities conferring rights to the capital with preferential subscription rights	€120 million	€120 million
2. 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 right	€60 million	€60 million
3. 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 right (authorization 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
4. Increase in the amount of the initial issue in the event of a capital increase without preferential subscription rights	15% of the initial issue	
5. Capital increase by capitalization of reserves, profits, premiums or other amounts available for capitalization	€120 million	€120 million

A common sub-ceiling of €60 million applies to operations 2, 3 and 4. A common ceiling of €120 million applies to operations 1, 2, 3 and 4.

1.3.2 Securities conferring entitlement to shares

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANES) 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 (OCÉANES), 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 OCÉANE 2.75% 2005-20 issue contract. The allocation 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 OCÉANES, i.e. 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 OCÉANES not having been 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 in circulation as of December 31, 2013 stood at 20,449,146 with no bond conversions having taken place in 2013.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANES) 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 (OCÉANES) 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, 2013, 9,072 bonds had been converted into existing shares of which 88 during 2013, reducing the number of bonds in circulation to 56,007,877.

Bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANES) 2.03% 2023

In March 2013, Air France-KLM issued 53,398,058 bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCÉANES) for a total of €550 million. These bonds have a nominal unit value of €10.30, a conversion/exchange ratio of one new or existing Air France-KLM share per bond and mature on February 15, 2023. The annual coupon is 2.03% payable annually in arrears on February 15. Bond holders may request the early redemption of their bonds on February 15, 2019, at par plus accrued interest. At December 31, 2013, 9,513 bonds had been converted into existing shares, reducing the number of bonds in circulation to 53,388,545.

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 16, 2013, 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.

During the 2013 financial year, the Group neither bought nor sold Air France-KLM shares within the framework of these authorizations.

At December 31, 2013, Air France-KLM held 4,179,804 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 €31.7 million at December 31, 2013.

Transactions realized between January 1 and December 31, 2013 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at December 31, 2012	-	2,958,804	2,958,804
Shares purchased			
Number of shares	-	-	-
Average purchase price (In €)	-	-	-
Use			
Number of shares	-	9,601	9,601
Average sale price (In €)	-	24.37	24.37
Number of shares at December 31, 2013	-	2,949,203	2,949,203

1.3.4 Air France-KLM shareholder structure

Changes in the shareholder structure

Financial year ended	% of share capital			% of voting rights		
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2013	December 31, 2012	December 31, 2011
Number of shares and voting rights	300,219,278	300,219,278	300,219,278	296,039,574	296,029,873	294,579,801
French State	15.9	15.9	15.8	16.1	16.1	16.2
Employees	7.2	7.6	7.7	7.3	7.7	7.8
Treasury stock	1.4	1.4	1.9	-	-	-
Others	75.5	75.1	74.6	76.6	76.2	76.0

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, 2013, 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 98.1% of the capital were identified and 73,891 shareholders listed including 72,113 individual shareholders. Based on the TPI analysis of December 31, 2013, restated pursuant to article 14 of the articles of incorporation which defines French nationality, Air France-KLM is more than 50% held by French shareholders.

Financial year ended	Number of shares			% of the share capital		
	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2013	December 31, 2012	December 31, 2011
French State	47,663,693	47,665,899	47,563,745	15.9	15.9	15.8
Employees	21,621,222	22,856,906	23,194,020	7.2	7.6	7.7
French individual shareholders	55,778,590	59,220,392	70,578,771	18.6	19.7	23.5
Resident institutions	47,589,014	55,182,528	68,363,254	15.8	18.4	22.8
Non-resident institutions	127,566,759	115,293,553	90,519,488	42.5	38.4	30.2

At December 31, 2013, Air France-KLM was 57.5% owned by French interests (61.6% at December 31, 2012) and 75.2% by European institutions (as at December 31, 2012). The principal European countries are the United Kingdom (8.5%), the Netherlands (5.3%), Switzerland (1.7%), Norway (1.3%) and Germany (1.0%). North American institutions hold 19.6% of the share capital (14.5% at December 31, 2012) of which 21.8 million shares in ADR form (15.3 million at December 31, 2012).

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

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
Donald Smith	July 3, 2013	17,420,607	5.80	I
Marathon Asset Management	August 2, 2013	11,976,252	3.99	R
Capital Research & Mgt	December 31, 2013	8,160,720	2.72	-
Crédit Suisse	October 30, 2013	5,013,324	1.67	R
Dimensional Fund Advisors	September 15, 2012	4,889,810	1.63	I
DNCA	November 28, 2012	4,487,000	1.49	R
SW Mitchell Capital	May 24, 2013	3,462,601	1.15	I
UBS London	April 4, 2013	3,137,830	1.05	I
Norges Bank Investment Management	September 5, 2011	3,055,759	1.02	I
Amundi Asset Management	February 12, 2014	2,912,561	0.97	R
AXA IM	January 10, 2013	1,701,826	0.57	I

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 did not distribute any dividends:

Financial year	Earnings per share <i>(in €)</i>	Dividend paid <i>(in €)</i>
2011	(2.73)	-
2012 restated for IAS 19R	(4.14)	-
2013	(6.17)	-

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 2013 financial year, the Board of Directors again opted not to propose a dividend payment.

2 Activity

2.1 Highlights of the 2013 financial year

Implementation of the Transform 2015 plan

- On March 15, 2013, Air France signed an agreement with the three unions representing Cabin Crew enabling the drafting of a new collective agreement organizing the required productivity gains within the framework of the Transform 2015 plan. This agreement came into effect at the beginning of the Summer season, on April 1, 2013.
- At the end of the first quarter, Air France closed the voluntary departure plan for Ground Staff implemented as of November 2012 within the framework of the agreements signed in July 2012.
- As announced on its launch, a progress review on the deployment of the Transform 2015 plan was organized in autumn 2013. While the plan was on track overall, the recovery in the medium-haul and cargo activities had been insufficient due, notably, to the difficult economic environment in Europe. As a result, the Group decided to launch additional measures in these two sectors: a resizing of the medium-haul point-to-point activity, a reorganization of processes and increased use of sub-contracting in the French stations, the accelerated development of Transavia France and a continued reduction in the full freighter fleet to ten aircraft in 2015. This reorganization was reflected in a reduced staffing requirement equivalent to 2,880 positions in France. To address this level of ground overstaffing, Air France presented a voluntary departure plan concerning 1,826 positions, which opened to applications in early February 2014.
- In January 2013, Air France launched its new “Mini” fare offering to 58 destinations. In February, KLM introduced a new medium-haul fare structure separating, notably, the baggage tariff from the ticket price. In late March, the new regional airline HOP!, born of the regrouping of Brit Air, Régional and Airlinair, started operations.
- Within the framework of the Transform 2015 plan, over the summer of 2013 Transavia France took delivery of three more aircraft, taking capacity growth to 26% for the year as a whole.
- In December 2013, the Group received a firm offer for its medium-haul subsidiary CityJet. This disposal is consistent with the strategy of refocusing the medium-haul activity on the Group’s hubs. The transaction should be finalized in early 2014.

Investment to upgrade the quality of the product offering

- In March 2013, KLM unveiled its new World Business Class equipped with a fully-flat seat that transforms into a real bed during the flight. The installation of these new seats began in July 2013 and will continue through to 2015.
- In September 2013, Air France unveiled the first details of the move up-market for its products and services: a new offer in Economy and Premium Economy, and a new in-flight entertainment system. The future Business seat was unveiled in February 2014. The project as a whole, including notably a new *La Première* class, will be presented during the first half of 2014. The first flight equipped with the new cabins is planned for the summer of 2014.
- In a world first, Air France launched a digital press offer on iPad, enabling customers equipped with this tablet to download a complementary selection of magazines and newspapers.
- During the 50th Paris Air Show at Le Bourget, the Group finalized a firm order with Airbus for 25 Airbus A350-900s and an additional 25 under option. This aircraft will enable, in particular, a 15%-plus reduction in fuel consumption relative to the current aircraft and a significant reduction in noise and gas emissions, thereby reaffirming the Group’s environmental and sustainable development commitments. The first A350-900 is expected to come into service in 2018.
- Following the success of the Economy Comfort product on the wide-bodied aircraft and B737s, KLM decided to extend this offering to all its regional aircraft. All the regional aircraft have been equipped with Economy Comfort since November 2013.

Development of the network and strategic partnerships

- During the Summer 2013 season, the Group continued to extend its international network with the opening of the Amsterdam-Fukuoka, Paris-Minneapolis, Paris-Montevideo and Paris-Kuala Lumpur lines. Over the winter, Air France opened a service to Panama City, in addition to the daily KLM flight.
- In summer of 2013, Air France, KLM and Etihad reinforced their partnership with the extension of the code share agreement to flights bound for Australia. Two aircraft with crews were also wet-leased to Etihad, an A340 on the Paris-Abu Dhabi route and a full freighter.
- Air France-KLM and Jet Airways, the leading Indian international airline, signed a code share agreement enabling them to offer their customers a wider choice of destinations between Europe and India, and more connecting destinations in India.

- In February 2013, Air France-KLM accepted to subscribe €24 million to a shareholder loan in support of its strategic partner Alitalia. In mid-November, the Group decided not to subscribe to the emergency capital increase implemented by the Italian company since the measures vital to Alitalia's financial restructuring had not been launched. After conversion of the shareholder loan into equity, Air France-KLM holds 7% of Alitalia's share capital.
- In November, the Group extended its partnership agreement with Kenya Airways. Starting from January 1, 2014, the joint-venture will cover six routes between Europe and East Africa: Amsterdam-Nairobi, Paris-Nairobi, London-Nairobi, Amsterdam-Entebbe/Kigali, Amsterdam-Lusaka/Harare, Amsterdam-Kilimandjaro/Dar es-Salaam.

Other developments

- In March 2013, the Group launched an issue of bonds convertible and/or exchangeable into new or existing Air France-KLM shares (OCEANE), raising around €550 million.
- On July 1, 2013, Alexandre de Juniac replaced Jean-Cyril Spinetta as Chairman and Chief Executive Officer of Air France-KLM. On the same date, Leo van Wijk stepped down as Vice-Chairman and Deputy Chief Executive Officer of the Group, but remained a Board director. The General Managements of Air France and KLM also changed on the same date with, at Air France, Frédéric Gagey succeeding Alexandre de Juniac as Chairman and Chief Executive Officer and, at KLM, Camiel Eurlings replacing Peter Hartman as President and Chief Executive Officer.
- In September 2013, for the ninth consecutive year, Air France-KLM was ranked leader of the "Airlines" industry by the Dow Jones Sustainability index (DJSI), the main international index evaluating companies on their sustainable development performance. Moreover, for the fifth year running, Air France-KLM was ranked leader of the broader "Transport" category covering air, rail, sea and road transport as well as airport activities. Air France-KLM is thus positioned amongst the 24 most sustainable companies globally, each in their relevant sectors of activity.
- In October 2013, Air France celebrated its 80th anniversary. At 16h00 on October 7, 1933, Air France had been officially inaugurated at Le Bourget airport by the French Minister for Air, Mr. Pierre Cot. This anniversary gave rise to multiple events for the company's staff and customers.

2.2 Market and environment

The health of the air transport industry is intimately linked to that of the global economy, and to geopolitical and geophysical events that can affect travel demand.

In 2013, global economic growth was 2.4%, a level comparable to that of 2012, although the situations of different regions varied. The European Union gradually emerged from recession with GDP marginally higher in France and down in the Netherlands. In the corporate sector, travel budgets remained very limited particularly for medium-haul trips within Europe. In terms of travel for personal reasons, the decline in purchasing power within Europe weighed on demand which nonetheless remained dynamic thanks to the development of international tourism, particularly from rapidly-growing countries. According to the IATA data, global air traffic thus increased by 5.3% in 2013 compared with a 4.4% increase in capacity (*source 3*). Combined with an improvement in load factor and the restructuring plans deployed by numerous airlines, this relatively buoyant demand enabled a modest improvement in the sector's operating margin.

After several years of strong rises, oil and jet fuel prices were slightly lower.

In Europe, the sector remains extremely competitive. In addition to competition between the legacy airlines, the sector is notably being affected in medium-haul by the development of high speed rail links and the low-cost carriers and, in long haul, by the rapid growth of the Gulf State airlines and that of Turkish Airlines.

In the United States, the airlines reached high levels of profitability in 2013 benefiting, in particular, from strict capacity discipline. With the merger between American Airlines and US Airways, the sector consolidation phase is virtually complete. In South America, the most notable event was the merger between LAN and TAM, creating a major group which is very well established in countries across the continent. Asia saw the continued rapid growth of the low-cost carriers. The Chinese market remains, however, organized around four large traditional airlines. The expected arrival of low-cost airlines in China could represent a quantum shift which is likely to propel these traditional airlines towards the increased development of international links. In Africa, the largest airlines are looking to benefit from the expected strong demand growth, particularly by building networks with effective coverage for cross-continental travel. The most ambitious low-cost carrier, Fastjet, has started operations in Tanzania.

The Gulf State airlines pursued their very rapid development, confirmed by the announcement of several huge orders in 2013. This growth has extended to new territories: opening of a line between Europe and the United States by Emirates (Milan-New York in prolongation of Dubai-Milan); multiplication of investment in airlines by Etihad.

In 2014, the economic forecasts point to an acceleration in global economic growth with positive growth for the Euro zone but very moderate growth in France and the Netherlands. Combined with the expected decline in oil prices, this improvement is giving the airlines renewed confidence. This confidence may, however, lead some operators to introduce additional capacity, particularly on the North Atlantic, which could be detrimental to margins.

2.2.1 The economic environment

Economic context

> Real GDP growth rate

	2011	2012	2013
World	3.0	2.5	2.4
European Union	1.7	-0.3	0.1
• Of which France	2.0	0.0	0.2
• Of which the Netherlands	1.0	-1.3	-1.0
North America (NAFTA countries)	2.0	2.7	1.8
Asia-Pacific	4.6	4.5	4.8
• Of which China	9.3	7.7	7.7
Middle-East	5.3	2.7	2.7
Africa (North and sub-Saharan)	0.7	5.4	3.5

Source: IHS Global Insight, January 15, 2014.

2013: a year of weak global growth

2013 was characterized by the gradual stabilization in the Euro zone's situation, the strengthening of the US economy and a spectacular economic stimulus package in Japan. In total, global growth stood at 2.4%, comparable to its level in 2012.

The Euro zone saw a progressive improvement in its economic and financial environment. While Cyprus was forced to accept a bailout in March, the Euro zone recession nonetheless ended in mid-2013 and there no longer looks to be a near-term threat to the Euro. European banking union, promised since the summer of 2012 and aimed at increasing market confidence in the European banks, was the subject of a political agreement during the European summit in December 2013 and will be progressively implemented as of 2014. In France, growth remained very weak during 2013 (+0.2%) while the Netherlands experienced a contraction in activity explained by the austerity policy, wage moderation and an increase in unemployment which weakened domestic demand. Elsewhere in Europe, after several years of austerity, the United Kingdom saw strong growth (+1.8%), thanks to a particularly accommodative monetary policy and a recovery in consumption.

Growth remained solid in the United States (+1.9% in 2013). Despite the shutdown paralysing the US administration for 16 days in October 2013, the US recovery remained robust with the unemployment rate falling to 7% in December 2013, a five-year low, and corporate earnings at their high since 1947. As a sign of confidence in the recovery, the US Federal Reserve has started to taper its Quantitative Easing, the monthly ceiling for bond purchases having been revised down from US\$85 billion to US\$75 billion in December 2013.

In Japan, early 2013 saw the Prime Minister Shinzo Abe launch a spectacular stimulus package aimed at the country's sustainable exit from economic stagnation: monetary easing, an increase in public spending and a stimulus plan for private investment. This policy led to a sharp depreciation in the yen (-20% relative to the dollar) supporting Japanese exports. After a 4% GDP growth rate in early 2013, growth of 1.7% was finally posted.

The emerging countries with large external deficits – Turkey, India, Indonesia and Brazil – had to manage the weakening in their currencies following the flight of international capital, the financial markets anticipating tightening by the Fed as of early 2013. Brazil also saw a pick-up in growth (+2.3% versus +0.9% in 2012), underpinned by a consumption relaunch plan and easier monetary policy. GDP growth in China remained stable at +7.7%, affected by a slowdown in exports while India posted growth of 4.6% in 2013 (versus +3.2% in 2012) (source 1).

2014: accelerating global growth driven by the recovery in Europe

For 2014, most economists are expecting an accelerating recovery in developed countries while the currencies of some emerging nations could experience renewed volatility. While the forecasts for 2013 had been regularly downgraded throughout 2012, particularly for the developed countries, the growth forecasts for 2014 remained largely stable during 2013.

In Europe, a recovery in growth is expected (+1.3%), driven by Germany (+2.1%) and the United Kingdom (+2.7%). France, (+0.5%, driven notably by stronger consumption and industrial production) will, however, be a laggard relative to the other countries. In the Netherlands, 2014 should be a year of modest recovery (+0.5%), with activity underpinned by higher exports to the United States and the rest of the European Union. The Southern European countries could see the first signs of recovery with Italy and especially Spain benefiting from the improvement in their price competitiveness (source 1).

The main risk for the Euro zone looks to be one of deflation: inflation slowed rapidly in 2013 and could remain sustainably below 2%, the level targeted by the European Central Bank. The risk of a Japanese-type scenario where any investment and purchasing decisions are deferred, contributing to a decline in demand and investment, cannot be ruled out. As a result, the ECB reduced its benchmark rate to 0.25% in November 2013 (source 2).

The economic recovery should gain traction in the United States (+2.7%, *source 1*) underpinned, notably, by the increase in industrial production (linked, notably, to the fall in energy prices) and strong household consumption.

In Japan, growth in 2014 (+1.8%, *source 1*) should be driven by investment and public expenditure.

Lastly, growth should remain strong in the emerging countries despite a slowdown in some economies. Growth in China is likely to remain at around 8.0% while that of India should reach 5.4% with Brazil at 3.0%.

Oil price

In the past few years, fuel has become one of the main cost items for airlines, representing 25% of costs in 2010 and rising to more than 33% currently (*Source 4*).

In 2013, the oil price fell relative to its level in 2012 (*source 3*), representing good news for the sector after the sharp increase endured in 2011 and early 2012. The difficult political context in the Middle East, a significant risk factor for the oil market, has not been reflected in a further rise in the oil price (*source 4*).

For the next few years, economists are forecasting a moderate increase in demand, driven by the rapidly-growing markets. Consumption in the OECD countries is expected to fall thanks, in particular, to the development of alternative energy sources (natural gas, renewable energies). Combined with the increase in production for non-OPEC member countries (particularly the United States), this scenario could be reflected in a continued fall in oil prices in 2014 (*source 5*).

> Trend in the oil price

Brent London (US\$ per barrel)	2010	2011	2012	2013	2014 forecast
Average price	79.50	111.26	111.54	108.64	103.6
High	94.00	126.64	128.17	119.03	
Low	67.58	93.70	88.62	96.83	

Source : Oxford Economics, Platt's

Currency volatility

Currency volatility is also an issue for the airlines and particularly for the European carriers which have a high proportion of their costs linked to the US dollar while their revenues are sensitive to currencies across the board. 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 different airlines aim to mitigate the effects of currency volatility.

This volatility also has an indirect impact on airline activity given its influence on passengers travelling for tourism purposes.

In 2013, the Yen devaluation had a significant effect on the revenues generated by international airlines in Japan. In December 2013, the US Federal Bank started to taper its Quantitative Easing, a move which could be reflected in the depreciation of other currencies, particularly those of the so-called emerging countries (*source 7*).

> Trend in currency exchange rates

For one euro	2010	2011	2012	2013
USD	1.3261	1.3917	1.2842	1.3279
GBP	0.8580	0.8678	0.8105	0.8493
Yen	116.35	110.93	102.43	129.60
CHF	1.3810	1.2326	1.2053	1.2311

Source: MarketMap.

2.2.2 The industry context

2013: traffic growth higher than the increase in capacity

In 2013, global air traffic increased by 5.3% relative to 2012, for capacity growth of only 4.4%. At global level, IATA expects total air transport industry profits to have reached US\$13 billion, an improvement on 2012 (+US\$5 billion), and an operating margin of 3.3%, a 1.1 point increase relative to 2012 (*source 3*), reflecting the efficiency gains in the industry.

This year the strongest international traffic growth was again posted by the Gulf State airlines (+12.0%) followed by the Latin American carriers (+8.2%). The African airlines also recorded strong growth (+5.7%), as did the Asia-Pacific carriers (+5.4%). The weakest international growth was witnessed by the European (+3.7%) and North American (+2.8%) carriers, admittedly reflecting a less favorable economic context but also capacity discipline, leading to the highest load factors in the industry (respectively 81.3% for the European carriers and 82.8% for the North Americans) (*source 8*).

Despite the unfavorable economic climate, traffic (in passengers) was slightly higher (+1.6% to 375 million passengers) for the AEA airlines. Their growth was driven by the intercontinental routes (+3.5%) while the growth in the intra-European lines was limited to 1% (source 9). This growth, which was much weaker than the growth reported by IATA for the European airlines as a whole, signifies that the non-AEA airline members, and first and foremost the low-cost airlines, are continuing to gain market share. In total, the intercontinental traffic of the AEA carriers rose by 2.7% in PRK (Passenger-Revenue Kilometers), for capacity growth of 1.7%. The load factor gained 0.7 points to a historic high of 79.9%, reflecting the capacity discipline, particularly on the North Atlantic. At well short of its historic level this weak growth was, however, not enough to return the AEA airlines to the black, their operating margin likely to have remained close to 0% in 2013 (source 9).

Based on its end-November forecasts, IATA expects growth in the premium customer segment (Business and *La Première*) to have been 4% in 2013 (source 10).

2014 capacity forecasts: a relaxation in discipline?

In view of the programs announced in mid-January 2014, the capacity growth forecast (in Available-Seat Kilometers) for the first half of 2014 on the Europe-Long-haul axis is around 5% relative to the first half of 2013. This trend reflects a growth acceleration beginning in Winter 2013. The capacity growth forecasts in Available-Seat Kilometers by route are as follows:

- Europe-North America: +6% to +7%
- Europe-Latin America: +3%
- Europe-Asia: +4%
- Europe-Middle East: +8% to +10% under the influence of the Gulf State carriers
- Europe-sub-Saharan Africa: +4%.

On the intra-European routes, capacity growth (in Available-Seat Kilometers) should be around 5% relative to the 2013 first half, however this figure is likely to change significantly with the approach of the Summer season (source 12). On this market, demand is becoming more seasonal, representing a new challenge for the legacy carriers who need to adapt their organization accordingly (source 13). In general, the low-cost airlines can manage this increased seasonality more effectively, notably thanks to more flexible organizational structures.

The French domestic market is dominated by the TGV. In April, the SNCF launched "Ouigo," a low-cost type product with four high-seat-density carriages running only on the high speed rail line (source 15). The main high-speed rail developments under way are an extension in the LGV Est to Strasbourg in the summer of 2016 potentially impacting air traffic between Paris and cities such as Frankfurt, Stuttgart, Basel and Zürich, and the prolongation of the South-West line to Bordeaux expected in July 2017, leading to a one-hour saving on the journey time to this destination and to Biarritz, Pau and Toulouse. The French government has announced a pause in yet-to-be-launched high speed rail investment with only the Bordeaux-Toulouse section on the horizon for 2024.

In the Netherlands, early 2013 saw the loss of the Fyra operating licence, a high speed rail service operating between the Netherlands and Belgium, and the progressive implementation of replacement services on the Brussels-Amsterdam axis.

In Southern Europe, the high speed line linking Perpignan to Barcelona was finally inaugurated on December 15, 2013. In Spain, the plan to extend the high speed rail line from Madrid to the Basque border will not come to fruition before 2022, with a simple refurbishment of the Irun to San Sebastian section. In Italy, the full coming into service of the Milan-Venice line has been delayed until after 2020 for want of financing.

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 climate protection policy that Europe is not managing to extend

Climate preservation is a priority for the air transport industry. It is the first industry in the world to have set itself a target for reducing CO₂ 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, a measure encountering robust opposition from a number of countries (China, United States, Russia, India, etc.). In November 2012, the European Commission announced a one-year postponement in the application of this quota trading system to virtually all non-European flights to facilitate the emergence of a global agreement at the level of the ICAO, something which was achieved in October 2013. The ICAO agreement foresees the creation of a market-based mechanism to be submitted to the next session in 2016 for application in 2020. The European Commission interprets this agreement as an opportunity to include the sections of non-intra-European flights over-flying EU States in the European emission trading system. If it is adopted, this proposal could lead to renewed controversy with the European Union's principal partners.

(See also Section 3 – Risks and risk management, page 59).

Protection of consumer rights and safety

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). In May 2013, the European Commission submitted a revised text before the European Parliament stipulating the application conditions for consumer rights (source 18).

Some rules have been relaxed to the benefit of consumers, particularly those governing the transport of liquids within the European Union (source 19), and those concerning the use of electronic equipment in aircraft mode during all flight phases (source 20, source 21).

Single European sky: little in the way of progress

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. The international treaty of December 2010 establishing the FABEC (Functional Airspace Block Europe Central), regrouping the Benelux, German and French air spaces, was ratified in December 2012 and published in the French Republic's Official Journal in November 2013 (*source 16*). 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. The current weakness in air traffic is helping air traffic control to reach its targets on reducing average flight delays but is making it more difficult to achieve the unit cost reduction commitment (*source 17*).

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 preferences.

Customers are increasingly better informed and sensitive to the value of the service offered. They are more cost conscious with value for money assuming a primordial role in their purchasing decisions. The need for a personalized service is growing, whatever the class of travel. Customers are increasingly requiring the airlines to compete, comparing the offers in terms of, notably, price, journey times, level of comfort and the opportunity to customize their journeys (purchase of options). They are also permanently connected, sharing their experiences through the social media and requiring information in real time.

To satisfy all these requirements the airlines are developing self-service solutions at all stages of the journey (purchase, check-in, baggage drop-off, boarding, etc.), by multiplying the choices and paid-for options, and ensuring a strong presence on websites and the social media (*source 4*).

In the next few years, technological innovation will require changes in the traditional distribution systems. The current GDS distribution systems will need to be able to connect in a transparent manner with individual airline systems to exchange information not only on flight times, fares and inventory availability but also on ancillary products and options. Customers may prioritize solutions giving them access in the same place to all the components of their travel – flight, accommodation, car hire, train tickets, etc. (*source 22*).

New players like Google are liable to change the traditional airline distribution channels and impact their relationships with customers. Google is now playing a role in numerous aspects of airline distribution, sales and marketing: search engine positioning, advertising links, meta-search function, ITA pricing and booking software (*source 22*).

2.2.3 Competition

The European airlines are adapting their medium-haul businesses

In 2013, the major European airlines continued their in-depth restructuring.

At Lufthansa, the *SCORE* program is targeting €2.3 billion of operating income in 2015, a €1.5 billion increase on the 2011 level. This plan notably foresees 3,500 redundancies and the transfer to the Germanwings subsidiary of all the medium-haul operations excluding the Frankfurt and Munich hubs. The transfer to Germanwings should enable a cost saving thanks to the increase in pilot productivity, salary reductions for cabin crew and administrative staff, and a higher load factor (*source 23*).

Considering the progress achieved at British Airways and the takeover of Vueling, International Airlines Group (IAG, the holding company controlling British Airways, Iberia and Vueling) has upgraded its operating income target for 2015 to €1.8 billion. While Iberia remains focused on restructuring its cost structure, cutting capacity, reducing staff and achieving productivity gains, Vueling is pursuing its strong growth. The recent orders from IAG could enable Vueling to operate 100 aircraft from 2015 (*source 24*). In line with IAG's pan-European ambitions, Vueling is inaugurating a number of bases outside its country of origin, Spain. It notably plans to penetrate the Italian domestic market in 2014, competing head-on with Alitalia, Ryanair and Easyjet.

