Management Report
2011

Société anonyme with share capital of 300 219 278 euros
Registered offices: 2, rue Robert Esnault-Pelterie, 75007 Paris
Mailing address: 45, rue de Paris, 95747 Roissy CDG Cedex
Paris Trade and Company Register: 552 043 002

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Corporate governance

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1.1 The Board of Directors

To comply with the governance principles as presented in the AFEP-MEDEF Corporate Governance Code and adopt the conclusions of the evaluation of the functioning of the Board of Directors, the General Shareholders' Meeting of July 10, 2008, decided to reduce the duration of Board directors' terms of office from six to four years and to include the option of a staggered renewal process for mandates in the bylaws.

The General Shareholders' Meeting of July 8, 2010 thus fixed the duration of new or re-appointed Board directors' mandates at two, three or four years to ensure the smooth renewal of the Board of Directors.

The General Shareholders' Meeting of July 7, 2011 decided to appoint Mr Jaap de Hoop Scheffer as a Board director for a four-year term of office, Mr Frits Bolkestein not having sought the renewal of his mandate.

Ms Marie-Christine Saragosse, representing the French State, was also appointed as a Board director by order of the French Ministry of the Economy, Finance and Industry dated July 27, 2011, replacing Mr Philippe Josse.

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

Furthermore, Mr Pierre-Henri Gourgeon resigned his office as Board director on October 17, 2011.

1.1.1 Composition of the Board of Directors

At December 31, 2011, the Board of Directors comprised 14 members:

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

Following the resignation of Mr Pierre-Henri Gourgeon, Mr Alexandre de Juniac, Chairman and Chief Executive Officer of Air France, was co-opted as a Board director following a decision taken by the Board of Directors on January 11, 2012*. Since that date, the Board of Directors has thus comprised 15 members.

There are three women members of the Board of Directors, or a 20% proportion, in line with the AFEP-MEDEF recommendation of April 19, 2010 and the provisions of the law of January 27, 2011 relating to the balanced representation of women and men within Boards of Directors. In view of the Board director mandates expiring in 2013 and 2014, the Appointments Committee will propose candidates aimed at reinforcing the presence of women within the Board in order to comply, within the recommended time horizons and in the final proportion, with the AFEP-MEDEF recommendation and the afore-mentioned legal provisions.

The functions exercised by the members of the Board of Directors within the specialized committees are detailed in the *Board of Directors Committees* section.

* *This appointment will be submitted to the General Shareholders' Meeting of May 31, 2012 for ratification.*

Directors appointed by the Shareholders' Meeting

Jean-Cyril Spinetta

Chairman and Chief Executive Officer of Air France-KLM (since October 17, 2011)*

First appointed as a Board director: September 23, 1997.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2013.
Number of shares held in the company's stock: 65,349 shares.

Other directorships and offices

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

Non-French company
- Director of Alitalia CAI (Italy)

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

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

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

Non-French companies
- Director of Unilever* (United Kingdom) until July 2007
- Director of Alitalia (Italy) until January 2007

Born October 4, 1943, Mr Spinetta is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

Leo M. van Wijk

*Deputy Chief Executive Officer (since October 17, 2011) and Vice-Chairman of the Board of Directors of Air France-KLM**

First appointed as a Board director: June 24, 2004.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011.
Number of shares held in the company's stock: 3,565 shares.

Other directorships and offices

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

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

Non-French companies
- Member of the Supervisory Board of Martinair (Netherlands) until March 2008
- Member of the Supervisory Board of Kennemer Gasthuis (Netherlands) until December 2007
- Member of the Advisory Board of ABN Amro Holding (Netherlands) until December 2007
- President of the KLM Management Board (Netherlands) until July 2007
- Director of Northwest Airlines (United States) until May 2007

Born October 18, 1946, Mr van Wijk, a Dutch national, holds a Masters degree in Economic Sciences.

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* Listed company

Maryse Aulagnon

*Chairman and Chief Executive Officer of Affine S.A.**

First appointed as a Board director: July 8, 2010.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2012.
Number of shares held in the company's stock: 1,500 shares.

Other directorships and offices

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

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

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

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

Non-French company
- Affine group: Chairman of GPBeta Holding (Luxembourg) from February 2006 to March 2007

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

Born April 19, 1949, Ms Aulagnon is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration and holds a post-graduate degree in economic sciences.

Patricia Barbizet

Chief Executive Officer and director of Artémis

First appointed as a Board director: January 3, 2003.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2013.
Number of shares held in the company's stock: 2,270 shares.

Other directorships and offices

French companies
- Artémis/PPR group*: Member of the Supervisory Board and Chief Executive Officer of Financière Pinault, director and Chief Executive Officer of the Société Nouvelle du Théâtre Marigny, Artémis Permanent representative on the Boards of Directors of Sebdo Le Point and L'Agefi, Member of the Management Board of Château Latour, Vice-Chairman of the Board of Directors of PPR*, Member of the Supervisory Board of Yves Saint-Laurent
- Within the Bouygues Group: director of Bouygues* and of TF1*
- Director of Total*
- Director of the Fonds Stratégique d'Investissement and Chairman of the Investment Committee

Non-French companies
- Director (*Amministratore & Amministratore Delegato*) of Palazzo Grassi (Italy)
- Chairman and Board member of Christie's International Plc (United Kingdom)
- Non-executive director of Tawa* (United Kingdom)
- Board member of Gucci Group N.V.* (Netherlands)

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

French companies
- Director of Fnac SA until May 2011
- Director of Piasa until December 2008
- Chairman of the Board of Directors of Piasa until May 2008
- Chairman and Chief Executive Officer of Piasa until April 2007

Born April 17, 1955, Ms Barbizet is a graduate of the École Supérieure de Commerce de Paris.

* *Listed company*

Jean-François Dehecq

*Honorary Chairman of Sanofi-Aventis**

First appointed as a Board director: January 25, 1995.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011.
Number of shares held in the company's stock: 523 shares.

Other directorships and offices

French companies

- Director of Veolia Environnement*
- Chairman of the Orientation Committee of the Fonds Stratégique d'Investissement
- Balmain Group: Chairman of the Board of Directors of Pierre Balmain S.A. and director of Balmain

Other

- Chairman of the Sanofi Espoir Corporate Foundation

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

French companies

- Chairman of the Board of Directors of Sanofi-Aventis* until May 2010
- Director of Société Financière des Laboratoires de Cosmétologie Yves Rocher until June 2007
- Chairman and Chief Executive Officer of Sanofi-Aventis* until December 2006

Other

- Chairman of ENSAM (École Nationale Supérieure d'Arts et Métiers) until June 2011
- Chairman of the National Committee of États Généraux de l'Industrie until March 2010
- Member of the French Foundation for Research into Epilepsy until 2009
- Director of the French National Research Agency until 2009
- Chairman of the National Association for Technical Research until 2009
- Governor to the Board of the American Hospital of Paris until November 2008
- Vice-Chairman of EFPIA (European Federation of Pharmaceutical Industries and Associations) (Belgium) until June 2008
- Member of the Supervisory Board of the Agency for Industrial Innovation until December 2007

Born January 1, 1940, Mr Dehecq is a graduate of the École Nationale des Arts et Métiers.

* *Listed company*

Jean-Marc Espalioux

Partner and Executive Chairman of Montefiore Investment

First appointed as a Board director: September 14, 2001.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2012.
Number of shares held in the company's stock: 601 shares.

Other directorships and offices

French companies
- Member of the Supervisory Board of Foncière Inéa*
- Member of the Supervisory Board of Homair Vacances*
- Member of the Supervisory Board of Paprec SAS

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

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

Born March 18, 1952, Mr Espalioux is a graduate of the Institut des Sciences Politiques de Paris and of the École Nationale d'Administration.

Peter Hartman

President and Chief Executive Officer of KLM

First appointed as a Board director: July 8, 2010.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2012.
Number of shares held in the company's stock: 2,960 shares.

Other directorships and offices

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

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

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

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

Born April 3, 1949, Mr Hartman, a Dutch national, is a graduate of the Amsterdam Institute of Technology (mechanical engineering).

* *Listed company*

Jaap de Hoop Scheffer

Kooijmanschair for Peace, Justice and Security, Leiden University (Netherlands)

First appointed as a Board director: July 7, 2011.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2014.
Number of shares held in the company's stock: 25 shares.

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 and Defence Agenda (Brussels)
- Member of the European Council on Foreign Relations (London)

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

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

Born April 3, 1948, Mr de Hoop Scheffer, a Dutch national, is a law graduate of Leiden University. He also served, notably, as Chairman of the Christian Democratic Alliance from 1997 to 2001 and Minister of Foreign Affairs of the Netherlands from July 2002 until January 2004.

Cornelis J.A. van Lede

Chairman of the Supervisory Board of Heineken (Netherlands)*

First appointed as a Board director: June 24, 2004.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2011.
Number of shares held in the company's stock: 1,000 shares.

Other directorships and offices

French companies

- Director of L'Air Liquide*

Non-French companies

- Member of the Supervisory Board of Philips Electronics (Netherlands)
- Director of Sara Lee Corporation* (United States)

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 2008
- Director of Reed Elsevier* (United Kingdom/Netherlands) until May 2007
- Member of the Supervisory Board of Akzo Nobel N.V.* (Netherlands) until May 2007

Others

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

Born November 21, 1942, Mr van Lede, a Dutch national, was Chairman of the Management Board of Akzo Nobel between 1994 and 2003 and Chairman of the Dutch Federation of Industries between 1984 and 1991.

* *Listed company*

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.

Jean-Dominique Comolli

Commissioner for State Holdings

First appointed as a Board director: December 14, 2010.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2013.

Other directorships and offices representing the French State

French companies and public institutions

- Director of the SNCF
- Director of EDF*
- Member of the Areva* Supervisory Board
- Director of France Telecom*
- Director of the Fonds Stratégique d'Investissement
- 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

- Chairman of the Board of Directors of Seita until September 2010
- Director of Casino* until September 2010
- Director of Pernod Ricard* until September 2010
- Director of Crédit Agricole Corporate & Investment Bank until August 2010

Non-French companies

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

Born April 25, 1948, Mr 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.

* *Listed company*

Claude Gressier

Honorary General Public Works Engineer, Managing Director, Infrastructures, Transport and Maritime Affairs at the Ministry of Ecology, Sustainable Development, Transport and Housing

First appointed as a Board director: June 24, 2004.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2013.

Other directorships and offices representing the French State

Public institution
- Director of the SNCF

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

Public institution
- Representative of the Counsel General for Public Works on the Board of Directors of the Établissement des Autoroutes de France until December 2008

Born July 2, 1943, Mr 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.

Marie-Christine Saragosse

Chief Executive Officer of TV5Monde

First appointed as a Board director: July 27, 2011.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2014.

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

Public Institutions
- Director for Cultural Cooperation and French Language Promotion at the French Ministry of Foreign Affairs between 2006 and 2008
- Member of the Board of Directors of the Agency for French Teaching Abroad from 2006 to 2008
- Member of the Board of Directors of Cultures Frances between 2006 and 2008

Born March 24, 1960, Ms Saragosse is a graduate of the Institut des Sciences Politiques de Paris and the École Nationale d'Administration and holds a social sciences degree from the École des Hautes Études en Sciences Sociales.

Directors representing the employee shareholders

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

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

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

Bernard Pédamon

Representative of the flight deck crew

First appointed as a Board director: July 8, 2010.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2013.
Number of shares held in the company's stock: 2,959 shares and 8,028 FCPE units.

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

French company

- Board director of Air France representing the flight deck crew until July 2010

Born July 10, 1961, Mr Pédamon, a Boeing 777 flight captain, is a graduate of the Science Faculty of Paris Orsay and holds a Masters degree (formerly DESS) in International Transport from the University of Paris I.

Christian Magne

Representative of the ground staff and cabin crew

First appointed as a Board director: September 14, 2001.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2013.
Number of shares held in the company's stock: 156 shares and 392 FCPE units.

Born August 20, 1952, Mr Magne is a finance executive.

Directors whose mandates expired during the 2011 financial year

Pierre-Henri Gourgeon

First appointed as a Board director: January 20, 2005.
Expiration date of office: October 17, 2011.

Other directorships and offices

French company
- Member of the Supervisory Board of Steria*

Non-French company
- Vice-Chairman of the Board of Directors of Amadeus IT Holding* (Spain)

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

French companies
- Chief Executive Officer of Air France-KLM* until October 2011
- Chief Executive Officer of Air France until October 2011
- Deputy Chief Executive Officer of Air France-KLM* until December 2008
- Deputy Chief Executive Officer of Air France until December 2008

Born April 28, 1946, Mr Gourgeon is a graduate of the École Polytechnique and the École Nationale Supérieure de l'Aéronautique. He is also a graduate of the California Institute of Technology.

Frits Bolkestein

First appointed as a Board director: November 22, 2005.
Expiration date of office: July 7, 2011.

Other directorships and offices

Non-French company
- Member of the Supervisory Board of de Nederlandsche Bank (Netherlands)

Other
- Chairman of Telders Foundation (Netherlands)

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

Non-French company
- Advisor to PricewaterhouseCoopers (Netherlands) until December 2007

Born April 4, 1933, Mr Bolkestein, a Dutch national, was a Member of the European Commission between 1999 and 2004.

* *Listed company*

Philippe Josse

Member of the Council of State

First appointed as a Board director: May 16, 2006.
Expiration date of office: July 27, 2011

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

French companies and public institutions
- Director of EDF* until June 2011
- Director of the SNCF until May 2011

Born September 23, 1960, Mr Josse holds a law degree and is a graduate of the Institut d'Études Politiques de Paris and of the École Nationale d'Administration.

Board director co-opted since the end of the 2011 financial year

Alexandre de Juniac

Chairman and Chief Executive Officer of Air France (since November 16, 2011)

First appointed as a Board director: January 11, 2012. This appointment will be submitted to the General Shareholders' Meeting of May 31, 2012 for ratification.
Expiration date of current term of office: Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2014 (subject to ratification by the General Shareholders' Meeting of May 31, 2012).
Number of shares held in the company's stock: 2,000 shares.

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

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

Born November 10, 1962, Mr de Juniac is a graduate of the École Polytechnique de Paris and of the École Nationale d'Administration.

Secretary for the Board of Directors

Jean-Marc Bardy

Legal Counsel

* *Listed company*

➤ Experience of members of the Board of Directors

Board director	Age at December 31, 2011	Date appointed to the Group	Date appointed to the Air France-KLM Board	Sector	Principal current position
	Board of Directors experience			**Professional experience**	
Jean-Cyril Spinetta	68 years	September 23, 1997	September 15, 2004	Public Service, Air Transport (Air Inter and Air France)	Chairman and Chief Executive Officer of Air France-KLM
Leo van Wijk	65 years	June 24, 2004	September 15, 2004	Air Transport (KLM)	Deputy CEO and Vice-Chairman of the Air France-KLM Board of Directors
Alexandre de Juniac**	49 years	November 16, 2011	January 11, 2012	Public Service Aeronautics Industry (Thales)	Chairman and Chief Executive Officer of Air France
Maryse Aulagnon*	62 years	July 8, 2010	July 8, 2010	Industry (CGE) Property and Finance (Affine Group)	Chairman and Chief Executive Officer of Affine
Patricia Barbizet*	56 years	January 3, 2003	September 15, 2004	Industry (Renault, Pinault Group)	Chief Executive Officer and director of Artémis
Jean-Dominique Comolli	63 years	December 14, 2010	December 14, 2010	Industry (Seita, Altadis) Public Service	Commissioner for State Holdings
Jean-François Dehecq*	71 years	January 25, 1995	September 15, 2004	Industry (SNPA, Sanofi and Véolia Environnement)	Honorary Chairman of Sanofi-Aventis
Jean-Marc Espalioux*	59 years	September 14, 2001	September 15, 2004	Services (CGE, Accor)	Partner and Executive Chairman of Montefiore Investment
Claude Gressier	68 years	June 24, 2004	September 15, 2004	Public Service	Honorary General Public Works Engineer, director of the SNCF
Peter Hartman	62 years	July 8, 2010	July 8, 2010	Air Transport (KLM)	President and Chief Executive Officer of KLM
Jaap de Hoop Scheffer*	63 years	July 7, 2011	July 7, 2011	Diplomacy and Higher Education	Kooijmanschair for Peace, Justice and Security, Leiden University (Netherlands)
Cornelis van Lede*	69 years	June 24, 2004	September 15, 2004	Industry (Shell, Akzo, Dutch Industry Federation), Consultancy (McKinsey & Company)	Chairman of the Heineken Supervisory Board
Christian Magne	59 years	September 14, 2001	September 15, 2004	Air Transport (Air France)	Finance Executive
Bernard Pédamon	50 years	July 8, 2010	July 8, 2010	Air Transport (Air France)	Boeing 777 Flight Captain
Marie-Christine Saragosse***	51 years	July 27, 2011	July 27, 2011	Audiovisual	Chief Executive Officer of TV5Monde

* *Directors deemed to be independent.*

** *Co-opted as a Board director following a Board of Directors decision of January 11, 2012. This appointment will be submitted to the General Shareholders' Meeting of May 31, 2012 for ratification.*

*** *Appointed by ministerial order on July 27, 2011, replacing Mr Philippe Josse.*

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

Change in the Group's governance

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

The Committee thus proposed to the Board of Directors that the:

- implementation of the Group's new governance be postponed until 2013 to give priority to reinstating and improving the results of Air France and KLM;
- strategic and operational coordination between the Air France and KLM Groups be reinforced by appointing Mr Spinetta and Mr van Wijk as, respectively, Chairman and Chief Executive Officer and Deputy Chief Executive Officer of Air France-KLM;
- appointment of Mr Alexandre de Juniac as Chairman and Chief Executive Officer of Air France be recommended to the Air France Board of Directors.

Due to this change in strategy, Mr Pierre-Henri Gourgeon decided to resign his offices as Chief Executive Officer and Board director of Air France-KLM.

Reunification of the functions of Chairman and Chief Executive Officer

Following the resignation of the Chief Executive Officer, the Board of Directors meeting of October 17, 2011 decided, as proposed by the Appointments Committee, to reunite the functions of Chairman of the Board of Directors and Chief Executive Officer. Since that date, Jean-Cyril Spinetta (who had, until then, been Chairman of the Board of Directors) has fulfilled the functions of Chairman and Chief Executive Officer.

The Board of Directors meeting of October 17, 2011 also appointed Mr Leo van Wijk as Deputy Chief Executive Officer, who has all the powers recognized by law.

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 its internal regulations, inspired by the Bouton and Vienot reports. 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 the 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).

Corporate governance principles and independence of the directors

The Board of Directors operates in accordance with the governance principles in force in France as presented in the AFEP-MEDEF Corporate Governance Code updated in April 2010 and available on the MEDEF website (www.medef.com, corporate governance section). However, given its ownership structure (notably the French State and employees) and the specific rules governing the appointment of a number of its Board directors, Air France-KLM does not comply in full with the AFEP-MEDEF Code guidelines with regard to the proportion of independent directors within the Board of Directors and the Audit Committee.

Having examined the situation of each Board director in the light of the criteria stipulated by the AFEP-MEDEF Code, the Board of Directors meeting of March 7, 2012 adopted the following position:

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

The Board considered that all the Board directors had competences and professional experience that are useful to the company, whether or not they are deemed to be independent in the light of the AFEP-MEDEF criteria.

Compliance and ethics

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

In the past five years, to the company's knowledge, no Board director has been subject to a fraud or other criminal conviction or to public sanction by the statutory or regulatory authorities, associated with a bankruptcy, a sequestration of goods or liquidation nor has, finally, been prevented by a court from acting as a member of a management or supervisory body of an issuer or from involvement in managing the business of an issuer.

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 15.8%

of the Air France-KLM share capital as of December 31, 2011, also holds 52.1% of the share capital of Aéroports de Paris. Furthermore, the SNCF, which is Air France's main competitor on the domestic network, is a public company.

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

There is no service level contract 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 each director may speak in French or in English with simultaneous interpretation.

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

Board activity during the 2011 financial year

During the 2011 financial year (nine-month financial year following the change in the opening and closing dates for the financial year decided by the General Shareholders' Meeting of July 7, 2011), the Board of Directors met seven times, including two extraordinary meetings (nine meetings in 2010-11 over a twelve-month financial year). The Board meetings averaged more than two hours and forty minutes and the attendance rate for directors was 87.62% (88.15% in 2010-11).

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;
- fuel hedging strategy;
- cost-cutting plan;
- update on the long-term vision of the air transport industry;
- strategic challenges for the European airlines;
- choice of the fleet;
- status report on aviation safety;
- trans-Atlantic joint-venture with Delta;
- compensation of the executive directors;
- change in the Group's governance;
- amendment to the internal regulations of the Board of Directors and the Compliance Rules.

The annual Board of Directors meeting devoted to the Group's strategy was held in January 2012. It reviewed, in particular, the Group's three-year transformation plan (2012-14) and the implementation of the three priorities it had set in November 2011: restoring competitiveness through cost-cutting, restructuring the short- and medium-haul operations and rapidly reducing debt.

Evaluation of the functioning of the Board of Directors

The members of the Board of Directors conducted a self-evaluation exercise on the functioning of the Board in respect of the 2011 financial year and addressing a number of themes:

- 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 via a questionnaire sent to each Board director were handled under the seal of anonymity and were the subject of a presentation and discussion during the Board of Directors meeting of March 7, 2012.

Generally speaking, the self-evaluation highlighted a positive evolution in the Board's functioning since the last evaluation carried out by an independent firm in 2010 and the self-evaluation carried out in 2011. A change in the Board's composition was considered desirable involving, in particular, a strengthening of international experience and the recruitment of directors with more industrial profiles. Some additional improvements were suggested and, notably, a change in the time spent reviewing themes as a function of their importance and more emphasis on the new challenges envisaged by the Group over the next eighteen months. The self-evaluation was also the opportunity for the Board directors to suggest themes for potential deliberation by the Board during forthcoming meetings such as the reduction in debt and the recovery in the Group's profitability.

Regulated agreements and commitments

Within the framework of the unexpected, early termination of Mr Pierre-Henri Gourgeon's term of office, the Board of Directors decided, as proposed by the Remuneration Committee, to impose a non-compete obligation on the latter for a period of three years. In return for this commitment, the Board of Directors, at its meeting of October 17, 2011, decided to grant Pierre-Henri Gourgeon an indemnity of €400,000, subject to the ordinary law regime of the regulated agreements provided in articles L. 225-38 and following of the French Commercial Code.

This agreement together with the commitments and agreements approved during previous financial years which continued to apply during the 2011 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

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

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

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 Chairman 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 in order to inform the Board of Directors of their content, ensure that they are reliable and exhaustive and that the information they contain meets high standards of quality, including the forecasts provided to shareholders and the market.

It monitors the effectiveness of the internal control and risk management procedures.

The Audit Committee 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 General 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 reviews the interim and annual consolidated financial statements prior to their submission to the Board of Directors and, more specifically, 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 has access to the resources required to fulfil its mission and may, notably, be assisted by persons from outside the company.

Activity

During the 2011 financial year (nine-month financial year following the change in the opening and closing dates for the financial year decided by the General Shareholders' Meeting of July 7, 2011), the Audit Committee met twice (four meetings in 2010-11 over a twelve-month financial year) with an attendance rate for members of 91.67% (79% in 2010-11 over a twelve-month financial year). The meetings lasted an average of three hours.

The following matters were notably reviewed by the Audit Committee during the 2011 financial year.

Review of the financial statements

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

Internal control and internal audit

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

Risk assessment

The Audit Committee reviewed the summary sheet of all the operating and strategic risks which is updated at each meeting and also examined the following subjects:

- change in the financial situation of the KLM pension funds;
- financing of the Group;
- interest rate risk management strategy;
- fuel hedging strategy;
- amendment to the internal regulations of the Board of Directors, notably the section relating to the powers of the Audit Committee (and particularly the monitoring of the effectiveness of the internal control and risk management procedures).

The Remuneration Committee

Composition

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

Missions

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

Activity

The Remuneration Committee met three times during the 2011 financial year (nine-month financial year following the change in the opening and closing dates for the financial year decided by the General Shareholders' Meeting on July 7, 2011) (one meeting in 2010-11 over a twelve-month financial year) and the attendance rate for members was 100%, as in 2010-11.

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). A meeting was also held following the resignation of the Chief Executive Officer.

The Appointments Committee

Composition

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

Missions

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

Activity

During the 2011 financial year (nine-month financial year following the change in the opening and closing dates for the financial year decided by the General Shareholders' Meeting on July 7, 2011), the Appointments Committee met eight times (four times in 2010-11 over a twelve-month financial year) with an attendance rate for directors of 100%, as in 2010-11. Meetings of the Appointments Committee were, notably, held to submit proposals to the Board of Directors relating to the Group's organization and new governance.

1.1.6 Compensation of the company officers

Compensation for Board directors

Board directors' fee modalities

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

The modalities for the payment of Board directors' fees applied in respect of the 2011 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 (for a twelve-month financial year):

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

Committee members receive additional fees:

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

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

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

The directors' fees and other compensation paid in respect of the 2011 and 2010-11 financial years were as follows. Note that, with the exception of Mr Hartman, no non-executive directors received any compensation other than directors' fees:

(In €)	2011 Financial Year (nine months)	2010-11 Financial Year
Maryse Aulagnon (1)	33,375	26,000
Patricia Barbizet	33,750	41,000
Bruno Bézard (2)	N/A	32,000 (3)
Frits Bolkestein (4)	17,625	43,000
Jean-Dominique Comolli (5)	30,000 (3)	8,000 (3)
Jean-François Dehecq	41,625	52,250
Jean-Marc Espalioux	37,500	53,750
Claude Gressier	34,125 (3)	42,000 (3)
Peter Hartman (1)	680,932	1,376,906
Directors' fees	35,250 (6)	27,000 (6)
Other compensation	645,682 (7)	1,349,906
Jaap de Hoop Scheffer (8)	17,625	N/A
Philippe Josse (9)	9,375 (3)	32,000 (3)
Didier Le Chaton (10)	N/A	24,000
Cornelis J.A. van Lede	43,125	54,500
Christian Magne	36,000	48,000
Floris Maljers (10)	N/A	27,500
Bernard Pédamon (1)	36,000	24,000
Pierre Richard (10)	N/A	31,000
Marie-Christine Saragosse (11)	13,125 (3)	N/A
Leo van Wijk (12)	31,469	47,000
Total	**1,095,651**	**1,962,906**
Of which directors' fees	***449,969***	***613,000***
Of which other compensation	***645,682***	***1,349,906***

(1) Director since July 8, 2010.
(2) Director until December 14, 2010.
(3) Amount paid to the French Treasury.
(4) Director until July 7, 2011.
(5) Director since December 14, 2010.
(6) Amount paid to KLM.
(7) In his capacity as President and Chief Executive Officer of KLM, Mr Hartman received total compensation of €645,682 corresponding to a fixed portion of €535,965 and a variable portion of €109,717 in respect of the 2011 financial year.
(8) Director since July 7, 2011.
(9) Director until July 27, 2011.
(10) Director until July 8, 2010.
(11) Director since July 27, 2011.
(12) Mr van Wijk received directors' fees until October 17, 2011, the date on which he was appointed an executive director.

Compensation of the executive directors

The AFEP-MEDEF Corporate Governance Code, amended in April 2010, constitutes the reference code for Air France-KLM for the establishment of the Chairman's report.

Principles decided by the Board to determine the compensation paid to the Chairman of the Board of Directors and the Chief Executive Officer BEFORE OCTOBER 17, 2011 and the reunification of the functions of Chairman and Chief Executive Officer

In line with the recommendations of the Remuneration Committee, for the period from April 1, 2011 until October 17, 2011:

Chairman of the Board of Directors

The Board of Directors decided to grant the Chairman of the Board of Directors a fixed compensation, with no variable portion.

Chief Executive Officer

The Board of Directors decided to grant the Chief Executive Officer compensation comprising a fixed portion (taking into account, notably, the absence of long-term plans such as stock options or bonus shares) and a variable portion determined based on criteria whose relative proportions were set as follows:

(In %)	Target	Maximum
Absolute performance *(Adjusted operating result relative to the budget)*	25	35
Absolute performance *(Change in net debt)*	15	25
Relative performance *(Comparison of the operational cash flow/revenues ratio relative to the principal European competitors)*	30	40
Qualitative performance	30	30
Total	**100**	**130**

The Board of Directors also decided that neither the Chairman nor the Chief Executive Officer would receive directors' fees in addition to their compensation.

Note that, in respect of the 2011 financial year, the Air France-KLM executive directors did not receive additional compensation in respect of their functions within Air France.

For the period during which they combined two offices as, respectively, Chairman of the Boards of Directors of Air France-KLM and Air France, and Chief Executive Officer of Air France-KLM and Air France, the compensation of the Air France-KLM executive directors was invoiced to Air France based on the proportion of their time devoted to Air France, in line with the regulated agreement approved by the Board of Directors meeting of November 23, 2004 and confirmed on November 19, 2008.

Principles decided by the Board to determine the compensation paid to the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer AFTER OCTOBER 17, 2011 and the reunification of the functions of Chairman and Chief Executive Officer

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

Chairman and Chief Executive Officer

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

Deputy Chief Executive Officer

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

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

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

Compensation of Mr Spinetta in his capacity as Chairman of the Board of Directors then Chairman and Chief Executive Officer

In his capacity as Chairman of the Board of Directors, since May 19, 2009 Mr Spinetta has received annual compensation of €200,000, comprised exclusively of a fixed portion. At his request, this compensation remained unchanged following his appointment as Chairman and Chief Executive Officer, effective October 17, 2011.

As the compensation received in his capacity as Chairman of the Board of Directors, there is neither variable compensation nor directors' fees in addition to this fixed annual compensation of €200,000. It was set for both the end of the 2011 financial year and the whole of the 2012 financial year by the Board of Directors meeting of January 11, 2012, following a recommendation from the Remuneration Committee.

Summary of Mr Spinetta's compensation in respect of the 2011 financial year (nine-month financial year)

In respect of the 2011 financial year (nine-month financial year following the change in the opening and closing dates for the financial year decided by the General Shareholders' Meeting on July 7, 2011), Mr Spinetta's total compensation thus amounted to €150,000.

In April 2005, Mr Spinetta subscribed for the *Air France-KLM shares-for-salary exchange offering,* made by the French State to Air France employees at the time it sold part of its shareholding. **Given Mr Spinetta's subscription for 65,240 shares in the *Air France-KLM shares-for-salary exchange offering,* his fixed compensation was €137,520.**

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

(In €)	2011 Financial Year (9 months) Before SSE*	After SSE*	2010-11 Financial Year Before SSE*	After SSE*
Compensation due in respect of the financial year	150,000	137,520	200,000	50,240
Value of the options granted during the financial year	N/A	N/A	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A	N/A	N/A
Total	**150,000**	**137,520**	**200,000**	**50,240**

* *Air France-KLM shares-for-salary exchange. The deductions from Mr Spinetta's compensation in respect of the Air France-KLM shares-for-salary exchange terminated on April 30, 2011.*

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

(In €)	Fixed compensation Before SSE*	After SSE*	Variable compensation	Exceptional compensation	Directors' fees(1)	Benefits in kind	Total
Amounts due in respect of the 2011 financial year (9 months)	150,000	137,520	0	0	0	0	137,520
(Reminder of 2010-11)	*(200,000)*	*(50,240)*	*(0)*	*(0)*	*(0)*	*(0)*	*(50,240)*

* *"Air France-KLM shares-for-salary exchange".*
(1) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.

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

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

(In €)	Fixed compensation(1)	Variable compensation	Exceptional compensation	Directors' fees(2)	Benefits in kind	Total(1)
Amounts paid during the 2011 financial year (9 months)	137,520	0	0	0	0	137,520
(Reminder of 2010-11)	*(50,240)*	*(0)*	*(0)*	*(0)*	*(0)*	*(50,240)*

(1) Amount after the "Air France-KLM shares-for-salary exchange".
(2) Since January 1, 2009 Mr Spinetta has no longer received directors' fees.

Compensation of Mr Gourgeon in his capacity as Chief Executive Officer until October 17, 2011

Compensation in respect of the 2011 financial year (period from April 1 to October 17, 2011)

The Chief Executive Officer's annual fixed compensation in respect of the 2011 financial year had been maintained at €750,000 by the Board of Directors during its meeting of May 18, 2011. This compensation was paid to him on a *prorata temporis* basis until October 17, 2011.

At its meeting of October 17, 2011, as proposed by the Remuneration Committee, the Board of Directors decided to grant the Chief Executive Officer, in respect of the 2011 financial year, variable compensation amounting to €263,000.

This amount corresponds to the application of the results of the criteria outlined on page 21 and is thus equal to around 60% of the fixed compensation established on a pro rata basis in respect of the time spent in office.

Note that, in respect of the 2010-11 financial year, the variable portion had been set at €562,500, corresponding to 75% of the fixed compensation.

Given the unexpected, early termination of Mr Gourgeon's term of office, the Board of Directors also decided, as proposed by the Remuneration Committee, to grant Mr Gourgeon additional compensation equal to 18 months' fixed compensation, *i.e.* €1,125,000. This amount corresponds to less than one year of fixed and variable compensation.

The Board stressed that objective performance criteria had been used to calculate the additional compensation granted to Mr Gourgeon citing, in particular, the decisions taken within the framework of the ongoing process to improve the flight safety management system, his contribution to the launch of the provincial bases which are integral to the restructuring of the medium-haul operations and his personal investment in the Group's international development through the joint-venture with Delta and Alitalia, and the code share agreements with numerous international partners. The Board also took into account his personal contribution alongside Mr Spinetta during the business combination between Air France and KLM, together with the investment in Alitalia and the agreements signed on that occasion.

As proposed by the Remuneration Committee, the Board of Directors also decided to impose a non-compete obligation on the latter for a three-year period. In return for this commitment, the Board of Directors meeting of October 17, 2011 decided to grant Pierre-Henri Gourgeon an indemnity of €400,000, subject to the ordinary law regime of the regulated agreements provided in articles L. 225-38 and following of the French Commercial Code.

The total of the additional compensation and the non-compete indemnity paid to Mr Gourgeon does not exceed the maximum of two years' fixed and variable compensation, pursuant to article 20.2.4 of the AFEP-MEDEF Corporate Governance Code.

Summary of Mr Gourgeon's compensation in respect of the 2011 financial year (period from April 1 to October 17, 2011)

In respect of the 2011 financial year, Mr Gourgeon's total compensation thus amounted to €2,198,416 (€410,416 for the fixed portion, €263,000 for the variable portion, €1,125,000 for the additional compensation and €400,000 for the non-compete indemnity).

In April 2005, Mr Gourgeon subscribed for the *Air France-KLM shares-for-salary exchange offering,* made by the French State to Air France employees at the time it sold part of its shareholding. Given Mr Gourgeon's subscription for 44,769 shares in the *Air France-KLM shares-for-salary exchange offering,* his fixed compensation was reduced from €410,416 to €402,016. Consequently**, Mr Gourgeon received total compensation of €2,190,016 in respect of the 2011 financial year.**

➤ Summary table of the compensation, options and shares granted to Pierre-Henri Gourgeon

(In €)	2011 Financial Year (period from April 1 to October 17, 2011) Before SSE*	After SSE*	2010-11 Financial Year Before SSE*	After SSE*
Compensation due in respect of the financial year	2,198,416	2,190,016	1,312,500	1,211,700
Value of the options granted during the financial year	N/A	N/A	N/A	N/A
Value of the performance shares granted during the financial year	N/A	N/A	N/A	N/A
Total	**2,198,416**	**2,190,016**	**1,312,500**	**1,211,700**

* *"Air France-KLM shares-for-salary exchange". The deductions from Mr Gourgeon's compensation in respect of the Air France-KLM shares-for-salary exchange terminated on April 30, 2011.*

➤ Summary table of the gross compensation due to Pierre-Henri Gourgeon

(In €)	Fixed compensation Before SSE*	After SSE*	Variable compensation	Exceptional compensation(2)	Directors' fees	Benefits in kind	Total
Amounts due in respect of the 2011 financial year(1)	410,416	402,016	263,000	1,525,000	0	0	2,190,016(3)
(Reminder of 2010-11)	*(750,000)*	*(649,200)*	*(562,500)*	*(0)*	*(0)*	*(0)*	*(1,211,700)(4)*

* *"Air France-KLM shares-for-salary exchange".*
(1) Period from April 1 to October 17, 2011.
(2) Additional compensation and non-compete indemnity.
(3) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2011 financial year amounted to €2,198,416.
(4) Before the "Air France-KLM shares-for-salary exchange", the total compensation due in respect of the 2010-11 financial year amounted to €1,312,500.

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

➤ Summary table of the gross compensation paid to Pierre-Henri Gourgeon

- ***Note: Given the unexpected, early termination of Mr Gourgeon's term of office, the variable compensation due in respect of the 2011 financial year was determined and paid during the financial year.***

(In €)	Fixed compensation(3)	Variable compensation	Exceptional compensation(2)	Directors' fees	Benefits in kind	Total(3)
Amounts paid during the 2011 financial year(1)						2,752,516
Of which amounts paid in respect of 2011	402,016	263,000	1,525,000	0	0	2,190,016
Of which amounts paid in respect of 2010-11		562,500				562,500
(Reminder of 2010-11)	*(649,200)*	*(150,000) in respect of 2009-10*	*(0)*	*(0)*	*(0)*	*(799,200)*

(1) Period from April 1 to October 17, 2011.
(2) Additional compensation and non-compete indemnity.
(3) Amount after the "Air France-KLM shares-for-salary" exchange.

Compensation paid to Mr van Wijk

Until October 17, 2011, the date on which he was appointed Deputy Chief Executive Officer, Mr van Wijk received directors' fees in his capacity as Board director amounting to €31,469, excluding any other compensation paid by Air France-KLM.

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 for both the end of the 2011 financial year and the whole of the 2012 financial year.

Mr van Wijk receives neither variable compensation nor directors' fees in addition to this fixed compensation. It was paid on a *prorata temporis* basis for 2011, backdated to October 17, 2011.

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

(In €)	2011 Financial Year (9 months)(1)	2010-11 Financial Year(2)
Compensation due in respect of the financial year	62,719	47,000
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	**62,719**	**47,000**

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

(2) Mr van Wijk was not an executive director during the 2010-11 financial year. During this period, he received fees in his capacity as a Board director.

➤ Summary table of the gross compensation due to Leo van Wijk

(In €)	Fixed compensation	Variable compensation	Exceptional compensation	Directors' fees(2)	Benefits in kind	Total
Amounts due in respect of the 2011 financial year (nine months)	31,250(1)	0	0	31,469	0	62,719
(Reminder of 2010-11) (3)	*N/A*	*N/A*	*N/A*	*(47,000)*	*N/A*	*(47,000)*

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

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

(3) Mr van Wijk was not an executive director during the 2010-11 financial year. During this period, he received directors' fees in his capacity as a Board director.

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

➤ Summary table of the gross compensation paid to Leo van Wijk

(In €)	Fixed compensation(1)	Variable compensation	Exceptional compensation	Directors' fees(2)	Benefits in kind	Total
Amounts paid during the 2011 financial year (nine months)	0	0	0	47,000	0	47,000
(Reminder of 2010-11) (3)	*N/A*	*N/A*	*N/A*	*(45,000)*	*N/A*	*(45,000)*

(1) The fixed compensation due for the period from October 17 to December 31, 2011 was paid only as of the Board of Directors' decision of January 11, 2012 and thus does not appear in this table.

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

(3) Mr van Wijk was not an executive director during the 2010-11 financial year. During this period, he received directors' fees in his capacity as a Board director.

Other commitments made in respect of the executive directors

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

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

The General Shareholders' Meeting of July 9, 2009 confirmed the benefit of this additional collective scheme to Mr Gourgeon in his new capacity as Chief Executive Officer as of January 1, 2009, under the same conditions as the other personnel concerned *(See Note 37.1 to the consolidated financial statements, Retirement Benefits at December 31, 2011).*

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

Mr Gourgeon opted to start receiving payments from his pension schemes as of October 17, 2011.

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

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

➤ Summary table of the situation of the executive directors in function at December 31, 2011

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

Loans and guarantees granted to company officers

None.

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

Air France-KLM has not established a stock option scheme for new or existing shares for its company officers.

* *For indicative purposes, some 31 eligible executives at December 31, 2011.*

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

	KLM[1]	
Date of authorization	May 17, 2005[2]	
Date of granting	July 26, 2006	July 27, 2007
Total number of options granted	411,105	428,850
Of which to Mr Hartman	*25,000*	*25,000*
Of which to Mr van Wijk	*25,000*	*25,000*
Available for exercise from	July 27, 2009	July 27, 2010
Expiration date	July 26, 2011	July 25, 2012
Exercise price per share	€17.83	€34.21
Number of shares purchased at December 31, 2011	0	0
Of which purchased by Mr Hartman	*0*	*0*
Of which purchased by Mr van Wijk	*0*	*0*
Number of share options cancelled or lapsing on December 31, 2011	411,105	38,333
Outstanding stock options at December 31, 2011	0	390,517
Of which remaining to be exercised by Mr Hartman	*0*	*25,000*
Of which remaining to be exercised by Mr van Wijk	*0*	*25,000*

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

(1) *KLM plans for its senior executives and company officers. The number of options and acquisition prices mentioned take into account adjustments linked to the merger between Air France and KLM in 2004.*

(2) *The vesting conditions of the options granted by KLM in 2006 and 2007 provide for the vesting of one third of the options on the grant date, a second third at the end of the first year following the grant date, with the final third at the end of the second year. The vesting of these options is conditional on the achievement of pre-determined performance criteria which are not market dependent.*

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

None.

During the 2008-09 financial year, KLM introduced Share Appreciation Rights or SARs, which are share-based plans paid for in cash. This scheme has replaced the option plans since 2008 although those granted until 2007 remain in force (no options having been exercised during the 2011 financial year). 144,235 SARs, 145,450 SARs, 136,569 SARs and 153,080 SARs were, respectively, granted by KLM on July 1, 2011, July 1, 2010, July 1, 2009 and July 1, 2008 (see *Note 29.4 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*)

Individual concerned	Operation date	Nature of the operation	Unit price *(In €)*	Operation amount *(In €)*	Type of financial instrument	Market for the operation
Jean-Cyril Spinetta Chairman and Chief Executive Officer of Air France-KLM	September 30, 2011	Sell/Buy back	5.703	118,552.66	Shares	Euronext Paris

1.2 The Group Executive Committee

Following the change in governance on October 17, 2011, Mr Gourgeon having resigned from the Group on that date, the Group Executive Committee comprises 14 members. The Committee meets every two weeks, alternating between Amsterdam and Paris, to determine the Group's main orientations within the framework of the strategy approved by the Board of Directors.

Some Group Executive Committee members fulfil responsibilities at the level of the Air France-KLM Group while retaining their functions within each entity. They are thus remunerated by the company to which they belong.

Members	Age at December 31, 2011	Professional experience	
		Sector	Experience
Jean-Cyril Spinetta Chairman and Chief Executive Officer of Air France-KLM and a member of the Group Executive Committee since October 17, 2011	68 years	Public Service Air Transport (Air Inter and Air France)	20 years 19 years
Leo van Wijk Deputy Chief Executive Officer of Air France-KLM and a member of the Group Executive Commitee since October 17, 2011	65 years	Air Transport (KLM, SkyTeam)	41 years
Peter Hartman President and Chief Executive Officer, KLM	62 years	Air Transport (KLM)	39 years
Alexandre de Juniac Chairman and Chief Executive Officer of Air France and a member of the Group Executive Committee since November 16, 2011	49 years	Public Service Industry (Thomson, Sextant, Thalès)	9 years 14 years
Philippe Calavia Chief Financial Officer of Air Fance-KLM since March 12, 2012	63 years	Banking Air Transport (Air France)	7 years 14 years
Alain Bassil Executive Vice-President, Engineering and Maintenance, Air France-KLM and Chief Operating Officer, Air France	57 years	Air Transport (Air France)	32 years
Christian Boireau Executive Vice-President, French Sales, Air France	61 years	French departmental Directorate for Equipment Air Transport (Air Inter and Air France)	6 years 31 years
Camiel Eurlings Executive Vice-President, Air France-KLM Cargo and Managing Director of KLM	38 years	Public Service, Air Transport (KLM)	16 years 1 year
Frédéric Gagey Executive Vice-President, Fleet Management, Air France-KLM and Chief Financial Officer of Air France-KLM since March 12, 2012	55 years	Air Transport (Air Inter, Air France and KLM)	18 years
Wim Kooijman Executive Vice-President, Management Development, Air France-KLM	61 years	Industry Air Transport (KLM)	25 years 14 years
Bertrand Lebel Secretary to the Executive Committee in charge of strategic planning, Air France-KLM	58 years	Consultant Air Transport (Air France)	16 years 14 years
Bruno Matheu Executive Vice-President, Marketing, Revenue Management and Network, Air France-KLM and Chief Commercial Officer, Air France	48 years	Air Transport (UTA and Air France)	26 years
Édouard Odier Executive Vice-President, Information Systems, Air France-KLM and Air France	59 years	Air Transport (Air France and Amadeus)	35 years
Erik Varwijk Executive Vice-President, International and The Netherlands, Air France-KLM and Managing Director, KLM	50 years	Air Transport (KLM)	23 years

1.3 Share capital and shareholder structure

1.3.1 Share capital

At December 31, 2011, the share capital of Air France-KLM comprised 300,219,278 fully paid-up shares 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 General Shareholders' Meeting of July 8, 2010 voted to reduce the nominal value of the shares from €8.5 to one euro. The share capital was thus reduced from €2,551,863,863 to €300,219,278 with the amount of the capital reduction being allocated to additional paid-in capital.

Financial year ended	Total capital	Number of shares
March 31, 2010	2,551,863,863	300,219,278
March 31, 2011	300,219,278	300,219,278
December 31, 2011	300,219,278	300,219,278

Authorizations to increase the capital

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 7, 2011 authorized the Board of Directors, for a period of 26 months from the date of the Meeting, to issue shares and/or other securities conferring immediate or future rights to Air France-KLM's capital.

Nature of the operation	Maximum amount of issuance in nominal	Balance available at December 31, 2011
Capital increase via the issue of shares or other securities conferring rights to the capital with preferential subscription rights	€120 million	€120 million
Capital increase via the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an obligatory priority subscription period	€75 million	€75 million
Capital increase via the issue of shares or other securities conferring rights to the capital without preferential subscription rights but with an optional priority subscription period. This authorization is limited to issuance by the company or one of its subsidiaries of securities conferring rights to the share capital and issuance of shares within the framework of public exchange offers	€45 million	€45 million
Issue of bonds or other related securities conferring rights to the capital with preferential subscription rights	€1 billion	€1 billion
Capital increase through capitalization of reserves and/or additional paid-in capital	€120 million	€120 million
Capital increase reserved for members of an employee savings scheme	3% of the capital at the time of each issue	3% of the capital at the time of each issue

1.3.2 Securities conferring entitlement to shares

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

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

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

A total of 595 bonds have been converted since June 1, 2005, reducing the number of outstanding convertible bonds to 21,950,624 at December 31, 2011. On December 6, 2011, Air France signed a swap agreement with Natixis for a four-year period. To cover this agreement, Natixis purchased in the market between December 7 and December 13, 2011, inclusive, 18,692,474 OCEANEs, i.e. around 85.16% of the amount originally issued. This operation has enabled Air France to defer until April 2016 at the earliest the €383.2 million repayment. Following this procedure, the 3,258,150 OCEANEs not having been purchased by Natixis remain subject to the repayment option potentially exercisable at the discretion of the holders on April 1, 2012.

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

In June 2009, Air France-KLM issued 56,016,949 bonds convertible and/or exchangeable into Air France-KLM new or existing shares (OCEANEs) for a total of €661 million. These bonds have a nominal unit value of €11.80, a conversion/exchange ratio of one share for one bond and mature on April 1, 2015. The annual coupon is 4.97% paid annually in arrears on April 1. At December 31, 2011, 8,916 bonds had been converted into existing shares, of which 1,348 during the 2011 calendar year, reducing the outstanding balance to 56,008,033 bonds.

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

The Combined Ordinary and Extraordinary Shareholders' Meeting of July 7, 2011 authorized the Board of Directors, up to a maximum of 5% of the share capital and for a period of 18 months, to trade in the company's own shares with a maximum purchase price of €30.

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, finally, the retention and future allocation of these shares in an exchange or in payment for an acquisition. At December 31, 2011, Air France-KLM held 4,408,876 shares, of which 1,450,000 within the framework of the liquidity agreement and 114,181 for the balance of the 1998 Shares-for-Salary Exchange.

Between July 8 and December 31, 2011, pursuant to the program authorized by the Shareholders' Meeting of July 7, 2011, the company purchased 1,520,000 shares at an average price of €6.009 and sold 70,000 shares at an average price of €9.919.

For the financial year running from April 1 to December 31, 2011, pursuant to the program authorized by the Shareholders' Meetings of July 8, 2010 and July 7, 2011, 606,750 shares were purchased at an average price of €11.190 and 966,750 shares sold at an average price of €11.733.

Between January 1 and December 31, 2011, 2,576,450 shares were purchased at an average price of €8.409 and 1,126,450 shares sold at an average price of €11.814.

At December 31, 2011, KLM held 1,116,420 Air France-KLM shares in respect of its various stock option plans. In total, the Group holds 5,525,296 of its own shares, i.e. 1.8% of the share capital, for a portfolio value of €21.9 million.

Transactions realized between April 1 and December 31, 2011 by purpose

	Liquidity agreement	Shares held for future allocation	Total
Number of shares at April 1, 2011	360,000	2,959,311	3,319,311
Shares purchased			
Number of shares	2,126,750	-	2,126,750
Average purchase price *(In €)*	7.486	-	7.486
Use			
Number of shares	1,036,750	435	1,037,185
Average sale price *(In €)*	11.611	9.188	11.610
Number of shares at December 31, 2011	**1,450,000**	**2,958,876**	**4,408,876**

1.3.4 Air France-KLM shareholder structure

Breakdown of the share capital and voting rights

	% of share capital			% of voting rights		
Financial year ended	December 31, 2011	March 31, 2011	March 31, 2010	December 31, 2011	March 31, 2011	March 31, 2010
Number of shares and voting rights	**300,219,278**	**300,219,278**	**300,219,278**	**294,579,801**	**295,669,366**	**294,488,804**
French State	15.8	15.7	15.7	16.1	16.0	16.0
Employees	9.7	9.8	11.8	9.9	10.0	12.1
Treasury stock	1.9	1.4	1.9	-	-	-
Others	72.6	73.1	70.6	74.0	74.0	71.9

The number of shares has not changed since March 31, 2010.

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, 2011, 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 96.9% of the capital were identified and 118,372 shareholders listed including 102,223 individual shareholders. Based on the TPI analysis of December 31, 2011, restated pursuant to article 14 of the bylaws which defines French residence, Air France-KLM is more than 50% held by French shareholders and, consequently, the conditions for the exercise of Air France's traffic rights are met. The conditions for the exercise of KLM's traffic rights are also met with the majority of the company's voting rights being held by shareholders and foundations subject to Dutch law.

Financial year ended	Number of shares December 31, 2011	March 31, 2011	March 31, 2010	% of the share capital December 31, 2011	March 31, 2011	March 31, 2010
French State	47,563,745	47,247,967	47,148,326	15.8	15.7	15.7
Employees	29,178,372	29,570,185	35,497,545	9.7	9.8	11.8
Individuals	64,594,419	45,603,974	41,807,898	21.5	15.2	13.9
Resident institutions	68,363,254	73,419,348	65,996,169	22.8	24.5	22.0
Non-resident institutions	90,519,488	104,377,804	109,769,340	30.2	34.8	36.6

At December 31, 2011, Air France-KLM was 69.8% owned by French interests (65.2% at March 31, 2011) and more than 75% by European institutions (as at March 31, 2011). The principal European countries are the Netherlands (5.5%), the United Kingdom (2.0%), Norway (1.2%), Switzerland (0.9%) and Germany (0.6%). North American institutions hold 11.6% of the share capital (11.8% at March 31, 2011) of which 13.2 million in ADR form (10.1 million at March 31, 2011).

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

Shareholders	Declaration date	Number of shares	% of the share capital	Increase or reduction
Amundi Asset Management	January 5, 2012	1,740,484	0.58	I
BNP Paribas Assurances	March 31, 2011	2,276,699	0.76	I
Capital Research & Mgt	December 27, 2011	8,160,720	2.72	R
Crédit Suisse	March 8, 2012	7,771,575	2.59	I
Dimensional Fund Advisors	January 3, 2012	1,524,562	0.52	I
DNCA	April 14, 2010	2,664,300	0.89	R
Donald Smith	March 31, 2011	7,350,155	2.45	I
HSBC Holding	July 1, 2011	2,633,420	0.88	I
Natixis Asset Management	November 29, 2011	2,993,609	1.00	R
Norges Bank Investment Management	September 5, 2011	3,055,759	1.02	I
Prigest	September 23, 2011	6,150,000	2.05	I
UBS London	February 24, 2012	5,572,841	1.86	R

Shareholders' pacts

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

Dividend policy

Over the last three financial years, Air France-KLM paid the following dividends:

Financial year	Earnings per share *(in €)*	Dividend paid *(in €)*
2008-09	(2.76)	-
2009-10	(5.30)	-
2010-11	2.08	-

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

Given the difficult economic environment in recent years, the Board of Directors decided not to propose a dividend payment in respect of the last three financial years. For the 2011 financial year, the Board of Directors also chose not to propose a dividend payment.

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Activity

2.1 Highlights of the 2011 financial year

February 2011

- The political crises in the Middle East and Africa weigh on the Air France-KLM group's traffic.
- Middle East Airlines announces plans to join SkyTeam.

March 2011

- An earthquake followed by a tsunami and a nuclear crisis in Japan leads the Group to reorganize its flights by operating the Tokyo service out of Seoul. In early April, the Group reinstates its non-stop flights but traffic is sharply lower.

April 2011

- The Board of Directors decides to propose to the General Shareholders' Meeting of July 7, 2011 the adoption of December 31 as the date for the accounting year end, in line with most other air transport companies. As a result, the financial year starting April 1, 2011 spans nine months.

May 2011

- Air France-KLM, Alitalia and Delta decide, within the framework of the joint-venture, to reduce capacity on the North Atlantic by between 7% and 9% for the Winter 2011 season.

June 2011

- On June 22, 2011, the Group signs an agreement with the European Commission, Airbus and biofuel manufacturers defining the road map to reach production of two million tons of biofuels for aviation by 2020.
- On June 29, 2011, KLM achieves a world first by operating a commercial flight between Amsterdam and Paris using bio-fuel. Since September, KLM has operated some 200 flights between the two cities using bio-fuel. Air France will operate the lowest CO_2 flight between Paris and Toulouse in October 2011.

July 2011

- On July 11, 2011, Air France unveils its new offer on departure from Marseilles within the framework of its Provincial Bases project. This strategy will be extended to Nice and Toulouse in spring 2012.

September 2011

- Air France-KLM announces an order for 110 Airbus and Boeing long-haul aircraft, 50 under firm order and options on a further 60. This order is mostly intended to replace the aircraft reaching the end of their operational lives and to support growth. The deliveries will take place between 2016 and 2026.
- On September 28, 2011, Air France launches its commercial offensive in Marseilles marking the start of the company's new organization in the French regions. As of October 2, the airline offers 13 new non-stop routes on departure from Marseilles to cities in France, elsewhere in Europe and around the Mediterranean rim.
- Air France-KLM is confirmed air transport sector leader for sustainable development in 2011 and remains in the two Dow Jones Sustainability Indices, DJSI World and DJSI Europe, for the seventh consecutive year.

October 2011

- On October 17, Pierre-Henri Gourgeon, Chief Executive Officer of Air France-KLM and Air France, presents his resignation to the respective Boards of Directors. The Board of Directors decides to reunite the functions of Chairman of the Board of Directors and Chief Executive Officer, and appoints Jean-Cyril Spinetta as Chairman and Chief Executive Officer of Air France-KLM and Leo van Wijk as Deputy Chief Executive Officer.

November 2011

- On November 9, 2011, Air France-KLM's Board of Directors sets three priorities for the Group: restoring competitiveness, restructuring the short- and medium-haul operations and rapidly reducing debt.
- On November 16, Alexandre de Juniac is appointed Chairman and Chief Executive Officer of Air France.

December 2011

- Air France signs a swap agreement relating to the 2020 bonds convertible and/or exchangeable into Air France-KLM shares (OCEANE) with Natixis for a period of four years. To cover this agreement, Natixis acquires some 18.7 million OCEANEs, enabling Air France to defer, until April 2016 at the earliest, the €383 million repayment option that could have been exercized on April 1, 2012.

January 2012

- Air France-KLM presents a progress report on its three-year transformation plan (2012-14) aimed at a €2 billion reduction in net debt by the end of 2014.

2.2 Market and environment

Air transport is at the heart of globalization. It helps to build bridges between individuals, economies and cultures and thus contributes some 9% of worldwide GDP (Source 1). Similarly, the health of the air transport industry is closely linked to that of the global economy while geopolitical and geophysical events have an influence on demand as witnessed in 2011.

In terms of business travel, the deterioration in the economic situation led companies to curtail their travel expenditure by reducing the number of journeys, particularly short trips, and prioritizing price over comfort and convenience. In individual travel, the crisis and the rise in unemployment in most European countries sharply reduced traffic generated by visits to friends and family, as well as from tourism. The decline in purchasing power available for leisure and the political situation in traditionally tourist destinations (the Maghreb countries, Egypt) have changed consumer behaviour with the latter preferring to holiday in more stable countries, particularly in Europe.

Air transportation is also an industry in which competition is growing increasingly intense, particularly in Europe. Only the long-haul activity remains subject to restrictions in terms of traffic rights. Over the past decade, the growth in the low cost carriers has revolutionized the leisure industry both in terms of how travel is organized – development of an *à la carte* service to the detriment of tour operator packages – and the choice of destinations. Their commercial offer is now being targeted at greater penetration of the business travel segment. Furthermore, the airlines are increasingly under pressure from other players in the economic chain. The distribution world is thus experiencing a period of profound change with the major travel agency networks, booking systems, online agencies, airlines, airports and, more recently, Google shortly to be followed by other leading web-based players all competing for the value added.

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

Lastly, air transportation is a highly-cyclical, low-margin industry which is extremely competitive. However, despite the advances in telecommunications, the need for personal contact for business or individual reasons remains intact and, beyond these temporary difficulties, the air transport industry is underpinned by structural growth of some 4% to 5% annually, a trend that has been confirmed over the past thirty years and should be maintained over the coming two decades, supported by the globalization of the economy.

2.2.1 The economic environment

A sharp deterioration in the economic backdrop and its consequences in 2011

The gradual emergence from the 2008 crisis came to a halt over the summer of 2010 and the 2011 financial year was marked by the return, as of the summer, of significant market volatility, particularly in the euro zone where the sovereign debt crisis gradually unfolded. The events experienced by Africa and the Middle East beginning in December 2010 together with the terrible earthquake that struck Japan in March 2011 also contributed to disrupting the economies of these countries and those of their trading partners. Overall, global growth saw a slowdown in 2011 (+2.8% versus +4.1% in 2010) (Source 2).