Against a difficult Italian economic back-drop and faced with stiffer competition from rail (Milan-Rome line), the low cost airlines and the Gulf State carriers, Alitalia saw a results deterioration in 2013. In 2014, the competitive pressure should remain strong given the growth of Ryanair and Vueling.

In 2013, Norwegian took delivery of its first Boeing 787s and started to operate low-cost, long-haul flights to tourist destinations in the United States and South-East Asia. The low premium customer potential and the operating difficulties of the Boeing 787 have made for a difficult start to these new flights (*source 25*). Norwegian has also launched into the battle with European low-cost carriers by starting to operate flights between London Gatwick and destinations in the Mediterranean region, in direct competition with Easyjet.

Although their growth is slower than in the past, Easyjet and Ryanair continue to dominate the pan-European low-cost market. To reinforce their positions and access more markets, the low-cost airlines are adjusting their positioning. Easyjet is investing to meet the needs of business customers more effectively by introducing flexible "all inclusive" fares, priority boarding and GDS distribution. At the end of 2013, Ryanair released a profits warning due to lower-than-expected prices in the 2013-14 Winter season. It also announced a change in positioning with a stronger customer focus: improved website ergonomics, a choice of seat, lower tariffs for airport check-in and hold baggage (*source 26*). At the same time, it will now also operate out of principal airports, having announced flights on departure from Rome Fiumicino and Bruxelles Zaventem (*source 27*).

Finalization of consolidation in the United States

In the United States, the airline consolidation trend continued with the finalization of the merger between American Airlines and US Airways in December 2013, giving birth to the global number one in air transportation (\$40 billion of revenues and 1,000 aircraft). The merger also signaled the exit from Chapter 11 for American Airlines, which had been under bankruptcy protection since November 2011 (*source 28*).

The major US airlines are reporting good financial results. Delta reported 2013 net income of US\$10.5 billion, including a US\$8 billion exceptional gain (*source 29*), while United-Continental published net income of US\$1.1 billion (*source 30*). Following the acquisition by Delta of 49% of Virgin Atlantic, on January 1, 2014 the two airlines launched a joint venture concerning the flights between North America and the United Kingdom (*source 31*).

Beginning of consolidation in Latin America

In 2013, the competitive environment in Latin America was marked by the merger of LAN Airlines with TAM, creating the largest airline group in the continent. With operations in seven markets (Argentina, Brazil, Columbia, Chile, Ecuador, Paraguay and Peru), the Group represents one third of capacity in the region and operates flights to 135 destinations (*source 32*). With LATAM having chosen to join the Oneworld alliance, TAM will leave the Star Alliance on March 31, 2014 (*source 33*).

In 2013, the Brazilian carrier GOL, which describes itself as “Latin America’s largest low cost and low fare airline”, carried nine million passengers to 65 destinations. While reducing capacity, it still accounts for 35.5% of the Brazilian domestic market (*source 34*). After two years of losses, the roll-out of a capacity rationalization strategy and a cost structure adjustment enabled the company to return to a positive operating margin. Its code share agreement with Delta has been extended to more destinations.

Copa Airlines, the Panama national carrier, continued to reinforce its Panama City hub, increasing capacity by 14% and carrying 11 million passengers to 69 destinations in 2013 (*source 35*). The company managed to maintain a very high level of profitability at above 17% (*source 36*) notably by taking advantage of the ideal geographical positioning of its hub at the center of the Americas.

Asia is experiencing a complete transformation

In South-East Asia, the market is still very buoyant driven, in particular, by the growth of the low cost carriers which represent 20% of the seat capacity but close to 50% of aircraft orders (*source 37*). 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 could slow in a number of markets which are progressively reaching maturity. Growth should be driven by activity in Indonesia, Thailand, Malaysia, Singapore and the Philippines (*source 38*).

Air Asia and Lion Air dominate the market and are pursuing their strategy of pan-Asian brands: this year Lion Air launched three subsidiaries in Thailand (Thai Lion Air), Malaysia (Malindo) and Indonesia (Batik Air). In 2013, the group totaled more than 20% of capacity on the intra-South-East Asian routes. In March 2013, to support its development, Lion Air also signed an order for 234 Airbus A320s and A321s (*source 39*). For its part, Air Asia stepped up its presence in the Philippine market by taking control of Zest Air, rebaptised AirAsia Zest. This year the airline plans to launch a company in India (AirAsia India), and to continue to develop its activity in long haul (new Thai subsidiary AirAsia X). A service to Europe (Paris or London) is again being envisaged out of Bangkok. AirAsia nonetheless ran into difficulties in the Japanese market where, in October 2013, Air Asia and All Nippon Airways suspended the activity of their joint subsidiary AirAsia Japan after disappointing financial results (*source 40*). To counter this dual company domination, the other airlines are opting for alliances: Tiger Air recently signed commercial cooperation agreements with Scoot (2012), SpiceJet (2013) and Cebu Pacific (2014), and plans to launch a joint subsidiary in Taiwan with China Airlines at the end of 2014 (*source 41*).

The four large 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 10*). In November 2013, the Chinese government announced plans to support the development of new players, particularly low cost carriers, in this market (*source 42*). The companies are now aiming to increase their share of international traffic which is progressively being developed, particularly through partnerships and joint ventures.

In India, the situation remains unstable for the airlines. Only Indigo (which is pursuing its development on the domestic – 30% of capacity in 2013 versus 26.5% in 2012 – and international networks) and GoAir were profitable in the last financial year (*source 43*). Jet Airways and Etihad signed a strategic agreement in 2013 reflected in the acquisition by Etihad of a 24% stake in Jet and the harmonization of their respective networks. The Indian domestic market will be impacted by the launch of operations at new entrant AirAsia India. The company should have ten Airbus A320s and could start operations in February 2014 (*source 45*).

In Japan, additional slots for international traffic have been granted by Tokyo-Haneda airport with 14 slots distributed to international airlines for Summer 2014, six for European carriers (Air France, Lufthansa and British Airways), seven for Asian carriers (including Garuda Indonesia and Singapore Airlines) and one American airline (Air Canada) (*source 46*).

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

Development of the African airlines

In Africa, the two main trends are the development of pan-African ambitions for some carriers and the emergence of low cost carriers.

Through its *Vision 2025* plan, Ethiopian Airlines is looking to become a major player in the African continent. It has thus acquired a 49% stake in Malawi’s new national carrier aimed, in time, at building an organization with several hubs in the continent. Kenya Airways has set itself an objective of operating flights bound for all continents by 2021 and is reinforcing its cooperation with KLM within the framework of a joint venture covering passenger and cargo transportation (*source 48*).

In October 2013, the low cost company Fastjet inaugurated the operation of its first international flight on the Dar es Salaam-Johannesbourg route. Its development remains constrained by the regulatory environment and the reactions of the traditional operators (*source 49*).

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

Between 2005 and 2013, the fleet of the Gulf State airlines (Emirates, Etihad, Qatar Airways) and that of Turkish Airlines grew at an annual rate of 14%. Between 2014 and 2018, the forecast average annual growth in their fleet stands at 13% for a total of more than 600 jumbo aircraft by 2018 versus around 370 currently in service (*source 52*). In total, practically a quarter of the aircraft orders for jumbo aircraft is destined for one of these carriers. In November 2013, Emirates thus announced an order for 50 additional A380s, confirming its status as the largest customer by far for this super jumbo (close to 50% of the A380s on order or in service) (*source 53*).

In 2013, Emirates capacity increased by 14% (17% in 2012), that of Qatar Airways by 9% (13% in 2012) and that of Etihad by 21% (14% in 2012) (*source 12*). The growth of Turkish Airlines is stronger still with a capacity increase of 26% in 2013, after 20% in 2012. The Turkish carrier will, in time, benefit from the government's decision to build a gigantic airport to the north west of Istanbul by 2017 (annual capacity of 150 million passengers).

The growth of these airlines is characterized by the multiplication of the cities served (seven new destinations for Turkish Airlines in 2014 and eight for Etihad). The openings are now being focused on the Americas (*source 12*): a service to Boston for Emirates, Miami, Philadelphia and Detroit for Qatar Airways, Montreal and Boston for Turkish Airlines, and Dallas and Los Angeles for Etihad. They could also take advantage of the potential authorization of the A380 in India to increase their capacity in this territory.

In parallel, the Gulf State airlines are stepping up their partnerships and investment in extending their networks. Etihad now has shareholdings in Air Berlin, Air Lingus, Air Seychelles, Virgin Australia, Air Serbia, Jet Airways and Darwin (rebaptised Etihad Regional). In addition to these investments, Etihad has extended its code share agreements, notably with Air France-KLM, while Qatar Airways joined Oneworld in October 2013. In April 2013, Emirates launched a strategic partnership with Qantas on flights between Dubai and Australia. Inversely, Turkish Airlines and Lufthansa will end their cooperation effective March 2014 (*source 54*).

Airline sector consolidation: alliances, partnerships and joint-ventures

Consolidation remains a key factor behind improving margins in the air transport industry. In this regard, 2013 was marked by the merger between American Airlines and US Airways which probably represents the last consolidation phase in the United States.

The traditional alliances continued their growth with Oneworld integrating Malaysia Airlines and Qatar Airways, Star Alliance losing TAM and US Airways but expected to welcome EVA Air in 2014, and Garuda Indonesia set to join SkyTeam in March 2014 (*source 55*).

With the exception of Etihad, the Gulf State carriers had hitherto been reluctant to establish partnerships but they are all now accepting to work with other airlines. Emirates launched its strategic partnership with Qantas in April 2013 (*source 56*) while Qatar Airways has been accepted by Oneworld. Etihad has reinforced its strategy of partnership and strategic investment and has, notably, acquired a stake in Jet Airways to strengthen its presence in India and signed a code share agreement with Air France-KLM. In early 2014, it is looking into the opportunity of investing in Alitalia.

Based on the same model as the North Atlantic and trans-Pacific joint-ventures, the Europe-Asia transcontinental joint-ventures are developing (*source 57*): Air France and KLM have signed joint-venture agreements with Chinese carriers while the Lufthansa Group has a joint-venture with ANA on the Europe-Japan axis which was extended to Swiss and Austrian in the spring of 2013. In parallel, a British Airways-Japan Airlines joint venture was inaugurated in 2013 and should be extended to Finnair during 2014 (*source 58*).

2.2.4 Conclusion

The combination of the economic crisis, which is affecting Europe in particular, and a 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. The European public authorities are increasingly realizing the vital importance of an industry which makes a substantial contribution to the wealth of the continent (*source 59*). However consolidation, which is key to ensuring a return to an industry which is profitable over the long term, is seeing little progress. Currently, the airlines' limited financial resources and the interventionism from a number of States vis-à-vis national flag-carriers is holding back this inevitable move.

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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 partners and securing agreements with new partners within the SkyTeam alliance, and leveraging 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. Including the flights operated by Delta within the framework of the trans-Atlantic joint venture, in Summer 2013 the Group served 119 long-haul destinations world-wide, of which 35 in Africa, 25 in North America, 23 in the Asia-Pacific region, 11 in the Caribbean, three in the Indian Ocean, 11 in Latin America and 11 in the Middle East. Revenues are evenly balanced across all these markets (See section 2.4 for the key figures by network).

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 developments or crises affecting certain markets.

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, a company with which the Group has had a strategic partnership since 2009, operates. 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. Furthermore, it enables the use of larger aircraft, thereby reducing noise and carbon emissions. The second bank at the Roissy-Charles de Gaulle hub, organized around the arrival of some 60 medium-haul flights and the departure of around 30 long-haul flights, thus enables the offer of more than 1,500 different connections in under two hours with only 90 aircraft.

The efficiency of the hubs largely depends on the quality of airport infrastructures: number of runways usable in parallel, fluidity of circulation and ease of connections between terminals. In this regard, the dual Roissy-Charles de Gaulle and Amsterdam-Schiphol platforms benefit from unsaturated runway capacity. Furthermore, the organization of the Group's activities at Roissy-Charles de Gaulle has been significantly improved since the delivery of new infrastructure enabling the regrouping of the operations at terminals 2E, 2F and 2G and smoother flight connections.

A balanced customer base

The Air France-KLM Group's choice of satisfying 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 around 45% of total passengers while, at KLM, this figure is 60%. Furthermore, more than 50% of revenue is realized with loyalty scheme customers (frequent flyer program members or those whose companies have a corporate contract with the Group).

SkyTeam, the number two global alliance

Serving 1,024 airports globally, SkyTeam is the number two global alliance. At December 31, 2013, it 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 Air, Tarom, Vietnam Airlines, Aerolineas Argentinas, MEA (Lebanon), Saudi Arabian Airlines and Xiamen Airlines (the fifth Chinese carrier). Garuda Indonesia should join the alliance in 2014.

The alliance is stepping up initiatives aimed at securing customer loyalty and facilitating connections. It naturally enables the Group to offer its passengers an extended network by giving access to the numerous destinations of its partners. In 2012, SkyTeam thus rolled out SkyPriority, a range of services clearly signposted in airports, systematically offered to Elite customers in *La Première* and Business class.

Strategic partnerships

The Group has signed several strategic partnerships on key markets.

On the North Atlantic, the Group has implemented a joint venture with its partners Delta and Alitalia since 2009. 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 is based on the principle of sharing revenues and costs.

In January 2009, during the relaunch of Alitalia by a syndicate of private investors, Air France-KLM acquired a 25% stake in the share capital of the Italian company (since reduced to around 7% following transactions involving its share capital) and signed a strategic partnership agreement. This agreement generates substantial synergies for the two groups.

In 1995, KLM acquired a stake in Kenya Airways and signed a strategic partnership with the latter. A joint venture was established in 1997 before being significantly extended in November 2013. This agreement generates notably commercial synergies on six routes between Europe and East Africa.

More recently, Air France-KLM 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 rationalized 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 787s as of the end of 2015 and its first Airbus A350s in 2018 (See also Section 2.8 – Fleet, page 53).

A commitment to sustainable development

The Group plans to pursue its sustainable development commitment aimed at consolidating the reputation of the brands with, amongst other objectives, a very high level of operational safety, establishing an ongoing dialogue with stakeholders such as customers, suppliers and local communities, reducing its environmental footprint, factoring innovation and sustainability into the entire service chain, contributing to the development of the territories where it has operations and, lastly, applying the best corporate governance principles.

The Air France-KLM Group's sustainable development approach is recognized by the main extra-financial ratings agencies. Amongst these many awards, in 2013 the Group was named airline sector leader and was included in the Dow Jones Sustainability Index (DJSI), the main international index evaluating companies on their sustainability performance. For the fifth year running, Air France-KLM was also ranked leader of the broader "Transport" sector, covering air, rail, sea and road transport as well as airport activities.

2.3.2 The Transform 2015 plan

Covering the 2012-14 period, Transform 2015 was announced in January 2012 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.

On the launch of the plan, the Group set itself a target of reducing debt by €2 billion between December 31, 2011 and December 31, 2014 (from €6.5 billion to €4.5 billion). With the economic environment continuing to weigh on demand, particularly in medium-haul and cargo, additional measures were launched in September 2013 in these two segments. Since these new measures are only expected to produce their full effects in 2015, the Group maintained its debt reduction target but considered that it would only be realized in 2015.

The plan also provides for an improvement in the Group's competitiveness as the main lever in debt reduction. This objective led to the setting of a targeted reduction in unit cost per EASK (Equivalent Available Seat Kilometer) of 0.4 euro cents between 2011 and 2014, moving from 4.8 euro cents in 2011 to 4.4 euro cents in 2014. This cost reduction effort corresponds to a 10% reduction relative to the level initially expected for 2014 (4.9 euro cents, despite permanent cost control).

All of the action plans must be reflected in a significant improvement in EBITDA. The Group targets EBITDA in the region of €2.5 billion in 2014, subject to there being no reversal in current operating trends.

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
- measures aimed at improving its financial situation.

2013 was principally a year of implementation for all the measures decided in 2012: modest capacity growth, lower investments, headcount reduction, the implementation of the new working agreements and improvements in productivity.

In the autumn of 2013, as foreseen at the time of the plan's inception, a progress review was realized. This progress review confirmed that Transform 2015 was on track: all the measures decided in 2012 had been implemented within the pre-defined timetable and were leading to a steady improvement in the operating result. However, in a difficult economic environment, the turnaround of the medium-haul and cargo activities was not progressing sufficiently. The Group thus launched additional industrial and headcount measures as outlined below.

Limited capacity growth and a downwards revision in investment

Given the uncertain economic environment and the persistent imbalance between transport supply and demand, the Group opted for a limited increase in capacity in both passenger and cargo. For the passenger business, after growth of 0.6% in 2012, capacity increased by 1.6% in 2013 and should increase by around 1.5% 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). 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. Investment was reduced from €2.1 billion before sale and leasebacks in 2011 to €1.5 billion in 2012, €1.1 billion in 2013 and should remain below €1.4 billion in 2014. The Group also decided to limit sale and leaseback transactions (€600 million in 2012, €100 million in 2013 and none in 2014, versus €800 million in 2010 and €850 million in 2011).

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 March 2013, with cabin crew. These new collective agreements aim to establish an organization and compensation and career system adapted to the new air transport environment. Having come into force in 2013, these agreements guarantee an improvement in productivity across all categories of staff. For ground staff, the number of working days has increased by between ten and twelve; flight deck and cabin crew have accepted an increase in flight hours, particularly in medium-haul. Furthermore, these agreements ensure a reduction of around half a point in the seniority creep.

Lastly, the Group implemented wage moderation through a freeze on general salary increases and promotions in 2012 and 2013.

Following the signature of the collective agreements, the Group launched voluntary departure plans to reduce headcount in each of the staff categories including incentives to leave the company, incentives to move to part-time working, unpaid leave, etc. The measures concerning ground staff in France enabled a headcount reduction of some 2,900 in Full Time Equivalent compared with a target of 2,700 FTE. The measures concerning the pilots enabled a reduction of around 270 in Full Time Equivalent for a targeted 300 FTE. Lastly, the measures concerning cabin crew enabled a reduction of some 470 in FTE relative to a target of 500 in FTE.

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. The changes negotiated within the framework of Transform 2015 include, notably, 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 reduction of more than €300 million in payroll expenses, on a constant scope and pension expense basis, between 2011 and 2014.

Within the framework of the additional measures decided in autumn 2013, Air France has implemented new voluntary headcount reduction measures. For ground staff, a new voluntary departure plan covering 1,826 Full Time Equivalent will be open between February 2014 and June 2014. Other voluntary departure measures will be deployed in 2014 for the pilots (target: around 350 Full Time Equivalent) and cabin crew (target: around 700 Full Time Equivalent).

Action plans

Within the framework of Transform 2015, the Group launched a series of action plans for each of its businesses. While all the measures decided in 2012 were implemented as planned, in a more-difficult-than-expected environment, particularly in Europe, the turnaround of the medium-haul and cargo businesses did not progress sufficiently, leading the Group to launch additional measures in these two activities in autumn 2013.

Passenger business

The losses in the passenger business are concentrated in the medium-haul segment, with operating losses amounting to some €620 million in 2013. This segment remains a cornerstone of the Group's development in that it ensures not only its operations across Europe but also feeds the long-haul flights at the dual Paris-CDG and Amsterdam-Schiphol hubs. Since the 2008-09 crisis, and despite the action plans, the negative structural trend in unit revenues has led to the deepening of losses in this activity. The long-haul segment is clearly profitable but it cannot operate without an efficient medium-haul feeder network nor entirely offset these losses. The action plans have thus been on a larger scale in medium-haul.

In long-haul, the Group has sought to reinforce its profitability by retiring the least-efficient aircraft (particularly the MD-11s), improving schedule and staff productivity and, lastly, upgrading products into line with the industry best in class.

This repositioning has notably involved substantial investment in the ground (new lounge at Roissy-CDG) and inflight services. KLM launched the deployment of a new Business class seat in summer 2013, while Air France plans to renovate the cabins on 44 Boeing 777s as of the summer of 2014. This renovation is accompanied by investment in new seats and in-flight entertainment systems consistent with the best industry standards.

The restructuring of medium haul led to the launch of a series of action plans, reinforced by additional measures in autumn 2013.

At Air France, the emphasis was firstly on improving the utilization of the fleet and the achievement of significant productivity gains by all staff categories. At the level of the Roissy-CDG hub, between 2012 and 2015, the Group thus plans to scale back its fleet by 17% (19 fewer aircraft) while increasing productivity (expressed in ASK per aircraft) by 14%.

Air France's point-to-point network has been adjusted at both Orly and in the provincial bases (Marseilles, Nice, Toulouse) with 16 fewer aircraft between 2012 and 2015. To limit the impact of these reductions on the revenues of the routes on departure from Orly, the reduction in activity has been focused on high-density routes. Launched in 2011 and 2012, the three provincial bases have yet to reach break-even at the operational level. In the summer of 2013, the adaptation of the bases enabled a strong improvement in revenues. The resizing will be pursued resulting in 18 aircraft at the provincial bases in summer 2015 compared with 29 in the summer of 2012.

To accompany the reduction in activity and productivity gains, the new voluntary departure plan covers mainly the French stations targeting, notably, 580 in Full Time Equivalent at Roissy-CDG, 180 at Orly, 370 FTE in the three provincial bases and 220 in the other French stations.

In parallel, the development of Transavia, a real growth relay at Orly, has been accelerated, the aim being to reach critical mass in the Paris market by 2016 with 26 aircraft compared with eight in Summer 2012. This growth will be accompanied by a significant level of commercial investment.

The Group's activity in the regional aircraft segment (below 100 seats) has been extensively reorganized. In April 2013, the Group regrouped its three companies operating this type of aircraft in France (Brit Air, Régional and Airlinair) within a new entity, known as HOP!, operating in two markets. Firstly, it ensures the feeding of the Paris-CDG hub on the lowest traffic flows and, secondly, it operates the point-to-point flights to and from the French regional capitals. A few months after its launch, this brand is achieving a high level of prompted awareness, of the order of 40% in its six largest markets: Lyons, Nantes, Strasbourg, Lille, Bordeaux and Toulouse. In parallel, in December 2013, the Group received a firm offer to acquire its regional point-to-point subsidiary CityJet which operates mainly outside France.

At KLM, the main measures were the increased use of aircraft thanks to cabin densification and the organization of faster aircraft turnaround times. On a constant fleet, KLM thus plans to increase its medium-haul capacity by 11% between 2012 and 2015. These measures have led to a significant rebound in results, enabling the anticipation of a result close to breakeven in 2015.

Lastly, the repositioning work in medium-haul was notably reflected in investment in the Business class product and in the development of more attractive product tariffs: "Mini" fares at Air France with option-based services and the development of ancillary revenues (in particular, payment for the first piece of baggage) at KLM.

All these measures must enable a reduction of around €500 million in medium-haul losses between 2012 and 2015.

Cargo business

The cargo business is facing not only a difficult environment (weak demand, high oil price) but also a situation of persistent overcapacity due to the growth in the fleets of large aircraft with significant belly capacity, and the growing competition from ocean transportation solutions. The measures launched in 2012 included the on-going reduction in full freighter capacity, the retirement of unused aircraft, a reduction in manageable costs and the launch of a new commercial and revenue management strategy. In 2013, these measures enabled the Group to realize a good performance on costs while continuing to down-size its full freighter capacity. These actions nonetheless proved insufficient to offset the decline in revenues, leading the Group to reinforce its action plan with additional measures in autumn 2013.

A new reduction target has been set for the full freighter fleet: only ten aircraft in operation in 2015, i.e. four fewer than in 2012, for a capacity reduction of more than 30%, of which 11% already achieved in 2013. By 2015, the full freighter fleet is expected to contribute only a little over 20% of the Group's cargo capacity. Naturally it is the least efficient aircraft (two Boeing 747s in Paris, one Boeing 747 and one MD-11 in Amsterdam) that will be retired from the fleet. New cost cutting and productivity improvement measures have been launched including the subcontracting of the Orly cargo hangar and the adaptation of the CDG handling operations.

All these measures must enable a reduction of around €200 million in cargo losses between 2012 and 2015, returning this business to break-even on this time horizon.

Maintenance business

The strategy for the maintenance business focuses on the development of high added-value activities (engines and components) and gradually downsizing some loss-making areas of the heavy maintenance activity, particularly since Europe is no longer competitive in terms of labor costs. The strong growth in the order book (+€600 million between December 2012 and December 2013) gives this business good visibility on revenue and results growth. Furthermore, the new collective agreements negotiated within the framework of Transform 2015 enabled this business to pursue its productivity efforts. In parallel, the Group continues to make targeted investment in innovative infrastructure (engine test bench, aero structure workshop) and to locate its operations closer to clients (joint ventures in the United States, India, component workshop in Shanghai, etc.).

New governance

To accompany the implementation of the Transform 2015 plan, the Group decided to introduce a new governance framework with the centralization not only of the corporate functions but those relating to the three business lines like the network strategy, global sales and revenue management functions. This new organization is aimed at accelerating decision-making and capturing all the available synergies.

2.4 Passenger business

CityJet having been reclassified as a discontinued operation, its activity has been excluded from the key figures.

While Air France-KLM pursued its policy of strict capacity discipline, and the industry as a whole remained relatively prudent, 2013 was marked by the economic slowdown affecting, in particular, France and the Southern European countries.

> Key figures for the passenger business

Financial year	2013	2012*	Change	Change ex-currency
Number of passengers (in thousands)	77,276	75,711	+2.1%	
Capacity (in ASK million)	272,419	268,016	+1.6%	-
Traffic (in RPK million)	228,316	223,034	+2.4%	-
Load factor	83.8%	83.2%	+0.6 pt	-
Total passenger revenues (in €m)	20,112	19,976	+0.7%	+2.6%
Scheduled passenger revenues (in €m)	19,176	19,065	+0.6%	+2.4%
Unit revenue per ASK (in € cents)	7.04	7.11	-1.0%	+0.8%
Unit revenue per RPK (in € cents)	8.40	8.55	-1.7%	+0.1%
Unit cost per ASK (in € cents)	6.98	7.21	-3.3%	-1.8%
Income/(loss) from current operations (in €m)	174	(260)	+434	+499

* Restated for IAS19 Revised, CityJet activity reclassified as a discontinued operation

In the 2013 financial year, revenues for the passenger activity stood at €20.11 billion, up by 2.6% on a constant currency basis (+0.7% reported). At €174 million, the result from current operations generated by the passenger business returned to positive territory, rising by €434 million relative to 2012 (€499 million on a constant currency basis).

The Group maintained its policy of strict control over capacity, which increased by only 1.6%. Traffic growth was 2.4% and the load factor gained 0.6 points to 83.8%. The Group carried 77.3 million passengers, a 2.1% increase on 2012. The unit revenue per available seat-kilometer (RASK) was up by 0.8% on a constant currency basis (-1.0% reported). The unit cost per available seat-kilometer (CASK) declined by 1.8% on a constant currency basis (-3.3% reported).

In medium haul, traffic increased by 1.7% despite the 1.2% reduction in capacity realized within the framework of the restructuring of this activity. The load factor thus gained 2.2 points to 76.8%. The unit revenue per available seat-kilometer (RASK) progressed by 2.2% on a constant currency basis.

In long haul, traffic increased by 2.5% for capacity up by 2.4%. Capacity growth covered especially Asia (+4.3%) and Latin America (+7.4%). The load factor remained stable (+0.1 point) at 85.7%. The RASK progressed by 0.6% on a constant currency basis (-1.4% reported).