From a regional perspective, after a general downturn in growth during the first half linked to rising commodity prices, growth trajectories then started to diverge. In 2011, while the euro zone headed towards recession given, notably, the escalation in the sovereign debt crisis, it still managed to post growth of 1.6%. The United States recorded growth of 1.8%, confounding forecasts of a double-dip recession, with some positive signs having appeared at the year end (Source 2). For their part, the emerging countries proved very resilient, showing growth of +7.2% over the year with, however, some marked differences between countries (Brazil +2.9%, Russia +4%, India +6.8%, China +9.2%) (Source 2).

Air passenger transport saw relatively good growth in 2011 given the weak economic performances of the developed countries. Despite a 6.1% increase in the number of passengers carried (Source 7) at global level and revenues up by 9.1% (Source 7), the air transport industry should generate a net profit of US$6.9 billion in 2011, sharply down on the 2010 level (US$15.8 billion) (Source 7). International traffic grew by 6.9% in 2011 (Source 4) (+8.2% in 2010) for an 8.2% increase in capacity (+4.4% in 2010) (Source 3). The international load factor lost one point relative to 2010 to stand at 77.4% due to the capacity increase as of the 2011 fourth quarter (Sources 3 and 4). At international level, the European airlines posted the second best growth rate after that of Latin America. Emerging countries led by Brazil, India and China benefited from double-digit growth driven by the dynamism of their economies while Japan experienced a 15.2% decline due to the March 2011 earthquake (Source 4). The provisional AEA

Sources: 1, 2, 3, 4, and 7 page 43

figures, which benefit from a positive base effect given the shut-down of the European airspace in April 2010, show that the European airlines, which were particularly impacted by the crises unfolding in 2011, saw 7.1% growth in their passenger traffic in 2011 (+2.7% in 2010) for capacity up by 8.9% leading to a 0.6% fall in the load factor to 77.3% and a relative improvement in their profitability (€1.5 billion of operating income versus €0.5 billion in 2010) (Source 5).

The Premium customer segment (Business and *La Première*) has been the most affected by the crisis. At the level of the industry, the volume of Europe/Long-haul Premium traffic regained its pre-crisis level with an increase of 9.1% in 2011 (growth 1.3 points lower taking into account the volcano effect in April 2010) (Source 6). The premium segment saw respective growth of 10.1% and 10.9% in the Europe-Asia and Europe-South America axes relative to 2010 levels and 8.2% on the Europe-North Atlantic axis in 2011 (Source 6).

Numerous uncertainties in 2012

The economic and geopolitical environment

The crisis highlighted some profound malfunctioning, most of which has yet to be resolved.

Global GDP growth forecasts for 2012 currently call for +2.5% (+2.8% in 2011) (Source 2) with the geographical differences seen in 2011 expected to continue. The slowdown in the euro zone should result in a mild recession of -0.2% (Source 2) due to uncertainties linked to fiscal and trade imbalances, and an unemployment rate weighing on household spending. The return of confidence will be a key factor in the coming months. In the United States, GDP growth forecasts stand at +2.2% (Source 2) while the growth in the Asia/Pacific region is estimated at +5.3% (Source 11), led by China and India on a respective +7.9% and +7.2% (Source 2). In Latin America, the GDP growth forecasts are also comfortably positive (+3.5%) particularly in Brazil (+3.2%) (Source 2).

As a result of these economic uncertainties and geopolitical unrest, the range in IATA's forecasts for 2012 is very wide, the net result expected to be somewhere between losses of US$8.3 billion and a US$3.5 billion profit (Source 4) and the operating margin at between -0.5% and +1.4% (Source 7).

A continued very high and volatile oil price and growing difficulties with financing

In 2010, the fuel bill had represented 26% of the airlines' operating costs. In 2011, this figure should be 30% under the effect of higher oil prices which were also very volatile throughout the year (Source 7). Since February 2011, the market has become tighter given the high level of demand, the civil war in Libya and fears of contagion across the Arab world, particularly in Egypt, Algeria, Iran and even Saudi Arabia.

The prospects for 2012 are not particularly encouraging. Failing a major geopolitical event, the oil price should remain at a high level with IATA forecasting the fuel bill at between 31% and 32% of airline costs (Source 7). The volatility in the oil price will depend on the strength in demand, which is fragile and linked to global growth particularly that of China, on capacity which is closely linked to the geopolitical instability of the oil exporting countries and on financial market worries in the face of these risks.

In terms of financing, the withdrawal of the banks from aircraft financing, particularly in Europe, means that airlines need to maintain a high level of cash to contend with unforeseen events and increase cash flow to cover investment and repayment maturities. Moreover, the European airlines do not have access to the same tools as the North American airlines which can file for Chapter 11 protection to undertake radical restructuring. Within a context of scarcity of credit, there are recent examples of airlines which are no longer able to finance their operations filing for bankruptcy (Spanair, Malev).

2.2.2 The industry context

Capacity forecasts for 2012: prudence required

For 2012, the European majors are all adopting the same prudent approach: IAG plans to increase capacity by 2.5% (before the acquisition of bmi) (Source 8) and the Lufthansa Group by +3% (Source 9), a similar level to that of the Air France-KLM Group (+2%) On the long-haul routes departing from Europe, the capacity brought on line for the Summer 2012 Season is still being adjusted given the rapidly-evolving international

Sources: 5, 6, 7, 8, 9, 10 and 11 page 43 context. Currently, the growth in long-haul capacity is modest at around +3% which is an encouraging sign for a better balance between capacity and demand and therefore improved profitability. There are, however, some regional differences (Source 10):

- the Europe-Middle East axis is posting the strongest growth (+11%) under the influence of the Gulf State airlines and Turkish Airlines which are looking to capture connecting traffic between Europe and Asia;
- the Europe-Asia Pacific axis is seeing capacity growth of 1%, still driven by the European carriers although there are some differences with the Asian carriers, excluding the Chinese Airlines, generally sharply down (Qantas, Malaysian Airlines, Thai Airways);
- capacity on the Europe-Latin America axis is seeing modest growth (+2%) overall but again with individual differences: TAM capacity is significantly down while a number of European airlines are posting strong growth;
- the Europe-North America axis is stabilizing (-1% relative to the previous year);
- lastly, after a stabilization last year, capacity on the Europe-sub-Saharan Africa axis is up (+5% relative to the previous year).

For medium haul, in a competitive environment marked by the continued development of the TGV high-speed train in Europe and the low cost airlines, the legacy carriers are limiting their growth in capacity.

In the French domestic market, now dominated by the TGV with a market share of some 80%, the Rhine-Rhône service was opened in December 2011 and new sections of high-speed network will be extended by 2017 (extension of the LGV Est to Strasbourg, the Le Mans-Rennes, Bordeaux-Tours and Nîmes-Montpellier lines).

In Europe, the TGV is gaining ground, particularly in Spain where the high-speed network should gradually be connected to the French network at the end of 2012 (e.g. Mediterranean coast Barcelona-Figeras connection in 2012, Atlantic coast Valladolid-Irun connection in 2016), and in Italy with the coming into service of the Milan-Venice line by 2016. As for the low cost airlines, their growth is slowing relative to previous years.

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. This is the case for the European Union Emission Trading Scheme which, from January 1, 2012, has applied to all European and non-European airlines operating in the European Economic Area, raising strong opposition from countries like the United States, China and India. These countries are asking the European Union not to tax their airlines and are threatening retaliation, which could lead to serious distortions in terms of competition (*See also Environmental risks*).

Similarly, we are witnessing an increasing trend towards reinforced regulation regarding consumer rights both in Europe and the United States *(See also Risks linked to the consumer compensation regulations).*

At the end of 2011, in Europe, the European Union Court of Justice ruled that passengers whose flights are cancelled are entitled to compensation for moral prejudice in addition to material prejudice. The airlines are thus obliged to compensate passengers for all losses up to the limits of their responsibility as provided by the Montreal Convention or by national law. Similarly, in the last two years in the United States, the department of Transportation (D.O.T) has established airline passenger protections and extended them to foreign airlines operating in the United States, introducing a maximum tarmac delay (four hours) on international flights, increased financial compensation in the event of denied boarding, the refunding of handling fees on lost baggage and the disclosure of all optional fees applying to the ticket on the airline websites (baggage fees, meals, cancellation or change of reservation, and upgrading).

Customer behavior: customers increasingly well-informed and pragmatic

The changes in customer behavior seen during the crisis now look to be structural. While price is very much a focus, customers are increasingly well informed and sensitive to the value of the service offered, with value for money assuming an increasingly important role in their purchasing. Their needs are also more and more personalized.

Customers are more demanding and pragmatic, and are increasingly looking to put together their own trips so they are free to determine the balance between price, time, convenience, level of comfort and status. The customer relationship has entered the world of immediacy with customers permanently connected to the internet, seeking rapid responses and increasingly communicating via social media such as Facebook, blogs, Twitter and tripadvisor.

Source: 10 page 43

2.2.3 Competition

The European airlines

The European majors are focusing on their internal problems and restructuring.

Lufthansa has sold bmi and closed Lufthansa Italia. The regional activity has been completely restructured with the withdrawal of the 50-seater aircraft at Cityline and Eurowings and the ending of chartering outside the Group. Lufthansa has frozen recruitment and non-essential investment and the Berlin base will be reinforced with a reduced cost structure (including cabin crew outsourcing). Lufthansa has just announced its SCORE plan aimed at reducing costs by some €1.5 billion by 2014. On the margin of the Group, Brussels Airlines has also implemented its *Beyond 2012-13* restructuring plan.

For its part, IAG has announced new consolidation ambitions: the acquisition of bmi and the identification of some ten targets. British Airways has already sharply reduced its costs by cutting staff and introducing new lower-cost employment contracts (notably a parallel pay scale for new cabin crew recruits). Iberia has reduced its scope of activity to the benefit of Vueling and Air Nostrum, and negotiated with its pilots the creation of Iberia Express in short and medium-haul with market price-based contracts.

The Air France-KLM Group continues to improve its productivity and is launching *Transform 2015,* a plan to transform the company. A first phase of immediate measures is already underway while a second phase will be implemented in June 2012 (*See also Strategy*).

While they continue to post good financial results, the two European low cost airlines are changing their business models. Ryanair's business model appears to be encountering some limits with slower growth in the Winter 2011 Season (2% fall in traffic between October and December 2011 resulting from increased seasonality of the flight schedule) reflected in the 80 aircraft grounded this winter. easyJet is concentrating on improving margins and repositioning itself firmly in the Business segment (18% of passengers in 2011). As of November 2010, a dedicated flexible fare was introduced and the low cost airline is focused on developing its proposition in the main European airports.

United States

With the exception of American Airlines, the major US airlines (Delta, United-Continental and US Airways, Southwest, JetBlue and Alaska Airlines) are reporting good financial results with aggregate net income of $3.3 billion for 2011 (Source 14), most having already undergone phases of restructuring and/or consolidation.

American Airlines has filed for bankruptcy to restructure its costs, becoming the last US legacy airline to file for Chapter 11 protection. In January 2012, it unveiled the details of a program to save US$2 billion in annual costs and generate some US$1 billion of revenue enhancements. Amongst other measures, the program consists of cutting 13,000 jobs, subcontracting some maintenance activities and concentrating on its five largest US airports with a 20% increase in departures from the latter over the next five years.

Asia is experiencing a transformation

The increased liberalization of the Asian air space (proliferation of open sky agreements, opening up to foreign shareholders) is encouraging growth in transport demand and some players are taking full advantage of this.

Air Asia has been developing particularly rapidly with the launch of two new joint-ventures, AirAsia Japan in partnership with ANA and AirAsia Philippines (operational start-up in 2012). Air Asia is thus becoming a pan-Asian brand with operations in 16 ASEAN countries and 47 destinations (Source 15), carrying more than 16 million passengers in 2010 (Source 16). Its current order book (including 200 A320neos and options on a further 50) should underpin strong growth in Asia in the coming years (Source 17). The growing influence of Air Asia is forcing the legacy carriers (Qantas, Singapore Airlines, Malaysian Airlines) to react. Some are choosing, like Malaysian Airlines and All Nippon Airways, to ally themselves with Air Asia or its competitor, JetStar, while others are launching their own brands (e.g. Singapore Airlines with Scoot and Qantas with RedQ).

The four main Chinese airlines (Air China, China Southern, China Eastern and Hainan Airlines) remain mostly oriented towards domestic traffic which represents more than 90% of their passenger traffic (Sources 21 and 22) but are now aiming to increase their market share of international traffic. According to IATA, Chinese capacity to/from international destinations should increase by an annual 10% between 2009 and 2014, making it one of the most promising markets (Source 18). Furthermore, in 2014, China should be the second-largest domestic market globally, behind the United States (Source 18).

In the region, joint-ventures on the trans-Pacific axis have also been developed (*See Consolidation section*).

Sources: 14,15,16, 17, 21 and 22 page 43

The Gulf State airlines and Turkish Airlines

Between 2005 and 2011, the Gulf State airlines increased their market share by around 6% on the Europe/Africa flows to/from Asia (Source 12) to the detriment, in particular, of the European airlines. They are very aggressive and are placing mega orders (a total of some 405 long-haul aircraft under firm order for Emirates, Qatar Airways and Etihad) (Source 13), planning multiple route openings (e.g. seven in 2012 for Qatar) and are now looking to invest beyond their historic scope. In December 2011, Etihad acquired 29% of Air Berlin before, in January 2012, purchasing 40% of Air Seychelles. For its part, Qatar Airways wants to invest in a European airline and was, at one time, interested in acquiring Spanair. It is also interested in acquiring a stake in TAP Portugal within the framework of the privatization. For its part, Turkish Airlines has opened negotiations regarding a shareholding in the Polish airline, LOT.

Furthermore, Turkish Airlines is pursuing its development with 12% growth in the number of passengers carried in 2011 (to over 32 million) (Source 19) and plans to carry 53 million in 2015. As a result, Turkish Airlines is looking to increase its connecting traffic in Istanbul (target: move from 18% to 50% of transfer passengers between 2009 and 2013-14) (Source 20).

Africa

Currently the local airlines do not capture much of the traffic to/from this continent. Ethiopian Airlines, through its *Vision 2025* plan, is looking to become a real player in the African continent and, more specifically on the Africa-Asia routes. The company continues to strengthen its Addis Ababa hub, counting on its good knowledge of the African market. Ethiopian has also launched the Asky joint-venture in Togo and plans to replicate the model in other countries. Other players, particularly Fly540, envisage pursuing this new avenue. Sir Stelios Haji-Ionnou, the founder and owner of easyJet has decided to invest in a new airline called *fastjet*.

Airline consolidation: mergers, alliances and joint-ventures

Having started in 2010, the consolidation momentum continued in 2011 through mergers, alliances and partnership agreements albeit at a slower pace. Consolidation will be a key factor behind improved margins for the air transport industry.

In 2011, British Airways and Iberia created IAG, while Air Tran and Southwest merged. Bmi – formerly owned by Lufthansa – was acquired by IAG and should be integrated into the Group in 2012. The LAN-TAM merger is also expected for 2012.

Consolidation has especially taken the form of more airlines joining the three major alliances. Four new members based in China joined the SkyTeam alliance in 2011 (Xiamen Airlines, China Airlines, Shanghai Airlines and China Eastern), Aerolineas Argentinas, Middle East Airlines and Saudi Arabian Airlines plan to join this year while, in 2013, Garuda Indonesia should also become a member. For its part, Ethiopian Airlines joined Star Alliance in 2011 and should be followed by Avianca-Taca, Copa Airlines and UTAir (preliminary negotiations underway) in 2012. Malaysia Airlines and Air Berlin are expected to join oneworld in 2012.

Since 2010, three joint-ventures have represented three-quarters of the capacity on the North Atlantic axis. They are structured around the following three groups: Air France-KLM with Delta and Alitalia, the Lufthansa Group companies with United Continental-Air Canada and IAG with American Airlines. In 2011, two joint-ventures were launched on the trans-Pacific axis (USA-Japan) between, firstly, United-Continental and ANA and, secondly, American Airlines and JAL. On the South Pacific axis, Qantas with American Airlines and Delta with Virgin Australia also obtained authorization, in 2011, to set up a joint-venture. Similarly, the Europe-Asia transcontinental joint-ventures are starting to develop: Air France-KLM with its Chinese partners, Lufthansa and ANA about to launch a joint-venture on the Europe-Japan axis in spring 2012 and British Airways and Japan Airways planning to follow suit in 2012 (pending approval from the competition authorities).

Sources: 12, 13, 18,19 and 20 page 43

2.2.4 Conclusion

Within this difficult and uncertain environment, the air transport industry particularly in Europe has reached a key turning point. The airlines in the emerging countries are pursuing their growth, highlighting the need for the European carriers to restructure their businesses. As seen in the United States, this restructuring will return the European airlines to the path to profitability, making them better armed to withstand competition. They also have assets that are attractive to the emerging airlines which they can showcase within the framework of alliances and joint-ventures, namely expertise in maintenance and customer relations. Furthermore, for a long time to come, the European market will remain one of the largest global markets and it seems inevitable that the European authorities will recognize the importance of encouraging and protecting the European flag. Lastly, while the different European governments are today's pioneers in terms of regulation (passenger rights, ETS), something which is currently penalizing the European airlines in particular, these measures will certainly, in time, apply to all airlines, restoring a more level playing field in terms of competition.

Sources: 1) World Travel and Tourism Council Conference in London - The Future of Air Transport – December 6 and 7, 2011; 2)Global Insight and Consensus forecast Jan 2012; 3) IATA Air Transport Market Analysis December 2010; 4) IATA Air Transport Market Analysis December 2011; 5) AEA European airline members Press Release January 19, 2011; Traffi c and capacity report December 2010 and 2011; 6) IATA ODS Panel 43 airlines Jan 2012-PKT 7) Industry; Financial Forecast Dec 2011; 8) Press conference, Q3 2011 results presentation (July/October), November 4, 2011; 9) Press conference, 9M 2011results presentation (July/October, - October 27, 2011; 10) OAG bands of January 31 Week of June 2011; 11) Global Insight Jan 2012; 12) MIDT; 13)Ascend Jan 2012; 14) Delta, United-Continental, US Airways, SouthWest, JetBlue, Alaska Air group Investor Relations websites – FY 2011 fi nancial results (net income excluding exceptionals);15) OAG bands of January 31, 2012 Week of June 2011; 16) Traffi c and capacity report AirAsia December 2010; 17) ASCEND – January 20, 2012; 18) IATA; 19) Traffi c and capacity report Turkish Airlines December 2011; 20) Turkish Airlines CEO, Temel Kotil, Airline Business, June 2008; 21)) WATTS 2010 for Hainan Arlines; 22) Air China, China Southern, China Eastern 2010 annual reports

2.3 Strategy

The economic growth forecasts for the coming years point to modest growth in air transport demand together with pressure on revenues. In addition, there is the overcapacity created, in particular, by the low cost carriers in Europe and by the Gulf State airlines which are pursuing their strategy of double-digit growth in long-haul. Furthermore, the crisis has accelerated the change in the behavior of individual and corporate consumers, with price becoming an increasingly important factor. The oil price also seems to have settled at a level above US$100 a barrel, out of step with the relatively weak global growth. The European airlines are also increasingly exposed to the effects of the euro/dollar exchange rate which could be very unfavorable. Lastly, the introduction of new taxes and the ETS are limiting the room to increase prices in this high-fuel-price environment.

Despite the numerous measures introduced over the past three years and the multi-year cost-saving programs, the insufficient profitability combined with the persistent economic crisis and high oil price led the Air France-KLM Group to implement a three-year transformation plan (2012-14). While this plan aims to generate the financial resources required to return to a growth path, 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, deepening cooperation with its American and Chinese partners, signing agreements with new partners within the SkyTeam alliance and developing its fundamental strengths.

2.3.1 Fundamental strengths

A strong presence in all the major markets

The Air France-KLM Group currently operates the largest network between Europe and the rest of the world. Of the 180 long-haul destinations served directly by AEA (Association of European Airlines) member airlines in the Summer 2010 season, Air France-KLM accounted for 112, or 62% of the total, compared with 50% for IAG (British Airways + Iberia) and 52% for the Lufthansa group (Lufthansa + Swiss + Austrian Airlines + BMI + Brussels Airlines). Furthermore, the Group also offers 30 destinations which are not served by IAG or the Lufthansa Group.

Lastly, given its presence in all the major 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 partly mitigate the negative impact of any crises.

Two coordinated hubs at developing airports

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

The Group's network is organized around airport platforms whose development potential will further strengthen the role of the large intercontinental hubs. In July 2012, Air France will benefit from the opening of the S4 satellite which will complete Terminal 2E. The airline will eventually leave Terminals C and D, concentrating its medium-haul flights at Terminal 2F and long-haul flights at Terminal 2E where all the members of the SkyTeam alliance are regrouped, thereby gaining efficiency and increasing comfort for passengers.

A balanced customer base

The Air France-KLM Group's policy of meeting the expectations of all its customers in terms of networks, products and fares has enabled it to build a balanced customer base. As in 2010, in 2011 42% of passengers travelled for business purposes and 58% for personal reasons. The Group also benefits from a balanced breakdown between transfer (56%) and point-to-point passengers (44%). Furthermore, the Group's passenger loyalty strategy (frequent flyer program and corporate contracts) underpins the majority of revenues.

SkyTeam, the number two global alliance

At December 31, 2011, the SkyTeam alliance, the number two global alliance in terms of market share with 19%, brought together 15 European, American and Asian companies: Aeroflot, AeroMexico, Air Europa (Spain), Air France and KLM, Alitalia, China Airlines, China Eastern, China Southern, Czech Airlines, Delta, Kenya Airways, Korean Airways, Tarom and Vietnam Airlines. Aerolineas Argentinas, Garuda Indonesia, MEA (Lebanon) and Saudi Arabian Airlines are going to join the alliance in 2012 and 2013.

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

Strategic partnerships

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

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

A modern fleet

The Group has continuously invested in new aircraft and currently operates one of the most efficient and modern fleets in the sector. This enables it to offer an enhanced level of passenger comfort, achieve substantial fuel savings and respect its sustainability commitments by reducing noise disturbance for local residents 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 profile through to 2014. Furthermore, as of 2016, the Group will begin to take delivery of its first Boeing B787s and its first Airbus A350s in 2018.

A commitment to sustainable development

The Air France-KLM Group's sustainable development approach has won plaudits and awards on numerous occasions. Amongst these many awards, in 2011 the Group was named airline sector leader in the DJSI indices for the seventh consecutive year. The Group intends to pursue this commitment aimed at consolidating the reputation of its brands with, amongst other objectives, a very high level of operational safety, establishing an ongoing dialogue with stakeholders like customers, suppliers and local residents, contributing to combating climate change and applying the best corporate governance principles.

2.3.2 A permanent focus on reducing costs

The Air France-KLM Group regularly implements multi-year plans to reduce its unit costs measured in equivalent-available seat-kilometers (EASK) on a comparable fuel price and currency basis.

The process to establish the plan is as follows. Based on an activity growth assumption, the management control teams evaluate the automatic increase in operating costs directly linked to activity like catering, maintenance costs, distribution expenses and staff, etc. To this first evaluation is added the impact of inflation on costs, negotiated or imposed price increases (landing fees and en route charges, spare parts, etc.) together with the increase in payroll costs. As a function of the targeted reduction in unit cost per EASK, all the entities launch action plans to limit the increase in their budgets and/or identify cost reductions enabling them to meet the objective set.

In view of the deterioration in the economic environment in 2009, the three-year cost savings plan launched on April 1, 2007 known as *Challenge 10* was reinforced and extended until 2012 under the name *Challenge 12*.

The €1.4 billion cost-savings target in the initial plan was reinforced by an additional €1.1 billion. This plan was based on four types of cost-savings:

- Fleet renewal enabling savings on both fuel consumption and maintenance expenses;

- Distribution costs thanks, for example, to the reduction in commissions paid to travel agents and credit card companies or the renegotiation of GDS distribution costs;
- Procurement thanks to the integration of the purchasing teams of the two companies which has enabled the pooling of some orders and the centralized procurement policy enabling budgetary control;
- Productivity and an improvement in processes thanks to the development and gradual integration of information systems within the framework of both in-house management and services offered to customers with, for example, e-services and the non-replacement of natural departures due, in particular, to retirement, the voluntary departure plan at Air France, the integration of the Air France and KLM commercial teams based internationally, etc.

Within the framework of Challenge 12, the Air France-KLM Group achieved €2.9 billion of cost savings and/or reduced expenses between April 1, 2007 and December 31, 2011. In total, this plan enabled:

- The absorption of the mechanical increase in costs thanks to savings, thereby avoiding a 14% increase in unit cost per EASK ex-fuel which would have increased from 5 euro cents at March 31, 2007 (reference year) to 5.7 euro cents at December 31, 2011 without the implementation of *Challenge 12,*

and

- A 5% decline in unit cost per EASK thanks to cost reductions, thereby reducing the 5 euro cents at March 31, 2007 to 4.8 euro cents at December 31, 2011 against a backdrop of weak activity growth. Measured in EASK, the growth in capacity was only 4% between 2006-07 and 2011.

The two main sources of savings were procurement (41% of the overall amount) and productivity and the improvement in processes (38%), followed by the fleet (14%) and, lastly, distribution costs (7%).

While this cost-savings plan had a positive impact on unit costs, this is not sufficient in the current environment in which:

- The fuel price remains very high: having represented 1.5 euro cents per EASK at March 31, 2007 it had increased to 2 euro cents at December 31, 2011 and will rise to some 2.2 euro cents with an oil price at $125 per barrel;
- The pressure on revenues does not enable them to be increased to offset the total rise in the fuel bill.

Although the Group has not presented a cost-cutting plan for the next three years comparable to *Challenge 12*, it will continue to control its costs to limit the automatic effects of the increase in expenses, thereby enabling the Transform 2015 plan to deliver its full impact.

2.3.3 The Transform 2015 plan

During its meeting of November 9, 2011, Air France-KLM's Board of Directors set three priorities for the Group: restoring competitiveness through cost-cutting, restructuring the short- and medium-haul operations and rapidly reducing debt. On January 11, 2012, the Board examined the three-year (2012-14) transformation plan for the Group, and the implementation of the three priorities. This plan, Transform 2015, has two phases, the first comprising measures for immediate application and the second a transformation in the business model over a three-year period. At the end of this plan the Group is targeting a 10% reduction in unit cost per EASK ex-fuel at December 31, 2014 relative to December 31, 2011.

Within a context of weak capacity growth, ongoing cost control will limit the rise in unit cost per EASK ex-fuel rather than enable a reduction. On this basis, the Group estimates that the unit cost per EASK will be 4.9 euro cents at the end of 2014 (4.8 euro cents at the end of 2011). However, the application of the measures within the framework of the Transform 2015 plan should enable a 0.5 euro cent decline per EASK, reducing the unit cost per EASK ex-fuel from 4.9 euro cents to 4.4 euro cents at the end of the three-year period.

A €2 billion reduction in net debt by the end of 2014

The €2 billion reduction in net debt by the end of December 2014 is a priority objective. This reduction should bring down net debt from €6.5 billion at December 31, 2011 to €4.5 billion and the net debt/EBITDA ratio from 4.8 at December 31, 2011 to below 2 at end 2014.

The immediate measures and the transformation plan will result in the generation of free cash flow of €2 billion over the 2012-14 period.

Phase 1: immediate measures

Downward revision in capacity growth and investments

Given the uncertain economic environment and the ongoing imbalance between transport capacity and demand, the Group opted for virtually stable capacity in both passenger and cargo. Over the next three years (2012-2014), total capacity growth should thus be around 5% [(1)].

As a result of this virtually stable capacity, the Group has revised its fleet plan and investment program with the exception of investments aimed at the ongoing improvement in operational safety and customer services. Investment will thus be reduced from more than €6 billion over the 2009-2011 period to below €5 billion [(2)] over the next three years. This decision has led the Group to adjust its medium-term fleet plan by combining, for example, the deferral of aircraft deliveries and the non-exercise of options.

Cost-saving measures

New cost-saving measures amounting to more than €1 billion over three years have started to be implemented including a freeze on general pay rises in 2012 and 2013 at Air France and a policy of wage moderation at KLM. The hiring freeze introduced in September will also continue. Additional productivity efforts, a further reduction in overhead costs and network adaptations will complete the measures that have already been identified. Of the main measures, those concerning salaries represent a saving of more than €500 million, temporary overhead savings some €155 million while structural measures should generate around €200 million.

These improvements on their own, however, not being sufficient to guarantee the durable restoration of the Group's competitive position and financial strength, the Board of Directors decided to implement a transformation plan, encompassing all its businesses, targeted at generating an additional €1 billion in free cash flow over three years.

Phase 2: transformation plan

Improving productivity

In the Air France Group, regaining a satisfactory level of profitability will require a very significant improvement in productivity in all parts of the Group, implying the renegotiation of the employment conditions in the existing collective labor agreements. Negotiations with the relevant union organizations representing the various employee categories have started aimed at reaching agreement on a framework and methodology by the end of March. Were the negotiations to break down, the collective agreements will no longer apply as of the end of March. In the event of agreement, the negotiations will continue to finalize new collective labor agreements in June 2012 aimed at establishing new working methods and a remuneration and career framework adapted to the new air transport environment, and enabling a 20% improvement in economic efficiency by 2014.

Return to break-even in medium-haul within three years

The short and medium-haul network remains key to the Group's development, ensuring not only its presence throughout Europe but also feeding the long-haul flights at the two hubs, Paris-CDG and Amsterdam-Schiphol. Since the 2008-09 financial crisis, the structural decline in unit revenues has led, despite the NEO plan, to deepening operating losses in this business amounting to some €700 million in 2011. Since the long-haul operations are also facing increased competition, they cannot alone offset these losses and medium-haul must return to break even. To this end, the Group will be working on the following structural measures:

- Higher utilization rate of aircraft and assets,
- Significantly improved productivity in all employee categories,
- Redefinition of the product,
- Restructuring of the main and regional networks,
- Redefining certain activities, potentially leading to increased outsourcing in some areas.