During the **first half**, the Group's capacity increased by 1.6% and traffic by 2.2%, the load factor gaining 0.5 points to 82.8%. The unit revenue per available seat-kilometer was down by 0.4% and was stable (+0.1%) on a constant currency basis. Total revenues for the passenger business amounted to €9.57 billion, up by 1.2% and by 1.7% on a constant currency basis. The operating loss stood at €345 million, an improvement of €217 million on the previous year.

In the **second half**, the Group's capacity saw the same 1.7% growth rate while traffic increased by 2.6%, the load factor gaining 0.7 points to 84.8%. The unit revenue per available seat-kilometer was down by 1.7% due to a significant currency effect. On a constant currency basis, the unit revenue per ASK was up by 1.5%. The operating result was positive to the tune of €519 million, a €217 million improvement on the previous year.

The Group's long-haul network is organized around the dual Paris-CDG and Amsterdam-Schiphol hubs. Given the reduction in medium-haul capacity, the weight of the long-haul network increased by one point relative to the previous year, representing 81% of traffic and 79% of capacity. Traffic increased by 2.5% for capacity up by 2.4%, the load factor gaining 0.1 points to 85.7%.

Scheduled long-haul passenger revenues stood at €12.8 billion, a rise of 3.2% on a constant currency basis (+1.1% reported). On a constant currency basis, the unit revenue increased by 0.6%, driven by economy class (+1.2%) while it was lower in premium (-0.6%). The respective contributions of the different long-haul networks did not change significantly relative to the previous financial year.

> Key figures by network

Destination region	Capacity in ASK		Traffic in RPK		Load factor		No. of passengers		Scheduled passenger revenues	
	<i>(In millions)</i>		<i>(In millions)</i>		<i>(In %)</i>		<i>(In thousands)</i>		<i>(In € million)</i>	
	2013	2012*	2013	2012*	2013	2012*	2013	2012*	2013	2012*
North America	57,076	57,155	50,381	50,548	88.3%	88.4%	7,137	7,169	3,638	3,631
Latin America	30,255	28,160	26,813	24,775	88.6%	88.0%	2,759	2,545	1,759	1,616
Asia/Pacific	63,134	60,519	54,006	51,947	85.5%	85.8%	6,095	5,971	3,422	3,441
Africa/Middle East	36,233	35,388	29,066	28,527	80.2%	80.6%	5,218	5,137	2,538	2,567
Caribbean/Indian Ocean	28,689	29,042	24,252	24,155	84.5%	83.2%	3,347	3,325	1,421	1,401
Total long-haul	215,387	210,264	184,518	179,952	85.7%	85.6%	24,556	24,147	12,778	12,657
Medium-haul	57,032	57,752	43,799	43,081	76.8%	74.6%	52,720	51,564	6,398	6,408
Total	272,419	268,016	228,316	223,034	83.8%	83.2%	77,276	75,711	19,176	19,065

* Restated for IAS19 Revised, CityJet activity reclassified as a discontinued operation

The **Asia-Pacific** network is the Group's first network with 24% of traffic and 23% of capacity. The Group carried 6.1 million passengers (+2.1%) to these destinations. Traffic rose by 4.0% for a capacity increase of 4.3%, the load factor falling slightly (-0.3 points) to 85.5%. The unit revenue per available seat-kilometer declined by 1.3% (-4.7% on a constant currency basis). The revenues from this network amounted to €3.42 billion (+2.9% on a constant currency basis and -0.6% reported).

The **North American** network is the Group's second network with 22% of traffic and 21% of capacity. The Group carried 7.1 million passengers (-0.4%) to these destinations. On this network, the Group operates within the framework of the joint venture with Delta which pursued a policy of strict capacity discipline (-0.1%). Traffic fell by 0.3% and the load factor was down by 0.2 points to 88.3%. The unit revenue increased by 2.0% on a constant currency basis (+0.3% reported). Revenues amounted to €3.64 billion (+1.8% on a constant currency basis and +0.2% reported).

The **Africa-Middle East** network represents 13% of traffic and capacity. The Group carried 5.2 million passengers (+1.6%) to these destinations. The capacity growth was focused on Africa while the Middle East network continued to suffer from political instability in a number of countries. For this network as a whole, capacity increased by 2.4% for traffic up by 1.9%, the load factor losing 0.4 points to 80.2%. The unit revenue per available seat-kilometer declined by 1.4% on a constant currency basis (-3.4% reported). Revenues stood at €2.5 billion, up by 0.9% on a constant currency basis (-1.1% reported).

The **Latin American** network experienced the fastest growth in 2013, representing 12% of traffic and 11% of capacity. The Group carried 2.8 million passengers on these destinations (+8.3%). Traffic grew more strongly (+8.2%) than capacity (+7.4%), enabling a 0.6 point gain in load factor to 88.6%. The unit revenue per available seat-kilometer increased by 2.9% on a constant currency basis (+1.3% reported). Revenues amounted to €1.8 billion, a 10.5% increase on a constant currency basis (+8.8% reported).

The **Caribbean and Indian Ocean** network represents 11% of traffic and capacity. The Group carried 3.4 million passengers to these destinations, up by 0.8%. The same level of traffic was maintained (+0.4%) despite the reduction in capacity (-1.2%), the load factor gaining 1.3 points to 84.5%. The unit revenue per available seat-kilometer increased by 3.4% on a constant currency basis (+2.7% reported). Revenues stood at €1.4 billion, growth of 2.1% on a constant currency basis (+1.4% reported).

The impact of Transform 2015 was most apparent in the **medium-haul** network, whose restructuring is one of the plan's major objectives. While capacity only declined by 1.2% and its weight in overall capacity by a single point, this was due to Transform 2015 having fairly different impacts on the segments of this network. Productivity gains and cabin refitting enabled capacity to rise by 4.4% at the Amsterdam hub while maintaining the same fleet, while productivity gains were combined with a fleet reduction at the Roissy-CDG hub, implying a slight reduction in capacity (-0.6%). Capacity was notably significantly reduced on the point-to-point routes excluding the hubs: the 8.3% reduction was principally due to the adjustment in capacity in the provincial bases and the capacity reduction for the regional subsidiaries within the framework of the launch of HOP! Traffic responded well to these adaptations, growing by 1.7% for total capacity down by 1.2%, the load factor gaining 2.2 points to 76.8%. The unit revenue increased by 2.4% on a constant currency basis (+1.1% reported). Revenues amounted to €6.4 billion, up by 1.1% on a constant currency basis (-0.2% reported).

(See also Section 2.3 – Strategy, Transform 2015 plan, page 46).

2.5 Cargo business

In 2013, air freight was affected by the weakness in global trade and the situation of structural overcapacity in the sector.

> Key figures for the cargo business

Financial year	2013	2012*	Change	Change ex-currency
Tonnage transported (in thousands)	1,341	1,383	-3.0%	-
Capacity (in thousands of ATK)	15,971	16,409	-2.7%	-
Traffic (in thousands of RTK)	10,087	10,576	-4.6%	-
Load factor	63.2%	64.5%	-1.3pt	-
Total cargo revenues (in €m)	2,816	3,057	-7.9%	-5.7%
Freight transport revenues (in €m)	2,619	2,872	-8.8%	-6.7%
Unit revenue per ATK (in € cents)	16.40	17.50	-6.3%	-4.2%
Unit revenue per RTK (in € cents)	25.96	27.16	-4.4%	-2.2%
Unit cost per ATK (in € cents)	17.66	18.90	-6.6%	-4.9%
Income/(loss) from current operations (In €m)	(202)	(230)	+28	37

*Restated for IAS19 Revised

Against this backdrop, cargo business revenues stood at €2.8 billion, down by 5.7% on a constant currency basis, and by 7.9% reported relative to 2012. The operating result improved by €28 million but remained a negative €202 million. The Group continued to scale back full freighter capacity with an 11.5% reduction relative to 6% planned at the beginning of the year. In total though, capacity was reduced by only 2.7% including the slight increase in belly space. Traffic declined by 4.6% leading to a 1.3 point drop in load factor to 63.2%. The unit revenue per available ton-kilometer (RATK) fell by 6.3% and by 4.2% on a constant currency basis. The good unit cost performance (-4.9% on a constant currency basis and -6.6% reported) was not sufficient to meaningfully reduce losses. Additional restructuring measures were announced in October 2013, and are currently being implemented.

The adjustment in full freighter capacity was particularly marked during the **first half** (-13.9%), underpinning an overall 4.2% reduction in capacity. Traffic declined by 6.3%, implying a 1.4 point fall in load factor (63%). Cargo business revenues reached €1.4 billion, down by 6.1% on a constant currency basis (-6.8% reported). The unit revenue per available ton-kilometer (RATK) was down by 2.8% on a constant currency basis (-3.5% reported). Thanks to its cost-cutting efforts, the Group successfully reduced the operating loss by 25%, posting an operating loss of €100 million.

In addition to a significant currency effect, the **second half** was characterized by an even stronger decline in unit revenues. Despite the further reduction in full freighter capacity (-9.1%), capacity fell by only 1.2%. Traffic was down by 2.9%, the load factor losing 1.2 points to 63.3%. Revenues stood at €1.4 billion, down by 5.3% on a constant currency basis (-8.9% reported). The decline in unit cost per ATK (-5.2% on a constant currency basis but -7.9% reported) did not enable a reduction in the operating loss which rose by €6 million.

> Key figures by network

Destination region	Capacity in ATK (In million)		Traffic in RTK (In million)		Load factor (In %)		No. of tons (In thousands)		Cargo transportation revenues (In € million)	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Europe	527	534	67	69	12.7	12.9	48	49	51	54
Americas	6,670	6,597	4,148	4,229	62.2	64.1	510	519	1,053	1,168
Asia/Pacific	4,981	5,388	3,890	4,198	78.1	77.9	468	489	849	899
Africa/Middle East	2,706	2,742	1,568	1,636	57.9	59.7	260	268	524	603
Caribbean/Indian Ocean	1,088	1,150	415	446	38.1	38.8	55	58	142	148
Total	15,971	16,411	10,088	10,577	63.2	64.5	1,341	1,383	2,619	2,872

As the Group's premier cargo network, the **Americas** represent 42% of capacity, 41% of traffic and 40% of cargo transportation revenues. Over the year, traffic declined by 1.9% for capacity up by 1.1%, the load factor falling by 1.9 points to 62.2%. Revenues amounted to €1.05 billion (-9.8%).

The **Asia-Pacific** network accounts for 31% of capacity and 39% of traffic. It was on this network that the Group made its biggest reduction in capacity (-7.6%). The decline in traffic was similar in proportion (-7.3%) and the load factor remained stable at 78.1% (+0.2 points). Revenues stood at €849 million (-5.6%).

Africa-Middle East is the Group's third network with 17% of capacity and 16% of traffic. The various political crises continued to weigh on activity such that traffic was down by 4.2% for a 1.3% capacity reduction. The load factor thus lost 1.8 points to 57.9%. Revenues collapsed by 13.1% to €524 million.

The **Caribbean-Indian Ocean** network represents 7% of capacity but only 4% of traffic. Traffic declined (-7.0%) by more than capacity (-5.4%), leading to a 0.6 point fall in load factor (38.1%). Revenues amounted to €142 million (-4.1%).

2.6 Maintenance business

> Key figures for the maintenance business

12-month financial year to	2013	2012*	Change	Change ex-currency
Total revenues (in €m)	3,280	3,134	+4.7%	-
Third-party revenues (in €m)	1,225	1,096	+11.8%	+15.1%
Income from current operations (in €m)	159	140	+19	+29
Operating margin (%)	4.8%	4.5%	+0.3 pt	-

*Restated for IAS19 Revised

Thanks to a strong order book, the Group generated third-party revenues of €1.22 billion, growth of 15.1% on a constant currency basis (+11.8% reported). Income from current operations stood at €159 million, up by €19 million on the previous year. Total maintenance revenues progressed by 4.7% to €3,280 million. The operating margin stood at 4.8%, a modest increase relative to 2012.

2.7 Other businesses

The main activities in this sector are the catering business and the leisure business, which operates under the Transavia brand in both the Netherlands and France.

> Key figures for the leisure business

12-month financial year to	2013	2012*	Change	Change ex-currency
Capacity (in ASK million)	19,676	17,629	+11.6%	
Traffic (in RPK million)	17,725	15,616	+13.5%	
Load factor	90.1%	88.6%	+1.5pt	
Total passenger revenues (in €m)	984	889	+10.7%	+10.7%
Scheduled passenger revenues (in €m)	948	851	+11.4%	+11.4%
Unit revenue per ASK (in € cents)	4.82	4.83	-0.2%	-0.2%
Unit revenue per RPK (in € cents)	5.35	5.45	-1.9%	-1.8%
Unit cost per ASK (in € cents)	4.93	4.83	+2.1%	+1.5%
Income/(loss) from current operations (in €m)	(23)	0	(23)	(17)

*Restated for IAS19 Revised

In 2013, as planned within the framework of Transform 2015, Transavia capacity was significantly increased: traffic increased by 13.5% for a capacity increase of 11.6%, of which +25.5% for Transavia France. The load factor increased by 1.5 points to 90.1%. Despite this strong growth, the unit revenue remained stable (-0.2%). Transavia's revenues amounted to €984 million, up by 10.7%, while the loss from current operations stood at €23 million (versus break-even in 2012), impacted by the political unrest in some Mediterranean destinations and the launch costs on certain routes.

> Key figures for the catering business

12-month financial year to	2013	2012*	Change	Change ex-currency
Total revenues (in €m)	915	928	-1.4%	+2.7%
Third-party revenues (in €m)	341	355	-3.9%	+6.9%
Income from current operations (in €m)	24	7	+17	-

*Restated for IAS19 Revised

The catering business generated total revenues of €915 million of which €341 million with third-parties (€355 million at December 31, 2012). The decline in revenues is explained by a scope effect following the disposal of Air Chef. Income from current operations stood at €24 million versus €7 million in the previous year, thanks to the measures implemented within the framework of Transform 2015.

2.8 Fleet

At December 31, 2013, the Air France-KLM Group fleet comprised 611 aircraft, of which 583 were operational compared with, respectively, 629 and 597 aircraft at December 31, 2012, including the 24 Airlinair aircraft which entered the consolidation scope in early 2013 and the aircraft of the CityJet and KLM subsidiaries which are in the disposal process.

The main operational fleet consisted of 401 aircraft (407 aircraft at December 31, 2012), of which 171 were long-haul aircraft (167 at December 31, 2012), 14 were cargo aircraft (15 aircraft at December 31, 2012) and 216 were medium-haul aircraft (225 at December 31, 2012) including 41 aircraft in the Transavia Group fleet (39 aircraft at December 31, 2012). The regional fleet in operation comprised 182 aircraft (190 at December 31, 2012 including the Airlinair aircraft).

At December 31, 2013, the average age of the aircraft in the operational fleet was 10.6 years, 10.9 years for the long-haul fleet, 9 years for the medium-haul fleet, 13.6 years for the cargo fleet and 11.9 years for the regional fleet compared with 10.2 years at December 31, 2012 (after integration of the Airlinair aircraft), of which 10.2 for the long-haul fleet, 9.2 for the medium-haul fleet, 11.5 for the cargo fleet and 11.4 for the regional fleet.

At December 31, 2013, 38% of the total Group fleet was fully owned (40% at December 31, 2012), 22% under finance lease (unchanged on December 31, 2012), and 40% under operating lease (38% at December 31, 2012). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €914 million (€1.19 billion at December 31, 2012). Disposals of flight equipment stood at €224 million, of which €123 million in sale and leaseback transactions (€705 million and €632 million respectively at December 31, 2012).

The Airbus A350 order was signed at the Le Bourget Air Show in June 2013. The choice of engine to equip the Group's Boeing 787s should be finalized during the 2014 first quarter.

There were firm orders outstanding for 64 aircraft at December 31, 2013, an increase of 21 relative to December 31, 2012, including 25 Boeing 787s and 25 Airbus A350s. Options stood at 85 aircraft (63 at December 31, 2012) of which 25 were for Boeing 787s and 25 for Airbus A350s.

Change in the Air France-KLM Group order book	December 31, 2012	Deliveries during the period		Option conversion	December 31, 2013
			New orders		
Main fleet	42	5	25	1	63
Regional fleet	1	-	-	-	1
Total	43	5	25	1	64

Change in the Air France-KLM Group option portfolio	December 31, 2012	Exercise during the period	Options cancelled or expired		December 31, 2013
				New options	
Main fleet	42	1	2	25	64
Regional fleet	21	-	-	-	21
Total	63	1	2	25	85

A continued pro-active fleet policy

The Air France-KLM Group pursued its pro-active fleet policy whose objective is, firstly, to ensure a fleet scaled in line with the Group's activity and, secondly, to take full advantage of technological developments to further reduce the impact of activity on the environment.

This Air France-KLM Group fleet policy is guided by the same four key principles defined three years ago which have even more relevance currently:

- ◆ meet the need for fleet renewal and expansion at the economic performance and marketing levels
- ◆ remain compatible with the Group's financial capacity
- ◆ preserve the asset value of the fleet over the medium and long term
- ◆ retain an adequate level of flexibility in the fleet plan.

During the 2013 financial year, in line with previous commitments, 16 aircraft joined the fleet and the thirty or so aircraft which left the fleet, notably within the framework of the Transform 2015 plan, were for the most part at the end of their useful lives. The Air France-KLM Group thus continued to modernize its fleet while maintaining its ability to organize a significant level of flexibility thanks to the use of operating leases. Subject to notice periods, the Group remains able to adjust the size of its fleet by terminating lease contracts or, inversely, renewing them after renegotiating the conditions. As in every year, a large number of contracts expired for each aircraft type in 2013 and were managed in the most appropriate manner.

The Group uses sale and lease back transactions principally to manage the end of operations for a sub-fleet and/or optimize the management of aircraft retirement depending on the likely delivery dates for replacement aircraft. This year, three aircraft were the subject of sale and lease back transactions.

A fleet plan marked by increased levels of economic and commercial performance, with even greater emphasis on safeguarding the future

Consistent with the decisions taken in 2012 on the reduction in long-haul capacity and the scaling back of medium-haul and regional activity, the order book saw further postponements of aircraft deliveries. The Group also decided on an earlier-than-expected withdrawal from the aircraft sectors whose economic and commercial difficulties were proving too serious. For example, the closure of Air France's Boeing 747-400 division (passenger and cargo) is planned for the end of 2015 and the closure of KLM's MD-11 division (passenger) has been confirmed for the autumn of 2014.

The Group also pursued its policy of reconfiguring long-haul cabins, particularly in Business and *La Première*, initially on the Boeing fleets of the two companies.

Furthermore, as part of its efforts to safeguard the future, at the 2013 Le Bourget Air Show the Group signed an order for 50 Airbus A350 aircraft, 25 under firm order and 25 options. This order supplements the first pooled order for long-haul aircraft common to Air France and KLM placed with Boeing in December 2011 for 50 Boeing 787s, 25 under firm order and 25 options, and the earlier leasing of 10 Boeing 787s. The Group will take delivery of the first of these next-generation aircraft in autumn 2015.

To complete this program, Air France also signed operating leases on two Boeing 787s for delivery from 2017, to initiate the retirement of its four-engined Airbus A340 aircraft more effectively.

The Transform 2015 plan is being reflected in a downsizing of the medium-haul and regional fleets at Air France, virtual stability at KLM and growth in the Transavia France fleet. The next phase will be the replacement, in the medium term, of KLM's remaining Fokker 70s. The Group has received its first Airbus A320s equipped with sharklets.

Thanks to these orders, the Group now has a fleet plan covering its needs, under very attractive conditions, through to 2021, in terms of both economics and flexibility, both upwards and downwards.

2.8.1 The Air France Group fleet

The Air France Group fleet totalled 405 aircraft at December 31, 2013, of which 257 aircraft in the main fleet and 148 in the subsidiaries. The average age of the aircraft in the operational fleet is 10.7 years (10 years at December 31, 2012). Firm orders amounted to 41 aircraft.

The changes in the fleet were as follows.

	Fleet at December 31, 2012	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2013
Long-haul fleet	106	1	1	106
Medium-haul fleet (including Transavia France)	152	6	13	145
Cargo	7	-	1	6
Regional fleet excluding CityJet and VLM**	120	2	8	114
Total excluding CityJet and VLM**	385	9	23	371
CityJet and VLM	35		1	34
Total	420	9	24	405

* Purchases, operating lease and financial lease **Including 24 Airlinair aircraft at December 31, 2012

The Air France fleet

The Air France fleet comprised 246 aircraft at December 31, 2013, with 238 in operation (257 and 248 respectively at December 31, 2012). The fleet includes 106 long-haul aircraft, 134 medium-haul aircraft and six freighters. At December 31, 2013, the average age of the fleet was 9.9 years, with 10.3 years for the long-haul fleet, 9.7 years for the medium-haul fleet and 8.0 years for the cargo fleet. At December 31, 2012, the average age had been 9.7 years, with 9.2 years for the long-haul fleet, 10.2 for the medium-haul fleet and 7.4 years for the cargo fleet.

Within the fleet, 85 aircraft are fully owned (35%), 48 are under finance lease (19%) and 113 under operating lease (46%).

During the 2013 financial year, the company took delivery of one Airbus A380 and three Airbus A320s. In parallel, one Boeing 747-400 cargo, one Airbus A340-300 and thirteen Airbus A320s were withdrawn from the fleet.

The fleet of the regional subsidiaries and Transavia France

Since the integration of Airlinair within the Group, the fleet of the regional subsidiaries has been organized around five aircraft families: the Embraer family at Régional, the Bombardier family at Brit Air, the ATR family at Airlinair, the Fokker family at VLM and the Avro fleet operated by CityJet. At December 31, 2013, the total fleet of these five companies comprised 148 aircraft, with a seat capacity of up to 100, of which 132 in operation. The average age of the fleet in operation was 12.4 years at December 31, 2013: 8.2 years for the Brit Air fleet, 9.4 years for Régional, 15.9 years for Airlinair, 14.9 years for CityJet and 24 years for the VLM fleet.

During the 2013 financial year, two aircraft joined the regional fleet and nine aircraft were retired (one aircraft at Brit Air, three aircraft at Régional, four aircraft at Airlinair and one at KLM). Sixty-two per cent of the fleet is fully owned, 16% is under finance lease and 22% under operating lease. With no deliveries or new orders during the year, the order book remained at one aircraft under firm order at December 31, 2013.

The Transavia France fleet comprises eleven Boeing 737-800s, all in operation and under operating lease (eight aircraft at December 31, 2012). The average age of this fleet is 7.1 years.

2.8.2 The KLM Group fleet

The KLM Group fleet totalled 206 aircraft at December 31, 2013 (209 aircraft at December 31, 2012) of which 156 in the main fleet and 50 in the regional fleet. The average age of the aircraft in the operational fleet was 10.4 years (9.8 years at December 31, 2012). Firm orders stood at 23 aircraft.

KLM Group fleet	Fleet at December 31, 2012	Aircraft entering		Fleet at December 31, 2013
		the fleet over the period*	Aircraft withdrawn over the period	
Long-haul fleet	66	3	3	66
Medium-haul fleet (including Transavia Netherlands)	80	2	5	77
Cargo (including Martinair)	14	-	1	13
Regional fleet	49	2	1	50
Total	209	7	10	206

* Purchases, operating lease and financing lease.

The KLM fleet

At December 31, 2013, the KLM fleet comprised 117 aircraft (119 at December 31, 2012). There are 66 long-haul aircraft and 47 medium-haul aircraft. Of this fleet, 115 were operational including three full freighters operated by Martinair. At December 31, 2013, the aircraft in the fleet had an average age of 10.1 years, with 11.9 years for the long-haul fleet and 7.5 years for the medium-haul fleet. At December 31, 2012, the average age of the fleet had been 9.5 years, including 11.7 years for the long-haul fleet and 6.7 years for the medium-haul fleet. Twenty-four aircraft are fully owned (21%), 41 aircraft are under finance lease (35%) and 52 under operating lease (44%).

During the financial year, one Boeing 777-300, one Airbus A330-300, one Airbus A330-200 and one Boeing 737-800 joined the fleet while three MD11s and three Boeing 737-400s were withdrawn.

The fleet of the regional subsidiaries, Martinair and Transavia

The Transavia Netherlands fleet comprises 30 aircraft, of which nine Boeing 737-700s and 21 Boeing 737-800s. Nineteen per cent is under finance lease, 71% is under operating lease and 10% of the fleet is owned. The average age of the aircraft in operation is 9.1 years.

Martinair has a fleet of nine full freighters in addition to KLM's four cargo aircraft, of which 11 are in operation given the on-going capacity reduction policy being pursued in the cargo business. One third of these aircraft are owned, 22% are under finance lease and 44% under operating lease. The average age of the operational fleet is 15.8 years.

The KLM Cityhopper fleet comprises 50 aircraft, of which all were operational at December 31, 2013. The average age of the aircraft in operation in the regional fleet was 10.9 years. Fifty-two per cent of the fleet is fully owned, 26% is under finance lease and 22% under operating lease.

Air France fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
B747-400	3	-	1	-	3	-	7	-	7	-
B777-200/300	26	-2	11	+2	25	-	62	-	62	-
A380-800	1	-	4	+1	4	-	9	+1	9	+1
A340-300	4	-5	6	+3	3	+1	13	-1	13	+2
A330-200	3	-	2	-	10	-	15	-	15	-
Long-haul	37	-7	24	+6	45	+1	106	-	106	+3
B747-400	2	-	-	-	2	-1	4	-1	2	-1
B777-F Cargo	2	-	-	-	-	-	2	-	2	-
Cargo	4	-	-	-	2	-1	6	-1	4	-1
A321	6	-	6	-	13	-	25	-	25	-
A320	10	-10	3	-	36	-	49	-10	44	-12
A319	17	-3	8	+3	17	-	42	-	41	-
A318	11	-	7	-	-	-	18	-	18	-
Medium-haul	44	-13	24	+3	66	-	134	-10	128	-12
Total	85	-20	48	+9	113	-	246	-11	238	-10

HOP! fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
Airlinair										
ATR72-500	1	-	3	-	4	+2	8	+2	8	+2
ATR72-200	-	-	1	-1	-	-	1	-1	1	-1
ATR42-500	4	-	4	-	5	-	13	-	13	-
ATR42-300	-	-	-	-	-	-3	-	-3	-	-3
Total	5	-	8	-1	9	-1	22	-2	22	-2
Brit Air										
Canadair Jet 1000	13	-	-	-	-	-	13	-	13	-
Canadair Jet 700	10	+4	5	-4	-	-	15	-	13	-2
Canadair Jet 100	12	-	-	-1	-	-	12	-1	7	-2
Total	35	+4	5	-5	-	-	40	-1	33	-4
Régional										
EMB190	4	-	-	-	6	-	10	-	10	-
EMB170	8	-	2	-	6	-	16	-	16	-
EMB145-EP/MP	13	+2	7	-4	-	-1	20	-3	18	-5
EMB135-ER	4	-	2	-	-	-	6	-	2	+2
Total	29	+2	11	-4	12	-1	52	-3	46	-3
Total HOP! fleet	69	+6	24	-10	21	-2	114	-6	101	-9

Other regional fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
CityJet										
AVRO RJ 85	11	-	-	-	11	-	22	-	19	-
Total	11	-	-	-	11	-	22	-	19	-
VLM Airlines										
Fokker 50	12	-	-	-	-	-1	12	-1	12	-1
Total	12	-	-	-	-	-1	12	-1	12	-1

Other fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
Transavia France										
B737-800	-	-	-	-	11	+3	11	+3	11	+3
Total	-	-	-	-	11	+3	11	+3	11	+3
Total Air France Group										
	177	-14	72	-1	156	-	405	-15	381	-17

KLM fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
B747-400	15	+2	2	-2	5	-	22	-	22	-
B777-300	-	-	8	+1	-	-	8	+1	8	+1
B777-200	-	-	6	-	9	-	15	-	15	-
MD11	4	-3	1	-	-	-	5	-3	4	-2
A330-300	-	-	-	-	4	+1	4	+1	4	+1
A330-200	-	-	6	-	6	+1	12	+1	12	+1
Long-haul	19	-1	23	-1	24	+2	66	-	65	+1
B747-400	-	-	3	-	1	-	4	-	3	-1
Cargo	-	-	3	-	1	-	4	-	3	-1
B737-900	-	-1	2	+1	3	-	5	-	5	-
B737-800	5	+1	5	-1	14	+1	24	+1	24	+1
B737-700	-	-	8	-	10	-	18	-	18	-
B737-400	-	-3	-	-	-	-	-	-3	-	-
Medium-haul	5	-3	15	-	27	+1	47	-2	47	+1
Total	24	-4	41	-1	52	+3	117	-2	115	+1

Regional fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
KLM Cityhopper										
F100	-	-1	-	-	-	-	-	-1	-	-
F70	26	-	-	-	-	-	26	-	26	-
EMB 190	-	-	13	-	11	+2	24	+2	24	+2
Total	26	-1	13	-	11	+2	50	+1	50	+2

Other fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
Transavia Netherlands										
B737-800	1	+1	5	-	15	-1	21	-	21	-
B737-700	2	+2	1	-4	6	+1	9	-1	9	-1
Total	3	+3	6	-4	21	-	30	-1	30	-1
Martinair										
B747-400 BCF	-	-	-	-	3	-	3	-	1	+1
MD-11-CF	3	-	-	-	-	-1	3	-1	3	-1
MD-11-F	-	-	2	-	1	-	3	-	3	+1
Total	3	-	2	-	4	-1	9	-1	7	+1
Total other fleet	6	+3	8	-4	25	-1	39	-2	37	-
Total KLM Group	56	-2	62	-5	88	+4	206	-3	202	+3

Air France-KLM Group fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.	12/31/2013	YoY ch.
Total	233	-16	134	-6	244	+4	611	-18	583	-14

2.9 Highlights of the beginning of the 2014 financial year

There have been no significant changes in the financial or commercial situation arising since the end of the last financial year for which the audited financial statements have been published.

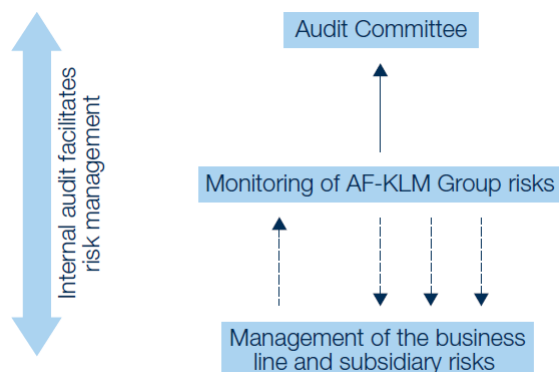
The only highlight of the beginning of the 2014 financial year is as follows:

- In early February, Air France unveiled its new long-haul Business class seat to the press. By 2016, this seat will equip some 44 Boeing 777s, all of whose cabins will be renovated. For this seat, Air France has opted for positioning alongside the industry best in class.

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, emission permits, currencies and interest rates) are managed by the Risk Management Committee (See also Section 3.3 Market risks and their management, page 68). 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. The Management also evaluates the strategic risks (competition, economic growth, etc.) on a yearly basis and determines the related action plans. These risks and action plans are also discussed with the Board of Directors.



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, the doubling in the fleet by 2030 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 launched the restructuring of its medium-haul business. In long-haul, the Group is developing partnerships in the large rapidly-growing markets and lobbying the authorities for a legal framework ensuring more equitable competition between carriers (See also Section 2.3, *Strategy*, page 45).

The air freight market is characterized by structural overcapacity resulting from weak demand growth and the arrival of new freighters while old cargo aircraft are gradually being withdrawn from operation. Belly capacity is also seeing rapid growth due to the substantial increase in the number of large aircraft globally. As a result, unit revenues are under structural pressure. Alternative means of transportation, particularly ocean freight with large container ships, are also putting pressure on air freight volumes and revenues.

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.

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. In 2003, the SARS epidemic had 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 geopolitical 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 *Insurance risks*, page 67).

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, CO₂ 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.

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.

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 aforementioned 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 drafted a proposed revision to the Regulation which was published in March 2013.

The principles of jurisprudence issued by the European Court of Justice since the entry into force of the Regulation, and particularly the so-called "Sturgeon" ruling granting compensation for delays of more than three hours, were adopted in this draft. It proposes, however, that the thresholds triggering compensation should differ based on the distance flown and be a minimum of five hours.

The European Commission policy departments would like to introduce new obligations on carriers which seem likely to lead to additional costs (compensation for delays including for connecting flights, limitation of the sequential usage rule on flight coupons, partial ban on the policy applied in the event of no-shows, etc.) which could ultimately weigh on production costs and thus on tariffs or the results.

There are thus a number of particularly costly or useless provisions and measures, or that are difficult to implement and don't into consideration the commercial and operational reality of the air transport industry.

Subject to the ordinary legislative process, the Commission's proposal, as amended by the Transport Commission of the European Parliament, was voted through in plenary session on February 5, 2014 in a version unfavourable to the carriers.

As might have been expected, the deputies opted to publish a text that was less balanced than the Commission's version to be able to negotiate more effectively with the Council whose position, reflecting that of the Member States, seems much more moderate even though an overall orientation should still be expected.

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".

On November 4, 2013, following the proposal made on September 26, 2011, the US Department of Transportation also published a Final Rule requiring 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 invol-

untary bumping of a passenger, the European regulation proposes a flat rate of compensation with, to date, no correlation to the ticket price or the delay on arrival.

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 Air France-KLM Group complies with the regulations in force on passenger assistance and compensation in the countries where it operates. 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 or major additional costs which could lead a group like Air France-KLM either to increase its tariffs or reduce costs, with the potential impact on employment that this implies.

Environmental legislation

The air transport industry is subject to numerous environmental regulations and laws governing areas such as aircraft noise and engine emissions, air quality, 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 CO₂ emission rights (key figure: one ton of fuel burned = 3.15 tons of CO₂ emitted), with each relevant company then being allocated a number of personalized quotas (one quota corresponding to one ton of CO₂). At the end of each year, companies must return an amount of emission allowances equivalent to the tons of CO₂ emitted. Depending on their emissions, they can also purchase or sell quotas (exchangeable quotas). For the aviation sector, free quotas are distributed to each operator on a pro rata basis based on their revenue ton-kilometers (RTK) generated in 2010. For 2012, the European Commission decided to limit the geographical application scope of the European directive to only intra-European flights ("stop the clock"). Consistent with the proposals for an overall sector approach supported by the air transport industry, during its triennial assembly of October 2013 the International Civil Aviation Organization adopted a resolution confirming, with virtual unanimity of the States, its intention to implement for 2020 a system based on the Carbon market (market based measure) applying globally. The practical conditions for its implementation should be adopted during the ICAO Assembly in 2016. Furthermore, prior to 2020, the resolution authorizes the deployment of such a system on a regional basis on condition that a bilateral agreement has been negotiated between the relevant States.

Following the adoption of this ICAO resolution, the European Union needs to amend its Directive 2008/101/EC on the EU ETS to redefine the practical terms of its application for 2013 and the following years. The definitive text is likely to be adopted by the European Parliament and the Council of Ministers during the first half of 2014. ETS compliance for the 2013 financial year could be postponed until early 2015.

Faced with the uncertainties on decisions that could be adopted by the European Union, the Air France-KLM Group passed a €14 million provision for 2013 based on the geographical scope defined for the 2012 reporting ("stop the clock").

The Group also established a carbon credit risk hedging strategy in the form of forward purchases, the measures being approved by the Risk Management Committee.

The Air France-KLM Group has always supported the implementation of a market mechanism considering that, provided it is equitable, it is more effective from an environmental point of view than a simple tax. This is why, with the support of the representative associations (AEA, IATA, FNAM), Air France-KLM actively participates in lobbying and actions towards the relevant national, European and international authorities and bodies (EU, DGAC, French Ministry of Ecology, Sustainable Development and Energy) to promote effective solutions for the environment but also to ensure that the system which is put in place does not generate any distortion in competition between the air transport players.

The Air France-KLM Group is also 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).

Europe is a region where the regulatory requirements are amongst the strictest in the world with regard to noise and the reduction of noise hindrance around airports. For example, Frankfurt airport is now subject to a curfew between the hours of 23h00 and 5h00. For the moment, the implementation of such a measure is not envisaged for Paris-CDG and Amsterdam-Schiphol airports.

To enable its development it is, however, vital for the Group to anticipate all the restrictive measures linked to noise at the airports constituting its main bases.

Regular discussion meetings take place with resident associations, local elected representatives and the authorities to address all the issues surrounding the effects of air transport activity around airports.

A regulation banning the noisiest aircraft (not having a 10dB margin relative to the ICAO's so-called chapter 3 standard definitions for aircraft) should come into force in March 2014 at Paris-CDG and is planned at European Commission level for all airports within its jurisdiction.

Thanks to its policy of fleet renewal enabling the operation of relatively-quiet aircraft, the Air France-KLM Group is not concerned by this measure.

Lastly, through the Airport Noise Tax (TNSA), the Air France Group this year contributed €15 million to the sound-proofing of homes located within the Noise Abatement Plan. Similar measures are applied at the Amsterdam-Schiphol hub.

Risks linked to the oil price

The fuel bill is one of the main cost items 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 during the first half of 2008 or again between late 2010 and 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.

Lastly, for the European airlines, any appreciation in the dollar relative to the euro results in an increased fuel bill (*See also Section 2.2, Market and environment, page 37*).

The Air France-KLM Group thus has a policy in place to manage this risk (*See also Market Risks, page 68*). 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, bad weather can have 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 towards passengers in such exceptional circumstances.

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. The Group has no hedging in place for operating losses.

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 (SMS);
- 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 flight safety, the company immediately implemented these recommendations. The Corporate 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 on-going process to improve safety.

The implementation process for the Safety Management System, launched in 2009, was completed by January 1, 2012 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 Insurance risks, page 67*).

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 Insurance risks, page 67*).

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.

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 by 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 Transform 2015 plan

(See also Section 2.3, Strategy, page 46)

Within the framework of the priorities set by the Air France-KLM Board of Directors on November 9, 2011, the Group is implementing 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 an improvement in productivity across 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 followed by a definitive agreement in March 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.

An update to the Transform 2015 plan comprising, notably, additional wage moderation measures was launched in autumn 2013 to take into account the unfavourable economic environment.

Any strike or stoppage of work linked to the implementation of these different transformation projects could have a negative impact on the Group's activity, financial results and reputation. Furthermore, the final 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

The Dutch Central Bank indicates the parameters to be used to calculate the solvency levels of the KLM funds. As a result of these regulatory calculations, the funds could be 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 2013, 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 2014.

The potential risks are dual in nature.

- Firstly, given the revised IAS 19 applicable as of January 1, 2013, the Group is exposed to changes in external financial parameters (e.g; discount rate, future inflation rate) which could lead to annual fluctuations in the income statement 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 31.1 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 shortfall relative to the required solvency threshold. For 2014, this additional payment risk is mitigated by the improvement in solvency levels noted since December 31, 2013.

The impacts of the IAS 19 Revised on retirement benefit obligations are presented in note 2.1 to the consolidated financial statements. The sensitivity analysis regarding the change in the rate of return on the pension plan assets is presented in note 31.1 to the consolidated financial statements.

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

Airframers, engine manufacturers and aircraft component manufacturers are rapidly expanding their after-sales departments to offer their customers increasingly integrated aircraft maintenance solutions. This positioning corresponds to a long-term strategy based on leveraging intellectual property by selling licenses to maintenance providers seeking to exercise their business activity on certain products. Ultimately, if it were to result in reduced competition on the MRO market, this trend could have a significant adverse impact on airline maintenance costs.

This trend is escalating, especially with the arrival of new aircraft such as the E-jet, the A350, and the Boeing 787. The ability to sustain balanced competition conditions is a priority objective, both for AFI KLM E&M's business activity and to contain Air France and KLM maintenance costs.

For its part, the Air France-KLM Group plans 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 31.3 and 31.4 to the consolidated financial statements).

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 per event as well as specific cover against terrorist acts for damage caused to third parties for up to \$1 billion per event and a total of \$2 billion per year of insurance except for the operation of the Airbus A380s, for which the cover is €1.2 billion per event and €2.4 billion per year of insurance.

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 activities. It covers KLM's civil liability for up to \$2.25 billion together with liability for damage caused to third parties by terrorist acts 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 \$8 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 protect 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 capacity 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 or the Chief Financial Officer of Air France-KLM, the Chairman and Chief Executive Officer and Chief Financial Officer of Air France, the President and Chief Executive Officer and the Chief Financial Officer of KLM.

The RMC meets each quarter to review Group reporting of the risks relating to the fuel price, emission permits, 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 treasury 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 Treasury 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 qualified 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 Treasury 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 hedging strategy on fuel and emission permits 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 Fuel Hedge 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

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.

2014 operational exposure			
<i>(In millions of currencies at December 31, 2013)</i>	US Dollar	Sterling	Yen
Net position before hedging	(4,453)	694	63,732
Currency hedge	2 858	(210)	(35,050)
Net position after hedging	(1,595)	484	28,682

For 2014, 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.

<i>(In € million)</i>	US Dollar	Sterling	Yen
10% increase relative to the euro	(138)	58	17
10% fall relative to the euro	25	(52)	(13)

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, 2013.

<i>(In US\$ million)</i>	2014	2015	2016	2017	2018	2019	2020	2021	2022
Investments	(478)	(559)	(765)	(535)	(777)	(924)	(1,509)	(1,206)	(692)
Currency hedge	422	512	373	62	135	-	-	-	-
Hedge ratio	88%	92%	49%	12%	17%	-	-	-	-

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2013, 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

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 69% of the overall total. The average cost of the Group's debt after swaps stood at 3.39% at December 31, 2013 (3.69% at December 31, 2012).

Exposure to interest rates	
<i>(In € million at December 31, 2013)</i>	
Financial assets at floating rates	4,637
Financial liabilities at floating rates	5,015
Net exposure before hedging	378
Hedging	(1,590)
Net exposure after hedging	(1,212)

The Group's net interest rate exposure amounts to €1,212 million. A 100bp rise in interest rates over twelve months would have a positive impact of €12 million.

Fuel price risk

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 December 30, 2013, the Air France-KLM Group's fuel exposure, based on futures prices at December 27, 2013 (\$109.30 a barrel for 2014 and \$102.95 a barrel for 2015), was as follows:

<i>(In US\$ million)</i>	2014	2015
Gross expenditure before hedging	9,427	8,906
Hedge percentage	60%	23%
Gain on hedging	223	26
Net expenditure	9,204	8,880

Based on the forward curve at December 27, 2013, an increase of \$10 per barrel over 2014 would give an average price of \$119.30 per barrel and would lead to a \$370 million increase in the fuel bill after hedging, i.e. a total fuel bill of \$9.57 billion in 2014 for the Air France-KLM Group. Symmetrically, a fall of \$10 per barrel over 2014 would give an average price of \$99.30 per barrel and would lead to a \$640 million reduction in the fuel bill after hedging, i.e. a total expense of \$8.56 billion.

Counterparty risk

The rules concerning the management of counterparty risk are established by the RMC and applied by the companies.

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) and investments. 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

Air France and KLM cash resources are not directly invested in the equity market or in equity mutual funds. However, at December 31, 2013, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth a net €1,135 million, principally comprising Amadeus shares valued at €1,076 million as of December 31, 2013. 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 €7 million change in the position.

Liquidity risk

At December 31, 2013, 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, 2013.

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, 2013.

The Air France-KLM holding company has a financing facility of €200 million, maturing on October 4, 2017, undrawn at December 31, 2013. This credit facility is reduced by €50 million every year on the October 4 anniversary date.

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

- EBITDAR must be equal to at least one and a half 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, 2013.

Given the current conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €4.2 billion at December 31, 2013 and the available credit facilities (a total of €1.8 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 €825 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 covering the OCEANE 2005.

Financing risks

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 collateralized 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.

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 (mostly secured by its 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.

KLM Group

To finance its aircraft, KLM uses a number of different structures like traditional bank debt, financial leases and export credit.

Air France-KLM holding company

The Air France-KLM holding company has realized four 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, €500 million of plain vanilla bonds in December 2012 maturing in 2018 and €550 million of convertible bonds with a ten-year maturity in March 2013.

Investment risks

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

Air France-KLM's commitment to Corporate Social Responsibility is based on respecting fundamental rights as enshrined in a series of major international principles: The Universal Declaration of Human Rights, The International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, the Organization for Economic Cooperation and Development's (OECD) guiding principles.

In its Corporate Social Responsibility Statement, the Group sets out its commitment to environmental protection, the promotion of social equity and local development, an ambition which is reinforced by the Social Rights and Ethics Charter and the Climate Action Plan.

As a signatory of the United Nations Global Compact, since 2003 Air France-KLM has been committed to respecting and promoting its ten principles in the areas of human rights, labor standards, the environment and the fight against corruption.

4.1 Social information

The number of Full Time Equivalent (FTE) employees in the Air France-KLM Group averaged 95,961 in the 2013 financial year (excluding external labor), a 4.7% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	Air France-KLM			Air France Group			KLM Group		
	2011	2012	2013	2011	2012	2013*	2011	2012	2013
Ground staff	70,705	69,994	66,384	50,202	49,795	46,696	20,503	20,199	19,688
Cabin crew	22,749	22,347	21,646	14,869	14,640	13,911	7,880	7,708	7,735
Flight deck crew	8,560	8,403	7,931	5,236	5,119	4,717	3,324	3,284	3,214
Total	102,014	100,744	95,961	70,307	69,553	65,324	31,707	31,191	30,637

*: The scope taken into account for the Air France Group in the 2013 financial year is identical to that of the social indicators. The CityJet Group is included but Airlinair, which became part of the Group on March 31, 2013, has not been taken into account. The scope is thus identical for the 2011, 2012 and 2013 data.

Taking into account external labor, averaging a respective 2,968 in Full Time Equivalent during the 2013 financial year and 2,828 in Full Time Equivalent for 2012, the number of employees in the Air France-KLM Group as a whole declined by 4.5%: 66,422 FTE for the Air France Group (70,720 in 2012) and 32,507 FTE for the KLM Group (32,852 in 2012).

Sixty-seven per cent of staff were employed by the Air France Group and 33% by the KLM Group.

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

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 text and in the three tables of indicators (see pages 88 to 90) and covers 96% of the Group's employees. The social and corporate citizenship chapters (§4.1, 4.2, 4.3, 4.4) have been comprehensively reviewed by one of the Group's Statutory Auditors, based on the modalities stipulated in the note on the methodology on page 84.

4.1.1 A high-quality workplace dialogue to respond to the economic challenges

The Corporate Social Responsibility Statement and the Social Rights and Ethics Charter form the foundation of the Group's commitments by reaffirming the values and fundamental rights that guide its social and ethical policy. However, the differences in employment legislation between France and the Netherlands require the HR polices to remain separate.

Air France-KLM

Implementation of the HR dimension of the Transform 2015 plan

In 2012, within a globalized and extremely competitive air transport sector, Air France-KLM launched a transformation plan Transform 2015 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 also Section 2.3 – Strategy).

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. 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.

At Air France, in addition to immediate measures concerning investment, costs, revenues and the HR domain, a series of more structural measures were defined 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.

In 2012, KLM's HR Connect strategy translating the Transform 2015 objectives into the HR domain for 2012-15 was pursued. Within this framework, the new initiatives included the design of decentralized mobility centers and work on the overall concept of leadership to give a clearer picture of what it entails and how it might evolve in future. The mobility process was also adapted, putting more emphasis on processes and the alignment of the centralized and decentralized divisions to optimize the matching of candidates with vacant positions and, over the longer term, on the organizational issues linked to mobility.

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.

In 2013, a total of 107 collective agreements were signed, of which 105 for the Air France Group and two for the KLM Group. The renewal of Air France-KLM's Social Rights and Ethics Charter was negotiated with the representatives of the European Works Council and signed in July 2013. The Charter affirms the Group's commitment to fostering a climate of trust and mutual respect. Employees have a right to working conditions that respect their health, safety and dignity, and which guarantee the workplace dialogue. The Charter applies to all the Group's employees including those in the European subsidiaries. Furthermore, a framework agreement over the Cargo scope was signed in December 2013, based on the Airport Ticket Office (ATO) and European Stations framework agreements.

Four 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 2013 for information or consultation on subjects such as the Air France-KLM Group's new integration phase and the Social Rights and Ethics Charter.

At Air France, during the 19 meetings of the 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.

At KLM regular monthly meetings are held with the unions representing Flight Deck Crew, Cabin Crew and Ground Staff to discuss issues relating to the collective labor agreements. In addition to these monthly meetings, meetings were also scheduled to reach a better understanding of issues linked to the implementation of the Transform 2015 Plan.

Thirteen meetings were held with the KLM Works Council, for which elections took place during the spring of 2013. For the first time, these elections were organized via an electronic voting process with a 60% participation rate. The members of the KLM Works Council also hosted a visit from the Air France-KLM Group's Chairman and Chief Executive Officer, Alexandre de Juniac.

Thirty-nine requests for advice and approval were handled this year, mainly regarding the formalization of the Air France-KLM Group's "New Phase of the Group" further integration phase.

In 2013, KLM updated its whistleblower procedure and extended its scope beyond purely financial and accounting concerns, enabling the reporting of any type of suspected irregularity. Developed in cooperation with the Works Council, this procedure applies to all KLM staff and those in its European subsidiaries.

Lastly, KLM carried out an employee satisfaction survey within the Human Resources, Inflight Services, IT and Ground Services divisions following a successful trial run in the KLM Cityhopper subsidiary. All divisions will take part in this survey during 2014.

Air France

2013 constituted a key phase for Air France which has been implementing the Transform 2015 plan since January 2012.

This transformation is being effected through an intense workplace dialogue.

For Ground Staff, following the signature of the framework agreement on July 6, 2012 and the adoption, in October 2012, of a new collective agreement which came into force on January 1, 2013, a new working time agreement was signed on January 25, 2013, effective as of April 1, 2013.

For Flight Crew, collective agreements enabling a 20% improvement in economic efficiency were signed with the Pilots in November 2012 and the Cabin Crew in March 2013.

At the same time, the reduction in staff continued within the framework of voluntary departure plans for both Ground Staff and Flight Crew, the transition to part-time working and unpaid leave.

The company also paid particular attention to mobility and internal transfers with the implementation of dedicated in-field support for staff in the form of "mobility centers".

On-going management of overstaffing within the framework of collective agreements

In return for the agreements signed with the Ground Staff, Pilots and Cabin Crew and a commitment to no layoffs for the 2013-14 period staff reduction plans were established in 2012 and 2013 for each category of staff comprising voluntary departure plans supporting personal and professional projects, and retirement departures.

These measures respect three key principles: the voluntary nature of departures, free access to information and confidentiality with regard to individual plans.

Three voluntary departure plans for Ground Staff, Pilots and Cabin Crew were thus implemented over the period. The departure plans for Ground Staff (2,767 FTE) and Cabin Crew (400 FTE) reached their objectives while the departure plan for Pilots enabled a 190 FTE reduction in staff. Agreements also organized the temporary secondment of pilots to Transavia.

The required adaptation to the deteriorating economic environment and the competitive situation in the company's different markets (point to point, medium and long-haul, cargo, aeronautics maintenance, etc.) will, however, need to be pursued and, in parallel with the implementation of the industrial dimension of Transform 2015, a further reduction in staff has been identified for 2014. This is localized mainly in the areas with the greatest cost differentials relative to the competition (ground handling and, in particular, point to point) or where there is a decline in demand (cargo).

It was to enable this reduction in staff while respecting the General Management's commitment to no lay-offs that a new voluntary departure plan for Ground Staff targeting 1,826 FTE was launched at the end of 2013.

This additional plan was the subject of a new agreement, dated November 26, 2013, stepping up the support for staff and, in particular, strengthening the support measures to encourage career changes (formalized career path involving "occupational retraining" giving access to a diploma or certificate and a bona fide job offer at the end of the training course), improving the degressive temporary support and the availability of transport facilities.

Voluntary departure plans concerning the Pilots and Cabin Crew will also be offered in 2014.

Facilitating internal mobility

The number of internal transfers (2,400) remained stable in 2013 relative to 2012. The proportion of inter-divisional transfers did however increase, a sign that the situation is now becoming more fluid.

The mobility rules were also specified, the number of job offers published in the internal Jobs Exchange significantly increased (multiplied three-fold to 1,300), as did the number of candidates (multiplied by more than four to 7,000).

The mobility centers, staffed by some ten internal mobility support specialists, came on stream in the summer of 2013 at both Roissy and Orly, and in the French provinces.

At the end of 2013, the number of employees having received individual support for a mobility project had significantly increased relative to 2012 (1,700 people, i.e. +60%), as had the number of participants in the thematic conferences presenting the professions which are recruiting (920 people at the end of November 2013, i.e. two and a half times the number in 2012).

Internal mobility is considered one of the key factors in the success of Transform 2015.

The areas that continue to require staff (commercial, maintenance) must be able to welcome, including after career development training, staff being redeployed from other areas which are experiencing more difficulty (cargo, ground handling and, especially, point to point).

Internship program

Within the framework of the sixth Internship Charter (2012-14) signed with the social partners and the Intergenerational Agreement signed in 2013, the company pursues an ambitious recruitment policy for interns drawn from both vocational training and further education.

In 2013, Air France welcomed some 1,300 interns (700 FTE, i.e. 1.4% of total staff), representing a 40% increase (in FTE) relative to 2012.

Since the possibility of recruitment at the end of an internship are very limited given the company's financial situation (42 new recruits in the Engineering & Maintenance division in 2013), Air France has launched a series vocational integration initiatives to support interns not recruited on permanent contracts (job seeking workshops, employment forums, networking to put former interns in touch with companies in the Roissy employment area).

Organization of working time

The framework agreement signed on July 6, 2012 enabled a revision in the Ground Staff collective agreement, the implementation of a voluntary departure plan and a revised working time agreement.

The new working time agreement was signed on January 25, 2013 and came into effect on April 1, 2013, replacing the previous 26 agreements. On average and over a full year, it translates into an increase of 10 to 12 days worked per employee.

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 21.1% in 2012 to 24.2% in 2013 driven, in part, by the measures to encourage part-time working.

The absentee rate for sickness, maternity or work-related accidents amounted to 5.58% in 2013 (5.34% in 2012).

Compensation

The implementation of the immediate measures in the first phase of the Transform 2015 plan led to a freeze on general salary increases for all staff categories in 2012 and 2013.

In 2013, a budget of 1.4% of the payroll, identical for both executives and non-executive staff, was devoted to individual salary increases pursuant to the new provisions of the Ground Staff collective agreement. These individual salary increases were in respect of promotion, exceptional adjustments, incentive payments, seniority (for non-executive staff) and, for this year of transition, the measures to support the deployment of the new job classification system (*Passerelles*).

These increases, and particularly those in respect of promotion and seniority, impacted the basic salary trend which increased by around 1% for Ground Staff present in 2013, a figure comparable to 2012.

Individual wage moderation measures were also put in place for Flight Crew.

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.

New collective labor agreements

For KLM, the HR dimension of the Transform 2015 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 has been 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 proved more difficult.

Furthermore, within the framework of the current collective labor agreements, KLM reaffirmed its commitment to avoiding layoffs as far as possible (*Keeping the family together*), subject to greater flexibility from employees but also from the company. Within the framework of the agreement, the other measures concern 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 high with 887 young people welcomed in 2013. 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, thereby preparing them to enter the jobs market. Short and long-term internships are offered to students drawn from 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 2013 LinkedIn study in which KLM was ranked amongst the five most popular Dutch employers. This ranking was confirmed by the employees of the company as seen in the Effectory Best Employer survey in which KLM was ranked number one in the Best Employer category for companies with more than 1,000 employees. .