Improving the performance of the long-haul network and cargo

While the long-haul network remains profitable, it still needs to improve its financial performance. This will mostly be done through an improvement in the productivity of all relevant staff, through growth in capacity generated by better utilization of the existing long-haul fleet and oriented towards emerging countries, and the closure of loss-making routes.

The cargo business must return to structural profitability. While the improvement in productivity is also a priority, other measures including the adaptation of capacity are currently being considered.

(1) Excluding the impact of the provincial bases
(2) Before sale and lease backs

2.4 Passenger business

The passenger business is Air France-KLM's main activity, contributing some 77% of the Group's revenues.

As a result of the change in financial year end from March 31 to December 31, the financial year spanned only nine months (April-December 2011). To facilitate understanding of the business, the Group opted to also present activity for the whole of the 2011 calendar year.

The beginning of the year was marked by geological phenomena and political crises which weighed on activity throughout 2011 since they impacted regions where the Group has a strong presence. While activity to the Ivory Coast had regained its pre-crisis level by the year end, this was not the case for Japan despite a steady improvement since the final quarter of 2011, nor for Egypt and Tunisia. Furthermore, the comparisons benefit from a favorable base effect linked to the closure of the European airspace in April 2010.

Financial year from April 1 to December 31, 2011

Activity between April 1 and December 31, 2011 is compared with the same period in 2010.

Over this period, which includes the traditionally more dynamic summer season, the passenger business posted a 7.4% increase in capacity and a 7.9% rise in traffic, resulting in a 0.4 point increase in the load factor to 83.0%. The Group carried 59.3 million passengers (+8.0%). With the capacity operated by the Martinair passenger business having been transferred to KLM since November 2011, capacity increased by 7.0% on a comparable basis over nine months, while traffic was up by 6.5%.

Total passenger revenues amounted to €14.76 billion (+5.2%) after a negative currency impact of 1.4%. The operating result was negative to the tune of €8 million (income of €323 million at December 31, 2010). This performance is explained by difficulties in markets disrupted by the geopolitical crises, the level of unit revenue per available seat kilometer (RASK) which declined by 2.2% and a sharp increase in the fuel bill (+€640 million).

Financial year from January 1 to December 31, 2011 (pro forma)

Activity between January 1 and December 31, 2011 is compared with the same period in 2010.

Over the 2011 financial year, traffic increased by 6.9% for capacity up by 6.6%. The load factor stood at 82.0% (+0.3 of a point). Some 75.6 million passengers (+7.3%) were carried on the network, generating total revenues of €18.83 billion after a negative currency effect of 0.5% (€17.91 billion at December 31, 2010). The operating result was a €375 million negative (a negative of €58 million for 2010) after a cost for the various crises amounting to around €200 million. While the volume of traffic was satisfactory, the level of unit revenues was not sufficient to offset the €806 million increase in the fuel bill. Unit revenue per available seat-kilometer (RASK) effectively declined by 1.2% and by 0.7% excluding currency.

➤ Key figures by network

At December 31 (12 months pro forma)	Destinations *(Summer season)*		Capacity in ASK *(In million)*		Traffic in RPK *(In million)*		Load factor *(In %)*		No. of passengers *(In thousands)*		Scheduled passenger revenues *(In € million)*	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Europe	124	123	57,245	53,605	42,323	38,846	73.9	72.5	51,829	47,796	6,394	6,023
North America	24	23	59,070	55,319	50,912	47,449	86.2	85.8	7,255	6,810	3,277	3,088
Latin America	11	11	25,192	22,086	21,961	19,434	87.2	88.0	2,353	2,136	1,420	1,246
Asia-Pacific	25	22	58,790	54,976	50,168	47,524	85.3	86.4	5,855	5,546	3,160	2,974
Africa-Middle East	54	50	35,963	35,653	28,264	28,164	78.6	79.0	5,224	5,337	2,423	2,548
Caribbean-Indian Ocean	16	15	28,637	26,894	23,541	21,697	82.2	80.7	3,265	3,090	1,324	1,211
Total	**254**	**244**	**264,897**	**248,532**	**217,170**	**203,114**	**82.0**	**81.7**	**75,781**	**70,715**	**17,998**	**17,090**

The long-haul network

With a fleet of 167 aircraft in operation, the Group carried 23.9 million passengers (+5.9%) on the long-haul network to 130 destinations (Summer season: April-October 2011) in 69 countries. The dual hub (Paris and Amsterdam) gives access to the destinations offered by one or other airline. On the shared destinations, it enables a wide choice of flight times, particularly for transfer passengers who have the choice of transiting through either Paris or Amsterdam. The weight of the long-haul network remained stable on the previous year, representing around 81% of traffic and 78% of capacity. Long-haul traffic (+6.4%) increased in line with the growth in capacity (+6.5%), the load factor remaining unchanged at 84.2% (- 0.1 of a point).

Long-haul scheduled passenger revenues amounted to €11.6 billion (+4.9%) after a negative currency effect of 0.8%. This network's contribution to scheduled passenger revenues (64.5%) was similar to the previous year. Unit revenues in premium class increased (+3.2% excluding currency) whereas unit revenue in economy declined (-1.4% excluding currency).

The Africa-Middle East and Asian networks saw a slight decline in their load factors given the crises but control over capacity enabled this fall to be limited. The respective weight of each network did not change significantly relative to the previous financial year.

The North and Latin American market remained the Group's first network in terms of both traffic (34%) and capacity (32%), carrying 9.6 million passengers (+7.4%) to 35 destinations in 10 countries. Growth in traffic was in line with that of capacity (+9.0% and +8.9%), the latter being driven by the Latin American network. The Group carried 9.6 million passengers, generating revenues of €4.7 billion, up by 8.3% after a negative currency effect of 1.8%. This network accounted for 26% of scheduled passenger revenues (+1 point). In this market the Group benefits from the joint-venture agreement with Delta which enables the coordination of capacity and revenue management on the North American network.

The Group served 25 destinations in 11 countries in the Asia-Pacific region. The second-largest network for the Group for the first time this year, this network represented 23% of traffic and 22% of capacity, as in the previous year. Although the Japanese market was badly affected by the earthquake and tsunami and has still not regained its pre-crisis level, traffic increased by 5.6% thanks to China. The development of agreements with the leading Chinese airlines enabled Air France-KLM to win a 10% share of the local market in 2011. The load factor lost 1.1 points but remained at a very high level (85.3%) while the number of passengers increased by 5.6% to 5.8 million. Revenues grew by 5.9% to €3.17 billion after a positive currency impact of 0.4%, representing close to 18% of total scheduled passenger revenues, as in the previous year.

With 54 destinations in 40 countries, Africa-Middle East remains the Group's third long-haul network. Political crises in both Africa and the Middle East weighed on activity resulting in a very modest increase in traffic (+0.4%). Thanks to control over capacity (+0.9%) the load factor lost just 0.4 of a point to 78.6%. Although the Africa network recovered at the end of the year, the Middle East network continued to suffer from the political instability in part of the region. The Group carried 5.2 million passengers (2.1%), generating revenues of €2.42 billion, down by 4.9% after a negative currency impact of 1.0%. Its share of total scheduled passenger revenues was consequently down by 1.4 points.

The Caribbean and Indian Ocean network offers 16 destinations in five countries. With around 11% of traffic and capacity, this network is the Group's fourth long-haul network. This network benefited from the tourism crisis in the Mediterranean basin. Traffic effectively increased by 8.5% for capacity up by 6.5%, enabling the load factor to gain 1.5 points to 82.2%. The number of passengers reached 3.3 million (+5.7%). Revenues also saw strong growth to €1.32 billion (+9.3%). This network's share of total scheduled passenger revenues increased slightly to 7.4%.

The medium-haul network

The medium-haul network was the Group's third network with 19% of traffic and 22% of capacity, as in 2010. It covers France, the other European countries and North Africa and offers 124 destinations in 36 countries (Summer 2011 season). This network mainly links Europe with the rest of the world thanks to the Group's two hubs. The French domestic market is mostly served out of Orly, with the *La Navette* shuttle service linking Paris to the main French regional capitals. The Group's regional subsidiaries, Brit Air, Régional, CityJet, VLM and KLM Cityhopper, participate in the medium-haul business either by linking secondary French and European cities or by offering intra-domestic routes. In October 2011, the Group opened its first provincial base in Marseille with 13 flights to French and other European destinations and the Mediterranean rim. This new development explains one point of the strong growth in capacity.

Over the financial year, traffic and capacity on the medium-haul network were up by a respective 9.0% and 6.8%, also benefiting from the base effect linked to the shutdown of the European airspace in April 2010 and the air traffic controller strikes in the autumn which had penalized this network in particular. The load factor gained 1.5 points to 73.9%. In the European market, excluding France, the load factor increased by 1.9 points to 75.8% while, in the domestic market, it was up by 0.4 points at 68.2%.

With a fleet of 372 aircraft in operation, of which 173 regional aircraft, the Group carried 51.8 million passengers (+8.4%) and generated €6.39 billion of scheduled passenger revenues (+6.2%). This network represented 35% of total scheduled passenger revenues, like in 2010.

The structural decline in unit revenue in medium-haul, explained by a situation of overcapacity in Europe which is mainly fed by the low cost airlines and the change in consumer behaviour with passengers seeking the lowest fares led, despite the New European Offer, to increased operating losses in this business amounting to around €700 million for the 2011 calendar year.

➤ **Key figures for the passenger business**

12-month financial year to	December 31, 2011 (pro forma)	December 31 2010 (pro forma)	March 31, 2011 reported
Number of passengers *(In thousands)*	75,781	70,715	71,320
Total passenger revenues *(In €m)*	18,834	17,910	18,103
Scheduled passenger revenues *(In €m)*	17,998	17,090	17,290
Unit revenue per ASK *(In € cents)*	6.80	6.89	6.89
Unit revenue per RPK *(In € cents)*	8.29	8.43	8.44
Unit cost per ASK *(In € cents)*	6.86	6.83	6.82
Income/(loss) from current operations *(In €m)*	(375)	(58)	(44)

Unit revenue per available seat-kilometer (RASK) was down by 1.2% and by 0.7% on a constant currency basis. Unit revenue per revenue passenger-kilometer (RRPK) declined by 1.6% and by 1.0% on a constant currency basis. Unit cost per available seat-kilometer rose by 0.4% but fell by 2.7% on a constant currency and fuel price basis.

2.5 Cargo business

Cargo is the second of the Group's businesses, accounting for some 13% of total revenues.

As a result of the change in financial year end from March 31 to December 31, the financial year spanned only nine months (April-December 2011). To facilitate understanding of the business, the Group opted to also present activity for the whole of the 2011 calendar year.

While the cargo business benefited from the restructuring measures implemented over the previous twelve months, the economic environment was not particularly favorable especially as of the middle of 2011 with the crisis in Japan, the economic slowdown and a situation of overcapacity all affecting this activity. The world-wide decline in volumes and a downturn in the purchasing manager confidence index had a significant impact on air freight with traffic on the major trade routes moving into negative territory over the course of the year. The Asian market experienced the sharpest downturn given its strong rebound in 2010. This was due to the decline in European and US demand for products manufactured in Asia. There was also heavy downwards pressure on prices while the surcharges were not sufficient to offset the increase in the oil price.

Financial year from April 1 to December 31

Activity between April 1 and December 31, 2011 is compared with the same period in 2010.

Over the nine months, traffic declined by 1.7% for capacity up by 2.3%. This increase in capacity is linked to that of the passenger business since, within the framework of the restructuring of its cargo business, the Group chose to prioritize the bellies of passenger aircraft and reduce the full freighter fleet which now only represents about 30% of capacity versus 50% two years ago. The load factor stood at 66.0% (-2.7 points). The Group carried 1.1 million tons of cargo (-2.3%).

Revenues amounted to €2.37 billion (-0.7% after a negative currency effect of 2.5%) while the operating result was a €51 million loss (income of €78 million at December 31, 2010). This performance was explained by a decline in activity, unit revenue per available-ton kilometer (RATK) down by 3.1% and by 0.5% excluding currency, and a 15% increase in the fuel bill.

Financial year from January 1 to December 31, 2011 (pro forma)

Activity between January 1 and December 31, 2011 is compared with the same period in 2010.

Over the year, the cargo business posted a 1.3% decline in traffic for a 2.4% increase in capacity, leading to a 2.5% fall in the load factor to 66.4%. The Group carried 1.45 million tons of cargo (-1.9%). Total revenues amounted to €3.14 billion (+2.6%) thanks to the very good first quarter performance which enabled unit revenue per available-ton kilometer (RATK) to remain stable over the year (+0.1% and +1.5% excluding currency). The operating result was a €60 million loss (income of €15 million at December 31, 2010).

➤ Key figures by network

At December 31 (12 months pro forma)	Capacity in ATK *(In million)*		Traffic in RTK *(In million)*		Load factor *(In %)*		No. of tons *(In thousands)*		Cargo revenues *(In € million)*	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Europe	553	493	80	72	14.5	14.6	55	54	56	54
North and Latin America	6,592	6,374	4,494	4,447	68.2	69.8	557	552	1,191	1,055
Asia-Pacific	5,988	5,818	4,558	4,661	76.1	80.1	522	534	975	1 036
Africa-Middle East	2,779	2,852	1,719	1,801	61.9	63.1	276	294	603	588
Caribbean-Indian Ocean	1,100	1,076	444	458	40.4	42.6	57	61	152	171
Total	**17,013**	**16,613**	**11,294**	**11,439**	**66.4**	**68.9**	**1,467**	**1,495**	**2,977**	**2,904**

The Americas network became the Group's first network in 2011, replacing Asia.

As the premier network, the Americas represent 39% of capacity and 40% of traffic, the latter increasing by 1.1% for capacity up by 3.4% leading to a 1.6 point decline in load factor to 68.2%. The Group carried 557,000 tons (+0.9%) and generated revenues of €1.19 billion, growth of 12.9%.

The Asian network accounted for 35% of capacity and 40% of traffic, like last year. This network suffered from the Japanese crisis and an increase in capacity on departure from China. Traffic declined by 2.2% for capacity up by 2.9%, the load factor losing 4.0 points to 76.1%. The Group carried 522,000 tons in return for revenues of €975 million (-5.9%).

Africa-Middle East, the Group's third network, was affected by the different political crises, with traffic down by 4.6% and capacity falling by 2.6%. The load factor lost 1.3 points to 61.9%. Tonnage transported amounted to 276,000 (-6.0%). Revenues increased by 2.6% to €603 million.

The Caribbean-Indian Ocean network posted a 3.1% decline in traffic for a capacity increase of 2.2%, the load factor standing at 40.4% (-2.2 points). With 57,000 tons carried, revenues stood at €152 million (-11%).

➤ Key figures for the cargo business

12-month financial year to	December 31, 2011 (pro forma)	December 31, 2010 (pro forma)	March 31, 2011 reported
Tonnage transported *(In thousands)*	1,467	1,495	1,492
Total cargo revenues *(In €m)*	3,143	3,064	3,159
Freight transport revenues *(In €m)*	2,977	2,904	2,996
Unit revenue per ATK *(In € cents)*	17.50	17.48	17.92
Unit revenue per RTK *(In € cents)*	26.37	25.39	26.20
Unit cost per ATK *(In € cents)*	17.59	17.12	17.25
Income/(loss) from current operations *(In €m)*	(60)	15	69

Unit revenue per available ton-kilometer (RATK) remained unchanged and increased by 1.5% on a constant currency basis. Unit revenue per revenue ton-kilometer (RRTK) increased by 3.7% and by 5.2% on a constant currency basis. Unit cost per available ton-kilometer was up by 2.7% but down by 2.1% on a constant currency and fuel price basis.

2.6 Maintenance business

As a result of the change in financial year end from March 31 to December 31, the financial year spanned only nine months (April-December 2011). To facilitate understanding of the business, the Group opted to also present activity for the whole of the 2011 calendar year.

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

Financial year from April 1 to December 31, 2011

Activity from April 1 to December 31, 2011 is compared with the same period in 2010.

The Group generated total revenues of €1.55 billion (+1%) over the nine-month period to December 31, 2011 and third-party revenues of €807 million (+1.4%). The revenue growth was limited by a negative currency effect. Operating income stood at €84 million after €23 million of exceptional costs linked to the in-line maintenance strike over the summer (€117 million at December 31, 2010).

Financial year from January 1 to December 31, 2011 (pro forma)

Activity from January 1 to December 31, 2011 is compared with the same period in 2010.

With total revenues of €3.11 billion (+1.2% after a negative currency effect of 4%), of which €1.04 billion in third-party revenues, the maintenance business generated operating income of €110 million (€118 million at December 31, 2010). Excluding this €23 million of exceptional costs, the maintenance business would have posted a better performance than in 2010, particularly in the components activity.

➤ Key figures for the maintenance business

12-month financial year to	December 31, 2011 (pro forma)	December 31, 2010 (pro forma)	March 31, 2011 reported
Total revenues *(In €m)*	3,112	3,076	3,083
Third-party revenues *(In €m)*	1,040	1,029	1,029
Income from current operations *(In €m)*	110	118	143

2.7 Other businesses

As a result of the change in financial year end from March 31 to December 31, the financial year spanned only nine months (April-December 2011). To facilitate understanding of the business, the Group opted to also present activity for the whole of the 2011 calendar year.

The main activities in this sector are the catering business and Transavia's leisure business. Since November 2011, Martinair's leisure capacity, which had been gradually scaled back since its integration within the Group in 2009, has been operated by KLM.

Financial year from April 1 to December 31, 2011

Activity from April 1 to December 31, 2011 is compared with the same period in 2010.

Total revenues from these other businesses amounted to €1.09 billion (+2.1%) and income from current operations stood at €25 million (€7 million at December 31, 2010)

The leisure business generated revenues of €770 million (-0.5%). This virtual stability is explained by the scaling back of the Martinair activity and the closure of Transavia Denmark. The leisure business posted income from current operations of €16 million (versus a €6 million loss at December 31, 2010). For its part, the Transavia Group generated income from current operations of €36 million (€10 million at December 31, 2010 after the €10 million impact of the different crises including the shutdown of the European airspace and the beginning of the *Arab Springs*).

The catering business generated total revenues of €725 million including €282 million of third-party revenues (€246 million at December 31, 2010). Income from current operations thus increased from €12 million at December 31, 2010 to €18 million at December 31, 2011.

Financial year from January 1 to December 31, 2011 (pro forma)

Activity from January 1 to December 31, 2011 is compared with the same period in 2010.

Over the period, the other businesses generated revenues of €1.35 billion (€1.31 billion at December 31, 2010) and income from current operations improved by some 40% moving from a €47 million loss at December 31, 2010 to a loss of €28 million at December 31, 2011.

The leisure business generated revenues stable at €911 million and a €33 million loss from operations, of which €5 million on Transavia which had a poor first quarter (January-March 2011) linked, in particular, to the weakness of tourism in a number of Mediterranean countries.

The catering business generated total revenues of €955 million including €376 million of third-party revenues (€327 million at December 31, 2010). Income from current operations stood at €25 million at December 31, 2011 versus €10 million one year earlier.

2.8 Highlights of the beginning of the 2012 financial year

In early January, the group presented Transform 2015, a three-year plan (2012-2014) aimed at restoring profitability through a reduction of the order of 10% in unit costs ex-fuel and reducing debt by €2 billion. The Group has already started work on all elements of the plan:

- Capacity growth has been revised down. In 2011, capacity growth was 4.7% at a constant perimeter, and will be limited to 1-2% in the next three years.
- In line with the low increase in capacity, investments have been revised down, especially investments in the fleet, which will be, before sale and lease back operations, a maximum of €700 million in 2012, €600 million in 2013 and €300 million in 2014, compared with €1.2 billion in 2011.
- The immediate cost-cutting measures have already largely been implemented, and notably the payroll measures, with the freeze on general salary increases at Air France in 2012 and 2013 and wage moderation at KLM, a reduction in overhead costs and network adaptations. These measures should generate over €1 billion in savings over the next three years, €280 million in 2012, €390 million in 2013 and €400 million in 2014. At the same time the Group will not let up on its ongoing cost measures.
- The transformation plan has been launched. The first phase will last until the end of March with the aim of reaching an agreement on framework and methodology with the relevant union organisations at Air France and KLM. These agreements will define the working methods, objectives of improvement in productivity for each business as well as the measures to achieve these objectives. The aim by the end of June is the signing of new collective agreements aimed at generating a 20% improvement in economic efficiency in 2014 relative to 2011 at Air France and stable payroll costs at KLM.

As regards the 2012 financial year, the economic outlook remains uncertain while the fuel price remains at a record level in euros. The fuel bill is estimated to increase by €1.1 billion[1]. As a result, the first half operating result will be below that of the previous year. However, the second half should benefit from the first effects of the three-year plan. Furthermore, the Board of Directors has fixed an objective of net debt of a maximum of €6.5 billion at the end of 2012.

(1) Based on a forward curve at March 2, 2012 and €/$ rate of 1.32 in 2012

2.9 Fleet

At December 31, 2011, the Air France-KLM Group fleet comprised 609 aircraft, of which 586 were operational compared with, respectively, 609 and 588 aircraft at December 31, 2010.

The main operational fleet consists of 413 aircraft (410 aircraft at December 31, 2010), of which 167 long-haul aircraft (168 at December 31, 2010), 17 cargo aircraft including eight at Martinair and 229 medium-haul aircraft (225 at December 31, 2010), of which 38 aircraft in the Transavia group fleet (39 aircraft at December 31, 2010). The regional fleet in operation comprises 173 aircraft (178 at December 31, 2010).

At December 31, 2011, the breakdown by ownership method of the Group's overall fleet was unchanged on that of December 31, 2010 with 45% of the fleet fully owned, 19% under finance lease and 36% under operating lease. Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €2.02 billion (€1.73 billion at December 31, 2010). Disposals of flight equipment stood at €1.15 billion, of which €995 million in sale and leaseback transactions.

There were firm orders outstanding for 61 aircraft at December 31, 2011, including 25 Boeing B787s for delivery between 2016 and 2026. Options stood at 73 (53 at March 31, 2011) of which 25 were for Boeing B787s. The Airbus A350 order is in the negotiation process with Airbus and Rolls Royce and is thus not included in the figures at December 31, 2011.

Change in the Air France-KLM Group order book	March 31, 2011	Deliveries during the period	New orders	Option conversion	December 31, 2011
Main fleet	43	20	26	4	53
Regional fleet	13	5	0	-	8
Total	**56**	**25**	**26**	**4**	**61**

2.9.1 The Air France Group fleet

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

The Air France Group fleet totalled 402 aircraft at December 31, 2011, of which 259 aircraft in the main fleet and 143 in the subsidiaries. Firm orders amounted to 33 aircraft.

The changes in the fleet were as follows.

	Fleet at December 31, 2010	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2011
Long-haul fleet	102	5	3	104
Medium-haul fleet (including Transavia France)	152	9	5	156
Cargo	7	1	1	7
Regional fleet	138	11	14	135
Total	**399**	**23**	**20**	**402**

* *Deliveries, operating lease and finance lease.*

The Air France fleet

The Air France fleet comprised 259 aircraft at December 31, 2011, with 254 in operation. The fleet includes 104 long-haul aircraft, 148 medium-haul aircraft and seven freighters. The average age of the fleet is 9.3 years, with 9.1 years for the long-haul fleet, 9.6 years for the medium-haul fleet and 6.3 years for the cargo fleet. At December 31, 2010, the average age had been 9.3 years, with 9.1 years for the long-haul fleet, 8.7 for the medium-haul fleet and 6.3 years for the cargo fleet. Within the fleet, 119 aircraft are fully owned (46%), 25 are under finance lease (10%) and 115 under operating lease (44%).

Over the twelve months, the company took delivery of three Boeing B777-300s, two Airbus A380s and seven medium-haul aircraft (Airbus A320-321s). In parallel, one Boeing B747-400, two Airbus A340-300s and four Airbus A319-20s were withdrawn from the fleet. Investment in flight equipment amounted to €1.30 billion (including advance payments on orders, spare parts and ground-based maintenance operations) and disposals to €821 million.

The fleet of the regional subsidiaries and Transavia

The fleet of the regional subsidiaries is organized around four aircraft families: the Embraer family at Régional, the Bombardier family at Brit Air, the Fokker family at VLM and the Avro fleet operated by CityJet. At December 31, 2011, the total fleet of these four companies comprised 135 aircraft, with a seat capacity of up to 100, of which 125 in operation. The average age of the fleet in operation was 10.5 years at December 31, 2011: 7.9 years for the Brit Air fleet, 8.3 years for Régional, 12.8 years for CityJet, and 21.9 years for the VLM fleet.

During the 2011 financial year, 11 aircraft entered the regional fleet (one Embraer 170 at Régional and ten CRJ 1000s at Brit Air) and 14 were withdrawn (eight aircraft at Brit Air, two at Régional, three at CityJet and one at VLM). Investment in flight equipment amounted to €211 million (including advance payments on orders, spare parts and ground-based maintenance operations) and disposals to €2 million.

Eighty-three aircraft are fully owned (61%), 27 are under finance lease (20%) and 25 are under operating lease (19%). At December 31, 2011, the order book stood at eight firm orders and 21 options, including a portion of the first grouped order placed by two Group companies, Régional and KLM Cityhopper, for the acquisition of Embraer Ejets. This grouped order has significantly improved the purchasing conditions on these aircraft.

The Transavia France fleet comprises eight Boeing B737-800s, all in operation and under operating lease (nine aircraft at December 31, 2010). The average age of this fleet is 6.3 years.

2.9.2 The KLM Group fleet

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

The KLM Group fleet totalled 207 aircraft at December 31, 2011 (210 aircraft at December 31, 2010) of which 159 in the main fleet and 48 in the regional fleet. Firm orders stood at 28 aircraft at December 31, 2011.

KLM Group fleet	Fleet at December 31, 2010	Aircraft entering the fleet over the period*	Aircraft withdrawn over the period	Fleet at December 31, 2011
Long-haul fleet (including Martinair)	66	1	4	63
Medium-haul fleet (including Transavia Netherlands)	77	11	7	81
Cargo (including Martinair)	15	-	-	15
Regional fleet	52	-	4	48
Total	**210**	**12**	**15**	**207**

* *Deliveries, operating lease and finance lease.*

The KLM fleet

The KLM fleet comprises 118 aircraft with 113 in operation. There are 63 long-haul aircraft, four freighters and 51 medium-haul aircraft. The aircraft in the fleet have an average age of 9.2 years, with 11.9 years for the long-haul fleet, 5.7 years for the medium-haul fleet and 7.5 years for the cargo fleet. At December 31, 2010, the average age of the fleet was 10.2 years, including 11.1 years for the long-haul fleet, 9.4 years for the medium-haul fleet and 6.5 years for the cargo fleet. Thirty-six aircraft are fully owned (30%), 41 aircraft are under finance lease (34%) and 43 are under operating lease (36%).

During these twelve months, one Boeing B777-300, one Boeing B737-800 and ten Boeing B737-700s joined the fleet while seven Boeing B737-400s and 300s were withdrawn. Investment in flight equipment amounted to €508 million (including advance payments on orders, spare parts and ground-based maintenance operations) and disposals to €182 million.

The subsidiaries' fleet

Other non-regional fleets

The Transavia Netherlands fleet comprises 30 aircraft, unchanged on December 31, 2010, of which ten Boeing B737-700s and 20 Boeing B737-800s. Six per cent of the fleet is fully owned, 27% is under finance lease and 67% under operating lease. The average age of the aircraft in the fleet is 8.1 years. Disposals under sale and leasebacks stood at €25 million.

Martinair has a fleet of 11 freighters, of which eight are in operation. Its four long-haul aircraft were withdrawn from the fleet with the cessation of its passenger activity. Three aircraft are fully owned (27%), two are under finance lease (18%) and six are under operating lease (55%). The average age of this fleet is 17.2 years.

Regional fleet

The KLM Cityhopper fleet comprises 52 aircraft, of which 48 were operational at December 31, 2011 as at December 31, 2010. The average age of the aircraft in the regional fleet is 11.2 years. Thirty-two aircraft are fully owned (62%), 16 are under finance lease (31%) and four aircraft are under operating lease (7%). Investment in flight equipment (including advance payments on orders, spare parts and ground-based maintenance operations) amounted to €8 million and disposals to €2 million.