Employment and mobility

The principle of limited recourse to external hiring, in place since 2008, was maintained in 2013. As in previous years, this led to the implementation of measures to incentivize internal mobility within the company, in cooperation with the unions.

For 2013, the number of employees hired on permanent and temporary contracts stood at 1,319 for the KLM Group (versus 492 new hires in 2012). In 2013, for the KLM Group, departures stood at 1,256 versus 1,403 in 2012.

Taking into account the new recruits and departures during 2013, the KLM Group had 34,664 employees at the end of 2013, compared with 34,617 in 2012.

Employability and internal mobility are HR priorities. They enable employees to develop their careers and, at the same time, ensure that KLM has the flexibility required in a difficult economic environment.

The non-replacement of staff, a policy in place for some years, was maintained in 2013. Within the framework of the weekly mobility monitoring meeting, centralized for all KLM divisions and subsidiaries, particularly attention is paid, for example, to matching candidates seeking a job transfer with vacant positions across divisions.

Various programs have been designed to encourage employees to be more mobile and enable them to become more familiar with the tools at their disposal. A number of internal job fairs and mobility events were organized, usually with a focus on target groups or certain types of position. This year, KLM also organized a mobility event for part-time staff.

In 2013, KLM's Commercial division ran its "Room for Growth" program for the fourth year. This program is offered to all KLM Commercial staff based at head office and aims to raise awareness of career development opportunities and to improve mobility and employability. It offers a single point of entry for all questions linked to career development. A number of training programs have also been made available. Two projects were developed around creating learning, networking and innovation opportunities through staff exchanges with other companies, in liaison with managers. This year a Marketplace was also organized to promote the various workshops in which more than 80 employees participated.

The 65 employees in the Passenger Revenue Accounting division (commercial and a number of staff from the Information Management Organization department) affected by the Finance Function Transformation Project all found new positions in 2013. This project focused on creating three joint Air France-KLM shared service centers in Budapest, Toulouse and Schiphol. Training programs and personalized support for individual employees accompanied this mobility initiative which was also assisted by the unions and the Works Council. A dedicated on-site mobility center at Rijswijk was opened between January 2013 and April 2013 to help staff find new positions within the company.

In 2013 KLM continued its participation in the Aviation Sector Fund, a foundation established by KLM and the unions, which promotes and fosters education, employability and mobility in the aviation sectors by, for example, coordinating subsidy applications for training and employability activities undertaken by its partners. In 2013 the Fund filed a substantial subsidy application, to be reviewed in early 2014.

Organization of working time

Due to legal provision for part-time working, enabling all employees to reduce their hours except in the event this would entail employer bankruptcy, part-time working is very widespread in the Netherlands particularly amongst women although this is also increasingly the case for men. In 2013, the proportion of employees working part time increased to 39.1%, a modest rise on the previous year (38.6% in 2012).

The overall absenteeism rate for KLM stood at 5.30% in 2013 versus 5.24% in 2012 while for maternity leave which is not considered to be absence due to illness the rate was 0.54% in 2013.

Compensation policy

There were no salary increases in 2013.

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

In 2013, agreements were signed to align the pension schemes with the new pension legislation foreseen for 2014. The new pension scheme, discussed within the framework of the 2012-2014 collective labor agreements, will be implemented from 2015.

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.

Air France

In 2013, Air France spent a total of some €192 million on staff training (Ground Staff, Flight Crews, local staff and expatriates). This commitment illustrates the company's investment in skills, individual employee qualifications and support for the transformation of the businesses.

The rate of employee access to training remains high relative to the large company average, i.e. 90% Ground Staff benefited from training in 2013 and 100% of Flight Crew. The development of *Blended Learning* training courses incorporating classroom-based and e-learning modules contributed to increasing this access rate across all employee categories and sectors but also met the need for personalized apprenticeships.

The training carried out within the framework of personal training entitlements (DIF or *Droit Individuel à la Formation*) at Air France represented 12.3% of hours of training in 2013. Cabin Crew continued to be able to undertake DIF training during working hours in 2013 (until 2011 this training was only possible outside working hours).

The major objective of the 2013 training plan was to support the implementation of Transform 2015 with four key priorities:

- Support the transformation of the company within the framework of Transform 2015. In 2013, 206,186 hours of training were dedicated to supporting change management projects for Ground Staff, and local and expatriate staff.
- Comply with the regulatory requirements within the industry and, in particular, the regulations governing flight and individual safety: in 2013, 307,000 hours related to regulatory training for Ground Staff, i.e. 37.5% of the hours and 40% of the training actions. For Flight Crew, 100% of the training hours and actions are deemed to be regulatory training. A total of 66% of the hours were dedicated to regulatory training.
- Support mobility and career development. Given the voluntary departures taking place mostly during the 2013 second half, the implementation of training was partially postponed to 2014.

- Develop the qualifications of employees to improve their employability. At the end of 2013, training was reengineered to implement diploma and certificate-based programs blending training with Validation of Prior Learning-based schemes to support transfers between functions: payroll, accounting, Java developers, overhaul and repair mechanics.

The Campus, a training department which produces and dispenses transverse training programs common to all Air France divisions, made a significant contribution to these objectives by drawing on innovative training approaches:

- Reinforcement of English-language teaching programs and the deployment of remote language tuition
- Deployment of an ambitious "Customer Culture" training program for all front-line staff and managers with a first "new generation" e-learning module developed for Cabin Crew and accessible by digital tablet.
- Support for vocational training for managers within the framework of the Development of Managerial Practices project.

In December 2012, the Campus saw its ISO 9001 certification renewed for a three-year period.

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 employability.

KLM

At KLM, training is a key lever in increasing staff employability and supporting their 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 2013, training expenses amounted to €62.4 million for the Netherlands, representing an investment of €2,638 per employee, a 4% increase relative to 2012. For the past few years, the indicator defined by KLM to measure the efforts made with respect to training is the annual investment in euros per employee. This choice results from both the statistical tracking tools used by the company and Dutch legislation.

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

The KLM Academy has adopted the "70-20-10" concept on learning (70% based on experience, 20% on practical exposure and 10% on formal tuition) resulting in managers now being more actively involved in virtually all training programs. These initiatives, together with a real focus on tapping into in-house expertise for training development and tuition, have generated significant savings.

A number of the training programs developed and taught in-house concerned HR assistants, Ground Services staff and Operations Control training for staff in the international outstations.

In 2013, KLM also launched its monthly "Guest Seminars" and "Open Podiums", which are an opportunity for KLM staff and experts from their networks to share best practices and experience.

KLM also continued its efforts to enable more staff to obtain a formal diploma through the VPL (Validation of Prior Learning) scheme, which resulted in 105 employees gaining vocational education diplomas in 2013. A new program offers KLM employees the opportunity to enroll in secondary vocational training without having first obtained a VPL certificate (49 employees benefited from this scheme in 2013). In total, 133 employees started a vocational training program in 2013.

In 2013, KLM became a partner of Luchtvaart College Schiphol (Schiphol Aviation College), which brings together aviation businesses, vocational education institutions and the regional authorities in initiatives to stimulate the Schiphol region employment market and act as a resource center for information on aviation jobs and training. In 2013, KLM and Schiphol Aviation College joined forces with a well-known Dutch employment agency to offer temporary assignments to individuals with limited access to the labor market. Participants are offered the opportunity to gain valuable work experience and vocational training. The first candidate started in September 2013, and seven more are scheduled for January 2014.

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.

Air France

2013 saw deteriorating results on the frequency of accidents in the workplace (See the social indicators table). Vigilance and mobilization across the company are an even greater priority.

To make renewed progress in this area, and in view of the results achieved in 2013, the company has opted to focus its attention on seven key themes in 2014:

- Preventing musculoskeletal disorders and deploying ergonomic procedures
- Preventing and reducing the number of serious accidents
- Committing to an approach aimed at OHSAS 18001 certification
- Reinforcing the compliance with and respect of operational regulations
- Deploying best Health and Safety in the Workplace practices
- Reinforcing management training on Health and Safety in the Workplace
- Increasing standards of performance via the Quality of Life in the Workplace approach

Some 30 cases of vocational illnesses were recognized in 2013 (stable relative to 2012), the main pathologies being musculoskeletal disorders linked to repetitive strain injuries or heavy lifting, and difficulties with hearing. A number of malignant diseases of the bladder and blood were reported, of which two were recognized, linked to benzene and aromatic amines. There were no declarations of pathologies linked to asbestos in 2013. The incidence of vocational disorders declared and/or recognized at Air France remains very significantly below the French national average.

Steering and management to encourage mobilization

The policy aimed at reducing occupational accidents finds its concrete expression 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. The targets and the approach are enshrined in a number of different agreements: the three-year agreement on the Method for the Prevention of Psychosocial Risks and Promoting Quality of Life in the Workplace, the Charter to prevent harassment in the workplace and the Charter to prevent risks linked to alcohol abuse.

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 infrastructures and processes, and during the deployment of new tools, all enable the potential risks to be anticipated and encourage the collective appropriation by organizations. In addition to a Central Ergonomics Unit, the company also has ergonomics experts based in the operational divisions.

The commitment of in-field management and the vigilance of employees, supported by a network of Health and Safety point people, enable the identification of at-risk situations and encourage preventive measures. The Health and Safety units embedded in the operational teams are being reinforced and help foster a safety-first culture. Members of senior management make regular in-field visits to Health and Safety arrangements, and encourage the teams and local management to maintain their efforts.

In parallel, the company has consolidated its weekly reporting process on occupational health and safety, enabling feedback on significant safety-related incidents and their handling to be shared. Regular in-depth analysis to identify the trends and risks, and thus supplement the accident-prevention system, is discussed during meetings of the different steering bodies.

The sharing of Health and Safety best practices continued in 2013. Having been highlighted by senior management during the annual Health and Safety in the Workplace convention, and addressed by individual workshops, these best practices are seen as key to achieving satisfactory standards of safety in the workplace.

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. Training modules specifically tailored to avoiding repetitive strain injuries and posture-related conditions have been developed to prevent musculoskeletal disorders, while improving standards of operational performance.

The management collectively attends the annual Health and Safety in the Workplace convention but also forums on risks enabling the issues and realities surrounding prevention to be shared and mobilizing the company around a safety-first culture.

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

2013 saw the signature of a supplementary clause renewing, for one year, the three-year agreement on the Method for the Prevention of Psychosocial Risks and Promoting Quality of Life in the Workplace agreement. The renewal of this agreement until March 2014 responds to a dual objective: give the company more time to encourage the increased appropriation and use, particularly by in-field managers, of the tools, methodologies and training at their disposal.

In 2013, the support measures in the Transform 2015 plan were also rolled out in all the entities. Two progress reports on this plan were made to the social partners. Management training continued and was reinforced. The training programs which were most in demand included: "Managing by Quality of Life In the Workplace", "Preventing and Managing Violence and Incivilities", "Preventing the Risks Linked to Alcohol Consumption", "Awareness-raising on the Prevention of Suicidal Behavior".

The use of the "Evaluation and Monitoring of Vocational Stress" diagnostic, mobilization support and evaluation tool continues. More than 13,000 Ground Staff and Flight Crew have answered this questionnaire since its implementation with a response acceptance rate of nearly 90%. It has become a major steering tool for the prevention of psychosocial risks within the company.

Lastly, new tools and/or documents for managers were developed: management self-assessment grid relating to psychosocial risks and quality of life in the workplace, quick questionnaire to identify psychosocial risk factors, their level and criticality in an entity, and a special Handbook with guidance on how to respond in the event of a serious or exceptional incident.

Two working groups were set up with the organizations representing employees: the first on the prevention of risks linked to the use of psychoactive substances (drugs), and the second on the prevention of internal and external violence and incivilities.

KLM

In matters of safety, KLM's main objective is to reach a "zero accident" situation and to do its utmost to minimize the number of incidents. In 2013, the company achieved its operational safety goals and even succeeded in reducing the number of high risk incidents even though the targets have been higher since 2012.

KLM's occupational safety goals were not met in 2013 due to a fatal road accident on the Schiphol Airport ramp. The circumstances of this accident were the subject of an in-depth investigation involving all the relevant parties. The results on accidents in the workplace are presented in the social indicator table.

KLM plans to pursue its efforts to improve standards of occupational safety, which will be increasingly integrated with operational safety, with a goal of positive results for 2014.

KLM records cases of occupational illness and accidents in the workplace and registers accidents as part of the overall absenteeism rate (5.3% for 2013). Cases of occupational illness are not recorded separately.

Establishing a number of guiding principles

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. Safety champions have been appointed from within management within all divisions, whose role is to monitor and promote the safety principles and educate other managers on the issues surrounding safety in the workplace.

Risk and performance analysis is carried out within the framework of the Safety Management System (SMS). The SMS covers all aspects of operational, occupational and environmental safety and security, and enables these risks to be factored into the decision-making process at all levels of the organization. The risks are clearly identified and measures put in place to prevent those potentially leading to incidents or even accidents.

The Safety Management System is outlined in a new Safety Management Manual covering, not only corporate governance and the safety management procedures deployed within the company, but also the new risk assessment approach. KLM's risk assessment matrix based on seven areas of risk (people, environment, operations, compliance, reputation, security and assets) is now an integral part of the decision-making process prior to project launches. This new matrix enables retrospective incident analysis and can also be used as a proactive, predictive tool in, for example, the risk analysis of hazardous events, incidents and planned changes.

Awareness-raising initiatives to prevent accidents

Awareness-raising campaigns aimed at reinforcing safety took place in 2013 and a number of new initiatives were also launched.

First developed in the Cargo division, the Ergo-coach scheme was subsequently deployed in KLM Engineering & Maintenance, enabling the training of KLM employees in occupational health and safety, who are now able to mentor their colleagues. Eighteen new Ergo-coaches were trained in the Cargo division during 2013 and regular quarterly meetings organized for all the Ergo-coaches to share their experience and best practices.

In Engineering & Maintenance too, a team of eighteen Ergo-coaches was trained during 2013 in the Ground Handling department and a training program is also planned for the Hangar teams. A steering committee has been created within E&M for the Ergo-coach scheme. All the Ergo-coaches trained before 2013 attended a refresher course to update their skills.

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 international out-stations, and some items of inflight catering equipment like coffee pots are now positioned lower down the storage bins to make them easier to reach.

Promoting a safety-first culture

Safety depends not only on an effective risk management system, but also on a safety-first culture based on encouraging responsible behavior from all employees and supported by the five safety principles enshrined in KLM's safety policy:

- Work safely: whenever employees are convinced that tasks assigned to them cannot be performed without compromising safety, they should not perform these tasks and inform their line managers.
- Stick to the rules: KLM employees are responsible for contributing solutions aimed at improving safety, by complying with laws, regulations and procedures.
- Report unsafe situations: in the event of a hazard or threat, all KLM employees are responsible for identifying and warning their colleagues and managers, not only in their own activities but also in cross-functional relationships.
- Help and challenge each other: when exercising their functions, all KLM employees are expected to help, support and challenge each other on issues linked to safety
- Be fit to work: employees must be physically, medically and mentally fit when fulfilling their functions.

In 2013, the KLM Safety Culture program was pursued to further reinforce this safety-first culture amongst employees and subcontractors.

KLM focuses on an integrated approach to all health-related matters to be able to pursue a more concrete and efficient policy. This approach, launched in 2013, began with the definition of a shared ambition and a policy of continuous improvement developed in close cooperation with the Works Council. A three-year plan was established for the longer term and, for 2014, a detailed action plan produced constituting a framework presenting a common vision across all business units on the company-wide goals for health and safety. The implementation of this policy will be reviewed annually and, if necessary, the long-term plan will be updated.

The new health policy pursues the positive, effective initiatives that are already underway but also introduces a shift in focus. In future, KLM will be increasingly investing in prevention, to both improve working conditions and promote healthy lifestyles for its employees.

To ensure the implementation and monitoring of this health policy, particular attention will be paid to the new Health dashboard. An e-learning training module on absenteeism will also be developed for managers, together with an innovative Executive Health Program, aimed at senior management.

Lastly, a symposium on chronic illnesses has been organized to lower boundaries and encourage employees to discuss the related issues.

Improving quality of life in the workplace

The “New World of Work” program, trialed in 2011 in KLM’s IT and Human Resources Departments, was further developed in other divisions like marketing during 2012. In 2013, the IT Department officially launched this program which offers employees the opportunity to reconcile efficiency with comfort by prioritizing the workplace environment best suited to the tasks at hand. The program also contributes to reducing costs by creating a better fit between the workplace and the relevant activities. Teamwork is optimized by faster communication while printing volumes have been reduced by 30%.

In 2013, the “*Fit on the Vliegtuigopstelplaats*” lifestyle program was rolled out in the Ground Services division, which is currently developing a two-year Vitality Program. A large number of staff benefited from fitness checks, enabling KLM to continue to raise health standards and promote the appropriation of healthy living as a real theme within the organization. To promote healthy lifestyle choices, fruit is available on the work floor and workshops are organized on this theme.

Agreements relating to health and safety in the workplace

Three important documents constituting the foundation of KLM’s integrated approach to all health-related matters were signed in 2013. These documents cover the new vision on health, the policy of continuous improvement and the three-year plan to translate this vision and policy into concrete projects. All three documents were developed in close cooperation with the Works Council.

As in previous years, in 2013 KLM’s Works Council was again consulted on a range of health and safety-related measures, on matters as diverse as the quality of air around operations, the handling of hazardous substances, preventive medical screening, etc. Additionally, to improve practices relating to the inventory of risks, the principle of an annual evaluation was agreed with the Works Council.

4.1.4 Fostering diversity and combating discrimination

As a signatory of the United Nations Global Compact, Air France-KLM is committed to respecting the universal principles relating to the respect of human rights.

In its Corporate Social Responsibility Statement and the Social Rights and Ethics Charter, Air France-KLM undertakes to respect human rights and oppose all forms of child and forced labor.

Within the framework of its activities, the Group has identified the human rights-related risk factors within its businesses. The measures deployed to mitigate these risks cover a number of different areas: health and safety in the workplace, equal opportunity, achieving a better work-life balance, and data protection procedures to protect the personal information of customers and employees.

In its relationship with suppliers, the Group is committed to ensuring that the principles of fundamental social rights are respected by all of its subcontractors, everywhere in the world. Suppliers are invited to sign a sustainability charter integrating social and environmental principles.

Air France

Combating all forms of discrimination

Air France is the signatory of the Diversity Charter, representing the formal expression of the company's commitment to better reflecting, amongst its employees, the diversity of the French population and combating all forms of discrimination.

To support the Human Resources network and managers in the implementation of this policy, Air France uses a range of support and information tools including a Diversity and Management e-learning training module, class-room based training for the Handicap Diversity point people and, for some management categories, an information booklet on Diversity and a practical guide on Religious Diversity in the Workplace, etc. More targeted initiatives to raise awareness and promote diversity are also underway in some entities. A Diversity and Prevention of Discrimination e-learning module is also available to employees.

In September 2013, the company signed an agreement relating to the 2013-15 Intergenerational Contract, covering the long-term vocational integration of young people, the employment of seniors and the transmission of knowledge and skills. This agreement, which applies to all Air France staff categories, perpetuates the employment and training policy pursued by the company to date, within a context where the recruitment outlook remains limited.

The company also continues to support and pursue 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 December 2013, the new Jobs website has included a "Diversity" section highlighting, notably, professional equality between men and women.

This new measure is in addition to the other initiatives already in place

- The recruitment processes are ISO 9001 compliant, this certification having been 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 and that the control and quality of the processes is maintained.
- 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.
- Air France has used a web-based software application enabling candidates to submit their applications online using a universal CV.

Promoting professional gender equality

For some ten years, Air France has reaffirmed professional gender and wage equality between men and women as a major priority for the business and an area in which the company would like to make progress in terms of human resources management.

To this end, in April 2013, Air France signed a framework agreement with the French Ministry of Women's Rights, formalizing a number of commitments in terms of work-life balance, combating the glass ceiling, increasing the proportion of women in Board committees and supporting small subcontractors and suppliers in the professional equality approach. This agreement was in addition to the initiatives already underway:

- Since 2002, three successive Gender Equality Agreements have underpinned Air France's commitment to promoting professional equality between men and women. The two first agreements made a commitment to wage equality with the first, notably, reaffirming the principle of equitable wage treatment between employees who are pregnant or on maternity leave and other employees. The second introduced an annual comparative diagnostic of the average salaries of men and women. The current agreement, unanimously signed by all the unions and in application since January 1, 2011, confirms the company's ambition in this area and extends the areas of action with the following objectives: share a diagnostic methodology of the relative professional situations of men and women which measures any wage discrepancies, ensure that equality of opportunity and treatment are reflected in human resources practices and propose concrete measures to achieve a better work-life balance.
- With the signature of a Good Parenting Charter in 2008, Air France 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.
- Within the framework of its contract-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 whose modalities were presented to the unions. This measure was again applied in 2013.

To ensure respect of equal treatment between men and women, a series of male-female comparative indicators have been included in the steering 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.

To objectify the facts and feed into the action plans, research has also been carried out like, for example in 2013, an in-house study relating to paternity leave involving more than 1,700 employees who had recently become fathers, an in-house survey with all Air France Industries employees on professional gender equality and Air France's participation in the study on professional relationships

between male and female employees conducted by the French High Council on Professional Equality (*Conseil Supérieur de l'Égalité Professionnelle* – CSEP) and the consultancy firm LH2 (3,000 employees polled).

The operation of a flight by a women-only crew for International Women's Day on March 8 has been an established tradition at Air France for the past seven years even if other flights are operated with 100% female flight deck crews throughout the year. On March 8, 2013, for the first time Air France organized the biggest women-only crew in the world with two pilots and 22 hostesses welcoming passengers on flight AF054 bound for Washington and operated in the Airbus A380.

The company also participates in external awareness-raising initiatives with, for example, in 2013:

- The participation of Air France employees in the Women in Aviation Day at Dijon Darois airport organized by the AFFP, the French Association of Women Pilots.
- The third year of the "Féminisons les métiers de l'aérien" initiative in which Air France Industries has participated since its 2009 launch and which aims, notably, to raise the awareness amongst school children and young women of the aviation professions by running an open day and encouraging them to consider careers in the technical professions traditionally seen as a male preserve.
- A new video testimonial on the Place aux Filles website (place-aux-filles.fr) launched in 2012 in collaboration with the Canal des Métiers and Airemploi to encourage young girls to broaden their career horizons and modify their professional projects.
- Participation of Air France Industries in the development of the "Terre et ciel - Le jeu" EduGame developed by Airemploi and launched in June at the Paris Air Show. This educational game immerses young people aged between 14 and 20 year in the universe of work and gives pride of place to diversity.
- The participation of the Ground Operations Division in the "Assistance en escale au féminine" project carried out by French National Federation of Commercial Aviation (Fédération Nationale de l'Aviation Marchande – FNAM) and the Ile-de-France region aimed, notably, at highlighting the aviation professions and handling, in particular, to women.

Policy on disability

In 2013, the Air France Group hired 38 new employees with disabilities. 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 extends to businesses and organizations in the adapted and sheltered employment sector, with spending on procurement from this sector amounting to €16 million in 2013 (€15 million in 2012).

Since 1991, Air France has been committed to a proactive social and vocational integration approach focused on persons with disabilities, formally manifested in a three-year collective agreement approved by the French Ministry of Employment which monitors the implementation of this policy and verifies the achievement of the targets.

An eighth three-year agreement covering 2012-14 was signed with the unions at the end of 2011.

Air France's employment rate for workers stood at 4.42% in 2012. 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 2013.

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.

KLM

Gender equality and respect for sexual orientation

The company is committed to respecting equality and promoting the equitable treatment of sexual orientation. 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 has seen steady growth, numbering just over 300 members in 2013, and is forging new links with the KLM Group. During Gay Pride week, Over the Rainbow organized a lunch event, during which the themes of gender equality and diversity were addressed.

The percentage of women staff within the KLM Group grew to 42.3% in 2013 from 42.1% in 2012. This increase was also seen at the level of senior management and executives, where the percentage of women moved up from 20% to 20.2%.

To promote diversity, KLM organized a presentation by members of the European Parliament on diversity and equal rights. Another important step forward also took place in 2013 with the decision to establish a Diversity Council with four meetings planned for 2014.

Vocational integration of persons with disabilities

Within the framework of Dutch legislation, KLM is fully committed to actively furthering the vocational integration of disabled persons and to maximizing their potential contribution. This represents a common goal for both KLM and its employees. 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.

KLM continues to offer an employment guarantee to employees whose disability rate is assessed at below 35%, meaning that they can remain employed by KLM or receive support in finding employment outside the company. For employees with disabilities meaning they are incapable of working, and who are within seven years of the legal retirement age, KLM offers protection from layoffs.

The return to work for employees with disabilities receives pro-active support from KLM. When KLM employees are 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 supports the monitoring of these measures and proposes improvements. Since its creation in 2010, the committee has reviewed 1,705 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 696 in 2012 to 710 in 2013.

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.

Since 2013, pursuant to the provisions of article L.225-102-1 of the Code of Commerce, it has been the responsibility of our Independent Third-Party Body to:

- attest that the required CSR information is present in the Management Report or, in the event of omission, is the subject of an explanation in application of paragraph three of article R.225-105 of the Code of Commerce (Statement attesting to the presence of the CSR information)
- express a moderate assurance conclusion on the fact that the CSR data, taken as a whole, are presented in all their significant aspects, in a true manner pursuant to the standards (Reasoned opinion on the true nature of the CSR information)[‡]

4.2.1 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 250 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 2013 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Bluelink, BritAir, CityJet, VLM, CRMA, Regional, Servair Group (ACNA, Orly Air Traiteur, PAC SA, Servair SA and Passerelle), Sodexi and Transavia France, representing 73% of the employees of the subsidiaries in the Air France Group
- For the 2013 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 94% of the employees in the subsidiaries of the KLM Group.

In 2013, 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 2013 derived from the Management Control division's BFC tool.

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.

4.2.2 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 review work was conducted in accordance with the International Standard for Assurance Engagements (ISAE 3000), specific to the verification of extra-financial data.

The consolidation of the Air France-KLM Group's social information is carried out by Air France's Sustainable Development department.

4.2.3 Details and methodology/Commentary on changes in the indicators

“Consolidated social 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 88 to 90.

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 2013 Corporate Social Responsibility Report.

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 2013, the Air France Group employees in the French Overseas Territories and Dominions, i.e. 695 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 2013, 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 number of the hours of absence over the hours 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. The absenteeism rates are calculated by expressing the number of calendar days of absence as a percentage of the calendar days theoretically worked.

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.

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.

The variation seen between 2012 and 2013 in the number of work-related accidents and the severity rate is partly explained by the fact that the calculation method has changed. For the 2013 financial year work-related accidents involving external labor have been excluded.

Note 3: The frequency and severity rates are calculated based on:

For Air France:

- For ground staff, based on the actual paid hours worked.
- For flight crews, based on the hours of commitment.

For KLM and KLM subsidiaries

- For all staff based on the theoretical hours worked.

For Air France

Note 3: the number of days of sick leave recorded for the year corresponds only to the accidents having taken place during the same financial year.

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 procedure 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.

Note 4: The reported costs of training take into account the external costs of training invoiced, employee costs, the functioning costs of the training departments and the productivity costs linked to the mobilization of the individuals trained. The latter are estimated by multiplying the number of hours of training declared by each employee by the average salary in the department.

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 labor code), is available. 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 2013 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.