Air France fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.
B747-400	3	-	-	-	6	-1	9	-1	9	-1
B777-200/300	29	-3	7	+3	23	+3	59	+3	59	+3
A380-800	2	-	1	+1	3	+1	6	+2	6	+2
A340-300	10	-1	2	-	3	-1	15	-2	15	-2
A330-200	3	-	2	-	10	-	15	-	15	-
Long-haul	**47**	**-4**	**12**	**+4**	**45**	**+2**	**104**	**+2**	**104**	**+2**
B747-400	2	-	-	-	3	-	5	-	3	-
B777-F Cargo	2	+2	-	-2	-	-	2	-	2	-
Cargo	**4**	**+2**	**-**	**-2**	**3**	**-**	**7**	**-**	**5**	**-**
A321	11	-	1	-	13	+1	25	+1	25	+1
A320	23	-3	3	-	35	+8	61	+5	59	+5
A319	21	-	4	-	19	-1	44	-1	43	-1
A318	13	-4	5	+4	-	-	18	-	18	-
Medium-haul	**68**	**-7**	**13**	**+4**	**67**	**+8**	**148**	**+5**	**145**	**+5**
Total	**119**	**-9**	**25**	**+6**	**115**	**+10**	**259**	**+7**	**254**	**+7**

Regional fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011		12/31/2011	YoY Ch.	12/31/2011	YoY Ch.
Brit Air										
Canadair Jet 1000	11	+10	-	-	-	-	11	+10	11	+10
Canadair Jet 900	-	-	-	-	-	-2	-	-2	-	-2
Canadair Jet 700	6	-	9	-	-	-	15	-	15	-
Canadair Jet 100	12	+3	1	-3	-	-2	13	-2	13	-2
F100-100	3	-	-	-	1	-4	4	-4	-	-7
Total	**32**	**+13**	**10**	**-3**	**1**	**-8**	**43**	**+2**	**39**	**-1**
CityJet										
AVRO RJ 85	13	-2	-	-	11	-1	24	-3	22	-
Total	**13**	**-2**	**-**	**-**	**11**	**-1**	**24**	**-3**	**22**	**-**
Régional										
EMB190	4	-	-	-	6	-	10	-	10	-
EMB170	8	-	2	-	1	+1	11	+1	10	-
EMB145-EP/MP	10	+2	12	-2	4	-1	26	-1	26	-1
EMB135-ER	4	-	3	-	-	-	7	-	4	-2
EMB120-ER	-	-1	-	-	-	-	-	-1	-	-
Total	**26**	**+1**	**17**	**-2**	**11**	**-**	**54**	**-1**	**50**	**-3**
VLM Airlines										
Fokker 50	12	-1	-	-	2	-	14	-1	14	-1
Total	**12**	**-1**	**-**	**-**	**2**	**-**	**14**	**-1**	**14**	**-1**
Total regional fleet	**83**	**+11**	**27**	**-5**	**25**	**-9**	**135**	**-3**	**125**	**-5**

Other fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011		12/31/2011	YoY Ch.	12/31/011	YoY Ch.
Transavia France										
B737-800	-	-	-	-	8	-1	8	-1	8	-1
Total	**-**	**-**	**-**	**-**	**8**	**-1**	**8**	**-1**	**8**	**-1**
Total Air France Group	**202**	**+2**	**52**	**+1**	**148**	**-**	**402**	**+3**	**387**	**+1**

KLM fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011		12/31/2011	YoY Ch.	12/31/2011	YoY Ch.
B747-400	13	+2	4	-2	5	-	22	-	22	-
B777-300	-	-	5	+1	-	-	5	+1	5	+1
B777-200	-	-	6	-	9	-	15	-	15	-
MD11	8	-	2	+2	-	-2	10	-	10	-
A330-200	-	-	6	-	5	-	11	-	11	-
Long-haul	***21***	***+2***	***23***	***+1***	***19***	***-2***	***63***	***+1***	***63***	***+1***
B747-400	-	-	3	-	1	-	4	-	4	-
Cargo	***-***	***-***	***3***	***-***	***1***	***-***	***4***	***-***	***4***	***-***
B737-900	-	-	2	-	3	-	5	-	5	-
B737-800	10	+5	3	-5	10	+1	23	+1	23	+1
B737-700	-	-	8	+2	10	+8	18	+10	18	+10
B737-400	4	-2	-	-	-	-2	4	-4	-	-8
B737-300	1	-3	-	-	-	-	1	-3	-	-3
Medium-haul	***15***	***-***	***13***	***-3***	***23***	***+7***	***51***	***+4***	***46***	***-***
Total	**36**	**+2**	**39**	**-2**	**43**	**+5**	**118**	**+5**	**113**	**+1**

Regional fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011		12/31/2011	YoY Ch.	12/31/2011	YoY Ch.
KLM Cityhopper										
F100	5	-	-	-	-	-	5	-	5	-
F70	23	-	3	-	-	-	26	-	26	-
F50	0	-4	-	-	-	-	0	-4	-	-
EMB 190	-	-	13	-	4	-	17	-	17	-
Total	**28**	**-4**	**16**	**-**	**4**	**-**	**48**	**-4**	**48**	**-**

Other fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011		12/31/2011	YoY Ch.	12/31/2011	YoY Ch.
Transavia Netherlands										
B737-800	2	-2	3	-	15	+2	20	-	20	-
B737-700	-	-	5	-	5	-	10	-	10	-
Total	**2**	**-2**	**8**	**-**	**20**	**+2**	**30**	**-**	**30**	**-**
Martinair										
B767-300	-	-	-	-	-	-4	-	-4	-	-4
Long-haul	***-***	***-***	***-***	***-***	***-***	***-4***	***-***	***-4***	***-***	***-4***
B747-400 BCF	-	-	-	-	4	-	4	-	1	-
MD-11-CF	3	-	-	-	1	-	4	-	4	-
MD-11-F	-	-2	2	+2	1	-	3	-	3	-
Cargo	***3***	***-2***	***2***	***+2***	***6***	***-***	***11***	***-***	***8***	***-***
Total	**3**	**-2**	**2**	**+2**	**6**	**-4**	**11**	**-4**	**8**	**-4**
Total other fleet	**5**	**-4**	**10**	**+2**	**26**	**-2**	**41**	**-4**	**38**	**-4**
Total KLM Group	**69**	**-6**	**65**	**-**	**73**	**+3**	**207**	**-3**	**199**	**-3**

Air France-KLM Group fleet

Aircraft type	Owned		Finance lease		Operating lease		Total		In operation	
	12/31/2011	YoY Ch.	12/31/2011	YoY Ch.	12/31/2011		12/31/2011	YoY Ch.	12/31/2011	YoY Ch.
Total	**271**	**-4**	**117**	**+1**	**221**	**+3**	**609**	**-**	**586**	**-2**

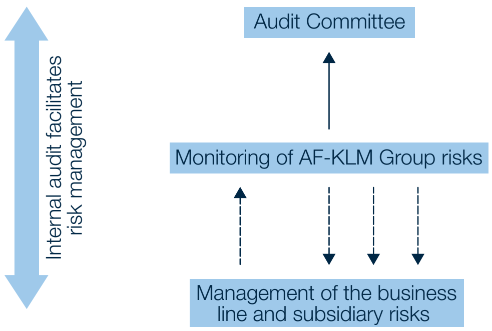
Risks and risk management

3

3.1 Risk management process

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

Within the framework of the process to establish the Air France-KLM Group's strategy (Group Strategic Framework), the management evaluates the strategic risks (competition, economic growth, etc.) and determines the related action plans. These risks and action plans are the subject of a presentations and discussion during the yearly meeting of the Board of Directors devoted to the Group's strategy.



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

3.2 Risk factors and their management

3.2.1 Risks relating to the air transport activity

Risks linked to the seasonal nature of the air transport industry

The air transport industry is seasonal, with demand weakest during the winter months 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 The Group also monitors demand closely so as to adjust capacity thanks to flexible management of the fleet.

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. Certain aircraft also saw a decline in their value. The SARS epidemic resulted in a sharp fall in air traffic and revenues generated in Asia.

In 2011, the geopolitical situation resulting from natural disasters occurring in Japan and political events (Arabic 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 deployed.

The Group has also developed emergency plans and procedures enabling it to adapt to changing environments and ensure that it can respond effectively to different situations were an epidemic, geopolitical or other type of event to occur. The aim of these plans is the effective protection of passengers and staff, operational and service continuity, and the preservation of the long-term viability of the Group's businesses. These plans are regularly adjusted to take into account the lessons learnt from events experienced.

The occurrence of political instability, attacks, threat of an attack, military action, epidemic or perception that an epidemic could occur (e.g. Influenza A/H1N1) could have a negative impact on both the Group's passenger traffic, and thus its revenues, and on the level of operating expenses. The Group is not insured for operating losses but is insured for the consequences of an attack on one of its aircraft (*See also Insurance risks*).

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

Air transport activities remain highly regulated, particularly with regard to the allocation of traffic rights for extra-community services and the conditions relating to operations (standards on safety, aircraft noise, CO_2 emissions, airport access and the allocation of time slots). Within this context, the EU institutions notably adopt regulations which may be restrictive for airlines and are liable to have a significant organizational and/or financial impact. The European Commission has published its White Paper entitled *Roadmap to a Single European Transport Area* which emphasizes the need to reduce the transport sector's impact on the environment while avoiding any unnecessary constraints on its development. In terms of its content, the main positive measure is the Commission's commitment to developing bio-fuels 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 in the European platforms.

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.

Any changes to regulations and legislation could increase the Group's operating expenses or reduce its revenues.

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

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

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

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

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 and development.

Risks linked to the consumer compensation regulations

Within the European Union, passenger rights are defined by Regulation no.261/2004 which came into force in 2005, applying to all flights, whether scheduled or unscheduled, departing from an airport located in a Member State of the European Union and establishing the European rules for compensation and assistance on denied boarding, substantial delay, flight cancellation and class downgrading.

On November 19, 2009, the European Court of Justice ruled (Sturgeon ruling) that passengers on delayed flights could be assimilated with those on cancelled flights for the purposes of the application of the right to financial compensation. They could thus invoke the right to financial compensation provided in article 7 of this Regulation when arrival at their final destination was subject to a delay of at least three hours relative to the arrival time initially foreseen.

French jurisprudence is, however, very clear in this regard: EC Regulation no.261/2004 provides for no financial compensation in the event of a flight delay. This means that only a legislative redrafting of the overall framework of the Regulation could make such financial compensation mandatory in the event of delay. At the request of IATA and three airlines (British Airways, easyJet and TUI) who are challenging the application of this ruling by the UK Civil Aviation Authority, the UK High Court of Justice has referred a number of questions back to the European Court of Justice aimed at clarifying the application of the compensation in the event of substantial delay.

Since 2004, in addition to the rulings from the European Court of Justice, there have been a number of events with an impact on the application of regulations. This is notably the case for the adoption of new regulations governing passenger rights in other forms of transportation. Furthermore, a series of weather-related events have highlighted the need to limit the responsibility of carriers in terms of assistance and care for passengers. In April 2011, the European Commission announced its intention of revising the regulation and including new provisions on delayed, lost or damaged baggage and the rescheduling of flights.

Meantime, the European Parliament has also published a draft report on passenger rights which may influence the European Commission's work concerning the revision of Regulation 261/2004. Furthermore, in the event of an airline going bankrupt, the extension of the protection due to passengers having purchased a travel package to air transport passengers purchasing only a flight is currently being studied. Insurance already exists in the market to cover this risk and the airlines and their representative bodies are in favor of an information initiative to encourage passengers to subscribe to such policies. The recent cases of European airlines going bankrupt have revived the concern of the Commission and Members of the European Parliament regarding this subject.

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

The improved US airline passenger protection regulation came into effect on August 23, 2011 (the deadline for its application by the airlines being delayed until January 24, 2012). It mostly aims to strengthen the disclosure requirements, particularly in terms of advertised fares and baggage policy, 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 and the notification of any changes in flight status.

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

These US regulations, aimed at strengthening passenger rights, cannot be compared with European Regulation 261/2004 since they do not have the same rationale, including with regard to 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 whereas, in the event of flight cancellation or involuntary bumping of a passenger, the European Regulation proposes a flat rate of compensation with no correlation to the ticket price or the delay on arrival.

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.

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, together with their expenses and procedural risks.

Risks relating to the environment

The air transport industry is subject to numerous environmental regulations and laws relating, amongst other things, to aircraft noise and engine emissions, the use of dangerous substances and the treatment of waste products and contaminated sites. Over the last few years, the European and US 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 Scheme (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 Scheme consists of setting an annual budget of quotas or CO_2 emission rights (key figure: one ton of fuel burned = 3.15 tons of CO_2 emitted), with each airline being allocated a number of personalized quotas (one quota corresponding to one ton of CO_2). At the end of each year, companies must return an amount of emission allowances that is equivalent to the tons of CO_2 they have emitted in that year. Depending on their emissions, they can also purchase or sell allowances (exchangeable quotas). For the aviation sector, the free quotas were distributed to each operator on a prorata basis based on their revenue ton-kilometers (RTK) generated in 2010. In 2010, for the first time, air transport operators were thus required to declare their CO_2 emissions together with their traffic data (revenue ton-kilometers). On the basis of these declarations, the Air France-KLM Group obtained, for 2012, nearly 23 million free quotas. Since the Group's emissions for 2012 should be slightly below 30 million tons of CO_2, 6 to 7 million quotas are likely to be purchased at an estimated cost of between €50 million and €100 million depending on the price of a ton of carbon and the actual emissions. From this perspective, on January 12, 2012, Air France became the first airline partner of the Bluenext emissions trading exchange.

The European directive applies to all European and non-European airlines flying into and out of the European Economic Space, something which has raised strong opposition from non-European countries and their airlines. This unilateral approach has been contested by third-party countries since its inception and this confrontational situation has resulted in continued uncertainty even after the coming into effect of the directive. It is likely to lead to serious distortions in competition between European and non-European airlines due to the threats of retaliation from, for example, China, Russia and the USA.

The United Nations Climate Change conferences held in Copenhagen in December 2009 followed by those held in Cancun in 2010 and Durban in 2011 did not result in the expected world-wide agreement. However, consistent with the proposals for an overall sector approach supported by the air transport industry, a global response looks to be taking shape under the aegis of the United Nations with the adoption of an International Civil Aviation Organization resolution during its meeting in October 2010. The ICAO has committed to presenting an overall approach for the aviation sector before the end of 2012, in time for the World Climate Summit in Doha.

The Air France-KLM Group is constantly seeking ways to 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).

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

Risks linked to the oil price

The fuel bill is the second largest cost item for airlines. The volatility in the oil price thus represents a risk for the air transport industry. In effect, a sharp increase in the oil price, such as seen since early 2011, can have a negative impact on the profitability of airlines, particularly if the economic environment does not enable them to adjust their pricing strategies by introducing new fuel surcharges or if they are unable to implement effective hedging strategies.

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

The Air France-KLM Group has a policy in place to manage this risk *(See also Market risks)*. 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 situations

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, represent a significant economic cost (repatriation and passenger accommodation, schedule modifications, diversions, etc.). On the other hand, the closure of an airspace over several days, as was the case in April 2010 in Europe following the eruption of an Icelandic volcano, has very major commercial, human and financial consequences for the airlines and their passengers. Similarly, the bad weather in late 2010 at a number of European airports had significant operational and financial repercussions for the activity of the Air France-KLM Group given the regulations requiring the company to assist passengers in the European Union territory.

Within this context, the Air France-KLM Group is lobbying, either directly or through representative bodies, both the French and European authorities to develop robust crisis management tools and, secondly, to obtain an adjustment in the rule regarding the company's responsibilities vis-à-vis passengers in exceptional circumstances. The Group is not insured for operating losses.

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 catering facilities belonging either to the Group entities responsible for airline catering or to independent service providers.

As with all food preparation, there is a risk of food poisoning. 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.

The materialization of this risk could have a reputational, legal or financial impact. This risk is covered by the aviation insurance policy (*See also Insurance risks*).

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

- designation of a senior executive and managers responsible for the principal operating functions;
- appropriate organization of flight, ground, cargo and maintenance operations;
- deployment of a Safety Management System;
- implementation of a quality system.

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

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

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

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

The materialization of this risk could have an impact on the Group’s image and legal or financial consequences. This risk is covered by the aviation insurance policy *(See also insurance risk)*.

3.2.2 Risks linked to the Group’s activity

Risk of failure of a critical IT system and IT risks

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 and used through the networking of tens of thousands of micro-computers.

The IT systems and the information they contain can be exposed to risks concerning continuity of functioning, security and regulatory compliance. These risks have diverse origins both inside and outside the Group.

The Air France-KLM Group consistently ensures the allocation of the resources required to ensure the secure operation of the IT systems. Dedicated help centers and redundant networks guarantee the accessibility of data and IT processing in the event of major incidents.

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 are regularly carried out. Specialized companies, external auditors and the IT specialists within internal audit regularly evaluate the effectiveness of the solutions in place.

The Group’s IT division implements security rules aimed at reducing the risks linked to new technologies, particularly mobile data terminals.

Data security is a priority for the Air France-KLM Group, particularly when it comes to protecting data of a personal nature and complying with the laws and regulations regarding strict confidentiality. Specialists within each company ensure that the processing of personal information complies with the relevant law (IT and Data Protection Officer within Air France and Privacy Officers within KLM).

The materialization of one of these risks could have serious consequences for the Group’s activity, reputation, revenues, expenses and results. The risk of damage to the IT facilities is covered by an insurance policy but not the operating losses that this damage could entail.

Risks linked to non-respect of the competition rules

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.

Lastly, a manual reiterating the guidelines to be followed in the event of an inquiry by the competition authorities will shortly be posted online and made available to all employees.

Cases of non-respect of the competition rules can have an impact on the Group's reputation, together with legal and financial repercussions.

Risks linked to competition from other air and rail transport operators

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 airfares. Furthermore, the Open Skies agreement between the European Union and the United States has been in force since end-March 2008 meaning that 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 French regional 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 who are obtaining new traffic rights granted by European governments.

To respond to the competition from other airlines and railway networks, the Group constantly adapts its network strategy, capacity and commercial offer. Furthermore, the Air France-KLM Group regularly raises with the French, Dutch and European authorities the need to establish and maintain fair competition rules.

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 suspected 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 a few services.

The European Commission departments are 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 cooperation between the 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 plan to continue their discussions with the DG Competition. In the event that the European Commission were to maintain its position, Air France-KLM and its partners could be required to make a number of concessions, notably in making slots available to competitor airlines at certain airports.

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

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

Risks linked to the implementation of the three-year Transform 2015 plan (*See also Strategy*)

Within the framework of the priorities set by the Air France-KLM Board of Directors on November 9, 2011, the Group has established a three-year plan to enable the generation of €2 billion of free cash flow aimed at reducing its debt. The achievement of this target largely depends on an improvement in the productivity of all employee categories. Negotiations with the organizations representing the employees are under way to define a new collective agreement framework. Any strike or stoppage of work linked to these negotiations could have a negative impact on the Group's activity, financial results and reputation. Furthermore, the final terms of these collective agreements may not prove sufficient to achieve the objective set.

Risk linked to pension plans

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.

In December of each year, the Dutch Central Bank indicates the parameters to be used to calculate the solvency levels of the funds. As a function of the results of these regulatory calculations, the company is required to submit to the Central Bank a plan to return to the required level of solvency. Such a plan comprises 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 temporarily suspending the inflation-indexing of current and future benefits.

The regulatory solvency levels of the three KLM funds were calculated at the end of December 2011 and, on the basis of the results obtained, the company's contribution should not see a significant increase in 2012.

The impacts of the revised IAS 19 on retirement benefit obligations are presented in note 4.1.2 to the consolidated financial statements. The sensitivity analysis regarding the rate of return on the pension plan assets is presented in note 30.1 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.

3.2.3 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.

Insurance policies taken out by Air France

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

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

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

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

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

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

Insurance policies taken out by KLM

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

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

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

3.3 Market risks and their management

3.3.1 Organisation of the Air France-KLM Group

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

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

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

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

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

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

2012 operating exposure *(In million of currencies at December 31, 2011)*	**US Dollar**	**Sterling**	**Yen**
Net position before hedging	(5,170)	630	60,650
Currency hedge	3,136	(191)	(32,850)
Net position after hedging	(2,034)	439	29,800

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

(In € million)	**US Dollar**	**Sterling**	**Yen**
10% increase relative to the euro	(187)	58	37
10% fall relative to the euro	211	(55)	(28)

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, 2011.

(In $ million)	**2012**	**2013**	**2014**	**2015**
Investments	(917)	(703)	(651)	(149)
Currency hedge	782	430	235	43
Hedge ratio	85%	61%	36%	29%

Exposure on the debt

The exchange rate risk on the debt is limited. At December 31, 2011, 85% 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 (6%) 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 73% of the overall total. The average cost of the Group's debt after swaps stood at 3.80% at December 31, 2011 (3.87% at March 31, 2011).

Exposure to interest rates *(In € million at December 31, 2011)*	
Financial assets at floating rates	1,612
Financial liabilities at floating rates	5,556
Net exposure before hedging	3,944
Hedging	(2,351)
Net exposure after hedging	1,593

The Group's net interest rate exposure amounts to €1.59 billion. Given the nature of the hedging (swaps and tunnels), a 1% increase in interest rates over twelve months would have a negative impact of €21.3 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 used can be Brent, 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 more expensively. Furthermore, the hedging is based on the use of simple instruments that are either un-capped (collars, swaps, calls, etc.) or capped (four ways, call spread, etc.). These hedging instruments must also be compatible with IAS 39.

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

At January 1, 2012, the Air France-KLM Group's fuel exposure, based on futures prices at December 30, 2011 ($105.21 a barrel for 2012 and $100.77 a barrel for 2013), was as follows:

(In US$ million)	**2012**	**2013**
Gross expenditure before hedging	9,566	9,741
Hedge percentage	53%	23%
Gain on hedging	90	1
Net expenditure	9,477	9,740

Based on the forward curve at December 30, 2011, an increase of $10 per barrel over 2012 (average price of $115.21 per barrel in 2012) would lead to a $674 million increase in the fuel bill after hedging, i.e. a fuel bill of $10.15 billion for the Air France-KLM Group. Symmetrically, a fall of $10 per barrel over 2012 (average price of $95.21 per barrel in 2012) would lead to a $634 million reduction in the fuel bill after hedging to an expense of $8.84 billion.

Counterparty risk

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

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

Equity risk

Air France and KLM cash resources are not directly invested in the equity market or in equity mutual funds. However, at December 31, 2011, Air France-KLM directly or indirectly held a portfolio of shares in listed companies worth a net €901 million, principally comprising Amadeus shares. An overall fall of 1% would represent an equity risk of €9 million.

Liquidity risks

At December 31, 2011, 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, 2011.

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 the unsecured net debts.

These ratios are calculated every six months and were respected at December 31, 2011.

For its part, in October 2007, the Air France-KLM holding company put in place a €250 million ten-year financing facility, undrawn at December 31, 2011. This credit facility is reduced by €50 million per year as of 2013.

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

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

These ratios are calculated every six months and were respected at December 31, 2011.

Given the conditions for access to the financial market for its two principal subsidiaries, Air France and KLM, cash resources of €2.9 billion at December 31, 2011 and the available credit facilities (a total of €1.85 billion), the Group considers that it incurs no liquidity risk. It does, however, closely monitor its cash flows and the structure of its traditionally negative working capital requirement. Note that the Group has granted €628 million of pledges to financial institutions in respect of the guarantee given to the European Union on the anti-trust litigation and the swap contract signed with Natixis on the OCEANE 2005.

Financing risks

Financing strategy

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

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

Ahead of the application of the Basel III prudential standards and in view of the deterioration in their results, the European banks are expected to reduce their balance sheets in the coming years and, consequently, offer a more limited volume of lending to companies. This risk is increased for financing denominated in US dollars.

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

- Debt contracted with the four leading French banks who are major players in asset financing represents less than 20% of the Air France-KLM Group's gross debt.
- Financing operations including the financing of aircraft are virtually exclusively denominated in euros.
- The number of banking counterparties remains high with particular attention being paid to establishing long-term relationships with Asian financial institutions which will not be subject to the same prudential ratios.

Air France Group

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

It also diversified the sources of its principally bank funding through the securitization of flight equipment in July 2003, by issuing €450 million of bonds convertible into new or existing shares (OCEANEs) in April 2005 and, in September 2006, €550 million of euro-denominated bonds, with a 4.75% coupon, maturing on January 22, 2014. An additional €200 million was raised in April 2007, fully fungible with the first tranche.

KLM Group

To finance its aircraft, KLM is able to access the export credit system, which enables the company to take advantage of guarantees from the leading export credit agencies for financing Boeing aircraft in the US and Airbus aircraft in Europe. KLM has also concluded several financing deals in the banking market for the refinancing of existing aircraft.

Air France-KLM holding company

The Air France-KLM holding company launched two successful bond issues in 2009, with its subsidiaries Air France and KLM as guarantors, comprising €661 million of convertible bonds with a six-year maturity in June 2009 and €700 million of plain vanilla bonds in October 2009, maturing in October 2016.

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.

A portion of KLM's liquid assets is invested in foreign-currency AAA-rated bonds, in order to reduce the currency risk on the debt.

Social and environmental data

4

4.1 Social data

The number of full time equivalent (FTE) employees in the Air France-KLM Group (excluding external labor) averaged 102,014 in the 2011 financial year, a 0.4% reduction relative to the previous financial year.

Employees, expressed as full time equivalent (FTE)	Air France-KLM			Air France Group			KLM Group		
Financial year	**2009-10**	**2010***	**2011***	**2009-10**	**2010***	**2011***	**2009-10**	**2010***	**2011***
Ground staff	73,273	71,267	70,705	51,814	50,506	50,202	21,459	20,761	20,503
Cabin crew	22,593	22,453	22,749	14,897	14,771	14,869	7,696	7,683	7,880
Flight deck crew	8,855	8,706	8,560	5,432	5,339	5,236	3,422	3,367	3,324
Total	**104,721**	**102,426**	**102,014**	**72,143**	**70,616**	**70,307**	**32,578**	**31,811**	**31,707**

* *New accounting year end of December 31.*

Taking into account external labor, averaging a respective 3,684 in full time equivalent during the 2011 financial year and 3,160 in full time equivalent for 2010, the number of employees in the Air France-KLM Group as a whole was stable: **71,957** for the Air France Group (72,165 in 2010) and **33,741** for the KLM Group (33,422 in 2010).

Sixty-nine per cent of staff are employed by the Air France Group and 31% 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-six per cent of the Group's employees are between 30 and 50 years old.

The "NRE social" reporting to comply with the requirements of the French New Economic Regulations legislation of May 31, 2001 (NRE) and the European Prospectus Directive (EC 809/2004) is shown in the three tables of indicators (see page 92) and covers 96% of the Group's employees. Virtually all the reported indicators are the subject of verification by one of the Group's Statutory Auditors. The indicators marked with a √ are the subject of verification with a limited level of assurance, based on the ISAE 3000 audit standard.

4.1.1 Adapting the social model to the economic challenges

In a globalized and extremely competitive air transport sector, and faced with the accelerating deterioration in its results, Air France-KLM has launched a transformation plan aimed at restoring 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 priority objectives (see 2.3 Strategy).

The Air France plan aims to reinforce economic efficiency and productivity while preserving the quality of the industrial base, and enshrines the principles of equitable application across all personnel categories and transparency vis-à-vis employees. The transformation of the business model will require changes in the social model involving negotiations with the social partners in the respect of a high-level of social dialogue. The KLM plan also aims to increase productivity, simplicity and flexibility, while reducing unit costs. Discussions are underway with the unions and Works Councils to develop a common mindset regarding the current situation and the measures to be taken. Neither of these plans will entail any compromise on flight and occupational safety.

4.1.2 Air France-KLM's human resources and employment policy

Air France-KLM's human resources and employment policy is based on the respect of fundamental rights such as the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work. Air France and KLM share a number of common values in terms of both human resources and corporate social responsibility which are enshrined in the Social Rights and Ethics Charter, signed in February 2008. This Charter forms the shared foundation of the Group's commitments by reaffirming the values and fundamental rights that guide the Group's social, ethical and environmental policy.

The differences in employment legislation between France and the Netherlands require separate human resources policies however, with the integration of the businesses moving more rapidly due to the economic context, the Group has implemented a series of rules and principles enabling the combined entities to work together and managers to reconcile any differences. Lastly, the Group is training the executives destined to become tomorrow's managers in a shared management culture to drive the Group's integration momentum. Specific joint training programs common to both companies are implemented for executives and senior executives, as well as for the common management teams and joint project management.

4.1.3 Air France

Employment

As of the beginning of the economic crisis, the company has pursued a policy based on rigor and prudence leading to a progressive reduction in the number of employees in France since January 2009.

The Voluntary Departure Plan launched in 2010 enabled 1,834 people to benefit from personalized support in formalizing their personal or professional projects with the last departures taking place in September 2011. Some 610 retirement departures, 441 professional projects and 783 personal projects resulted from this Plan.

Despite the particularly difficult economic environment prevailing since the summer of 2008, Air France has maintained its commitment to developing the employability of its staff.

Professional mobility has become a necessity due to economic, technical and commercial change. To facilitate this process, Air France is developing a qualitative Human Resources and Skills Planning process, including tools to support career planning and mobility such as the Mobility Space and the *Observatoire des Métiers.* A new version of the latter was launched in July 2011, highlighting the qualitative approach to the professions.

For its part, the Jobs Exchange saw a two-fold increase in the number of job announcements between 2010 and 2011.

In 2011, there was a 50% rise in professional mobility. More than 2,000 ground staff changed jobs within Air France, of whom 821 transferred divisions. There were 349 cases of geographical mobility while 128 ground staff gained executive status.

A series of vocational training courses accompanied this professional mobility while efforts were redoubled in terms of internal selection.

In October 2011, the opening of the Air France Provincial Base in Marseilles marked the launch of a major commercial offensive by the airline on departure from the French regions, mobilizing all its expertise and specialised professionals. After a call for volunteers from amongst Air France's flight deck, cabin crew and technical staff, 130 pilots and 250 air hostesses and stewards chose to be based in Marseilles. Air France plans to pursue this strategy in 2012. For ground staff, the additional activity provided by this project enables the more effective use of human resources and equipment, thereby consolidating the airline's position as an employer in the regions concerned.

The new three-year Internship Charter, signed late in 2011 by the majority of the Air France unions, reaffirms the company's commitment to welcoming and mentoring young apprentices. To this end, as of September 2011, the number of new apprentices on work-study contracts was increased to over 400 from 200 in September 2010.

In total, the Air France Group increased recruitment on both permanent and fixed-term contracts relative to its 2010 level to 6,861 new hires in 2011. This increase reflects, for example at Air France, the launch of the provincial bases, a doubling in the number of new interns, the recruitment of additional cabin crew on fixed-term contracts during vacation periods and the need to respond to activity peaks in ground operations as well as in the Servair subsidiary. Linked to this trend in recruitment, the Air France Group recorded an increase in departures to 8,998 in 2011 including the expiry of fixed-term contracts.

Expenditure on temporary workers at Air France in France and internationally increased from €20.5 million in 2010 to €26.8 million in 2011. Recourse to sub-contractors was maintained in the usual areas like airport services, handling, gardiennage, cleaning and the development of special IT applications.