Air France

Note 6: For Air France, 2013 saw the addition of a “yearly spending in the sheltered sector” indicator. This concerns useful revenues (which is to say linked to the cost of labor) expressed in millions of euros generated with companies in the protected sector.

4.3 Social indicators for the group

4.3.1 Consolidated social data for the Air France-KLM Group

Headcount at 12/31 ⁽¹⁾ (permanent contracts and fixed-term contracts)	Air France-KLM Group				Air France Group*				KLM Group**			
	2011	2012	2013	13/12	Total Air France group		Of which Air France		Total KLM group		Of which KLM	
Scope of NRE Social reporting	96%	96%	96%	0.0%	95%	95%	100%	100%	98%	98%	100%	100%
Total staff	106,618	104,130	100,569	-3.4%	69,513	65,905	56,893	53,423	34,617	34,664	28,698	28,718
Ground staff	71,277	69,516	66,512	-4.3%	48,337	45,466	38,066	35,344	21,179	21,046	17,043	16,941
Cabin crew	26,380	25,863	25,548	-1.2%	15,941	15,450	14,762	14,215	9,922	10,098	8,973	9,086
Flight deck crew	8,961	8,751	8,509	-2.8%	5,235	4,989	4,065	3,864	3,516	3,520	2,682	2,691
Staff under permanent contract	101,603	100,273	96,368	-3.9%	67,201	63,262	55,728	52,029	33,072	33,106	27,819	27,926
Recruitment under permanent contract at 12/31 ⁽²⁾	2,481	848	1,253	47.8%	707	782	309	313	141	471	103	430
Recruitment under fixed-term contract at 12/31 ⁽²⁾	6,621	4,313	4,249	-1.5%	3,962	3,401	1,863	889	351	848	134	317
Departures at 12/31 ⁽³⁾	11,612	8,571	9,975	16.4%	7,168	8,719	4,315	5,553	1,403	1,256	935	707
Of which redundancies (incl. economic)	995	640	492	-23.1%	542	414	247	179	98	78	71	49
Percentage of women at 12/31 ⁽⁴⁾	42.8%	42.8%	42.9%	0.2%	43.1%	43.3%	44.5%	45.0%	42.1%	42.3%	43.3%	43.6%
Percentage of part-time employees at 12/31 ⁽⁴⁾	24.5%	25.5%	27.4%	7.5%	19.0%	21.2%	21.1%	24.2%	38.6%	39.1%	39.9%	40.2%
Breakdown of staff by age at 12/31												
<= 29 years	10,052	8,222	7,878	-4.2%	5,254	4,654	3,807	3,302	2,968	3,224	1,944	2,202
between 30 and 39 years inclusive	33,065	30,305	28,081	-7.3%	21,422	19,207	17,802	15,842	8,883	8,874	7,206	7,239
between 40 and 49 years inclusive	37,101	37,255	37,259	0.0%	24,266	24,371	19,857	19,908	12,989	12,888	10,999	10,970
50 years and above	26,400	28,348	27,351	-3.5%	18,571	17,673	15,427	14,371	9,777	9,678	8,549	8,307
Breakdown of staff by geographical area at 12/31												
Europe (except France and the Netherlands)	5,072	4,607	4,483	-2.7%	2,346	2,204	1,652	1,584	2,261	2,279	931	933
North & South America	2,255	2,013	2,029	0.8%	1,655	1,582	1,369	1,309	358	447	357	446
Caribbean/Indian Ocean (including French overseas territories) ⁽⁵⁾	1,118	1,109	1,042	-6.0%	1,047	986	839	780	62	56	62	56
Asia/Pacific	1,710	1,678	1,728	3.0%	744	746	739	742	934	982	933	982
Africa/Middle East	1,594	1,607	1,531	-4.7%	1,048	1,021	1,025	997	559	510	559	510
The Netherlands	31,533	30,562	30,496	-0.2%	161	154	24	32	30,401	30,342	25,814	25,743
Continental France	63,336	62,554	59,260	-5.3%	62,512	59,212	51,245	47,979	42	48	42	48

* 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, OAT, Passerelle, Servair SA, PAC SA.

** KLM Group: KLM and KLM subsidiaries.

KLM subsidiaries: Cygnific, Cobalt Ground Solutions, KLM Cityhopper (UK and BV), Transavia, KLM Catering Services Schiphol B.V., KLM UK Engineering Limited and Martinair.

(1) (2) (3) (4) (5): See Note on the methodology

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)*

	2012	2013	13/12
Absenteeism⁽¹⁾			
Due to illness	3.74%	3.91%	5%
Due to work accidents	0.54%	0.68%	26%
Maternity leave	1.06%	0.99%	-7%
Health and safety			
Total workplace accidents ⁽²⁾	2,070	2,238	8%
Number of fatal workplace accidents	0	1	
Frequency rate of workplace accidents ⁽³⁾	26.20	29.56	13%
Severity rate of workplace accidents ⁽³⁾	1.05	0.88	-16%
Training			
Number of training hours by employee ⁽⁴⁾	31	28	-10%
Disabled staff⁽⁵⁾			
Total staff with disabilities	1,691	1,727	2%
Total staff with disabilities recruited during year	20	16	-20%
Yearly spending in the sheltered sector in M€ ⁽⁶⁾		16	
Collective agreements	40	47	

* Data in italics concerns only Air France in Continental France and the French overseas territories.

> Air France subsidiaries

	2012	2013	13/12
Scope of reporting for Air France subsidiaries	75%	73%	-3%
Health and safety			
Total workplace accidents ⁽²⁾	993	1,048	6%
Training			
Number of training hours by employee ⁽⁴⁾	20	20	0%
Disabled staff⁽⁵⁾			
Total staff with disabilities	543	609	12%
Total staff with disabilities recruited during the year	27	22	-19%
Collective agreements	23	58	

(1) (2) (3) (4) (5): See Note on the methodology

4.3.3 Other data for KLM group (according to local legislation)

> KLM (100% of the staff headcount, registered and paid at the end of the calendar year)*

	2012	2013	13/12
Absenteeism ⁽¹⁾			
Due to illness	5.24%	5.30%	1%
Maternity leave	0.55%	0.54%	-2%
Health and safety			
Total workplace accidents ⁽²⁾	219	186	-15%
Number of fatal workplace accidents	0	1	
Frequency rate for workplace accidents ⁽³⁾	4.73	4.01	-15%
Severity rate of workplace accidents ⁽³⁾	0.16	0.18	13%
Training ⁽⁴⁾			
Total training costs in K€	60,777	62,412	3%
Total training costs in € per full time equivalent	2,539	2,638	4%
Disabled staff ⁽⁵⁾			
Total staff with disabilities	696	710	2%
Collective agreements	3	0	

* KLM: data concerns KLM without international staff.

> KLM Subsidiaries

	2012	2013	13/12
Scope of reporting for KLM subsidiaries	92%	94%	2%
Health and safety			
Total workplace accidents ⁽²⁾	92	72	-22%
Number of fatal workplace accidents	0	0	
Frequency rate for workplace accidents ⁽³⁾	8.46	6.77	-20%
Severity rate of workplace accidents ⁽³⁾	0.15	0.09	-40%
Training ⁽⁴⁾			
Total training costs in K€	19,736	18,524	-6%
Total training costs in € per full time equivalent	2,939	2,885	-2%
Disabled staff ⁽⁵⁾			
Total staff with disabilities	88	99	13%
Collective agreements	7	2	

(1) (2) (3) (4) (5): See Note on the methodology

4.4 Corporate citizenship information

4.4.1 Dialogue with stakeholders

Listening and engaging in dialogue are major components of Air France-KLM's sustainable development strategy. The Group identifies its key priorities amongst those that stakeholders consider the most relevant meaning that it pays a great deal of attention to the expectations of its customers, employees and suppliers, and to local communities, associations, local authorities and representatives of civil society, such as NGOs.

This ongoing dialogue helps the Group to better understand the changes taking place in wider society, and the challenges and issues with which it is faced. It encourages the emergence of new subjects and serves as a starting point for the brainstorming process on pilot projects. Such interaction also enables the Group's reporting to be improved. The 2013 financial year saw the disclosure of more comprehensive information on risk management, respect of human rights notably amongst employees and sub-contractors and the taking into account of social and environmental criteria in the evaluation of suppliers.

For the sustainable development goals, a number of dialogue-based initiatives enable the perception of stakeholders to be identified more clearly:

- Internal barometers and meetings to garner employee suggestions
- Perception and satisfaction surveys for customers
- Materiality testing of representative individuals
- Dialogue and evaluation of supplier Corporate Social Responsibility performance
- Exchange of best practices and working groups within the sector and with other large companies
- Discussions with shareholders and SRI investors together with recommendations from extra-financial ratings agencies
- Opinions and remarks gleaned from the dedicated digital addresses, websites and the social media
- Feedback channels deployed to enable stakeholders to communicate any complaints.

Dialogue also helps to promote the exchange of ideas between different business sectors. Air France and KLM share best practice in CSR through their membership of associations and company forums. For example, KLM is a member of the Dutch Sustainable Growth Coalition (DSGC), a forum for discussion on sustainable development created in 2010 on the initiative of eight Dutch companies who are DJSI front-runners in their sectors. The DSGC aims pro-actively to drive sustainable growth models.

Stakeholder expectations can also have a significant impact on the Group's practices. For example, following complaints about a particular noise produced by the 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, a modification applied to new aircraft since 2013. Air France will also progressively equip all the aircraft in the A320 family (A318, A319, A320 and A321) with noise reduction kits.

KLM has improved its sustainable catering offer in partnership with the Dutch Animal Protection Society. Since 2012 the company has served poultry carrying the "Better Life" seal of approval in Business class. In 2013, this commitment was rolled out to all flights originating from Amsterdam together with all flights within Europe, with KLM subsequently winning the "Good Chicken Award", awarded by the animal welfare organization Compassion in World Farming.

Air France and KLM have also implemented consultation mechanisms enabling their stakeholders to express any grievances. For customers, Air France and KLM's Customer Care services are responsible for handling any incidents in a timely fashion. In terms of local environmental issues, 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.

Lastly, feedback from stakeholders has also had an influence on the Group's reporting, and particularly the 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 the fundamental principles of human rights and to combating all forms of corruption.

A commitment to respecting 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 Social Rights and Ethics Charter sets out the Group's commitment to fostering a climate of trust and mutual respect in a working environment where no form of discrimination or harassment is tolerated. Employees have the right to working conditions that respect their health, safety and dignity, and which guarantee social dialogue. The Charter applies to all the Group's employees, including those in the European subsidiaries. In July 2013, an updated version of the Charter was signed by the Group's Chairmen and Chief Executive Officers and by the representatives of the European Works Council.

Within the framework of its activities, the Group has identified the risk factors relating to human rights. The measures put in place to mitigate these risks fall into a number of different areas: health and safety in the workplace, equal opportunity, achieving a better work/life balance and data protection procedures to protect the personal information of customers and employees.

In its relationships with suppliers, the Group is committed to ensuring that the principles of fundamental social rights are respected by all of its subcontractors, everywhere in the world. Suppliers are invited to sign a sustainability charter integrating social and environmental principles.

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, establishing the main principles concerning financial and business integrity, confidentiality and respect of the CSR commitments.

Air France-KLM does not tolerate any form of corruption. In line with the evolving international legislative and regulatory context, an Air France and KLM Anti-corruption Manual was circulated in December 2013. This manual is available to all members of staff and will be supported by an e-learning module in 2014.

Lastly, to enable members of staff to signal any serious issues of which they may become aware, such as accounting and financial fraud or corrupt acts, Air France and KLM have a whistle blower procedure. This confidential procedure is accessible to everyone with no risk of sanction for the whistle blower.

Since November 2013, KLM's financial whistleblower procedure has been replaced by a broader-based procedure, enabling employees to report any form of irregularity or suspected irregularity. The policy applies to all employees working for KLM and its subsidiaries both in the Netherlands and internationally.

Compliance with competition law

Air France-KLM has implemented a compliance policy to prevent anti-competitive practices by circulating the Air France and KLM Competition Law Compliance Manual to all employees. Several other means of prevention are at their disposal including, notably, a hotline dedicated to competition law and specific training delivered by the Group's lawyers.

An online training module on the application of competition law is now mandatory for all Air France and KLM executives holding posts that require such knowledge. After this training and having passed the final evaluation test, employees sign an individual declaration in which they commit to complying with the competition laws applying to their function. In 2013, some of the relevant individuals took a refresher course on the subject.

4.4.3 Measures to safeguard consumer health and safety

Flight safety and risk management

Flight safety is the absolute priority for Air France-KLM. It is key to maintaining the trust of both customers and staff, and imperative for the long-term viability of its operations and of air transportation as a whole.

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 implemented across the two airlines. The SMS applies an approach specific to 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 Chapter 3 Risks and Risk Management).

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. Food safety remains at the heart of the airline's priorities in terms of customer service. To ensure strict control over the hygiene standards of its services, Air France carries out around 12,000 in-house microbiological checks each year for 45 million meals served on board aircraft. In terms of the sanitary quality of the water embarked on aircraft, around 400 to 500 analyses are carried out annually. In 2012, the ISO 22000 certification was renewed for a further three-year period following a renewal audit.

All Air France and KLM cabin crew are, furthermore, qualified in first aid and the aircraft are systematically equipped with first aid kits and automatic defibrillators. To prevent the risk of thrombosis, an in-flight video on long-haul services screens prevention exercises for passengers. Air France's new Airbus A380s also have a fully-equipped medical area.

The Group also offers a number of health-related services to passengers. For example, KLM Health Services offers a comprehensive three-stage service to its customers 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 while Air France has an ISO 9001-certified vaccination center in Paris.

In partnership with the Valk Foundation, Schiphol Airport and Leiden University, KLM offers a program to overcome the fear of flying based on in-depth research into its causes. For its part, 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 a huge number of 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 at their hubs. KLM is the third largest private sector employer in the Netherlands with 30,000 of the 60,000 people directly employed 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 2013, the airline demonstrated its commitment to the Paris region with the planned construction of a new unit dedicated to aerostructures to be based at Roissy-CDG.

Through their purchasing volumes, the two companies also contribute to regional and national development: 76% of Air France's procurement in France (excluding fuel) comes from the Paris region, representing a total of €1.4 billion.

The Group's businesses also generate numerous direct and indirect jobs around the hubs: ground handling and catering services, cleaning and the sub-contracted services required for aircraft operation. The activity of 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 economic and social fabric of the countries and regions it serves. 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 and procurement.

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 areas, enabling projects concerning economic development, housing, transportation, culture, training and research to come to fruition. Through this association, Air France reinforces its territorial foundations and works in partnership with the local players.

Environmental Advisory Committees (CEE) and Advisory Committees for Resident Assistance (CCAR)

Active in the main French airports, the CEES 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 CEES and CCARs in France.

Grand Roissy and Grand Paris

Air France is contributing to the extensive discussions on projects set 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 June 2013. Air France is a member of the *Grand Roissy Economique* Commission which aims to coordinate the economics of the region. The company is also involved alongside other regional players with the Aerotropolis Europe and Hubstart Paris associations to reinforce the international profile and economic attractiveness of Roissy-CDG airport. In October 2013, the company took part in the international seminar dedicated to sustainable airport areas organized by the Hubstart Paris association.

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

Since 2010 KLM, has worked in partnership with Landschap Noord-Holland Foundation as part of its commitment to supporting nature conservation and biodiversity in the territories served by KLM including the Netherlands home base. Amongst the Foundation's many projects, KLM has specifically "adopted" the IJperveld region. This area of reclaimed land is a stunning example of Dutch water management as well as being particularly 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 2013, this initiative was repeated and 14 school pupils (three of whom with disabilities) were welcomed to the company's head office.

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 2012-13, the association took part in 152 *Terre et Ciel* conferences with 3,990 school children, 32 *Terre et Ciel* conferences with 254 careers advisors, 12 *Découverte des Métiers* workshops with 182 career advisors, and 68 trade fairs and seminars in the Ile-de-France and the French regions attended by 15,067 people. Airemploi also participates in initiatives to raise school childrens' awareness of the aeronautics professions which are traditionally seen as a male preserve, e.g. programs like *Féminisons les Métiers de L'aérien*, *Place aux Filles* and *L'Assistance au féminin*.

JEREMY, Jeunes en Recherche d'Emploi à Roissy et Orly

Air France is a founder member of the association which promotes the vocational integration of young local people without formal qualifications who are excluded from the workplace through a scheme combining training with professional experience and social support. In 2013, some 150 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.

Stichting Scholing – Werk en Uitvoering

Every year, KLM donates computers and servers to this training program dedicated to the information and communication technologies for young people having dropped out of school and the long-term unemployed.

Luchtvaart College Schiphol

In 2013, KLM entered into a partnership with the Luchtvaart College Schiphol (Schiphol Aviation College), a Schiphol Group and ROC Amsterdam initiative. This institution enables the development of professional skills within the aviation sector by offering various vocational (MBO) training programs to people already working in the airline industry as well as on-the-job learning programs and internships. Each year, the college trains 600 students, provides work experience placements for 300 students and gives training or instruction to 1,000 employees.

JINC

Since 2013, KLM has partnered JINC Amsterdam, a foundation giving young people from 8 to 16 years of age the opportunity to learn what the labour market has to offer and the skills required for specific jobs. KLM provides financial support for JINC projects, and KLM employees can volunteer to be coaches or trainers. Various KLM divisions, amongst them Inflight Services, Health Services, Engineering & Maintenance and Flight Operations, are participating in two JINC projects, the largest being the "Flash Internship", during which primary and vocational secondary school students benefit from a brief, half-day internship with a KLM division.

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 spearheaded 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, in 2012, celebrated its twentieth anniversary. In 2013, the Foundation assisted 98 support projects for sick, disabled and vulnerable children wherever the company has operations.

For more than three decades the airline has partnered the Acting for Life NGO, which promotes child protection, economic development and sustainable tourism. In 2013, the organization supported 29 projects in Africa, Asia, Latin America and Europe. Air France has also provided long-term support for humanitarian air transport missions carried out by *Aviation Sans Frontières* (Aviation Without Borders). The company 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 onboard during flights to so-called at-risk destinations.

KLM's AirCares program supports six partners in the areas of education, health and sanitation: *Close the Gap*, *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 at the end of each project. A total of 32.7 million air miles were donated by Flying Blue members to these partners.

Logistical support

In 2013, 881 Air France tickets and free transport of excess baggage were donated to 28 NGOs, principally involved in providing medical assistance.

In 2013, KLM donated tickets and transported 30 tons of cargo and approximately 300kg of additional baggage for its AirCares program partners as part of the logistical support in the KLM AirCares program. Furthermore, in November 2013, following the destruction caused by typhoon Haiyan in the Philippines, KLM chartered a Boeing 747 full freighter free of charge to carry emergency relief supplies.

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 2013 and was realized with some 4,200 contractual suppliers. Fuel purchasing amounts for more than 50% of these costs, followed by airport and navigation fees, airport handling, aircraft maintenance and components. Given the significant proportion of external expenses relative to total revenues, optimizing, innovating and making the supply chain more sustainable are priorities for the Group and contribute to improving profitability. Air France-KLM has 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 AF KLM combined Procurement function has aimed to incorporate corporate social responsibility principles into 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 a number of themes such as safety, environmental management and HR policy.
- The supplier is invited to sign the Sustainable Development Charter for suppliers based on the principles of the UN Global Compact or provide their own equivalent document which may be approved following analysis. In 2013, the proportion of suppliers having demonstrated their CSR commitment had increased to 75%.

- Most specification sheets attached to the tender documentation list 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.

Regular meetings of supplier performance monitoring committees are convened to oversee supplier performance. To supplement the existing process and extend the target scope, the Procurement function has entered into a contract with a services provider specialized in the evaluation of suppliers based on corporate social responsibility criteria. Of some hundred suppliers, 40 are required to make progress in this area to respond to the expectations of Procurement.

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 followed when dealing with suppliers. This document and the Sustainable Development Charter are available on the Procurement website. Furthermore, an internal process has been established to guide buyers in making responsible purchasing decisions including web links providing more information on best environmental practices together with training and seminars to build buyer awareness and develop their skills, ensuring they take environmental and social criteria into account wherever possible in their work.

Mobilizing and innovating with suppliers

Via performance-monitoring meetings, special events, participation in forums and working groups, and its website dedicated to suppliers (www.af-klm.com/procurement), the procurement function maintains an ongoing dialogue with suppliers. Suppliers can thus find information on how procurement is organized, the procurement strategy and the function's commitment to sustainability.

During 2013, the foundations of a Supplier Relations Management System (SRM) were deployed. This system is based on the building of long-term relationships between the buyers and strategic suppliers enabling, for example, issues like corporate social responsibility to be central to their discussions and to move forward together on these points.

The Procurement function thus sees its suppliers as bona fide partners in mutually-beneficial growth. In this capacity, it supports their research and development to identify innovative solutions and analyze the environmental impact of products. During the drafting of a product specification, the prescriber and buyer work together to identify the environmental and social characteristics, thereby encouraging the supplier to not only develop the environmental performance of its products but also engage in a wider commitment to sustainability.

Procurement also cooperates with associations and companies in the sheltered sector on multiple projects representing a total €16 million of the Group's procurement (e.g.: cleaning of blankets in Economy and Business).

The Group participates jointly with Procurement in responsible purchasing working groups organized by the ORSE and AFNOR.

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 activity in specific sectors in the territories where the two hubs are located and at flight destinations through purchasing with local suppliers. For example, the group contributes to developing activity in the French regions (more than €420 million of contractual procurement in 2013, 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 €2.3 billion in 2013.

Taking into account social 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 specifications.

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 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 deploys a sustainable catering policy in partnership with its suppliers to contribute to the preservation of biodiversity. This sustainable catering policy focuses on products with a real impact on biodiversity and, in particular, on fish, soy and palm oil.

4.5 Environmental information

4.5.1 Overall environmental policy

Organization and responsibilities

Air France-KLM aims to place sustainable development at the heart of its corporate strategy. This commitment is spearheaded by the management bodies and shared by all employees who are encouraged to participate in the development of innovative approaches.

Every year, sustainable development is addressed with the Group Strategic Framework, which is approved by the Board of Directors during the annual meeting devoted to the Group's strategy.

At Air France, the sustainable development policy is steered by an Executive Vice President who is a member of the Executive Committee. At KLM, this role is ensured by the President of the Managing Board, as Chairman of the Executive Committee. In January 2013, the Executive Committee approved the company's sustainable development strategy and its goals for 2020. The Executive Committee also approves the annual environmental program.

Air France's "Environment and Sustainable Development" and KLM's "Corporate Social Responsibility (CSR) & Environmental Strategy" departments are responsible for implementing the CSR strategy and steering the programs. The accessory departments closely coordinate their activities, collectively advise on the Group's environmental strategy and work together on a wide range of issues. They are responsible for carrying out the common environmental reporting through the Corporate Social Responsibility Report. Both departments are also responsible for the deployment of the company's Environmental Management System.

At Air France, the Sustainable Development Department ensures the consistency of the action plans in the entities and coordinates the Environment Committee. Individual divisions are then responsible for applying the environmental policy thus defined and for regulatory compliance. Every division has an environmental coordinator who is a member of the Environment Committee. These coordinators are tasked with:

- 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.

At KLM, the "Corporate Social Responsibility (CSR) & Environmental Strategy" department steers, advises and monitors the environmental program. It is the responsibility of each division, assisted by the CSR and Environment coordinators, to implement the program. All KLM departments have their own environmental coordinators reporting to the Quality Managers and Executive Committee members, who are themselves members of the Operational Safety & Quality Board. This Board is responsible for monitoring environmental compliance and performance.

Environmental management/ISO 14001 certification

The Environmental Management Systems of Air France and KLM have been ISO 14001 certified, respectively since 2008 and 1999, for all flights and operations in France and the Netherlands. This certification was renewed for a period of three years in 2011 for Air France and in 2012 for KLM.

The Environmental Management System enables the monitoring and control of defined actions and to evaluate, on an on-going basis, the impacts of the activity. It is based on the principle of continuous improvement, following the Deming total quality model of plan, do, check and act. 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.

In addition to compliance with the regulations in force, the Environmental Management System is used as a tool to drive an improvement in environmental performance and innovation across the Group and its suppliers.

Environmental reporting/Verification of extra-financial data

The Air France and KLM Groups generate and report a series of environmental indicators using systems that are proprietary to each company.

The Air France Group generates environmental reporting using the OSYRIS (Operational SYstem for ReportIng on Sustainability) IT application, enabling the population, verification and consolidation of the data for all the ground operations to be centralized. 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 tool which is widely deployed across the company.

The environmental reporting procedure applicable across the Group is outlined in a document common to Air France and KLM containing the definitions and the scope of the indicators.

Within the framework of a proactive approach, since 2008 Air France-KLM has had a number of its environmental indicators verified by one of its Statutory Auditors. The verification is carried out with the highest level of assurance known as reasonable assurance for the

indicators that are the most significant for air transport (namely CO₂ emissions and fuel consumption in the air operations). The other indicators, together with the text, are verified based on the modalities outlined in the note on the methodology.

Employee training and information on environmental protection

Air France and KLM have developed a series of environmental protection training modules for employees.

- Since 2011, employees across both airlines have been offered e-learning modules on Corporate Social Responsibility including the environmental aspects. This training, which is accessible under the DIF scheme for all Air France employees, is recommended for managers and all those whose functions require this like, for example, the members of the Environment Committee.
- Sustainable Development training is also available to commercial staff at Air France and KLM, to enable them to engage in a dialogue with customers and highlight the Group's initiatives.
- Flight Crew are regularly updated on progress achieved in optimizing flight procedures, reducing on-board weight, the sustainable catering offer and waste reduction measures. There are regular training and awareness-raising programs for flight operations personnel on kerosene consumption.
- The environmental management systems in the different Air France and KLM divisions raise the awareness of employees across the Group on the need to reduce their environmental footprint. In 2013, for example, Air France worked on the development of a vocational training program for the Environment Committee, comprising a series of training modules covering, notably, the management of chemical products and waste. This program will be launched in 2014.
- Environmental awareness and incident reporting is included in basic operational staff training at both Air France and KLM.

The Air France-KLM Group has a number of channels for the in-house communication of environmental information:

- 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 and information on the in-house communication channels are regularly circulated within the Group to keep employees in touch with the latest environmental news concerning Air France and KLM.
- KLM regularly organizes a Corporate Social Responsibility (CSR) Café, where external speakers from NGOs, front-runner companies and supply chain partners present their CSR approach and achievements and interact with employees.

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 Environmental Management System. Within this framework, the risks are identified, their impact evaluated and preventive and corrective measures implemented through the action plans of the different entities.

Every three months, a presentation of the operational and financial risks, including the environmental risks that are deemed to be the most significant, is made by Internal Audit and Internal Control. Presentations are also made to the Executive Committee and the Audit Committee of the Air France-KLM Group's Board of Directors.

In 2013 Air France and KLM started to migrate the management systems for Safety, Security, Occupational Health and Environment into one integrated system. Further alignment and integration will be implemented as of 2014.

In 2012, Air France thus deployed e-CARE, a system for managing operational incidents and compliance audits, enabling all members of staff to report any situation they believe represents a potential risk. Used by all operational entities and supported by a common risk management matrix, e-CARE includes all the data related to flight safety, customer service, environmental issues, health and safety in the workplace, security and food hygiene since 2013.

A feedback system has been established in all the Air France and KLM Operational Divisions to record environmental incidents, enabling the definition and implementation of risk prevention plans at Group level. Since 2013, the Air France Environment Committee has convened every three months for a special meeting to analyse environmental incidents and define any required corrective measures.

Also in 2013, Air France implemented an overall action plan on the management of hazardous products involving, in particular, the contamination, storage and labelling risks.

See also *Risks relating to the environment* in Chapter 3 *Risk factors and their management*.