Organization of working time

The average length of the working week applied within the company is consistent with that stipulated by the law in force. In 2011, the percentage of employees working part time in France stood at 14.83% for ground staff, 35.92% for cabin crew and 15.46% for flight deck crew (respectively 14.58%, 36.01% and 15.48% in 2010).

The absentee rate for sickness, maternity or work-related accidents amounted to 5.59% in 2011, a decline on the level in 2010 (6.01%).

Compensation and sharing the value creation

In accordance with the salary agreement signed in 2011 concerning all staff categories (ground staff, cabin crew and flight deck crew), the general measures at Air France represented an average increase of 1.7% for 2011, plus individual salary increases in respect of merit, promotion and seniority, leading to a total increase of 3.5% for the staff present in 2010 and 2011.

These measures effectively positioned the Air France salary increases above the level of inflation.

Furthermore, the 2011 salary agreement also maintained a minimum increase mechanism intended to benefit employees on entry-level salaries.

Senior managers benefit from a variable compensation scheme: 30% based on the company's results, 50% on the achievement of targets linked to the position and 20% on the achievement of targets in terms of personal development. Given the company's results in 2011, the portion linked to the results was set at 20%.

In respect of the incentive payment for the 2010-11 financial year, the achievement of qualitative punctuality, service quality and productivity targets enabled the payment of €19.9 million (€8.24 million in respect of the 2009-10 financial year) while, for the third year running, no profit-share was paid in respect of this financial year.

In order to give all employees access to a retirement savings product, Air France set up a *PERCO* collective retirement scheme through a collective agreement in October 2008. No voluntary contributions were made by the company to the *PEE* and *PERCO* schemes in 2011.

This scheme is in addition to the supplementary pension schemes (*article 83 and PERE – Plan d'Épargne Retraite d'Entreprise*) established by the collective agreement in May 2006 for ground staff executives, cabin crew and flight deck personnel.

An individual employee report was sent to the home address of every employee on a permanent contract in France. This unique, personalized document sets out all the components of the overall employee compensation package provided by the company, showing the trend in their individual compensation and the amounts paid in respect of social security benefits.

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 sustained 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.

Within this framework, eight 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 held during 2011 for information or consultation on subjects such as the plan to transform the Air France-KLM Finance function and the creation of a Mileshouse subsidiary (frequent flyer program). A framework agreement on the development of the European outstations was signed in December 2011.

The Air France 2011 collective salary agreement was the subject of negotiations with the unions, culminating in its signature by the majority in March.

Within the framework of the launch of the Marseilles Provincial Base, an agreement was signed with the flight deck crew representatives on July 13, 2011 establishing the specific rules applying to the flight deck crews assigned to a provincial base in terms of their assignment conditions, rostering and compensation.

During the 15 sessions of the Corporate Works Council held over the course of the year, the elected representatives were consulted or kept informed on the major orientations relating to the company's overall progress and, particularly, on the results and projects underway. A meeting of the Corporate Works Council was held on November 24 to inform its members of the rapid results deterioration and to present the schedule for the two-stage transformation plan Transform 2015. This information and the priorities set by the Air France-KLM Board of Directors were then communicated to all Air France employees via their line management.

The end of 2011 was marked by the signature of two major agreements regarding the company's employment policy: the eighth three-year agreement to promote the employment of disabled workers and the sixth three-year internship charter.

In total, 18 agreements were signed during 2011.

Improving the quality of life in the workplace by a focus on health and safety

Health and safety

Protecting employee health and safety in the workplace is a priority for the Air France-KLM Group as testified by the Executive Committee's concerted efforts to stress its importance in every sector of activity.

In 2011, backed by this resolute management commitment and positively-oriented fundamentals, the company mobilized to achieve progress in this area (a 10% reduction in the frequency rate of work-related accidents) while Air France renewed its three-year program aimed at a 30% reduction in the frequency rate of work-related accidents for the 2012-2014 period.

Within a difficult economic environment, the company plans to pursue this steady increase in the initiatives and results in this area on which there will be no compromise.

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

Managing a reduction in workplace accidents

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

Identifying potential problems and sharing experience 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 development of ergonomic approaches to the design of infrastructure and processes or to the deployment of new tools enables the potential risks to be anticipated and promotes 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 employees, supported by a network of Health and Safety point people, enables the identification of at-risk areas and encourages a safety-first culture.

In parallel, a weekly feedback process is in place regarding health and safety in the workplace enabling experience of safety-related incidents and their handling to be shared.

The company also encourages the sharing and deployment of proven Health and Safety Best Practices. Having been highlighted during the annual Health and Safety at Work convention during which individual workshops were chaired by members of the company's senior management, these best practices are accessible to everyone, actively promoted within the company and shared with the members of the health and safety community.

The organization of forums and seminars on health and safety in the workplace enables the gradual deployment of a safety-first culture and a focus on safety issues across the company. In-field forums are thus organised 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 danger of falling and musculoskeletal disorders also testifies to openness to ideas from outside the company.

Training and coordination to promote the safety-first culture

Training on risk prevention is provided for front-line staff and managers with both in-field operational training and e-learning being deployed to instil a safety-first culture over and above the standards required by regulations. The management collectively attends the annual Health and Safety at Work convention during which trophies for high standards of safety performance are awarded to the managers of operating entities, recognizing effective initiatives in this area.

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

Following its signature in 2010, the three-year agreement on the method and prevention of psychosocial risks and promoting quality of life in the workplace agreement was implemented in 2011.

The agreement was rolled out across the company by multidisciplinary teams comprising managers, human resources, occupational physicians and nurses and representatives from the CHSCTs (Committee for Hygiene, Safety and Working Conditions), with the Psychosocial Risks point people responsible for the overall coordination.

Training modules and awareness-raising exercises have been developed to provide effective support for all the communication campaigns and methodological materials.

Training

Despite a challenging economic backdrop and an operational environment significantly impacted by disruption from unforeseen climate-related and political events, training remains one of the main levers supporting both the transformation of the business and employees' individual projects.

In 2011:

- Air France achieved nearly 90% of its targets in terms of training;
- in 2011, nearly 95% of ground staff and 100% of flight crew benefited from at least one training initiative.The rate was higher than in 2010 despite the economic and operational context having a significant impact on staff availability for training during periods of peak activity and the availability of training personnel.
- The development of training courses incorporating classroom-based and e-learning modules contributed to maintaining this high rate of access to training in all employee categories and sectors but also met the need for increasingly personalized apprenticeships.
- The in-house training plan for all employee categories is divided into three main areas: Operational Professions, Transverse Corporate and Support Functions. The 2011 breakdown remained virtually unchanged on that of 2010-11, with some 80% of training concerning operations, 18% directed at transverse corporate and 1% for staff in the support functions.
- Personal training entitlements (DIF or *Droits Individuels à la Formation*) represented a significantly larger proportion of overall training at some 14% of training for ground staff. This rise illustrates the extent to which employees have adopted this scheme which enables them to play an active role in jointly planning their individual careers and increasing their employability within the company.
- The implementation of long-term training was supported within the framework of vocational training periods. This initiative is intended to support the job changes required for the deployment of the company's projects aimed at maintaining its competitiveness. During the 2010-11 financial year, 1,492 employees benefited from a commitment to a period of vocational training. These training courses represent a volume of around 173,507 hours spread, for some courses, over a period of 30 months, i.e. an average of 113 hours per individual or the equivalent of more than three weeks of training.
- The demand for training (requests to the company for an authorized leave of absence) within the framework of Individual Training Leave increased: 137 requests in 2011 (107 in 2010-11).
- Lastly, the company continued to make a significant investment in training: more than €208 million in 2011 for all employees *(Source : social indicators)*, i.e. some 7.9% of the payroll. This investment represents 1,838,977 hours of training or an average of 32 hours per employee.

All of these indicators illustrate Air France's commitment to deploying the resources required to support individual employees facing changes in their professional roles and the company's organization and tools, and to developing their skills and qualifications. In December 2010, the Training Campus saw its ISO 9001 certification renewed for a three-year period.

Fostering equal opportunities and combating discrimination

Consistent with the commitments made in the Air France-KLM Group's Social Rights and Ethics Charter, Air France pursues an employment policy based on vocational integration, respecting equal opportunity, preventing discrimination and promoting diversity to reflect that of society.

As a testament to this commitment, the company announced plans to apply for the Diversity Label which is awarded to companies setting standards of excellence in this area. Within this framework, an audit was carried out to ensure that the HR procedures do not lead to any discrimination and that the principle of equal treatment for equal skills is respected in terms of both recruitment and career progression. This approach is also accompanied by awareness-raising initiatives for staff and managers.

Recruitment: equal opportunity and a commitment to internship

This equal opportunity commitment applies, in particular, to the collective recruitment and internal selection processes. Since June 2006, for its external recruitment, Air France has used a web-based software application enabling candidates to submit their applications online using a universal CV. Furthermore, any individual liable to use the selection tools, consult job application files or access confidential information is required to respect the ethical and moral obligations set out in the Ethics Charter of the Recruitment, Selection and Redeployment department. This Charter is updated annually as a function of regulatory changes and in the light of best practices for the profession.

To ensure the control and quality of the recruitment processes, the ISO 9001 certification was renewed for a three-year period and extended to the internal selection activities on January 1, 2011. The guarantee provided by this certification ensures, in particular, that the compliance guidelines are respected.

Despite the crisis, Air France continues to assume its responsibility vis-à-vis young entrants to the employment market. This commitment was reflected, at the end of 2011, in the signature of a new three-year Internship Charter.

The company chose to maintain its cooperation with the French Department of Education through, notably, its internship policy. On November 1, 2011, there were 524 interns in the company of whom 30 were pilot cadets.

In 2011, despite the difficult environment, 88 interns were recruited on permanent contracts in the Maintenance division.

The company also recruited 37 young executives while the link between the company and the educational world was maintained through partnerships with schools and universities. Partnering the *New Careers* Chair at Rouen Business School offers Air France the opportunity to learn more about career issues as workers retire later in life, the diversity of the jobs it offers, employee demographics and the development of internal mobility.

Professional gender equality

Professional equality between men and women is an issue on which Air France would like to make progress by way of a constructive workplace dialogue.

The third three-year Gender Equality Agreement, unanimously signed by all the unions representing employees across the company, has been in force since January 1, 2011.

This agreement continues the action launched some ten years ago to make workplace gender equality a focus for the company requiring progress in terms of human resources management.

It is organized around three main objectives: establish a common methodology for measuring professional and wage equality, ensure equality of opportunity and equity of treatment in human resources practices and come up with practical proposals concerning work-life balance.

A survey to compare compensation was again carried out in 2011, giving rise to wage equalization measures benefiting 349 women, i.e. 2.7% of female ground staff. Support for associations promoting equal opportunities was also reaffirmed, as were a series of measures enabling employees with young children to organize their professional lives more effectively around their family responsibilities. The company notably pays part of their salaries to employees on paternity leave.

Furthermore, to ensure respect of equal treatment for men and women, a series of male-female comparative indicators have been included in the monitoring of human resources policies and management processes (training, careers, occupational safety, remuneration, etc.). These indicators are monitored annually within the framework of an audit carried out with each division.

In 2011, women represented some 43% of the total workforce in France.

Policy on disability

For 2010, the disabled worker employment rate within Air France was 3.92%.

In 2011, the company hired 30 new disabled employees within the framework of its recruitment plan. Over the year, a total of 1,634 disabled employees were active within the company. The company devoted 59% of the budget earmarked in its disability agreement on programs aimed at maintained employment: adapting work stations, employee transportation, training, etc.

The company's commitment was also reflected in sub-contracting to businesses and firms in the adapted and sheltered employment sector: spending on the procurement of external services from this sector amounted to €13 million in 2011.

For 2011, given the initiatives underway, the 2010 disabled worker employment rate of 3.92% should be exceeded.

The company has established numerous partnerships, particularly with associations, to help achieve its objective of recruiting and promoting the vocational integration of disabled workers. Furthermore, a disability information and awareness booklet, published by a sheltered employment organization, was circulated to all employees and a training course on psychological disability organized to the benefit of those directly concerned by this issue.

With the signature, on December 12, 2011, of an eighth version of the agreement on the Social and Vocational Integration of Staff with Disabilities for the 2012-14 period, Air France reaffirmed within an uncertain economic context its commitment to maintaining a pro-active policy on the professional integration of disabled workers. This agreement enshrines the following principles: maintained employment, the recruitment of disabled workers and recourse to the sheltered employment sector.

Corporate Social Responsibility at local level, the vocational integration of young people and solidarity with the vulnerable

As the leading private-sector employer in the Ile-de-France with 47,000 employees in the region, Air France generates local economic activity and direct and indirect employment. The company also contributes to economic growth and social progress in the regions where it has operations by contributing to the development of skills.

Through a network of associations that it has established, Air France pursues initiatives to promote equal opportunities and the integration of vulnerable people around a regional dynamic for access to employment:

- in 2011, *AirEmploi*, an association offering information about career openings and training courses in the air transport and aeronautical professions, provided information to 4,884 school children and 550 teachers and career advisors. More than 26,000 people visited its information center and the association's stands at trade fairs and seminars. Its website recorded 165,000 visits over the year. A program specifically designed to raise awareness of opportunities in the maintenance professions was pursued, widening the career options of 65 young women;
- *JEREMY* or *Jeunes en Recherche d'Emploi à Roissy et Orly*, promotes the vocational integration of young local people who do not have formal qualifications and are excluded from the workplace through a scheme combining training with professional experience and social support. In 2011, thanks to this association, 590 interns entered training programs.

These initiatives are implemented in partnership with the region, the French department of Education, the Apprenticeship Training Centers (CFA), and regional institutions and associations.

Furthermore, the partnership with the IPE school engineers association, launched following the signature of the framework agreement for the 2007-12 period with the French Education Ministry, enabled the secondment of seven Air France engineers to the French department of Education to strengthen cooperation between business and education.

Air France is active in developing the regions in which it has operations. For example, at Roissy, the company established and supports the *Pays de Roissy-CDG* association which, in bringing together companies, local elected representatives and residents, enables projects concerning economic development, housing, transportation, culture, training and research to come to fruition.

In the same spirit, through its Sodesi subsidiary, Air France has also been committed since 2005 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 people with serious difficulties. This year, 17 applications were reviewed and 14 individuals were given support with their projects by a volunteer sponsor.

4.1.4 KLM

Workforce and employment

KLM pursues a sustainable employment policy for all employees, based on developing 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. Professional mobility and access to vocational training are all ways for employees to acquire new skills and develop their employability.

Employment and mobility

In 2011, professional mobility remained a priority within KLM and, with 360 job openings at the end of the year, the need for employees to transfer to new jobs is unchanged. The *Start Working on Your Future* program encourages employee mobility by offering support modules and training together with an information tool for KLM recruiters containing employee CVs. More than 800 employees have signed up for this program.

Mobility enables employees to acquire new skills and thus improve their career prospects.

Recruitment increased in 2011 relative to its 2010 level (1,596 new hires in 2011 versus 461 in 2010) due to the hiring of staff previously employed by Martinair (flight deck and cabin crew) but also the recruitment required to cover peak periods in activity particularly for the baggage handling teams within ground operations.

There were, however, fewer departures in 2011 than in 2010 (859 in 2011 versus 1,066 in 2010) probably due to a sluggish employment market.

Organization of working time

In the Netherlands, legal provision is made for part-time working, enabling all employees to reduce their hours unless this endangers the survival of the business. Part-time working is thus very widespread, particularly for women. In 2011, the proportion of employees working part time remained at the 2010 level of around 41%.

Compensation policy

The collective labor agreement applicable for the 2008-11 period continues to apply given the postponement of the negotiations on a new agreement (see section below on workplace dialogue).

On January 1, 2012, salaries were increased by 1.25%.

Additionally, on April 1, all employees will receive a one-off payment corresponding to 1.25% of salary calculated over six months.

KLM's retirement provision is based on pension funds that are open to all employees. These funds, to which employees and the company both contribute, are managed by the Blue Sky group. A committee comprising members of the KLM management and unions is responsible for taking decisions on indexation and other pension-related issues.

Workplace dialogue

Negotiations on new collective labor agreements for pilots, cabin crew and ground staff have been postponed until June 1, 2012 offering KLM and the unions time to acknowledge the structural changes in the economic context and the impact on these labor conditions. The collective labor agreements expiring at end October 2011 will remain in force until that date, also explaining why no collective agreements were signed during 2011.

The professional organizations participating in the negotiations are increasingly sensitive to the economic environment.

Health and safety in the workplace

In terms of health and safety in the workplace, KLM's results improved in 2011 relative to 2010 with four serious accidents compared with seven during the previous year. There were no fatal accidents in either 2011 or 2010.

The frequency rate for work-related accidents declined as did the severity rate. These positive results were due to the importance given to safety issues within KLM in recent years with KLM's Safety and Quality Board targeting a marked decline in serious accidents.

A series of awareness-raising campaigns and new measures were introduced during 2011 including the voluntary safety report in addition to the ASR for employees in KLM Flight Operations and cabin crew. A campaign to reduce the speed of ground traffic was also launched, excessive speed frequently being a major contributing factor for accidents in the workplace. Safety training was offered to all Air France-KLM Station Managers and Deputy Station Managers. Lastly, new electrically-powered ground handling equipment (Power Stow system) was brought into service, considerably reducing the physical strain on employees.

Training

Training is one of the key levers in increasing staff employability, thus supporting their professional mobility.

In 2011, expenditure on training increased largely due to the recruitment of new cabin crew and staff formerly employed by Martinair. Total expenditure on training thus amounted to €69,422,000 for the Netherlands, representing an investment of €2,891 per employee, i.e. a 9% increase on 2010.

The KLM Academy, an in-house training center for executives, continued its program of training and master classes. This year's new initiatives included interdepartmental sessions for managers and specialists, and a program for senior managers in the operating divisions.

New training tools for executives and HR managers were launched to support change management in their teams while the Air France-KLM joint training initiative *Energizing Change* provided, in two days, the tools enabling a better understanding of the mechanics of change management including effective leadership skills, handling any resistance and how to communicate and guide one's team through the process of change. The approach to this training focuses on addressing the emotional aspects of change management. In 2011, 356 managers benefited from this training.

Within the framework of the program to formally acknowledge professional experience, in December 2011 Wim Koojman, Executive Vice-President Human Resources and Industrial Relations at KLM, congratulated the one hundredth participant. This scheme enables employees to earn credits towards a diploma based on their work experience. Forty-five per cent of the 100 participants within KLM are aged 45 years and above.

Professional equality

The Air France-KLM Group's commitments to equal opportunities for all employees, promoting diversity and combating all forms of discrimination are outlined in the Group's Social Rights and Ethics Charter.

In 2010, KLM set up *Over the Rainbow,* a network for homosexual, bisexual and transgender employees to promote their equitable treatment, provide advice and enable their specific needs to be taken into account. This network now numbers some 250 members.

Vocational integration of disabled persons

Within the framework of Dutch legislation, KLM is committed to furthering the vocational integration of disabled persons and to maximizing their potential contribution. This represents a common goal for both KLM and its employees. An employee is considered to be disabled if he or she is unable to perform their duties or accept a position at a comparable salary level. Based on government guidelines, occupational physicians evaluate the employee's potential contribution then, in cooperation with other specialists, advise managers and employees on the adjustment in working hours, types of work and work station adaptation that are required to optimize the potential of employees with disabilities.

In the Netherlands, companies are financially responsible for their employees who become disabled for a two-year period and, in 2010, KLM extended this period to twelve years.

The number of disabled employees increased from 641 in 2010 to 656 in 2011. In close cooperation with the Works Council, KLM renewed its policy of supporting employees returning to work after sick leave.

As of 2011, KLM employees unable to return to their jobs due to disability have no longer had to apply for a new position. This is because KLM now systematically offers employees becoming disabled during their employment a vacant position together with the appropriate training. The evaluation process showed that this new practice can be considered successful in 72% of cases.

An Advisory Committee was also set up to support the monitoring of these measures and propose improvements. The Committee thus reviewed over 100 cases, offering each case manager advice on how to increase the chances of finding a new position or enabling employees to return to their previous jobs.

Corporate social responsibility at local level

- **Alders Table**: KLM is committed to maintaining a regular dialogue with local inhabitants and representatives at Alderstafel meeting and through its involvement in the Schiphol Regional Review Board (CROS). On August 18, 2010, within the Alderstafel framework, an agreement was reached with local inhabitants, Dutch Ministry representatives and air transport professionals on development that takes into account both an increase in aircraft movements and a commitment to reducing noise disturbance.
- **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).

- **RCO**: KLM continues to invest in education programs: Regional Education Centers (ROC) and KLM Engine Services offer gas turbine mechanic and sheet metalwork training while KLM also assists in developing skills and offers internships. 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. At Global Start, potential school dropouts are given ICT training and are recruited for KLM computer replacement projects.
- **Landschap Noord-Holland**: In 2010 KLM started a three-year partnership with Landschap Noord-Holland Foundation as part of the KLM commitment to supporting nature conservation and biodiversity in the territories served by KLM including the home base. Amongst the Foundation's many projects, KLM has specifically 'adopted' Ilperveld. This beautiful area of reclaimed land is a stunning example of Dutch water management as well as being rich in bird and plant life.

4.2 Social indicators for the Group

4.2.1 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 to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

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 approval before the beginning of the 2011 NRE social reporting process.

Since the 2007-08 financial year, the Group has chosen to have a number of its principal social indicators verified by one of the Statutory Auditors, KPMG Audit. These indicators are shown by the symbol √ in the tables on pages 92 to 95. They are the subject of verification with a limited[1] level of assurance.

Within the framework of planning for the Grenelle II law, the preparatory work was undertaken on *the Employees by age and geographical region* indicator, the nature of the work carried out and its conclusions being presented in the review report in the 2011 Registration Document.

Reporting scope

The Air France-KLM Group's NRE social reporting consolidation scope is based on the number of employees (expressed as headcount) on the payroll at the end of the calendar year.

The NRE reporting scope covers 96% of the average employees in the Air France-KLM Group at the end of the calendar year, expressed in full-time equivalent.

The subsidiaries of Air France and KLM over which the Group has at least 50% control, whose acquisition dates back at least one full year and which have at least 300 employees are included in this NRE social reporting scope.

Note that the number of employees for Air France and KLM comprises their entire workforce including staff employed internationally.

- For the 2011 financial year, the Air France consolidated subsidiaries are: Aero Maintenance Group, Bluelink, Brit Air, CityJet, VLM, CRMA, Regional, Servair Group (ACNA, Bruno Pegorier, CPA, Jet Chef, Orly Air Traiteur, Servair SA, Passerelle and Base Handling), Sodexi and Transavia France, representing 76% of the employees of the subsidiaries in the Air France Group.
  In 2011, this scope was extended to two new subsidiaries: Aero Maintenance Group (309 employees acquired in early 2011 for which the data was available) and Jet Chef, a subsidiary of Servair Group, with more than 300 employees in 2011.
- For the 2011 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 93% of the employees in the subsidiaries of the KLM Group.
  In 2011, the reporting scope of the 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 2011 obtained from the Management Control BCF tool.

The reporting period for the Group's social data is based on the calendar year to ensure consistency with the social performance indicators of other French companies. Note that, since 2011, the financial year has also been based on the calendar year.

Reporting tools

The indicators are compiled and consolidated using the Osyris (Operating SYstem for ReportIng on Sustainability) reporting software deployed for 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.

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

Consistency tests have also been incorporated within the tool. The data is verified and approved locally at the level of each subsidiary by a local verifier who is responsible for the HR statistical data.

This system is supplemented by a general reporting procedure which defines the process for compiling, calculating and consolidating the indicators, based on an instruction memorandum circulated by the Air France-KLM Group's Finance division.

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

Details and methodology/Commentary on changes in the indicators

"Consolidated NRE 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 following notes refer to the references in the tables on pages 92 to 95.

Employees

Note 1: The number of people employed by the Group (expressed as headcount) on both permanent (CDI) and fixed-term contracts (CDD) on the payroll at December 31 of the reference year.

Note 2: On a comparable reporting scope, the ground staff headcount (CDD and CDI) amounted to 70,624 employees at December 31, 2011 (a 0.2% decline versus the 2010 reporting scope without taking into account the employees in the two new subsidiaries, Aero Maintenance Group and Jet Chef).

Recruitment on permanent contracts

Note 3: 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.

Recruitment on fixed-term contracts

Note 4: This indicator was added to the reporting in 2010 which means that the information is not available for 2009.

Departures

Note 5: The reasons for departure are detailed in the appendices to Air France-KLM's Corporate Social Responsibility report 2011.

Note the significant number of departures in 2011, i.e. **11,612** employees, most of which were due to the non-renewal of fixed-term contracts. The other reasons include departures within the framework of the voluntary departure plan launched in 2010 (1,264) and departures due to retirement, resignation, decease and termination of contracts during the trial period.

Percentage of women - Organization of working time

Note 6: These indicators enable the percentage of women to be evaluated relative to the overall 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 7: The few KLM employees in the Caribbean and Indian Ocean geographical zone are included in the number of employees in the North and South American zone.

The Air France Group employees in the French Overseas Territories, i.e. 684 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,** which means 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 proportion of the work-related accidents reported by Air France in 2011 were 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.

Air France
Note 1: The absenteeism rates are calculated based on a ratio of the days of absence divided by the days theoretically worked (excluding leave).

KLM and KLM subsidiaries
Note 1: Since 2010 the calculation of the data has been aligned with that of the government body responsible for recording the national rate of absenteeism (Centraal Bureau voor de Statistiek) and includes the monitoring procedures to protect the quality of recorded data.

In the Netherlands, there is no difference between how absence following a work-related accident or due to illness is recorded. Absences due to illness or work-related accidents are handled in exacted the same way. For this reason, all the days of sick leave and absence due to work-related accidents are taken into account in the rate of absenteeism for illness.

Health and safety – Accidents in the workplace

There are significant differences in reporting methods for work-related accidents between France and the Netherlands (see paragraph on absenteeism).

Air France
Note 2: Air France's definition of work-related accidents requiring time off work 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 separate monitoring and action plans.

KLM subsidiaries
Note 2: In 2010, there was a difference in the interpretation of the reporting of work-related accidents by one KLM subsidiary. This is why the 2011 and 2010 data is not comparable. Note also a reduction in accidents due to the active accident prevention policy pursued within KLM subsidiaries and particularly at KLM Catering Services.

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

For Air France

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

For KLM and KLM subsidiaries

- For all staff, based on the theoretical hours worked.

In 2010, there was a difference in the interpretation of the reporting of work-related accidents by one KLM subsidiary. This is why the 2011 and 2010 data is not comparable.

Training

Air France and Air France subsidiaries
Note 4: The "Number of training hours by employee" indicators are calculated on the basis of all the training sessions, irrespective of whether or not their nature requires them to be included in the 2483 Regulatory Declaration.

The training data for the subsidiaries in the Air France Group are calculated without the Transavia France subsidiary.

KLM and KLM subsidiaries
Note 4: KLM does not currently have a centralized reporting system solely for the costs of training within KLM and its subsidiaries although this indicator is now reported. Note that the disclosure of this information is not required by Dutch law.

Number of disabled employees

Air France and Air France subsidiaries

Note 5: For Air France, the number of disabled employees reported are those for whom a valid certificate, pursuant to French law (DOETH declaration[1]), is available, irrespective of their level of ability to perform the tasks involved in their position. Note that the data for international employees is reported based on local legislation.

The number of disabled employees recruited corresponds to the number of permanent and fixed-term employment contracts signed during the year; an employee recruited on a fixed-term contract who then transfers to a permanent contract during the year will be reported twice.

Note that the rate of employment of disabled employees for 2011 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 considered to be disabled if unable to carry out their work or any other work at an equivalent salary level. This requires the employer and the employee to look for another position with a salary as near as possible to the previous level and gives the employee the right to government benefits to compensate for any difference.

Since 2011, the number of disabled employees in the KLM subsidiaries has been calculated including the subsidiary Martinair.

Collective agreements signed

KLM

Note 6: It was decided, in agreement with the social partners, to postpone negotiations until 2012 and therefore no collective agreements were signed in 2011.

(1) Déclaration annuelle Obligatoire d'Emploi des Travailleurs Handicapés or annual declaration mandatory under French law.

4.2.2 Consolidated social data for the Air France-KLM Group

NRE social data [1]	Air France-KLM Group			
Headcount at 31/12 (permanent and fixed-term contracts)	**2009**	**2010**	**2011**	**11/10**
Scope of NRE social reporting √	***96%***	***96%***	***96%***	***0.0%***
Total staff √	108,367	105,928	***106,618***	0.7%
Ground staff [2]	73,015	70,747	***71,277***	0.7%
Cabin crew	26,121	26,144	***26,380***	0.9%
Flight deck crew	9,231	9,037	***8,961***	-0.8%
Staff under permanent contract	104,425	102,045	***101,603***	-0.4%
Recruitment under permanent contract at 31/12 √ [3]	1,562	1,383	***2,481***	79.4%
Recruitment under fixed-term contract at 31/12 √ [4]	N.A.	3,084	***6,621***	115%
Departures at 31/12 [5]	7,913	8,816	***11,612***	32%
of which redundancies (incl. Economic) √	1,177	662	***995***	50%
Percentage of women at 31/12 √ [6]	42.6%	42.5%	***42.8%***	0.6%
Percentage of part time employees at 31/12 √ [6]	23.9%	24.4%	***24.5%***	0.5%
Breakdown of staff by age at 31/12				
♦ ≤ 29 years	N.A.	N.A.	***10,052***	
♦ between 30 and 39 years inclusive	N.A.	N.A.	***33,065***	
♦ between 40 and 49 years inclusive	N.A.	N.A.	***37,101***	
♦ 50 years and above	N.A.	N.A.	***26,400***	
Breakdown of staff by geographical area at 31/12				
Europe (except France and The Netherlands)			***5,072***	
North & South America	N.A.	N.A.	***2,255***	
Caribbean / Indian Ocean (including French overseas territories) [7]	N.A.	N.A.	***1,118***	
Asia / Pacific	N.A.	N.A.	***1,710***	
Africa / the Middle East	N.A.	N.A.	***1,594***	
The Netherlands			***31,533***	
Continental France	N.A.	N.A.	***63,336***	

√: indicators verified by KPMG for 2011 (limited level of assurance).