Environmental expenditure and investment

Air France-KLM's policy is to fully integrate environmental management within the business operations, meaning that it is difficult to identify the portion of expenditure for purely environmental purposes. The Group has made a continuous investment in new aircraft and currently operates one of the most rationalized and modern fleets in the airline sector. This enables it to offer passengers a higher standard of comfort, achieve substantial fuel savings and respect its sustainable development commitments by reducing noise emissions for local communities and greenhouse gas emissions.

Furthermore, the air transport industry is subject to stringent environmental regulations. In the past few years, the national and European authorities have adopted various regulations regarding, in particular, noise pollution and gas emissions, introducing taxes on air transport companies and obligations for them to ensure the compliance of their operations.

Since January 1, 2012, the aviation sector has been part of the European Union Emissions Trading System (EU-ETS) pursuant to European Directive no.2008/101/EC of November 19, 2008. See also *Risks relating to the environment* in Chapter 3 *Risk factors and their management*.

To reduce the noise impact on populations around airports, for a number of years the Dutch and French governments 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 2013, the Group paid a total of €32.5 million in airport noise taxes. The Air France contribution to Airport Noise Tax (TNSA) paid to the French State for every take-off amounted to €15 million. The proceeds are dedicated to financing sound-proofing for homes situated near airports and exposed to aircraft noise. In 2013, KLM paid €17.5 million in noise taxes for sound-proofing and compensation for loss of value in property around Schiphol airport in respect of Article 77 of Dutch aviation law.

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage risk up to a sum of €50 million per claim and per year, with lower 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 like HOP! and Transavia France.

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 aspirational 1% target for biofuel use in 2015.

Measures taken to guarantee the Air France-KLM Group's compliance with legal and regulatory environmental requirements

Within the framework of the Environmental Management System, Air France and KLM regularly evaluate the level of environmental regulatory compliance, notably through a series of checks and internal and external audits.

In 2011, a monitoring and regulatory compliance tool was deployed in Air France, 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. In 2013, the scope for this monitoring tool was extended to the French overseas territories.

In 2013, Air France established a Regulatory Intelligence Committee. This committee meets every three months in the presence of a legal counsel to monitor any changes in regulations, review the compliance indicators in the divisions and implement any relevant corrective measures.

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

The Air France-KLM Group monitors its atmospheric emissions both for flight and ground operations, including low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO₂, SO₂, NO_x, HC and incidences of inflight fuel jettison.

The effluents released from the Air France-KLM Group's maintenance operations are the subject of regular checks to ensure that the thresholds defined by the local or 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

Air France-KLM constantly strives to minimize the generation of waste and increase the proportion that is recycled or reprocessed. In total, the Group generated 54,966 tons of non-hazardous waste in 2013.

Within the framework of the environmental management system, Air France is aiming to increase the proportion of recycled waste to 50% by the end of 2014.

In 2013 KLM developed the “no waste of resources and materials” ambitions aimed at waste prevention and reduction, targeting 100% waste recycling and recovery in 2020, except for waste where recycling and recovery is not legally permitted.

The recycling of onboard waste is an abiding priority for the Group which implements recycling initiatives and is developing the principle of eco-design to acquire the means to improve the environmental evaluation of its products and reduce their overall impact. For example, at Air France 80% of used equipment like trays, drawers, blankets and trolleys are recycled every year.

Hazardous waste from the maintenance activities is the subject of a comprehensive tracing 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.

As part of its SCRAP program, Air France recycled 9.4 tons of steel and aviation scrap metal in 2013, avoiding the production of 96 tons of CO₂. For its part, KLM extended its scrap metal program (around 50 tons) to four other types of waste: furniture, equipment, pallets and blankets.

Air France and KLM are also working on initiatives to upcycle waste into new uses and, in 2013, introduced the recycling of used uniforms. At Air France, these uniforms were destroyed before being transformed into insulation fiber for vehicles. In 2012, KLM uniforms were recycled into luggage tags and hand bags while, in 2013, used uniforms were transformed into fiber to produce the carpets installed in the airline's new Business Class. The replaced carpets were also used to manufacture new carpeting. KLM Catering Services has also put in place initiatives to increase the types of recycled waste. Lastly, Air France's outdated life vests are used to manufacture travel amenity bags.

Measures taken to limit noise pollution

While accommodating the increasing demand for mobility, one challenge for the aviation industry is to maintain noise hindrance at an acceptable level for those living near to airports. The Air France-KLM Group has formalized its commitment to noise reduction by making it a Corporate Social Responsibility Statement requirement.

The most effective way to reduce noise hindrance is to operate with modern, noise-minimized aircraft. The entire Air France-KLM fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm covering the acoustic quality of civil aircraft.

Improving departure and approach procedures can also help to reduce noise hindrance for local residents. Air France and KLM actively contribute to the implementation of noise abatement procedures. The environmental benefits of each new procedure are assessed, approved and made public by the French and Dutch civil aviation authorities.

Night flight regulations are very stringent and cover the number of allocated slots, the respect of their scheduled times and the noise performance of aircraft that are authorized to operate. Air France and KLM pay particular attention to strict compliance with these regulations. Furthermore, the impact of their air traffic is reduced thanks to the application of Continuous Descent Approach procedures.

Through discussion forums, Air France and KLM strengthen their ties with local residents and other local stakeholders. In France, this dialogue is conducted with the context of CCEs (Environmental Consultative Commissions) and CCARs (Advisory Residents' Assistance Commissions) in which Air France participates at all airports where it has operations. In the Netherlands, KLM participates in the Alders Table round table which addresses issues surrounding noise. After two years of work, the members of the Alders Table jointly submitted a proposed new regulation to the Dutch government.

Within the framework of the Schiphol Regional Consultative Committee (CROS) and the Works Councils, KLM and Air France work with representatives of local populations, airport authorities and air traffic control to identify measures and solutions to mitigate the noise hindrance that can affect local residents around airports. This dialogue will be pursued within these bodies.

Noise is measured by its overall sound level although other factors can influence the level of hindrance: the frequency with which it occurs, sound dissonance, etc. The CORAC (French Council for Civil Aviation Research) is expected to launch a psycho-acoustic study on the perception of aircraft noise aimed at identifying noise hindrance factors and orienting research by aircraft manufacturers.

At the instigation of ACNUSA, the French airport noise nuisance authority, the public authorities have launched the DEBATS study (*Discussion sur les Effets du Bruit des Aéronefs Touchant la Santé*) aimed at improving understanding of the effects of aircraft noise on health. Air France sits on the steering committees of both CORAC and DEBATS.

4.5.3 Sustainable use of resources

Water consumption and the water supply as a function of the local constraints

The Air France-KLM Group makes a continuous effort to reduce water consumption through better management of its processes, making its teams more accountable and by factoring environmental criteria into the design and realization of its tools and work stations.

For example, Air France's maintenance division has established an aircraft washing process which consumes much less water (around 8,000m³/year), using pads and biodegradable products. KLM has also deployed a new washing system for aircraft exteriors enabling a 40% saving on water.

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.

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.

In view of its activity, the Air France-KLM Group is not significantly concerned by the "Water supply as a function of the local constraints" theme.

Consumption of resources and the measures taken to optimize their use

Air France-KLM has a long-standing commitment to reducing its carbon footprint and optimizing fuel consumption.

The main lever in CO₂ emission reduction is fleet renewal as new aircraft are more fuel efficient. The average age of the Air France-KLM fleet is 10.6 years. Air France and KLM continued the modernization of their fleets in 2013.

In addition to fleet modernization, a number of operational measures can also increase aircraft fuel efficiency. These cover four main areas:

- Aircraft: reducing the mass loaded on board, reducing fuel consumption of engines and Auxiliary Power units, reducing drag, etc.
- Airspace: optimizing flight paths, reducing aircraft waiting times, optimizing altitude, etc.
- Fuel carried on board: optimizing regulatory quantities of fuel, optimizing operational fuel.
- Flight operations: optimizing flight procedures based on the recommendations of aircraft and engine manufacturers and equipment suppliers.

At Air France, the implementation of a Jetfuel Plan enabled the saving of 35,000 tons of fuel in 2013. For example, as part of the plan the airline equipped its entire long-haul fleet with 3,650 new, lighter baggage containers enabling a saving of 2,500 tons of kerosene, i.e. an annual reduction of 8,000 tons of CO₂.

In 2013, within the framework of the Climate Action Plan, KLM saved 7,200 tons of fuel compared with 2012 thanks to the deployment of operational measures like fleet renewal and weight reduction. Besides fuel reduction, in 2013 KLM was the only airline to operate inter-continental flights partially powered with sustainable bio-kerosene.

Energy consumption and measures taken to improve energy efficiency and the use of renewables

Air France and KLM have implemented an action plan to improve the energy efficiency of buildings.

Since 1989, KLM has deployed a range of electricity-saving measures in the KLM buildings in the Netherlands, enabling an average 2% annual reduction in its energy consumption. In 2012, KLM signed a fourth 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.

Since 2013, 100% of the electricity in KLM's offices has been green energy from hydroelectricity.

Within the framework of the Environmental Management System, Air France is aiming to improve the energy efficiency of its buildings through an 8% reduction in their energy consumption by 2014 thanks to the upgrading of equipment and the inclusion of this target in supplier contracts. This concerns both industrial buildings such as the cargo warehouses at Paris-Orly and tertiary buildings. Furthermore, in 2011, Air France made a commitment to the World Business Council for Sustainable Development (WBCD) to reduce its energy consumption and signed the Manifesto for Energy Efficiency in Buildings.

Air France and KLM also implement an HQE certification approach to the operation of these new buildings. At the beginning of 2013, Air France's Equinoxe building obtained HQE operational certification while the building is also serving as an R&D pilot for best environmental practice that could be extended to other Air France buildings.

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 for new buildings, the Group collects or commissions sub-soil samples prior to any new construction at a site to verify its compliance with safety standards.

4.5.4 Contribution to adapting to and combating global warming

Air France-KLM Climate Action Plan

The Air France-KLM Group's contribution to reducing its impact on climate change is based on a Climate Action Plan focusing on six main areas:

- Pursuing fleet modernization and contributing to aeronautics research
- Mobilizing all the Group's internal and external players around ambitious action plans enshrining eco-design principles
- Promoting the emergence of alternative fuels for aviation and research into renewables
- Supporting NGO-led environmental programs
- Giving customers access to information on the CO₂ emissions linked to their journeys and offering them offsetting opportunities.
- Supporting international efforts to reach a global climate agreement in which the aviation sector would make a just and equitable contribution.

Meeting national and international commitments

Since January 1, 2012, the EU-ETS Directive instituting the Emissions Trading Scheme has applied to all European and non-European airlines landing in the European Economic Area. In November 2012, however, the European Commission suspended the application of this measure for intercontinental flights for 2012, flights within the EU remaining subject to the scheme.

The International Civil Aviation Organization (ICAO) is committed to submitting proposals for regulating global aviation emissions. In October 2013, a legal and technical offsetting framework based on a market-based mechanism was adopted by the ICAO Assembly enabling carbon neutral growth by 2020. Air France-KLM, together with the other International Air Transport (IATA) airlines, are mobilized around making a decisive contribution to this work and thereby facilitating the adoption of the most effective solutions. See also *Risks relating to the environment* in Chapter 3 *Risk factors and their management*.

Air France and KLM actively participate in IATA initiatives aimed at proposing operational solutions enabling respect of the emission reduction commitment made by the aviation sector in 2009, namely:

- Through to 2020, a 1.5% annual improvement in energy efficiency (excluding economic measures)
- From 2020, stabilization and neutral growth in CO₂ emissions
- By 2050, a 50% reduction in CO₂ emissions relative to the 2005 level

KLM has signed the Dutch Knowledge and Innovation Agenda, defining the environmental and sustainable development visions 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).

Sustainable alternative biofuels

Sustainable alternative biofuels constitute one of the most promising avenues to reducing CO₂ emissions from aviation. They are key to achieving Air France-KLM's CO₂ emission reduction targets as well as those of the aviation industry as a whole. Unlike other forms of transportation, the commercial aviation industry has no alternative to fossil fuels and, moreover, no alternative technologies are likely to emerge before 2050. To ensure the future of commercial aviation, Air France-KLM therefore considers the transition from fossil fuels to renewables to be a priority. The Group's strategy is to explore the entire value chain from research to commercialization.

Stimulating the industry: Air France is participating in a project to produce biofuel from forestry waste, spearheaded by the CEA (*Commissariat à l'Énergie atomique et aux énergies alternatives*), France's Atomic and Renewable Energy Commission. Air France and KLM both support the European Commission's ITAKA initiative (Initiative Towards sustainable Kerosene for Aviation). This project will establish links between farmers, biofuel producers, distributors and users to break down the barriers to commercial rollout.

Supporting regulatory incentives: Air France and KLM are involved in the Biofuel Flightpath 2020 European initiative, which aims to produce two million tons of sustainable biofuels in Europe by 2020.

Innovating in the supply chain: 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 bio-kerosenes, supplying more than 15 airlines globally including Air France-KLM.

Involving customers and partners: To create a market for sustainable biofuels for aviation, Air France and KLM are collaborating with partners and customers. In 2012, as part of its WWF-NL partnership and the Green Deal commitment, KLM launched the BioFuel program, a first for aviation.

Offsetting emissions

On their websites, Air France and KLM give their customers access to CO₂ emission calculators, with the opportunity to entirely neutralise their emissions should they so wish. The Group offers certified sustainable carbon reduction credits that guarantee a high-level of offsets.

Air France's partnership with GoodPlanet finances the construction of biogas storage reservoirs in China and the recycling of organic waste into compost for agriculture in Madagascar. The Gold Standard CO₂ offsetting through KLM's CO2ZERO program and the launch of the KLM BioFuel program for corporate customers enables KLM customers to take part in CO₂ emission saving and contribute to creating the market for sustainable bio-kerosene on a voluntary basis.

4.5.5 Protecting biodiversity

Measures to protect biodiversity by reducing deleterious impacts on the biological equilibrium, natural habitats and protected plant species

The impact of air transportation on biodiversity is linked to the effects of climate change induced by the CO₂ emissions it generates. The choice of products for inflight catering also has an impact on biodiversity.

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. Covering more than 500,000 hectares of forestry, this program aims to reduce the current level of deforestation, thereby preserving the potential storage of some 35 million tons of carbon.

With more than €5 million invested in the program and over 60 people employed by partners, the multiple aims include:

- Developing new protected areas and preserving biodiversity
- Replanting and restoring depleted forestry
- Training local communities in the development of new agricultural methods and improved land management.

After five years of activity, the program is posting very positive results.

- 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 slash and burn agriculture.

Furthermore, the project has helped to advance the scientific methods enabling the measurement of forest carbon stocks in Madagascar.

For its part, KLM is supporting 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 which has since been successfully finalized. The program contributes to sustaining the environment and habitat of the Amazon. For example, in the Acre-Purus area, 1,239 families joined the state certification scheme. There was a 29% reduction in deforestation versus the previous year and the number of fire spots registered fell by 5.5%.

In 2013, KLM continued its participation in the Inspirational Programme on Ecosystems and inventoried options to include biodiversity in its climate action plan.

The investment in these projects on advancing knowledge and improving conservation and biodiversity also contributes to understanding the issues surrounding alternative sustainable fuel production. Some research claims that certain types of sustainable alternative fuels can have a negative impact on biodiversity. The Air France-KLM Group is committed to ensuring the use of biofuels with the least impact on the food chain, biodiversity and local populations.

A commitment to responsible catering

Air France and KLM serve a total of 85 million meals per year and, given the quantity of food products required for their production, the Group's choices can have an impact on biodiversity.

For their catering procurement, Air France and Servair prioritize local, seasonal products that are also responsible in that they guarantee animal rearing and food standards, are organic and contain no palm oil.

In line with KLM's ambition to remain a front-runner in sustainable airline catering, the airline is striving to achieve 100% sustainable inflight catering products, with a first step of 100% sustainable catering out of Amsterdam in 2020 by:

- Responsible product choices
- Reducing packaging materials
- Reducing the energy required for production and transportation
- Attention to animal welfare

KLM's sustainable catering policy focuses primarily on the preservation of biodiversity in production areas but also animal welfare. Emissions from transportation and packaging waste are also taken into account. This policy is developed within the framework of the partnership with WWF-Netherlands.

In view of their impact on biodiversity, particular attention is paid to the production of fish, palm oil and soy. To this end, KLM is a member of the Responsible Soy (RTRS) and Sustainable Palm Oil (RSPO) Round Tables and offers certified products on board.

Since 2009, KLM has targeted the introduction of at least 15 sustainable catering products on board each year. On board currently, KLM is offering milk produced in the Netherlands by a supplier who guarantees animal welfare and has developed an animal food program based on responsible soy. The packaging is FSC (Forest Stewardship Council) certified, meaning that the cardboard originates from responsibly managed forests.

A number of products that are labeled, local and respectful of animal well-being are served on board like MSC-certified fish, eggs and chicken. KLM reaffirmed its commitment to responsible catering through a long-term partnership with a Dutch beef producer which guarantees the rearing conditions and uses no additional feed or growth supplements. Lastly, UTZ-certified coffee is served on all KLM flights and in its administrative offices.

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 to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Régulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

Since 2013, and in accordance with the provisions of Article L.225-102-1 of the French Commercial Code, it has been the responsibility of our independent third-party body to:

- Attest that the required CSR Information appears in the Management Report and that the exclusion of any information is explained in accordance with paragraph 3 of Article R.225-105 of the French Commercial Code (Attestation of completeness of CSR Information)
- Express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information)[§].

Furthermore, fuel consumption and the related CO₂ emissions for air operations have been verified with the highest level of assurance, reasonable assurance (indicated by the symbols √) since 2007-08.

4.6.1. Scope covered and scope N-1

For the flight operations, the environmental consolidation scope covers:

- All the Air France commercial flights operated by Air France and its subsidiaries HOP!, CityJet and Transavia.
- All the KLM commercial flights operated by KLM and its subsidiary KLM Cityhopper (KLC). The flights operated by KLM's Transavia and Martinair subsidiaries are also included, except for the indicators for Noise energy and the low altitude emissions of HC, NO_x and SO₂.

For the ground operations, the consolidation scope for the environmental reporting is unchanged on last year and covers 100% of the sites in France and the Netherlands. The international outstations are not taken into account.

- Air France consolidated subsidiaries are: HOP!, CRMA, Sodexi, BlueLink and Servair and its subsidiaries (only the activities in France). Transavia France and CityJet are not included in the reporting scope.
- Furthermore, for Air France, the indicators in 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.
- KLM consolidated subsidiaries are KLC (KLM Cityhopper), KES (KLM Equipment Services), KCS (KLM Catering Services), KHS (KLM Health Services), Transavia NL and Martinair.

4.6.2 Reporting tools

The environmental indicators are assembled 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.

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 assembly of the data, calculation methodologies and operational 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 methodologies used for some performance indicators are constantly being improved and, notably, the precision of 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.

[§] 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 reporting period for the Group's environmental data is set at a rolling twelve months from October 1 N-1 until September 30 N.

4.6.4 Flight operations

CO₂ emissions

The Air France Group's CO₂ emissions decreased slightly between 2012 and 2013, in line with activity.

Note that there are differences between the scope of the CO₂ emissions reported and those of the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), so comparison is not meaningful.

SO₂ emissions

The calculation of the SO₂ 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.

For the KLM Group, the increase is due to the rise in the average sulphur content of the fuel used. The same is true for the Air France group.

NOx 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^{**}. The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note that, since the actual taxiing is not 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 2013) 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 close coordination with air traffic control under strict conditions governing geographical location (avoiding urban zones) and altitude (generally at or above 2,000 meters).

For the KLM Group, from 2013 the in-flight fuel jettison data includes Martinair's operations.

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^{††}. 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 aircraft operated by Martinair and Transavia.

The trends in noise energy and traffic are determined by comparing total noise energy calculated for the calendar year with that of 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 different sources of energy consumed:

^{**} International Civil Aviation Organization

^{††} Direction Générale de l'Aviation Civile.

- Natural gas for heating buildings, aircraft painting workshops in Maintenance and cooking (the catering activity in particular). The conversion factor of the quantity of gas used as energy is calculated by taking into account the quality of 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 testing engines.
- 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 increase seen between 2012 and 2013 for the Air France Group is mainly explained by the use of a new test bench for very big engines. For the KLM Group, the increase is mainly explained by natural gas consumption which was higher in winter 2012/2013.

Note that when source data is missing for energy and water indicators (monthly invoices for example), the related consumption is estimated, based on historical data.

Emissions from ground operations (CO₂, SO₂ and NO_x)

CO₂, SO₂ and NO_x emissions and their trends are linked to the energy consumption listed above.

For Air France, the 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.

The decrease observed for the Air France's group on NO_x is explained by the change in the methodology for runway equipment emissions. This year the assembly of fuel consumption data from invoices was carried out over the full scope, contrary to the previous years when these figures had been estimated.

The decrease in SO₂ emissions is due to the reduction in fuel oil consumption.

VOC Emissions

VOC emissions are calculated based on the direct emissions of solvents contained in the products used. VOCs contained in disposed waste are excluded.

For the Air France Group, the decrease between 2012 and 2013 is mainly due to fewer aircraft being painted in 2013.

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fueling.

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 is taken into account. This is, however, estimated to be marginal.

The reprocessing channels taken into account are those in the European regulation.

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 2013 the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements, were, respectively:

- For Air France, 1/10 for Nitrogen compounds, 4/61 for Phosphorus compounds and 8/723 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

4.7.1 Air Operations

		Air France-KLM group				Air France group ⁽¹⁾				KLM group ⁽²⁾						
		Unit	2011	2012	2013	13/12	2011	2012	2013	13/12	2011	2012	2013	13/12		
Consumption																
Consumption of raw materials: fuel √		ktonnes	8,950	8,956	8,755	-2.2%	5,047	5,078	4,918	-3.2%	3,903	3,878	3,837	-1.1%		
Emissions																
Greenhouse gas emissions		CO ₂ √	ktonnes	28,193	28,210	27,576	-2.2%	15,899	15,997	15,491	-3.2%	12,294	12,213	12,085	-1.0%	
Emissions of substances contributing to acidification and eutrophication		NO _x low altitude (< 3,000 ft)		ktonnes	9.0	9.2	9.5	3.3%	6.2	6.3	6.2	-1.6%	2.8	2.9	3.3	13.9%
		SO ₂		ktonnes	10.4	9.9	11.8	19.2%	7.2	6.4	6.8	6.3%	3.2	3.5	5.0	42.9%
		SO ₂ low altitude (< 3,000 feet)		ktonnes	0.8	0.7	0.8	14.3%	0.6	0.5	0.5	0.0%	0.2	0.2	0.3	50.0%
In-flight fuel jettison		Occurrences of fuel jettison		number	29	41	33	-19.5%	23	27	23	-14.8%	6	14	10	-28.6%
		Fuel jettisoned		tonnes	1,152	1,839	1,104	-40.0%	945	1,210	758	-37.4%	207	629	346	-45.0%
Other emissions		HC low altitude (< 3,000 feet)		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	1.69	1.62	-4.1%	1.11	1.16	1.12	-3.9%	0.54	0.53	0.50	-5.7%	

√ Figures verified by KPMG in 2013 with a reasonable level of assurance.

(1) Air France group scope: all flights under AF code operated by Air France, HOP!, CityJet, and flights operated by Transavia France.

(2) KLM Group scope: all flights operated by KLM, KLM Cityhopper and Martinair. Transavia is included for fuel consumption, CO₂ and SO₂ emissions (exception of low altitude emissions of HC, NO_x and SO₂). Martinair and Transavia are excluded for the global noise energy indicator.

4.7.2 Ground Operations

Environmental indicators	Unit	Air France-KLM group				Air France group ⁽¹⁾				KLM group ⁽²⁾				
		2011	2012	2013	13/12	2011	2012	2013	13/12	2011	2012	2013	13/12	
Consumption														
Water consumption	000 m ³	886	812	825	1.6%	694	624	640	2.6%	192	188	185	-1.6%	
Electricity consumption	MWh	408,408	392,223	383,605	-2.2%	309,655	293,406	288,218	-1.8%	98,753	98,817	95,387	-3.5%	
Other energies consumption	MWh	543,749	513,562	534,375	4.1%	316,650	295,757	304,890	3.1%	227,099	217,805	229,485	5.4%	
Emissions														
Greenhouse gas emissions	CO ₂	tonnes	89,841	85,680	88,885	3.7%	38,975	36,841	37,782	2.6%	50,866	48,839	51,103	4.6%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC	tonnes	129	146	135	-7.5%	90	102	87	-14.7%	39	44	48	9.1%
	Emissions of HC	tonnes	167	145	137	-5.5%	108	86	76	-11.6%	59	59	61	3.4%
Emissions of substances contributing to acidification and eutrophication	NO _x	tonnes	810	773	675	-12.7%	541	508	409	-19.5%	269	265	266	0.4%
	SO ₂	tonnes	19.6	16.1	15.8	-1.9%	16.6	12.9	11.4	-11.6%	3.0	3.2	4.4	37.5%
Waste														
Waste production	Quantity of non-hazardous industrial waste	tonnes	58,964	57,060	54,966	-3.7%	42,155	40,236	38,185	-5.1%	16,809	16,824	16,781	-0.3%
	Quantity of hazardous industrial waste	tonnes	7,000	7,009	7,073	0.9%	4,748	4,474	4,420	-1.2%	2,252	2,535	2,653	4.7%
	% of hazardous industrial waste recovered	%	45%	58%	61%	+3pts	28%	43%	44%	+1pt	81%	85%	89%	+4.7pts
Effluents														
Compliance rate of effluents with regulatory limits	Nitrogen compounds	%	100%	100%	98%	-2pts	100%	100%	90%	-10pts	100%	100%	100%	0pt
	Phosphorus compounds	%	100%	99%	97%	-2pts	100%	98%	93%	-5pts	100%	100%	100%	0pt
	Metals ⁽³⁾	%	99%	98%	99%	+1pt	99.5%	98%	99%	+1pt	98.5%	100%	100%	0pt

(1) Air France and subsidiaries: Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi, CRMA and BlueLink. CityJet and Transavia France are not included.

(2) KLM and its subsidiaries: KLM CityHopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS), KLM Health Services (KHS), Martinair and Transavia Netherlands.

(3) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.8 Report of one of the Statutory Auditors, as designated independent third-party body, on the consolidated social, environmental and societal information provided in the Report of the Board of Directors

This is a free translation into English of the original report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, professional guidelines applicable in France.

Year ended 31 December 2013

To the shareholders,

In our capacity as Statutory Auditor of Air France - KLM S.A. and designated independent third-party body whose applications for accreditation have been deemed admissible by COFRAC, we hereby present to you our report on the social, environmental and societal information (the "CSR Information") in the Report of the Board of Directors for the year ended 31 December 2013. This report is prepared in accordance with the provisions of Article L.225-102-1 of the French Commercial Code.

Responsibility of the company

The Board of Directors is responsible for establishing a report that includes the CSR Information specified in Article R.225-105-1 of the French Commercial Code, prepared in accordance with the guidelines used by the company (the "Guidelines"), summarised in the Report of the Board of Directors, and available at its head office.

Independence and quality control

Our independence is defined by regulations, the code of ethics for our profession and the provisions of Article L.822-11 of the French Commercial Code. We have also set up a quality control system that includes policies and documented procedures to ensure compliance with rules of ethics, professional standards and applicable laws and regulations.

Responsibility of the Statutory Auditor

On the basis of our work, our responsibility is to:

- attest that the required CSR Information appears in the Report of the Board of Directors or that the exclusion of any information is explained in accordance with paragraph 3 of Article R.225-105 of the French Commercial Code (Attestation of completeness of CSR Information);
- express a limited assurance on the fact that the Information is presented fairly, in all material aspects, in accordance with the Guidelines (opinion on the fair presentation of CSR Information);
- express, at the Group's request, a reasonable assurance on the fact that the indicators 'Fuel consumption' and 'CO2 emissions' relating to air operations, identified by the symbol √ were free from material misstatement.