* ***Air France group:*** *Air France and Air France subsidiaries.*
Air France subsidiaries: *Aero Maintenance Group, Blue Link, Brit Air, City Jet, VLM, CRMA, Regional, Sodexi, Transavia France and Servair group: ACNA, Bruno Pegorier, Jet Chef, OAT, Servair SA, CPA, Passerelle, Base Handling.*
The scope was extended to two new subsidiaries in 2011: Aero Maintenance Group and Jet Chef (in the Servair group).

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

N.A: Not available

Air France Group*				KLM Group**			
Total Air France Group		Of which Air France		Total KLM Group		Of which KLM	
2010	2011	2010	2011	2010	2011	2010	2011
95%	***95%***	***100%***	***100%***	***98%***	***98%***	***100%***	***100%***
70,722	***71,028***	58,485	***58,065***	35,206	***35,590***	28,383	***29,424***
48,979	***49,472***	39,228	***38,957***	21,768	***21,805***	17,236	***17,501***
16,297	***16,187***	15,083	***14,988***	9,847	***10,193***	8,491	***9,175***
5,446	***5,369***	4,174	***4,120***	3,591	***3,592***	2,656	***2,748***
68,727	***68,307***	57,336	***56,586***	33,318	***33,296***	27,392	***28,119***
1,010	***1,409***	497	***773***	373	***1,072***	213	***1,007***
2,432	***5,452***	623	***3,053***	652	***1,169***	248	***589***
6,539	***8,998***	4,379	***6,194***	2,277	***2,614***	1,066	***859***
448	***338***	263	***149***	214	***657***	52	***54***
43.0%	***42.9%***	44.6%	***44.6%***	41.6%	***42.4%***	42.7%	***43.6%***
18.6%	***18.4%***	20.3%	***20.5%***	36.0%	***36.7%***	37.4%	***38.3%***
N.A.	***6,353***	N.A.	***4,696***	N.A.	***3,699***	N.A.	***2,445***
N.A.	***23,456***	N.A.	***19,478***	N.A.	***9,609***	N.A.	***7,827***
N.A.	***23,834***	N.A.	***19,507***	N.A.	***13,267***	N.A.	***11,263***
N.A.	***17,385***	N.A.	***14,384***	N.A.	***9,015***	N.A.	***7,889***
	2,661		***1,913***		***2,411***		***988***
N.A.	***1,862***	N.A.	***1,549***	N.A.	***393***	N.A.	***392***
N.A.	***1,118***	N.A.	***878***	N.A.	***0***	N.A.	***0***
N.A.	***776***	N.A.	***771***	N.A.	***934***	N.A.	***934***
N.A.	***1,118***	N.A.	***1,101***	N.A.	***476***	N.A.	***476***
	178		***26***		***31,355***		***26,613***
N.A.	***63,315***	N.A.	***51,827***	N.A.	***21***	N.A.	***21***

4.2.3 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)*

	2010	2011	11/10
Absenteeism [(1)]			
Due to illness √	*3.9%*	***3.83%***	*-2%*
Due to work accidents √	*0.59%*	***0.61%***	*3%*
Maternity leave √	*1.52%*	***1.15%***	*-24%*
Health and safety			
Total workplace accidents √ [(2)]	2,454	**2,139**	-13%
Number of fatal workplace accidents	2	**2**	0%
Frequency rate of workplace accidents √ [(3)]	*29.14*	***26.23***	-10%
Severity rate of workplace accidents √ [(3)]	*1.05*	***1.07***	2%
Training			
Number of training hours by employee √ [(4)]	31	**32**	3%
Disabled staff [(5)]			
Total staff with disabilities √	1,602	**1,634**	2%
Total staff with disabilities recruited during year √	30	**30**	0%
Collective agreements √	19	**18**	

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

Air France subsidiaries

	2010	2011	11/10
Scope of reporting for Air France subsidiaries	**76%**	**76%**	0%
Health and safety			
Total workplace accidents √ [(2)]	944	**870**	-8%
Training			
Number of training hours by employee √ [(4)]	24	**21**	-13%
Disabled staff [(5)]			
Total staff with disabilities √	434	**481**	11%
Total staff with disabilities recruited during year √	47	**32**	-32%
Collective agreements √	25	**43**	

√: indicators verified by KPMG for 2011 (limited level of assurance).

4.2.4 Other data for KLM (according to local legislation)

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

Absenteeism (1)	2010	2011	11/10
Due to illness √	6.44%	***6.11%***	-5%
Maternity leave √	0.67%	***0.63%***	-6%
Health and safety			
Total workplace accidents √ (2)	225	***217***	-4%
Number of fatal workplace accidents	0	***0***	0%
Frequency rate for workplace accidents √ (3)	4.90	***4.54***	-7%
Severity rate of workplace accidents √ (3)	0.24	***0.16***	-33%
Disabled staff			
Total staff with disabilities √ (5)	641	***656***	2%
Training (4)			
Total training costs in K€ √	62,667	***69,422***	11%
Total training costs in € per full time equivalent √	2,645	***2,891***	9%
Collective agreements √ (6)	3	***0***	

* *KLM: Data concerns KLM without international staff.*

KLM Subsidiaries

	2010	2011	11/10
Scope of reporting for KLM subsidiaries	***93%***	***93%***	***0%***
Health and safety			
Total workplace accidents √ (2)	199	***70***	N.C.
Number of fatal workplace accidents	0	***0***	0%
Frequency rate for workplace accidents √ (3)	27.64	***5.88***	N.C.
Severity rate of workplace accidents √ (3)	0.19	***0.08***	-58%
Disabled staff			
Total staff with disabilities √ (5)	66	***81***	23%
Training (4)			
Total training costs in K€ √	22,584	***21,206***	-6%
Total training costs in € per full time equivalent √	2,782	***2,961***	6%
Collective agreements √	11	***4***	

√: indicators verified by KPMG for 2011 (limited level of assurance).
N.C.: not comparable.

4.3 Environmental data

For many years the Air France-KLM Group has been committed to a growth strategy that respects the environment and these environmental concerns are now at the heart of an ambitious, common strategy across the Group.

The Air France-KLM Group is aware of the impact of its activity on climate change and seeks to reduce its greenhouse gas emissions through the various initiatives in its Climate Action Plan[1].

In January 2008, within the framework of the *Grenelle de l'Environnement*, the French National Conference on the Environment, Air France signed the air transport sector Agreement with the French State, aimed at pursuing and stepping up efforts towards air transportation that is increasingly respectful of the environment.

KLM has subscribed to the *Dutch Knowledge and Innovation Agenda,* defining the environmental and sustainable development 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 2008-20).

4.3.1 Overall environmental policy

Organization and responsibilities

Air France and KLM each have their own environmental management systems however the two Environment divisions closely coordinate their activities, collectively establishing the Group's environmental strategy and working together on a wide range of issues. In particular, they carry out a common environmental reporting process through the Group's Corporate Social Responsibility report.

Air France's Environment and Sustainable Development division is responsible for formulating proposals on the company's environmental policies and priorities to be submitted to the general management and the Executive Committee.

Each division of the company is responsible for applying the environmental policy thus defined and for regulatory compliance, supported by the Quality-Safety-Environment network.

The Environment and Sustainable Development division ensures the consistency of the action plans in the entities and coordinates the environment network in which the Air France subsidiaries participate.

Each division has an environmental coordinator, generally reporting to the Quality-Safety-Environment manager, who is responsible for:

- deploying the company's environmental policy in their entity through multiple strategic, training and communication initiatives;
- coordinating the departments' environmental approaches and action plans;
- establishing indicator dashboards, analyzing the results and identifying preventive and corrective measures.

For KLM, the Executive Committee (EXCOM) approves the company's environmental policy and the related environmental action plans.

The Corporate Social Responsibility (CSR) and Environmental Strategy department drafts this policy and is responsible for the proper functioning of the Environmental Management System.

In respect of the ISO 14001 certification, every KLM department reports on regulatory compliance and the environmental impact of its activities through the CSR program during meetings organized by the Corporate Social Responsibility and Environmental Strategy department.

All the departments have their own environmental coordinators who report to the Quality Managers and EXCOM members who are themselves members of the Operational Safety & Environment Board which is responsible for controlling environmental compliance and performance.

(1) For further details see the Air France-KLM Group's Corporate Social Responsibility report on the website http://corporate.airfrance.fr.

Environmental management/ISO 14001 certification

Air France and KLM have established proprietary Environmental Management Systems based on the ISO 14001 standard.

This international standard is based on the principle of continuous improvement (Deming total quality model): plan the objectives, do (implement), check and management review. For each entity of the company, the processes are identified, planned, monitored and verified. There are also a series of internal and external audits to monitor the effectiveness of the Environmental Management System.

Air France has been ISO 14001 certified for all its ground operations in metropolitan France and all its flight operations since 2008. This certification was renewed in 2011 for a three-year period.

KLM has deployed its ISO 14001-compliant environmental management system since 1999. Within the framework of its commitment to developing its environmental policy, KLM has implemented an extensive annual program aimed at ensuring a continuous improvement in environmental performance, guaranteeing environmental management and actively developing internal and external communication.

The environmental results of KLM Cityhopper, KLM Catering Services, KLM Equipment Services and KLM Health Services are included in KLM's environmental performance indicators while those of Martinair and Transavia.com are also partly included.

Environmental reporting/Verification of extra-financial data

The Air France Group produces 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 the flight operations, a calculation tool similar to OSYRIS enables emissions to be calculated based on actual flight data (consumption, speed, altitude, etc.).

The KLM Group manages and reports its sustainable development indicators (including the environmental indicators) using the CaeSar database which is widely deployed across the company.

The environmental reporting procedure is outlined in an environmental instruction memorandum that is common to both Air France and KLM and is forwarded to the Group's Financial Communication department.

Since 2008, a selection of Air France-KLM's environmental indicators have been verified by one of the Group's Statutory Auditors with the highest level of assurance known as reasonable assurance (for the indicators that are the most significant for air transport namely CO_2 emissions and fuel consumption in the air operations) and a limited level of assurance for the other indicators.

Training and information for employees on environmental protection

The Air France-KLM Group's in-house communication on its environmental information is ensured through a number of different channels:

- during its Sustainable Development Week, Air France organizes conferences and workshops on various themes such as climate change, biofuels, reducing resource consumption and the company's support for NGOs;
- a newsletter on sustainable development issues is regularly circulated within the company to keep employees in touch with the latest environmental news concerning Air France;
- e-learning modules on eco-design have been made available within the company to develop this new skill in the target professions;
- for several years KLM has had a Corporate Social Responsibility café, where employees can cooperate on sustainable development matters;
- the environmental management system in the different Air France and KLM divisions and subsidiaries also raises the awareness of employees across the board on the need to reduce their environmental footprints.

Resources dedicated to the prevention of environmental risks and pollution

Managing environmental risks

The identification and management of environmental risks is an integral part of the ISO 14001 management system. Within the framework of these systems, the risks are identified, their impact evaluated and preventive and corrective measures implemented through the action plans of the different entities.

A feedback system has been established in all the Air France and KLM Operational divisions (Sentinel database) which records environmental incidents, enabling risk prevention plans to be established and implemented at Group level.

See also *Risks relating to the environment* in section 3 *Risk factors and their management*.

Environmental expenditure and investment

Air France's policy is to fully integrate environmental management within the business operations. This means that it is difficult to identify environmental expenditure and investment exactly since the investment is not made exclusively for environmental purposes (fleet renewal, for example).

KLM does, however, itemize a list of the most significant expenditures that can be directly linked to environmental legislation or management. This concerns expenditure relating to noise disturbance and the sound-proofing mentioned in the section above. KLM's other significant expenditure is taxes on waste (€3 million).

Environmental risk provisions and guarantees

Air France has taken out an insurance policy to cover civil liability for environmental damage risk up to a sum of €50 million per claim and per year, with lower specific limits depending on location and/or the activities. In the event of a claim, deductibles will apply. This insurance also covers a number of subsidiaries with airline operations (Régional, Brit Air, Transavia France, CityJet, VLM).

In terms of risk prevention, the main Air France divisions and subsidiaries exposed to environmental risk have in-house QSE (Quality Safety Environment) units, which regularly participate in site sensitivity studies, particularly when these are required by insurers.

KLM's aviation insurance covers environmental damage due to an aircraft crash, fire, explosion or collision. KLM has no specific financial provisions or guarantees for environmental risks because the regular financial provisions of KLM are applicable. The only exception is the provision made within the framework of the agreement between KLM and the WWF-NL on CO_2-neutral growth between 2007 and 2011.

Measures taken to guarantee the Air France-KLM Group's compliance with legal and regulatory environmental requirements

In 2011, a monitoring and regulatory compliance tool was deployed across the company covering all the applicable environmental requirements. This tool also enables the monitoring of any new regulations and the level of their adoption by each division within the company.

Any cases of non-compliance arising from the evaluation questionnaires are formalized and dealt with by an action plan. The CRMA, Régional and Brit Air subsidiaries also have similar tools.

In the maintenance sites listed as ICPE environmental protection facilities (*Installations classées pour la protection de l'environnement*), Air France produces a solvent management plan which is sent every year to the French administration, detailing the quantities of solvents consumed and the related emissions of volatile organic compounds, together with the measures in place to reduce these emissions.

In order to ensure compliance with the legal and regulatory requirements relating to KLM's ground operations outside the Netherlands, KLM has established an environmental code of best practice in its 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.

4.3.2 Pollution and waste management

Prevention, reduction and reparation of air, water and ground emissions with a serious environmental impact

Flight operations

The Air France-KLM Group monitors its atmospheric emissions and particularly low altitude emissions which impact the quality of the air around airports. The indicators cover emissions of CO_2, SO_2, NO_X and HC.

Ground operations

The effluents released from the Air France-KLM Group's maintenance operations are the subject of regular checks in order to ensure that the thresholds defined by the prefectural decrees are fully respected for each of their sites. The main effluents monitored are pH, nitrogen, phosphorus, metals, COD (Chemical Oxygen Demand) and BOD (Biological Oxygen Demand).

Prevention, recycling and evacuation of waste

The recycling of onboard waste is an ongoing priority for the Air France Group and is one of numerous initiatives such as the recycling of some 80% of equipment used (meal trays, drawers, covers, trolleys) and the development of eco-design to acquire the means to improve the environmental evaluation of products and reduce their overall impact.

The recycling of NEO packs on European flights is a perfect example of a successful environmental approach since it involves the whole chain from Air France purchasing advisor to cabin crew, suppliers and catering. Environmental considerations are factored into product design in order to choose recyclable materials. A portion of these packs is set aside by the cabin crew at the end of the flight and collected by Servair (the Air France Group's catering subsidiary) before being returned to the supplier for recycling.

A sorting system has been established at Air France's principal tertiary sites, enabling the recycling of hundreds of tons of paper every year. As part of the initiative to reduce paper consumption, a system of shared printers has been deployed across the company by the IT division.

Hazardous waste from the maintenance activities is the subject of a comprehensive 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.

Since 2009, Air France and KLM have had a common program aimed at recovering metal from used aircraft parts to make new parts or re-use those that are still in good condition.

Measures taken to limit noise pollution

The entire Air France fleet complies with the criteria established by the ICAO Chapter 4 Noise standard, the most demanding norm in terms of the acoustic quality of civil aircraft.

In addition to renewing its fleet, Air France implements the following measures to reduce the noise impact of its operations:

- application of *less noise* procedures, such as continuous descent approaches in collaboration with the DGAC, the French civil aviation authority. The continuous descent approach has already been deployed at Marseilles and Orly and, in 2011, Air France participated in the implementation of CDA approaches and the steepening of trajectories at Roissy-CDG airport in fulfilment of a commitment made at the French National Conference on the Environment. These new procedures which were very much welcomed by local residents are published and usable by all the operators;
- reduction of night traffic: at CDG, Air France has given up 725 of the 818 annual slots abandoned by the airlines as a whole since 2003.

Air France continued its investment effort by taking delivery of a sixth A380 aircraft in the fleet. The A380 is currently the most advanced aircraft in terms of acoustic quality and it already meets the noise standards that will become mandatory as of 2020/25.

KLM uses the higher-altitude operational approach procedure at night. Furthermore, KLM has implemented a number of route optimizations which have led to a reduction in noise pollution for 18,000 people. After a trial lasting two years, an innovative fixed radius turn was successfully introduced on a Standard Instrument Departure (SID) to reduce the noise around the departure routes.

KLM's Boeing B737 aircraft are the first to use this navigation technique to reduce noise. The extension of this procedure to other aircraft types and airlines is currently being studied.

Indemnities paid and actions carried out to neutralize environmental impacts

In 2011, Air France paid €17.6 million in Airport Noise Tax (TNSA) to the French State for every takeoff. The proceeds are dedicated to financing the sound-proofing for homes situated near airports and exposed to aircraft noise.

In 2010, KLM paid €25 million in noise taxes for the sound-proofing and compensation for loss of value in real estate around Schiphol airport in respect of Article 77 of Dutch aviation law.

4.3.3 Sustainable use of resources

Measures taken to reduce water consumption

The Air France Group has considerably reduced its water consumption through better control over its processes, making its teams more accountable and by the integration of environmental criteria in the design and realization of its tools and work stations.

The maintenance division, for example, has established an aircraft washing process which uses much less water using cloths and biodegradable products.

For its part, Servair continues to deploy tools enabling the consumption of its industrial washing machines, which use a lot of water, to be monitored more closely.

KLM has reduced its water consumption in recent years thanks to a series of similar measures.

The action undertaken to reduce water consumption includes the installation of water meters, the reuse after treatment of rinsing water and the replacement of systems pumping groundwater by closed-loop or alternative systems.

Consumption of resources and the measures taken to optimize their use

For the Air France-KLM Group, the main drivers to reduce fuel consumption and thereby improve energy efficiency in flight operations are the:

- renewal of its fleet of aircraft (to maintain a modern fleet with some of the best performance standards in the market) with new more energy-efficient aircraft. For example, the CO_2 emissions of the A380, the latest arrival in the Air France fleet, are 15% lower than other four-engine aircraft. Across the entire Air France network, for all fleets, the average consumption is 3.7 liters per passenger over 100km, a 14% reduction in 10 years;
- continuous improvement in operating procedures to reduce fuel consumption. Air France organizes daily optimised trans-Atlantic flights in the A380 between New York and Paris. On each of these flights, Air France reduces its CO_2 emissions by three to five tons by optimizing each phase in coordination with air traffic control;
- lightening the mass loaded on board is also a non-negligible factor: each kilogram of reduction represents a CO_2 saving of some 80 tons every year.

In 2011, Air France achieved a world first in operating the lowest CO_2 emissions flight (Toulouse–Orly) by doing everything possible to reduce noise hindrance and greenhouse gas emissions:

- optimisation of flight procedures and trajectories;
- reduced on-board mass;
- use of a 50% mix of sustainable biofuel.

For a number of years, Air France has been actively involved in the development of sustainable biofuels with a low carbon footprint and no harmful environmental or social impact. Sustainable biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon footprint. On September 25, 2008 the company signed a sustainable biofuels charter drawn up in conjunction with NGOs such as the WWF and the Natural Resources Defense Council. Air France is also a stakeholder in research carried out by the Roundtable on Sustainable Biofuels (RSB), whose sustainability criteria were recognized by the European Commission in July 2011.

Energy consumption and, when required, measures taken to improve energy efficiency and the use of renewables

For its ground operations, Air France is renewing its vehicle fleet and runway equipment to increase the share of electrical propulsion, the aim being to increase the percentage of electrically-powered engines to 34% in 2007 and 60% by 2020. An IT system has also been deployed to monitor the fuel consumption of registered vehicles across the company. The participation alongside other major French companies in a common call to tender for the acquisition of registered electric vehicles will enable Air France to replace its light vehicles in the Île-de-France with 600 electric vehicles by 2014.

The commitment to the HQE approach/certification with the inclusion of energy saving at the design stage for new buildings and facilities also testifies to a focus on energy saving. Air France also implements an HQE approach/certification for the operation of all these new buildings.

Furthermore, in 2011, Air France made a commitment to the WBCSD (World Business Council for Sustainable Development) to reduce its energy consumption and signed the Manifesto for Energy Efficiency in Buildings.

Air France has deployed a company travel plan in the Ile de France, which proposes solutions aimed at contributing to the reduction in pollutant emissions arising from the journeys employees make between their homes and workplaces. This year the plan took on a new dimension with the signature of an Inter-Company Travel Plan at Roissy.

For its part, KLM has equipped its Amstelveen headquarters with a sustainable energy facility, using 90% less gas and 30% less power.

Since 1989, KLM has deployed a range of electricity-saving measures in the KLM buildings in the Netherlands, enabling an average annual reduction of around 2% in its energy consumption. In 2008, KLM signed a third multi-year energy efficiency agreement with the Dutch Ministry of Economic Affairs, aimed at optimizing the energy efficiency of its buildings, in which the company is committed to reducing its energy consumption by a further 2% annually through to 2020.

KLM participated in the Dutch Mobility Task Force and consequently signed the regional multi-party Mobility Convention, aimed at a 10% reduction in employee-car-kilometers between 2008 and 2012.

Both KLM and Air France encourage their employees to support initiatives to reduce energy consumption.

Soil use conditions

Consistent with the rules and regulations, Air France collects or commissions sub-soil samples prior to any new construction at a site in order to check their compliance with safety standards.

4.3.4 Contribution to adapting to and combating global warming

Greenhouse gas emissions and taking into account the impact of climate change

The Air France-KLM Group's contribution to combating climate change is based on its Climate Action Plan.

The Air France-KLM Group actively supports international efforts to reach a global climate agreement in which the aviation sector would make an ambitious, just and equitable contribution to the collective effort. The company continues to modernize its fleet, support aeronautics research and promote energy efficiency and the reduction in CO_2 emissions across the entire supply chain. It encourages employees to propose sustainable solutions to, for example, save fuel and mitigate the emissions of the ground operations while supporting renewable energy research programs, such as biofuels for use in aviation. It also supports environmental protection research programs developed by NGOs. The company also gives its customers access to transparent, reliable information on the CO_2 emissions linked to their journeys using a calculator based on actual operating data and offers them the opportunity to offset this.

Applicable to fixed industrial sources as of 2005, the European Emissions Trading Scheme (EU-ETS) was revised in 2008 in order to extend it to the aviation sector as of 2012. 2010 was the year for which the first mandatory declaration of activity and emissions was made and the data verified. The activity (expressed in revenue ton-kilometers) reported by each operator in 2010 acted as the calculation base for their aviation quota allocations and, on the basis of this declaration, the Air France Group obtained 12.6 million free quotas for 2012.

The European system is, however, the subject of a legal challenge by the airlines in most third party countries.

This regulation provides for an exemption for the use of sustainable biofuels. Biofuels effectively constitute the most promising avenue to drastically reducing the airline industry's carbon footprint while guaranteeing supply security. They will be key to achieving Air France-KLM's reduction targets and those of the airline sector as a whole, which has no alternative to liquid fuel. Air France is thus partnering the demonstration project to produce biofuels from forestry waste being conducted by the CEA (French Atomic and Alternative Energies Commission). As of 2015, part of its production (2,000 tons/year) could be used to power aircraft engines. Air France will also participate in Syndiese, the company responsible for the industrialization of this production.

On October 8, 2010 in Montreal, 190 member countries of the International Civil Aviation Organization (ICAO) adopted a resolution on the reduction in the sector's emissions, constituting a first at global level. This agreement includes a target to improve the energy efficiency of international aviation by an annual 2% through to 2050 and commits the sector to stabilizing its net emissions and establishing a regulatory offsetting framework based on the market. The Air France-KLM Group welcomes the adoption of this resolution which finally recognizes the need for a overall sector commitment to combating global warming.

Air France-KLM has actively contributed to the establishment of initiatives to demonstrate the feasibility of a just and equitable involvement of international aviation in mitigating greenhouse gas emissions, either through the AEA (Association of European Airlines) or a specially-convened group of other deeply-committed partners (Aviation Global Deal Group). These initiatives aim to propose an overall sector approach for international aviation, reconciling the principle of common but differentiated responsibilities of the Rio Summit with that of the equality of treatment between operators in the Chicago Convention.

Air France-KLM activity participates in the work of the International Air Transport Association aimed at proposing operational solutions enabling the environmental targets adopted by the general assembly in 2009:

- by 2020, a 1.5% annual improvement in energy efficiency (excluding economic measures);
- from 2020, stabilization and neutral growth in CO_2 emissions;
- by 2050, a 50% reduction in CO_2 emissions relative to the 2005 level.

4.3.5 Protecting biodiversity

Measures to protect biodiversity by reducing deleterious impact on the biological equilibrium, natural habitats and protected plant species

Air France is currently examining ways in which to reduce the impact of its activities on biodiversity. Furthermore, since 2008, Air France has been involved in a vast project to combat deforestation run by GoodPlanet and WWF in Madagascar.

This program, for which the company is the sole financial partner, covers more than 500,000 hectares of forestry, the aim being to reduce the current level of deforestation, thereby preserving the potential storage of some 50 million tons of carbon.

With more than €5 million invested in the program and more than 60 people employed by partners, the aims include:

- developing new protected areas and preserving biodiversity;
- replanting and restoring depleted forestry;
- training local communities in the development of new farming methods and encouraging them to manage their land.

Three years into this forestry conservation program, Air France asked ONF International, a world-renowned environmental consultancy firm, to produce an initial report on the actions taken in the field. All the objectives have been achieved, making this project a real success:

- 350,000 hectares of new protected areas have been created;
- 25,000 hectares have been restored or reforested;
- 6,000 families have benefited from the transfer of responsibility for managing over 200,000 hectares.

Furthermore, the project has helped to advance the scientific methods and measurement of forest carbon stocks in Madagascar.

4.4 Environmental indicators for the Group

4.4.1 Note on the methodology for the reporting of the environmental indicators

In 2005-06, under the aegis of the Air France-KLM Group's Disclosure Committee, and validated by the college of Statutory Auditors, the Group's environmental performance indicators were defined in order to comply with the requirements of the French New Economic Regulations law (Les Nouvelles Regulations Économiques, NRE, May 15, 2001) and the European Regulation (EC 809/2004).

As of the 2007-08 financial year, the Group chose to have a selection of environmental indicators (indicated by the symbols √ and √√) verified by one of the Statutory Auditors, KPMG Audit, with the highest level of assurance, reasonable assurance[1], for fuel consumption and the related CO_2 emissions for air operations (√√) and a limited level of assurance[1] for the other verified indicators (√).

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 Brit Air, Régional and CityJet. The flights operated by Transavia France are also included in 2011. The subsidiaries are excluded for the total HC and NO_x emissions;
- all the KLM commercial flights operated by KLM and its subsidiary KLM Cityhopper (KLC). The flights operated by KLM's Transavia and Martinair subsidiaries were included as part of the KLM Group as of 2010. They are not included in the indicators for low altitude emissions of HC, NO_x and SO_2.

For the ground operations, the consolidation scope for the environmental reporting is unchanged on that of last year and covers 100% of the sites in France and the Netherlands. The international outstations are not taken into account.

- Air France consolidated subsidiaries are: Brit Air, Régional, CRMA, Sodexi and Servair and its subsidiaries (only for the activities in France). VLM, BlueLink, 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. Concerning the Air France Group, the reporting scope is based on worldwide premises representing around 88% of the Group.
- KLM consolidated subsidiaries are KLC (KLM CityHopper), KES (KLM Equipment Services), KCS (KLM Catering Services) and KHS (KLM Health Services), and Transavia NL and Martinair (for a portion of the indicators).

In 2011, three buildings belonging to Transavia and Martinair were included in the ground operations reporting scope.

The 2011 reporting period for the Group's environmental data has been changed and is now based on a rolling twelve months from October 1, 2010 until September 30, of the 2011 reporting year. This results from the change in the reporting period for the financial statements from the IATA year (April 1 to March 31) to the calendar year.

The national figures for greenhouse gas emissions will be published at a later stage and remain based on the calendar year.

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 Sustainable Development department.

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

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 assembly of data, calculation methodologies and operational consolidation are defined in procedures which are specific to Air France and KLM, but which are harmonized, insofar as local regulations permit.

Within the framework of an approach based on continuous improvement, the methodologies used for certain performance indicators have been more precisely defined. When these changes have a significant impact on the data, comparison with the figures for previous years is not meaningful.

When the data is not available, the figure reported for the year is estimated based on the value reported for the previous year. In 2011, this estimation method was used for the Air France Group for the amount of waste produced and the consumption of electricity and natural gas in certain buildings at the administrative head office and in a number of subsidiaries.

Flight operations

CO_2 emissions

The increase in the Group's CO_2 emissions between 2010 and 2011 is proportional to the increase in jet fuel consumption due to the pick-up in activity.

Note that, for the KLM Group, the increased emissions as of 2010 are linked to the inclusion of the Transavia and Martinair subsidiaries.

Note that there are differences between the scope of the CO_2 emissions reported and those of the European Emissions Trading Scheme for greenhouse gas emission quotas (EU-ETS), which do not enable a comparison.

SO_2 emissions

The calculation of the SO_2 emissions from flight operations is based on the average sulphur content of the fuel loaded, respectively, on the Amsterdam and Paris platforms which is applied, respectively, to all fuel used during the year by KLM, Air France and the Air France subsidiaries.