Our work was performed by a team of five people between October 2013 and February 2014, for approximately 13 weeks. The work was performed by our corporate responsibility experts.

We conducted the procedures below in accordance with professional standards applicable in France, with the order dated 13 May 2013 establishing the manner in which independent third-party bodies must carry out their work, and concerning our opinion on the fair presentation of CSR Information and the reasonable assurance with ISAE 3000⁷.

Attestation of completeness of CSR Information

On the basis of interviews with the individuals in charge of the relevant departments, we reviewed the company's sustainable development strategy with respect to the social and environmental impact of its activities and its societal commitments and, if applicable, any initiatives or programmes it has implemented as a result.

We compared the CSR Information included in the Report of the Board of Directors with the list provided in Article R.225-105-1 of the French Commercial Code.

If certain information was excluded, we verified that an explanation was provided, in accordance with Article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covered the consolidated scope, i.e. the company and its subsidiaries as defined in Article L.233-1 and the companies it controls, as defined in Article L.233-3 of the French Commercial Code, subject to the limitations described in the note on the methods used, that can be found in paragraph 4 of the Report of the Board of Directors

Based on these procedures and taking into account the limitations mentioned above, we attest that the Report of the Board of Directors includes the required CSR Information.

⁷ ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

Opinion on the fair presentation of CSR Information

Nature and scope of our procedures

We conducted five interviews with the people responsible for preparing CSR Information in departments in charge of data collection processes and, where appropriate, those responsible for internal control procedures and risk management, to:

- assess the Guidelines with respect to their relevance, completeness, reliability, neutrality and understandability, taking into account best practices in the industry, if applicable;
- verify that a data collection, compilation, processing and quality control process has been implemented to ensure the completeness and consistency of the Information and review the internal control and risk management procedures involved in the preparation of the CSR Information.

We determined the nature and scope of tests and quality control processes, based on the type and importance of the CSR Information with respect to the characteristics of the company, the social and environmental impacts of its business activities, its sustainable development strategy, and industry best practices.

For the CSR information we considered to be most important (listed in the tables below):

- at the parent company level, we consulted documentary sources and conducted interviews to corroborate qualitative information (organisation, policies, actions, etc.), verified that this information was coherent and consistent with the rest of the information in the Report of the Board of Directors, implemented analytical procedures, verified the calculation and the consolidation of data on a sample basis and we verified its consistency with the other information in the Report of the Board of Directors ;
- at the entity level, for a representative sample of entities selected⁸ on the basis of their business activity, contribution to consolidated indicators, where they operate and a risk analysis, we conducted interviews to verify the proper application of procedures and performed substantive tests using sampling techniques, to verify calculations and reconcile data with supporting documents. The selected sample accounted for 78% of the workforce and between 51% and 100% of the Group's quantitative environmental information.

Social indicators	Level of assurance
Total staff at 31/12 (permanent contract and fixed-term contract)	√√
Distribution of employees by age and geographical area	√√
Percentage of women at 31/12	√√
Percentage of part-time employees	√√
Recruitments - permanent contract	√√
Recruitments - fixed-term contract	√√
Redundancies (incl. Economic)	√√
Absenteeism due to illness	√√
Absenteeism due to work accidents	√√
Absenteeism due to maternity leave	√√
Frequency rate of workplace accidents	√√
Severity rate of workplace accidents	√√
Total workplace accidents	√√
Total training costs	√√
Number of training hours by employee	√√
Total staff with disabilities	√√
Total staff with disabilities recruited during year	√√
Collective Agreements signed during the year	√√
Payroll indicator	√√

Environmental indicators	Level of assurance
Fuel consumption and CO ₂ emissions – Reasonable assurance	√
Global noise energy indicator	√√
NO _x , HC and SO ₂ low altitude emissions	√√
Occurrences and quantity of fuel jettison	√√
Water consumption	√√
Electricity consumption	√√
Other energies consumption (super-heated water, iced water for air conditioning, DFO, natural gas)	√√
Quantity of non-hazardous industrial waste	√√
Quantity of hazardous industrial waste	√√
Percentage of hazardous industrial waste recovered	√√
VOC emissions	√√
CO ₂ ground emissions	√√
SO ₂ ground emissions	√√
NO _x ground emissions	√√
Total compliance rate of effluents with regulatory limits	√√

NB : √ Reasonable level of assurance. √√ Moderate level of assurance.

⁸ **Environment:** Air France Industrial Division (Orly and Villeneuve Le Roi), Air France ground vehicles & equipment, Servair group and subsidiaries (Servair 1, Acna Roissy), KLM Schiphol and headquarters **for ground operations.**

Air France and subsidiaries CityJet, BritAir, Regional and Transavia France, KLM, KLM CityHopper, Transavia and Martinair **for air operations.**

Social: Air France in France, KLM in the Netherlands and Cobalt Ground Solutions in England.

Qualitative Information

Social aspects	Management of overstaffing Workplace dialogue Diversity and equal opportunity policy Disability policy
Environmental aspects	Global warming Waste management and recovery policy Reduction policy for ground emissions
Societal aspects	Dialogue with stakeholders Contributing to regional economy Partnership and sponsorship initiatives

For the rest of the CSR information, we assessed whether it was consistent with our knowledge of the company.

Lastly, we assessed the adequacy of the justifications provided to explain the entire or partial exclusion of certain information.

We consider that the sampling methods and sizes of the samples used, based on our professional judgment, enable us to form a conclusion of limited assurance; a higher level of assurance would have required more extensive work. Due to the use of sampling techniques and other inherent limitations of the functioning of any information or internal control system, the risk of non-detection of a material misstatement in the CSR Information cannot be completely eliminated.

Conclusion

Based on our work, we did not identify any material anomaly likely to call into question the fact that the CSR Information has been presented fairly, in all material aspects, in accordance with the Guidelines.

Reasonable assurance on a selection of CSR information

Nature and scope of our procedures

Concerning the information selected by the Group and identified by the sign \surd , we conducted the same work as the one described on paragraph 2 hereinabove for the CSR information considered as the most important but in a more extensive way, particularly concerning the number of tests.

The Entities selected represent 100% of the consolidated environmental Data identified by the sign \surd .

In our opinion, our work allows us to express a reasonable assurance on the information selected by the Group and identified by the sign \surd .

Conclusion

In our opinion, the indicators identified by the symbol \surd in the 2013 Report of the Board of Directors have been prepared, in all material aspects, in accordance with the above-mentioned Protocol.

Paris La Défense, February 24, 2014

KPMG Audit
Department of KPMG S.A.

Valérie Besson
Partner

5 Comments on the financial statements

5.1 Comments on the consolidated financial statements

5.1.1 Consolidated results for the financial year to December 31, 2013

Changes in scope during the 2013 financial year:

On February 28, 2013, within the framework of the establishment of *HOP!*, the Group took control of the company Airlinair. On May 15, 2013, the Group sold its Italian subsidiary Servair Air Chef, specialized in airline catering. Lastly, since December 31, 2013, following the Air France-KLM Group's decision not to subscribe to the capital increase in October 2013, the Alitalia entity has no longer been accounted by the equity method. Air France-KLM still holds 7.08% of the Alitalia share capital.

Restatement of the 2012 financial statements:

Since January 1, 2013, IAS 19 Revised "Employee Benefits", published by the IASB in June 2011, has been in force. The consolidated financial statements to December 31, 2012 have been restated to facilitate comparison.

On December 20, 2013, Air France received a firm offer from Intro Aviation GmbH to purchase CityJet and its VLM subsidiary. The planned disposal of these companies has been treated as a discontinued operation and, as a result, the 2012 financial statements have been restated.

Scope at December 31, 2013:

The consolidation scope comprised 162 fully consolidated companies and 41 companies consolidated by the equity method. The two main subsidiaries, Air France and KLM, represented 91% of revenues and 73% of the balance sheet. The other subsidiaries were principally involved in air transportation (*HOP!*, KLM Cityhopper and Martinair), maintenance, catering (Servair Group and KLM Catering Services) and aircraft financing.

<i>(In € million)</i>	December 31, 2013	December 31, 2012 <i>(Restated)</i>	Variation
Revenues	25,520	25,423	+0.4%
EBITDA*	1,855	1,394	+461
EBITDAR**	2,768	2,343	+425
Income/(loss) from current operations	130	(336)	+466
Income/(loss) from operating activities	(227)	(731)	+504
Net income/(loss) from continuing operations	(1,696)	(1,023)	(673)
Net income/(loss) from discontinued operations	(122)	(197)	+75
Net income/(loss), Group share	(1,827)	(1,225)	(602)
Basic earnings/(loss) per share, Group (In €)	(6.17)	(4.14)	(2.03)

n/a: not applicable

* *Result from current operations before amortization, depreciation and provisions. See section 5.2*

** *Result from current operations before amortization, depreciation, provisions and operating leases. See section 5.2*

Revenues

Consolidated revenues for the period amounted to €25.52 billion, a 2.3% increase on a constant currency basis (+0.4% reported). 2013 was characterized by the persistent economic slowdown in Europe. From a capacity perspective, Air France-KLM pursued its policy of strict discipline (an increase of 1.6%) and the industry as a whole remained relatively prudent. For its part, air cargo was affected by the weakness in global trade and structural overcapacity in the industry. Revenues in the passenger business rose by 0.7% and those of the maintenance business were 11.8% higher. Cargo business revenues declined by 7.9%, while revenues from the other businesses were up by 5.6%.

Operating expenses

Operating expenses declined by 1.4% to €25.39 billion. On a constant currency basis, operating expenses were stable after inflation and capacity increases. Total operating expenses declined by 1.7% to €16.00 billion versus €16.27 billion over the previous twelve months. Excluding fuel, external expenses increased by 1.2% relative to the previous twelve months.

The breakdown of external expenses was as follows:

<i>(In € million)</i>	2013	2012 <i>(Restated)</i>	% Ch.
Aircraft fuel	6,897	7,278	(5.2)
Chartering costs	455	551	(17.4)
Aircraft operating lease costs	913	949	(3.8)
Landing fees and en route charges	1,839	1,832	0.4
Catering	589	591	(0.3)
Handling charges and other operating costs	1,405	1,368	2.7
Aircraft maintenance costs	1,303	1,131	15.2
Commercial and distribution costs	852	866	(1.6)
Other external expenses	1,744	1,706	2.2
Total	15,997	16,272	(1.7)

The main changes were as follows:

- **Aircraft fuel:** fuel expense for the year declined by 5.2% on a constant currency basis and by 2.2% reported. This fall was the combined result of a 1.8% price effect and a volume effect of 0.4%.
- **Chartering costs** incurred through leasing aircraft capacity from other airlines fell by €96 million relative to the previous year under the effect of a reduction in the capacity purchased and contract renegotiation.
- **Aircraft operating** lease costs declined by 3.8% under the influence of the euro/dollar exchange rate and the renegotiation of contracts on expiry. On a constant currency basis, they fell by 0.9%.
- **Landing fees and en route charges** relating to air navigation services and the use of airports rose by 2.0% on a constant currency basis, in line with activity.
- **Catering costs** relating to services supplied on board aircraft were stable. 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 by 2.7% reported and by 4.3% on a constant currency basis.
- **Aircraft maintenance costs** include the maintenance of the Group's aircraft and procurement for third parties. These costs increased by 15.2%, principally due to the growth in third-party sales which rose by 11.8% over the period.
- **Commercial and distribution costs** declined by 1.6% on a constant currency basis and remained virtually unchanged on a reported basis (-0.3%), thanks notably to the growth in cheaper distribution channels (13% increase in internet sales).
- **Other external expenses** principally comprise rental charges, telecommunications costs, insurance and fees. They rose by 2.2% on a reported basis and by 3.0% on a constant currency basis.

Salaries and related costs amounted to €7.48 billion versus €7.66 billion in 2012, i.e. a fall of 2.4%. The average headcount declined (-3.5%) to 96,417 employees.

Taxes other than income taxes stood at €186 million versus €184 million at December 31, 2012, up by 1.1%.

Amortization totalled €1.57 billion versus €1.58 billion at December 31, 2012.

Net allocations to depreciation and provisions amounted to €159 million versus €154 million during the previous year.

The unit cost per EASK (Equivalent Available Seat-Kilometer) was reduced by 3.8%, the combined result of a 0.1% increase in pension expense, a 0.6% fall due to the decline in fuel price, a 1.3% decline on currency variation and a 2.0% net reduction in costs.

Income/(loss) from current operations

The **result from current operations** was positive at €130 million (versus a loss of €336 million at December 31, 2012).

The contributions to revenues and income/(loss) from current operations by business segment were as follows:

<i>(In € million)</i>	2013		2012 <i>(Restated)</i>	
	Revenues	Income/(loss) from current operations	Revenues	Income/(loss) from current operations
Passenger	20,112	174	19,976	(260)
Cargo	2,816	(202)	3,057	(230)
Maintenance	1,225	159	1,096	140
Others	1,367	(1)	1,294	14
Total	25,520	130	25,423	(336)

Income/(loss) from operating activities

The result from operating activities was a €227 million loss versus a loss of €731 million at December 31, 2012.

Over the financial year ended December 31, 2013, the result from operating activities included, notably, €200 million of restructuring charges linked to the voluntary departure plans and €111 million in respect of fleet restructuring and onerous lease contracts.

Lastly, the Group recorded an exceptional tax of €7 million on salaries in the Netherlands linked to the economic crisis in Europe, an additional €14 million provision relating to the outstanding cargo anti-trust proceedings and an €18 million provision following disputes with flight personnel.

Net cost of financial debt

The net cost of financial debt increased to €404 million versus €353 million during the previous financial year. This increase was largely due to a €45 million rise in the cost of gross debt.

Other financial income and expenses

Other net financial income amounted to a positive €103 million at December 31, 2013 versus €144 million at December 31, 2012.

The breakdown was as follows:

- A currency gain of €74 million (versus €64 million at December 31, 2012)
- A €57 million positive variation in the fair value of financial assets and liabilities (€63 million at December 31, 2012) mostly due to the €84 million positive impact of the fuel hedges and the €30 million negative impact from currency hedges
- Allocations to provisions of €30 million versus a €15 million write-back at December 31, 2012.

Net income/(loss) – Group share

Income taxes amounted to €957 million versus €17 million at December 31, 2012.

In France, tax losses can be carried forward for an unlimited period. The 2011 and 2012 Finance Acts did, however, cap the amount of fiscal losses recoverable each year to 50% of the profit for the period above the first million euros. Although the period for recovering these fiscal losses against future profits has been extended within a context of prevailing economic crisis and a highly competitive global market, for reasons of prudence the Group decided to set an appropriate limit on the recovery horizon for the French fiscal scope to take into account potential changes in the fiscal environment and the increased volatility of the business. A provision of €937 million was therefore recorded at December 31, 2013.

In the Netherlands, tax losses can be carried forward over nine years, with no limit on the amount of fiscal loss recoverable each year.

Share of profits/(losses) from associates contributed a loss of €211 million at December 31, 2013 versus a negative contribution of €66 million in the previous year. This essentially comprised the share of Alitalia losses allocated to Air France-KLM and an impairment provision on Alitalia shares when the latter had been equity accounted in the Group's financial statements, amounting to a total of €202 million.

The **result from discontinued operations** was a negative €122 million at December 31, 2013 versus a negative €197 million during the previous financial year. This includes the result from the companies CityJet and VLM. At December 31, 2013, within the framework of the evaluation of these two companies, the result also includes an additional €77 million provision to write down the net asset value for the CityJet and VLM entity to its expected sale price and a €25 million provision to cover a breach of contract and disputes concerning the payment of social security charges in France.

The net income/(loss), Group share stood at a loss of €1.83 billion at December 31, 2013 versus a loss of €1.23 billion at December 31, 2012. Adjusted for non-recurring items, the restated net loss amounted to €349 million, a marked improvement relative to 2012 (a loss of €696 million, see section 5.2, Key financial indicators).

The contributions to the net result by quarter were, respectively, €(630) million at March 31, 2013, €(163) million at June 30, 2013, €143 million at September 30, 2013 and €(1,177) million at December 31, 2013.

Basic earnings/(loss) per share, Group share, amounted to €(6.17) at December 31, 2013 versus €(4.14) at December 31, 2012.

5.1.2 Investments and financing of the Group

Capital expenditure on tangible and intangible assets amounted to €1.19 billion over the financial year (€1.47 billion at December 31, 2012) of which €368 million of investment in the fleet, €407 million in maintenance, €137 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 €245 million versus €742 million at December 31, 2012.

During the financial year ended December 31, 2013, the Group renewed a car park lease with Aéroport de Paris. This contract was classified as a financial lease. A leasing contract on an A340 aircraft, which had been classified as a financial lease in 2012, was reclassified as an operating lease during the 2013 financial year. Neither the acquisition nor the debt attached to these two items had any impact in the cash flow statement.

Operating cash flow was positive to the tune of €1.48 billion (€851 million at December 31, 2012) given the €370 million positive change in working capital requirement.

At December 31, 2013, the Group had €4.23 billion of net cash, of which €3.68 billion in cash and cash equivalents. Furthermore, the Group has un-drawn credit facilities amounting to a total of €1.8 billion.

Net financial debt amounted to €5.35 billion at December 31, 2013 (€5.97 billion at December 31, 2012).

The application of IAS 19 Revised having introduced a potentially significant level of volatility in the Air France-KLM Group's stockholders' equity, the gearing ratio is not relevant and will no longer be published.

5.1.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2013.

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, the expenses linked to the compensation of company officers and the staff made available by Air France and KLM. At December 31, 2013, the operating result was thus negative to the tune of €7 million.

The net result was a €322 million loss, mainly due to the financial costs on the bond issues together with provisions on shares. No dividend was paid in respect of 2012.

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 quater of the French Tax Code no excess amortization was recognized.

Information on the maturity of accounts payable

At December 31, 2013, accounts payable stood at €11 million of which €5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

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.

5.1.4 Revision to IAS 19 Revised "Employee Benefits"

IAS 19 Revised "Employee Benefits" has been applicable since January 1, 2013.

The main principle of IAS 19 Revised is the removal, when a scheme leaves the 10% corridor, of the option enabling the amortization of actuarial gains and losses. These actuarial differences are now recognized directly in other comprehensive income. Pursuant to the standard, the application as of January 1, 2013 resulted in 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, 2012),
- Adjustment in the 2012 result amounting to €(40) million gross reduced by the tax effect to €(33) million net of tax.

5.2 Key financial indicators

EBITDA

<i>(In € million)</i>	2013	2012*
Income/(loss) from current operations	130	(336)
Amortization	1,566	1,576
Depreciation and provisions	159	154
EBITDA	1,855	1,394

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

In addition to the debt reduction objective, the Group targets an improvement in EBITDA to in the region of €2.5 billion in 2014, subject to there being no reversal in current operating trends.

Adjusted operating result and 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 level of debt calculations. Consequently, the result from current operations is adjusted by the portion of operating leases assimilated with 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, by stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

	2013	2012*
Income/(loss) from current operations <i>(in €m)</i>	130	(336)
Portion of operating leases corresponding to financial charges (34%) <i>(in €m)</i>	310	323
Adjusted income/(loss) from current operations <i>(in €m)</i>	440	(13)
Revenues <i>(in €m)</i>	25,520	25,423
Adjusted operating margin	1.7%	(0.1)%

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Restated net income

The restated net result corresponds to the net result adjusted for exceptional or non-recurring items.

	2013	2012*
Net income/(loss), Group share <i>(in €m)</i>	(1,827)	(1,225)
Net income/(loss) from discontinued operations <i>(in €m)</i>	122	197
Impairment of Alitalia shares <i>(in €m)</i>	119	-
Depreciation of deferred tax assets <i>(in €m)</i>	937	-
Change in fair value of financial assets and liabilities (derivatives) <i>(in €m)</i>	(57)	(63)
Non current income and expenses <i>(in €m)</i>	357	395
Restated net income/(loss), Group share <i>(in €m)</i>	(349)	(696)
Restated net income/(loss) per share, Group share <i>(in €)</i>	(1.18)	(2.35)

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Net debt

For the calculation of net debt, the Group carries out two types of adjustment. Firstly, the 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. Similarly, the cash pledges within the framework of the four-year swap contract with Natixis relating to the OCEANE 2.75% 2020 are deducted from the corresponding debt.

Secondly, marketable securities (see note 24 to the consolidated financial statements) and the cash pledges, principally constituted within the framework of the appeal against the amount of the cargo fine filed with the European Union Court of Justice, are added to cash.

At December 31, 2013, the Group had €199 million of cash held in bank accounts in Venezuela. This originates from the local sale of aircraft tickets for the period from December 2012 to December 2013. Within the framework of the foreign exchange controls, monthly transfer requests have been made to the Currency Exchange Commission. Given the Venezuelan political and economic context, these requests have not resulted in currency transfers. The last transfer took place in October 2013.

Balance sheet at	December 31, 2013	December 31, 2012*
<i>(In € million)</i>		
Current and non-current financial debt	10,733	10,999
Deposits on aircraft under finance lease	(626)	(650)
Financial assets pledged (OCEANE swap)	(393)	(393)
Currency hedge on financial debt	8	4
Accrued interest	(144)	(112)
Gross financial debt	9,578	9,848
Cash and cash equivalents	3,684	3,420
Marketable securities	126	320
Cash pledges	432	243
Deposits (bonds)	154	156
Bank overdrafts	(166)	(257)
Net cash	4,230	3,882
Net debt	5,348	5,966

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Within the framework of the Transform 2015 plan, the Group has set itself a target of reducing net debt to €4.5 billion during 2015.

Gearing ratio

In view of the significant volatility in stockholders' equity resulting from the adoption of IAS 19 Revised, the Group no longer uses the gearing ratio as a key financial indicator but has opted instead to track the following financial cover ratios.

Financial cover ratios

The reduction in net debt and a recovery in the Group's operating cash flow are the main objectives of the Transform 2015 plan, which must be reflected in a significant improvement in the financial cover ratios.

> Net debt/EBITDA ratio

	2013	2012*
Net debt <i>(in €m)</i>	5,348	5,966
EBITDA <i>(in €m)</i>	1,855	1,394
Net debt/EBITDA	2.9x	4.3x

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

> EBITDA/net cost of financial debt ratio

	2013	2012*
EBITDA <i>(in €m)</i>	1,855	1,394
Net cost of financial debt <i>(in €m)</i>	404	353
EBITDA/ net cost of financial debt	4.6x	4.0x

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Adjusted net debt /EBITDAR ratio

Adjusted net debt amounts to net debt added to the annual amount of operating leases capitalized at seven times. EBITDAR corresponds to the result from current operations before amortization, depreciation, provisions and operating leases.

	2013	2012*
Net debt <i>(in €m)</i>	5,348	5,966
Operating leases x 7 <i>(in €m)</i>	6,391	6,643
Total adjusted net debt <i>(in €m)</i>	11,739	12,609
EBITDA <i>(in €m)</i>	1,855	1,394
Operating leases <i>(in €m)</i>	913	949
EBITDAR <i>(in €m)</i>	2,768	2,343
Adjusted net debt/EBITDAR	4.2x	5.4x

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

EBITDAR/adjusted net cost of financial debt

The adjusted net cost of financial debt includes the portion of operating leases corresponding to interest charges (34%).

	2013	2012*
EBITDAR (in €m)	2,768	2,343
Net cost of financial debt (in €m)	404	353
Portion of operating leases corresponding to interest charges (34%) (in €m)	310	323
Adjusted net cost of financial debt (in €m)	714	676
EBITDAR/ net cost of financial debt	3.9x	3.5x

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Operating free cash flow

Operating free cash flow represents the cash available after investment in property, plant, equipment and intangible assets for solely operational purposes. It does not include the other cash flows linked to investment operations, particularly financial. In this financial indicator, the Group includes the amount of the acquisition contracts for property, plant, equipment and intangible assets which, on an exceptional basis, have not been recorded under investments in the consolidated statements of cash flows table.

(In € million)	2013	2012*
Net cash flow from operating activities	1,479	851
Investment in property, plant, equipment and intangible assets	(1,186)	(1,465)
Acquisition of property, plant, equipment and intangible assets not recorded under investments (non-cash transactions)	-	(175)
Proceeds on disposal of property, plant, equipment and intangible assets	245	742
Operating free cash flow	538	(47)

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Return on Capital Employed (ROCE)

Return on capital measures the return on invested capital by expressing the adjusted income/(loss) from current operations (after the application of the tax rate recognized in the restated net result) 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 derivatives (a negative €48 million at December 31, 2013 and a negative €44 million at December 31, 2012) reduced by the portion of goodwill 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/(loss) from current operations integrating the tax charge recognized in the restated net result.

	2013	2012*
Stockholders' equity excluding the pension fund surplus and derivatives (in €m)	1,410	2,753
Net debt (in €m)	5,348	5,966
Operating leases x 7 (in €m)	6,391	6,643
Capital employed (in €m)	13,149	15,362
Adjusted income/(loss) from current operations (in €m)	440	(13)
Tax charge recognized in the restated net result (in €m)	(20)	(17)
Adjusted income/(loss) from current operations after integration of the tax charge recognized in the restated net result (in €m)	420	(30)
ROCE	3.2%	(0.2)%

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation

Cost of capital

	2013	2012
Cost of stockholders' equity	15.0%	14.6%
Marginal cost of debt, post tax	4.0%	4.6%
Percentage of stockholders' equity/target debt		
• Stockholders' equity	31%	31%
• Debt	69%	69%
Weighted average cost of capital after taxation	7.4%	7.7%

Net cost per EASK

To analyze the cost performance of each transportation activity, the Group divides the net cost of this activity by the capacity produced, expressed in ASK for the passenger business and Transavia, and in ATK for the cargo business.

To analyze the company's overall cost performance, the Group uses the net cost per EASK. This net cost is obtained by dividing the total net cost by the capacity produced expressed in equivalent available seat-kilometers (EASK). The net cost is calculated by subtracting the revenues other than those generated by the three transportation activities (passenger, Cargo and Transavia) from total operating expenses. The capacity produced by the three transportation activities is combined by adding the capacity of the passenger business (in ASK) to that of Transavia (in ASK) and the cargo business (in ATK) converted into EASK based on a separate fixed factor for Air France and for KLM.

IAS 19 Revised makes the defined benefit pension expense more volatile. This expense varies independently of the corresponding cash outflows. The calculation of the change in the net cost per EASK on a constant defined benefit pension expense basis enables this effect to be stripped out.

	2013	2012*
Revenues (in €m)	25,520	25,423
Income/(loss) from current operations (in €m)	130	(336)
Total operating expense (in €m)	25,390	25,759
Passenger business – other passenger revenues (in €m)	936	911
Cargo business – other air freight revenues (in €m)	197	185
Third-party revenues in the maintenance business (in €m)	1,225	1,096
Other businesses – revenues other than Transavia transportation (in €m)	419	443
Net cost (in €m)	22,613	23,124
Capacity produced, reported in EASK	333,480	328,188
Net cost per EASK (in € cents per EASK)	6.78	7.05
Gross change	-3.8%	
Currency effect on net costs (in €m)		-307
Change on constant currency	-2.5%	
Oil price effect (in €m)		-126
Change on a constant currency and fuel price basis	-1.9%	
Defined pension benefit expense included in salaries and related costs (in €m)	379	359
Net cost per EASK on a constant currency, fuel price and defined benefit pension expense basis (in € cents per EASK)	6.78	6.92
Change on a constant currency, fuel price and defined benefit pension expense basis	-2.0%	

*Restated for IAS 19 Revised, CityJet reclassified as a discontinued operation