The rise in SO_2 emissions from flight operations for the Group between 2010 and 2011 is mainly due to the higher average sulphur content in the fuel, together with the recovery in activity.

For the KLM Group, the reduction is due to the lower average sulphur content in the fuel used.

NO_x and HC emissions

Total Emissions

Air France

For Air France, a specific tool was deployed in 2009 to calculate the total emissions of NO_x and HC more precisely.

Only emissions for Air France are reported, the subsidiaries not being included in the calculation module.

The calculation methodology is based on the by Boeing[1] fuel flow 2 methodology. For more than 75% of the flights, recorded data has been used to calculate emissions specific to each flight. The emissions for other flights were estimated from the calculated average flight emissions. For these flights, a less precise estimation method than in 2009 was used. However, the impact on the published data is not significant.

KLM

Only the emissions relating to KLM and KLM Cityhopper are reported, the other subsidiaries not being included in the calculation for the indicators. Two distinct methodologies are applied to calculate overall NO_x and HC emissions depending on the aircraft type: the fuel flow methodology and the P3T3 methodology developed by General Electric.

(1) *Baughcum, S. L., et al. "Scheduled Civil Aircraft Emissions Inventories for 1992: Database Development and Analaysis, Appendix D: Boeing Method 2 Fuel Flow Methodology Description". Report NASA CR 4700, The Boeing Company, April 1996.*

Low altitude emissions

The methodology used for the calculation of low altitude emissions is common to Air France and KLM. It is based on the LTO (Landing-Takeoff) cycle and on engine data communicated by the ICAO[1]. The taxiing time taken into account is the actual taxiing time, which is more precise than standard values recommended by the ICAO methodology. Note, however, that the actual taxiing time not being available for Transavia France, the standard ICAO values have been used for this subsidiary.

In-flight fuel jettison

An exceptional operation (less than one flight in 10,000 in 2011) 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).

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[2]. It applies to all flights with the AF or KLM Commercial Code operated, franchised and chartered, code share excepted.

For this year, the noise energy calculation for the KLM Group excludes the B747-400 ER aircraft operated by Martinair.

The trends in noise energy and traffic are determined by comparing total noise energy calculated for the calendar year with that of 2000.

Ground operations

Water consumption

The consumption of water is taken into account for all ground activities. Water used on board flights is not included. Prior to 2010, KLM had included the water taken on board.

This year's decline is explained by savings made at Servair and the ending of construction work on maintenance buildings.

Consumption of other energies

Prior to 2010, only the energy consumption for heating and cooling was published for the Air France Group and prior to 2011 for the KLM Group. To be as exhaustive as possible, a new indicator was reported in 2010, including the different sources of energy consumed:

- 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 and ground support equipment;
- petrol and diesel fuel for vehicles and ground support equipment. The portion relating to coaches is no longer included in the Air France Group reporting scope since this activity is outsourced.

The decline between 2010 and 2011 for the Air France Group is partly explained by weather variations and partly by gas consumption being overestimated at one Air France site in 2010.

(1) International Civil Aviation Organization.

(2) French Civil Aviation Authority (Direction Générale de l'Aviation Civile).

Emissions from ground operations (CO_2, SO_2 and NO_x)

In 2011, CO_2, SO_2 and NO_x emissions and their trends are linked to the energy consumption listed above.

For Air France, the sharp rise in SO_2 emissions is due to more comprehensive accounting of the SO_2 emissions of some sites and a rise in the fuel consumption of some occasional activities.

NO_x emissions related to engine testing are calculated based on a methodology similar to the one used for flight operations which reflects the actual testing conditions.

VOC Emissions

VOC emissions are calculated based on the direct emissions of solvents contained in the products used; VOCs contained in evacuated waste are excluded.

For Air France, the reporting scope was extended, as of 2010, to include third-party orders as well as paint kits. For the Air France Group, the decline between 2010 and 2011 is mainly due to an increase in the quantity of industrial waste containing VOCs (product withdrawals).

HC Emissions

Hydrocarbon (HC) emissions include the emissions from vehicles and ground support equipment, engine testing and aircraft fuelling.

Hazardous industrial waste

The quantity of hazardous waste which has not been communicated by service providers at the end of the reporting campaign is not taken into account. This is, however, estimated to be marginal.

The nature of recovered hazardous waste is determined based on European regulation.

For Air France, the rate of hazardous waste recovered in 2009 has been updated to include a modification concerning a subsidiary.

For KLM, the percentage mentioned corresponds to hazardous waste that has been recycled with a view to reuse. The significant increase in the quantity of hazardous waste between 2010 and 2011 is due to the evacuation, as hazardous waste, of water infiltrating into one of the KLM Cityhopper subsidiary's buildings in 2011.

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 2011, the results, expressed in terms of the number of times regulatory limits are exceeded as a proportion of measurements were, respectively:

- for Air France, 0/4 for Nitrogen compounds, 0/97 for Phosphorus compounds and 3/648 for metals;
- for KLM, 0/52 for Nitrogen compounds, 0/52 for Phosphorus compounds and 4/280 for metals.

Note that the metals reported are Cr, Cd, Ni, Cu, Pb, Sn and Zn.

4.4.2 Air France-KLM air operations

			Air France KLM Group			
		Unit	2009	2010	2011	11/10
Consumption						
Consumption of raw materials: fuel √√		000 tonnes	8,021	8,534	8,950	4.9%
Emissions						
Greenhouse gas emissions	CO_2 √√	000 tonnes	25,269	26,879	28,193	4.9%
Emissions of substances contributing to acidification and eutrophication	NO_x √	000 tonnes	130.8	130.5	140.4	7.6%
	NO_x low altitude (< 3 000 ft) √	000 tonnes	8.9	8.7	9.0	3.4%
	SO_2 √	000 tonnes	12.9	10.2	10.4	2.4%
	SO_2 low altitude (< 3 000 ft) √	000 tonnes	1.1	0.7	0.8	12.4%
In-flight fuel jettison	Occurences of fuel jettison √	number	51	39	29	-25.6%
	Fuel jettisoned √	tonnes	1,979	1,671	1,152	-31.1%
Other emissions	HC √	000 tonnes	3.6	3.3	3.3	0.0%
	HC low altitude (< 3 000 ft) √	000 tonnes	1.0	0.8	0.8	0.0%
Noise impact						
Global noise energy indicator √		10^{12} kJ	1.74	1.65	1.65	0.0%

√ : Figures verified by KPMG for 2011 (limited level of assurance).

√√ : Figures verified by KPMG for 2011 (reasonable level of assurance).

(1) Air France Group scope: all flights under AF code operated by Air France, Brit Air, Régional and CityJet, and flights operated by Transavia France from 2011. Subsidiaries are excluded for HC and NO_x global emissions.

(2) KLM Group scope: all flights operated by KLM and KLM Cityhopper. Transavia and Martinair are excluded for HC and NO_x emissions, but they are included for fuel consumption, CO_2 and SO_2 emissions (exception of low altitude emissions of HC, NO_x and SO_2).

Air France Group (1)				KLM Group (2)			
2009	2010	2011	11/10	2009	2010	2011	11/10
5,036	4,860	5,047	3.8%	2,985	3,674	3,903	6.2%
15,865	15,308	15,899	3.9%	9,404	11,571	12,294	6.2%
82.3	82.0	89.7	9.4%	48.5	48.5	50.7	4.5%
6.2	6.1	6.2	1.6%	2.7	2.6	2.8	7.7%
7.7	6.6	7.2	9.9%	5.2	3.6	3.2	-11.3%
0.7	0.5	0.6	15.2%	0.3	0.2	0.2	0.0%
33	27	23	-14.8%	18	12	6	-50.0%
1,381	1,180	945	-19.9%	595	491	207	-57.8%
2.6	2.4	2.3	-4.2%	1.0	0.9	1.0	11.1%
0.7	0.6	0.6	0.0%	0.3	0.2	0.2	0.0%
1.18	1.10	1.11	0.9%	0.56	0.55	0.54	-1.8%

4.4.3 Air France-KLM ground operations

			Air France - KLM Group			
		Unit	2009	2010	2011	11/10
Consumption						
Water consumption √		000 m³	979	951	886	-6.8%
Electricity consumption √		MWh	421,581	416,149	408,408	-1.9%
Other energies consumption (4) √		MWh	327,150	470,552	543,749	nc
Emissions						
Greenhouse gas emissions	CO_2 √	tonnes	84,290	92,569	89,841	-2.9%
Emissions of substances contributing to photochemical pollution	Emissions of volatile organic compounds VOC √	tonnes	127	167	129	-22.8%
	Emissions of HC	tonnes	166	161	167	3.7%
Emissions of substances contributing to acidification and eutrophication	NO_x √	tonnes	917	879	810	-7.8%
	SO_2 √	tonnes	18.7	13.2	19.6	48.5%
Waste						
Waste production	Quantity of non-hazardous industrial waste √	tonnes	61,067	58,756	58,964	0.4%
	Quantity of hazardous industrial waste √	tonnes	5,961	5,914	7,000	18.4%
	% of hazardous industrial waste recovered √	%	45% (5)	47%	45%	-2 pts
Effluents						
Compliance rate of effluents with regulatory limits	Nitrogen compounds √	%	93%	100%	100%	0 pt
	Phosphorus compounds √	%	100%	100%	100%	0 pt
	Metals (6) √	%	99%	100%	99%	-1 pt

√ Figures verified by KPMG for 2011 (limited level of assurance).
nc: not comparable.
(1) Air France and subsidiaries : Régional, Brit Air, Servair and its subsidiaries (France only), Sodexi and CRMA. CityJet, Blue Link, VLM and Transavia France are not included.
(2) KLM and its subsidiaries : KLM CityHopper (KLC), KLM Equipment Services (KES), KLM Catering Services (KCS) and KLM Health Services (KHS). Transavia and Martinair are partially included.
(3) Water consumption of KLM included onboard drinking water until 2009. This has now been excluded.
(4) In 2009, energy consumption for cooling and heating was included : natural gas, fuel oil, iced water and superheated water (respectively for the cooling and heating of buildings).
From 2010, Air France Group also reports natural gas and fuel oil other than for heating and cooling, gasoline and diesel for vehicles and ground support equipments, and jet A1 for testing engines.
From 2011, KLM group reports on diesel for vehicles and ground support equipment, and jet A1 for engine testing.
(5) The data was updated as a result of adjustments made to a subsidiary.
(6) Cr, Cd, Ni, Cu, Pb, Sn and Zn.

Air France Group [1]				KLM Group [2]			
2009	2010	2011	11/10	2009	2010	2011	11/10
742	749	694	-7.3%	237 [3]	202	192	-5.0%
327,094	321,818	309,655	-3.8%	94,487	94,331	98,753	4.7%
232,172	367,748	316,650	-13.9%	94,978	102,804	227,099	nc
37,396	47,850	38,975	-18.5%	46,894	44,719	50,866	13.7%
85	132	90	-31.8%	42	35	39	11.4%
112	106	108	1.9%	54	55	59	7.3%
639	605	541	-10.6%	278	274	269	-1.8%
13.2	9.8	16.6	69.4%	5.5	3.3	3	-9.1%
42,664	42,309	42,155	-0.4%	18,403	16,447	16,809	2.2%
4,839	4,569	4,748	3.9%	1,122	1,345	2,252	67.4%
36% [5]	36%	28%	-8pts	84%	84%	81%	-3 pts
90%	100%	100%	0pt	96%	100%	100%	0 pt
100%	100%	100%	0pt	100%	100%	100%	0 pt
99%	100%	99.5%	-0.5pt	100%	100%	98.5%	-1.5 pt

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Comments on the financial statements

5

5.1.1 Consolidated results for the financial year to December 31, 2011

There were no significant changes in the consolidation scope in the financial year to December 31, 2011.

The Group has changed the date of its accounting year end to December 31 (previously March 31). This change in accounting year end is effective as of this financial year, meaning that the latter comprises a period of nine months to December 31, 2011. Pro forma financial statements have also been established over 12 months.

The consolidation scope comprised 164 fully consolidated companies and 33 equity affiliates. The two main subsidiaries, Air France and KLM, represented 87% of revenues and 72% of the balance sheet. The other subsidiaries are principally involved in air transport (Brit Air, Régional, CityJet, VLM, KLM Cityhopper and Martinair), maintenance, catering (Servair group and KLM Catering Services) and aircraft financing.

In view of the loss for the financial year, Air France's stockholders' equity amounted to less than 50% of its issued capital at December 31, 2011. The Air France-KLM Group will comply with the legal requirements to reconstitute stockholders' equity via a reduction/increase in Air France's issued capital. The impact of this operation will not be significant for the Group's financial situation.

	December 31 (12 months pro forma)			**December 31 (9 months)**		
(In € million)	**2011**	**2010**	**% Ch.**	**2011**	**2010**	**% Ch.**
Revenues	24,363	23,310	4.5	19,037	18,289	4.1
EBITDA*	1,344	1,695	(20.7)	1,346	1,800	(25.2)
EBITDAR**	2,192	2,501	(12.4)	1,987	2,424	(18.0)
Income/(loss) from current operations	(353)	28	n/a	50	525	(90.5)
Income/(loss) from operating activities	(480)	634	n/a	26	1,392	(98.1)
Net income/(loss) from continuing operations	(805)	286	n/a	(438)	979	n/a
Net income/(loss), Group share	(809)	289	n/a	(442)	980	n/a
Basic earnings/(loss) per share, Group ***(In €)***	(2.73)	0.98	n/a	(1.50)	3.32	n/a

n/a: non applicable.

* *Operating result before amortization, depreciation and provisions.*

** *Operating result before amortization, depreciation, provisions and operating leases.*

Revenues

For the period between January 1 and December 31, 2011 (12 months), consolidated revenues amounted to €24.36 billion, up by 4.5% on the previous financial year. The different political crises in Africa and the Middle East, together with the earthquake and tsunami in Japan, had a negative impact on traffic to and from these regions. Furthermore, the weakness in global growth and the euro crisis weighed on the level of unit revenues. Measured in EASK (equivalent available-seat kilometres), unit revenues were down by 0.5% and were stable excluding currency (+0.1%). In the passenger business, revenues increased by 5.2% while cargo revenues rose by 2.6%. Revenues for the maintenance business saw modest growth of 1.1% and those of the other activities increased by 3.0%.

For the period between April 1 and December 31, 2011 (9 months), consolidated revenues amounted to €19.04 billion, up by 4.1% relative to the previous period. The impact of the different crises was also felt over this period. Measured in EASK, unit revenues declined by 1.6% and by 0.2% excluding currency. Revenues in the passenger business rose by 5.2% and those of the cargo business were slightly lower (-0.7%). Maintenance revenues saw modest growth of 1.4% while revenues in the other businesses were up by 2.1%.

Operating expenses

Over twelve months, operating expenses rose by 6.2% to €24.72 billion. Excluding fuel, the increase was limited to 3% thanks to the Challenge 12 plan which enabled the generation of €546 million of cost-savings. Unit cost per EASK (equivalent available seat-kilometer) was up by 1.2% but declined by 2.2% on a constant currency and fuel price basis for a 5.1% rise in production measured in EASK.

Over nine months, operating expenses increased by 6.9% to €18.99 billion. Excluding fuel, the increase was limited to 3.75%. The cost-savings plan delivered €387 million over the period. Unit cost per EASK (equivalent available seat-kilometer) was slightly higher (+1.4%) but declined by 2.1% on a constant currency and fuel price basis for a 5.7% rise in production measured in EASK.

Over twelve months, external expenses increased by 8.5% to €15.52 billion versus €14.31 billion over the previous twelve months. Excluding fuel, this increase was reduced to 3.5%.

Over nine months, external expenses increased by 8.8% to €11.95 billion versus €10.99 billion over the previous period. Excluding fuel, this increase was reduced to 3.6%.

The breakdown of external expenses was as follows:

	December 31 (12 months pro forma)			December 31 (9 months)		
(In € million)	**2011**	**2010**	**% Ch.**	**2011**	**2010**	**% Ch.**
Aircraft fuel	6,438	5,534	16.3	5,012	4,294	16.7
Chartering costs	571	499	14.4	441	383	15.1
Aircraft operating lease costs	848	806	5.2	641	624	2.7
Landing fees and en route charges	1,818	1,722	5.6	1,399	1,328	5.3
Catering	577	550	4.9	446	423	5.4
Handling charges and other operating costs	1,342	1,300	3.2	1,028	989	3.9
Aircraft maintenance costs	1,172	1,155	1.5	907	874	3.8
Commercial and distribution costs	847	922	(8.1)	670	719	(6.8)
Other external expenses	1,904	1,818	4.7	1,407	1,355	3.8
Total	**15,517**	**14,306**	**8.5**	**11,951**	**10,989**	**8.8**

The main changes over twelve months were as follows:

- **aircraft fuel**: fuel expense for the year increased by €904 million due to the increase in the oil price. This increase was the combined result of a volume effect limited to 4%, a negative currency impact of 4% and a 17% rise in the fuel price after hedging;
- **chartering costs** incurred through leasing aircraft capacity from other airlines increased by €72 million given the recourse to chartering during the in-line maintenance strike over the summer of 2011 and the industrial action by cabin crew in November 2011;
- **operating lease** costs increased by €42 million under the influence of the fall in the euro and the leasing of 13 medium- and long-haul aircraft while nine regional aircraft under operating lease were returned;
- **landing fees and en route charges** relating to air navigation services and the use of airports rose by 5.6%, in line with activity;
- **catering** costs relating to in-flight services rose by 4.9%. These expenses comprise the expenses incurred for services provided on board the Air France KLM Group’s own aircraft and those incurred by its catering subsidiary for third-party customers;
- **handling charges and other operating costs** principally cover aircraft handling on the ground and the cost of passenger care for the Group and, to a lesser extent, third-party customers. They increased in line with activity;
- **aircraft maintenance costs** include the maintenance of the Group’s aircraft and procurement for third parties. They rose by just 1.5% over the period;
- **commercial and distribution costs** declined by €75 million under the effect, notably, of the fall in interline commissions paid between partners in the SkyTeam alliance;
- **other external charges**, principally comprising rental charges, telecommunications costs, insurance and fees, increased by €86 million.

Over twelve months, **salaries and related costs** amounted to €7.46 billion versus €7.39 billion at December 31, 2010, i.e. a rise of 1%. The average headcount slightly declined (-0.2%) to 102,012 employees notably due to the implementation of the voluntary departure plan at Air France in 2010.

Over nine months, **salaries and related costs** stood at €5.66 billion versus €5.53 billion at December 31, 2010, i.e. a rise of 2.3%. The average headcount remained virtually stable with a modest 0.3% increase to 102,277 employees. On a constant scope, the number of employees declined by 0.7% to 101,198.

Over twelve months, **taxes other than income taxes** stood at €191 million versus €175 million at December 31, 2010, an increase of 9.1%. Over nine months, they amounted to €149 million versus €137 million for the previous period.

Over twelve months, **amortization, depreciation and provisions** totaled €1.70 billion versus €1.67 billion at December 31, 2010. Over nine months, they stood at €1.30 billion versus €1.28 billion for the previous period.

Income/(loss) from current operations

Over twelve months, **the result from current operations** was a negative €353 million (versus income of €28 million at December 31, 2010).

Over nine months, **the result from current operations** was a €50 million positive (income of €525 million for the same period in 2010).

The contribution to revenues and income/(loss) from current operations by sector of activity was as follows:

(In € million)	December 31, 2011 (12 months pro forma) Revenues	December 31, 2011 (12 months pro forma) Income/(loss) from current operations	December 31, 2010 (12 months pro forma) Revenues	December 31, 2010 (12 months pro forma) Income/(loss) from current operations
Passenger	18,834	(375)	17,910	(58)
Cargo	3,143	(60)	3,064	15
Maintenance	1,040	110	1,029	118
Others	1,346	(28)	1,307	(47)
Total	**24,363**	**(353)**	**23,310**	**28**

(In € million)	December 31, 2011 (9 months) Revenues	December 31, 2011 (9 months) Income/(loss) from current operations	December 31, 2010 (9 months) Revenues	December 31, 2010 (9 months) Income/(loss) from current operations
Passenger	14,762	(8)	14,031	323
Cargo	2,374	(51)	2,390	78
Maintenance	807	84	796	117
Others	1,094	25	1,072	7
Total	**19,037**	**50**	**18,289**	**525**

Income/(loss) from operating activities

Over twelve months, the result from operating activities was a €480 million loss versus income of €634 million at December 31, 2010. The result for the previous year had included, notably, a €1.03 billion capital gain on the sale by the Group of a third of its shareholding in Amadeus which was the subject of an IPO in the Madrid stock market in April 2010 and the revaluation of the remaining 15.2% stake. It also included an additional €127 million provision relating to the fines imposed by the European Commission on the companies Air France, KLM and Martinair for anti-competitive practices in the air freight sector.

Over nine months, the result from operating activities was broadly at break-even (€26 million) versus income of €1.39 billion during the previous period which had included the Amadeus transaction and the additional provision for the cargo fine.

Net cost of financial debt

Over twelve months, the net cost of financial debt remained stable at €371 million. The ratio of EBITDAR to net interest costs adjusted for the portion of operating leases corresponding to financial costs (34%) was 3.3 at December 31, 2011 (3.9 at December 31, 2010).

Over nine months, the net cost of financial debt also remained stable at €280 million.

Other financial income and expenses

Over twelve months, as of December 31, 2011, other net financial expenses amounted to €180 million compared with a net expense of €239 million at December 31, 2010. The breakdown was as follows:

- a foreign exchange loss of €116 million (loss of €191 million at December 31, 2010);
- a €66 million negative change in the fair value of financial assets and liabilities (€53 million at December 31, 2010), mostly due to the €51 million impact of the OCEANE 2020 swap;
- provision write-backs of €2 million versus a €5 million net allocation to provisions at December 31, 2010.

Over nine months, other net financial expenses amounted to €247 million compared with a net expense of €145 million at December 31, 2010 (nine months). The breakdown was as follows:

- a foreign exchange loss of €186 million (loss of €103 million at December 31, 2010);
- a €64 million negative change in the fair value of financial assets and liabilities (€46 million at December 31, 2010), mostly due to the €51 million impact of the OCEANE 2020 swap;
- provision write-backs of €3 million versus a €4 million net allocation to provisions at December 31, 2010.

Net income/(loss) – Group share

Over twelve months, **income taxes** amounted to a €245 million positive versus €275 million at December 31, 2010.

In France, tax losses can be carried forward for an unlimited period. The amended 2011 finance law did, however, introduce a change in the amount of fiscal loss recoverable each year (limited to 60% of the amount of income for the period above the first €1 million), effectively extending the recovery period. In view of the above and the income projections taken into account, the recoverability period of the deferred tax asset on fiscal losses carried forward amounts to some ten years. As a safety precaution, the Group consequently opted to limit the recognition of the deferred tax asset on fiscal losses carried forward starting from the third quarter of the financial year ended December 31, 2011. The effective rate of tax was thus 24%.

The effective tax rate for the period from January 1 to December 31, 2010 is not significant in that both the result before taxes and income taxes had been positive figures. This is notably explained by the virtual-exoneration from tax of the capital gain on the Amadeus transaction.

Over nine months, **income taxes** amounted to a €75 million positive versus €26 million at December 31, 2010.

Over twelve months, **associates** contributed a loss of €19 million at December 31, 2011 versus a negative contribution of €13 million in the previous year. This essentially comprised the negative contribution from the Alitalia Group amounting to €30 million (€21 million at December 31, 2010).

Over nine months, **associates** contributed a loss of €12 million at December 31, 2011 versus a negative contribution of €14 million in the previous year.

Over twelve months, **net income/(loss), Group share** stood at a loss of €809 million at December 31, 2011 versus income of €289 million at December 31, 2010.

Over nine months, **net income/(loss), Group share** stood at a loss €442 million at December 31, 2011 versus income of €980 million at December 31, 2010.

The contributions to the net result by quarter were, respectively, €(367) million at March 31, 2011, €(197) million at June 30, 2011, €14 million at September 30, 2011 and €(270) million at December 31, 2011.

Over twelve months, basic earnings/(loss) per share, Group share, amounted to €(2.73) at December 31, 2011 versus earnings of €0.98 at December 31, 2010. Over nine months, basic earnings/(loss) per share, Group share, amounted to €(1.50) at December 31, 2011 versus earnings of €3.32 at December 31, 2010.

5.1.2 Investments and financing of the Group

Over twelve months, capital expenditure on tangible and intangible assets amounted to €2.43 billion versus (€2.04 billion at December 31, 2010) of which €1.35 billion of investment in the fleet, €556 million in maintenance, €118 million in components and €408 million in the ground operations and intangible assets. Proceeds on disposals of tangible and intangible assets including sale and lease back transactions amounted to €1.17 billion versus €1.05 billion at December 31, 2010.

Over nine months, capital expenditure on tangible and intangible assets amounted to €1.87 billion (€1.56 billion at December 31, 2010). Proceeds on disposals of tangible and intangible assets including sale and lease back transactions amounted to €862 million versus €671 million at December 31, 2010.

Over twelve months, operating cash flow was positive to the tune of €934 million (€1.04 billion at December 31, 2010) given the €581 million positive change in working capital requirement. This change was mainly attributable to the €690 million increase in trade payables due, in part, to a calendar effect and, partly, to the measures taken to improve the management of working capital.

At December 31, 2011, the Group had €2.89 billion of net cash, of which €2.28 billion in cash and cash equivalents. Furthermore, the Group has un-drawn credit facilities amounting to a total of €1.85 billion.

Net debt amounted to €6.52 billion at December 31, 2011 (€6.07 billion at December 31, 2010). Stockholders' equity stood at €6.09 billion versus €7.03 billion at December 31, 2010, the difference being mainly due to the €809 million net loss.

The Group's gearing ratio stood at 1.07 versus 0.85 at March 31, 2011. Excluding the impact of derivatives (€55 million), gearing stood at 1.08 versus 0.90 at March 31, 2011.

Over twelve months, net debt adjusted for the capitalization of operating leases (7x the annual charge) amounted to 5.7 times the EBITDAR at December 31, 2011 (4.7x at December 31, 2010).

5.1.3 Air France-KLM parent company results

The Air France-KLM parent company results were closed on December 31, 2011 with the financial year lasting nine months.

As a holding company, Air France-KLM has no operating activity. Its revenues comprise royalties paid by the two operating subsidiaries for use of the Air France-KLM logo and its expenses mostly comprise financial communication expenses, Statutory Auditors' fees and expenses linked to the compensation of company officers. At December 31, 2011, the operating result was thus positive to the tune of €1.6 million.

The net result was a €112 million loss, mainly due to the financial costs on the bond issues during the 2009-10 financial year and provisions on shares. No dividend was paid in respect of 2010-11.

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, 2011, accounts payable stood at €1 million of which €0.5 million outside the Group, mostly not yet due within 45 days as of the end of the month.

At March 31, 2011, accounts payable stood at €0.6 million of which €0.3 million outside the Group, mostly not yet due within 45 days as of the end of the month.

5.1.4 Key financial indicators

Restated net income

The Group presents a restated net income figure when:

- non-recurrent operations are significant relative to the net result;
- oil price volatility has an impact on the value of the fuel hedging portfolio, particularly on the non-cash portion of the change in the fair value of hedging instruments.

12 month financial year to *(In € million)*	**December 31, 2011 pro forma**	**December 31, 2010 pro forma**	**March 31, 2011 reported**
Net income/(loss), Group share	(809)	289	613
Income taxes	(245)	(275)	(196)
Net income/(loss), Group share before income tax	(1,054)	14	417
Non-recurrent items*	127	(606)	(764)
Non-cash portion of the change in fair value of hedging instruments**	(8)	(24)	(25)
Restated net income/(loss), Group share before income tax	(935)	(616)	(372)
Tax impact	226	211	138
Restated net income/(loss)	(709)	(405)	(234)

* *Non-recurrent items: income and expenses accounted between income/(loss) from current operations and income/(loss) from operating activities. (See also Note 11 to the consolidated financial statements).*

** *See consolidated statements of cash flow.*

Adjusted operating margin

In accordance with generally accepted practice for analysing the Air Transport sector, operating leases are capitalized at seven times for the capital employed and gearing ratio calculations. Consequently, income from current operations is adjusted by the portion of operating leases considered to be financial charges, i.e. 34% of operating leases, the percentage resulting from the capitalization rate of the operating leases. The result is an adjusted operating margin which, in stripping out the accounting impact of different methods of aircraft financing, makes it easier to compare the profitability of different airlines.

12 month financial year to *(In € million)*	**December 31, 2011 pro forma**	**December 31, 2010 pro forma**	**March 31, 2011 reported**
Income/(loss) from current operations	(353)	28	122
Portion of operating leases considered to be financial charges	288	274	283
Adjusted income/(loss) from current operations	(65)	302	405
Revenues	24,363	23,310	23,615
Adjusted operating margin	(0.3)%	1.3%	1.7%

Gearing ratio

The gearing ratio expresses net debt as a percentage of stockholders' equity. Net debt is the result of deducting cash (cash and cash equivalents and investments, minus bank overdrafts) from short and long-term debt. The cash guarantee within the framework of the four-year swap contract with Natixis relating to the OCEANE 2.75% 2020 is deducted from the corresponding debt. Within the framework of the appeal filed with the European Court of Justice regarding the amount of the cargo fine, the Group chose to set up bank guarantees pending the final ruling. These guarantees are held as available cash pledges, the Group having the option to rapidly substitute other assets.

12 month financial year to *(In € million)*	**December 31, 2011 pro forma**	**December 31, 2010 pro forma**	**March 31, 2011 reported**
Current and non-current financial debt	10,402	10,647	10,788
Accrued interest	(122)	(146)	(119)
Deposits on leased aircraft	(491)	(492)	(455)
Financial assets pledged within the framework of the swap with Natixis (OCEANE)	(393)	-	-
Currency hedge on financial debt	4	38	36
Financial debt	**9,400**	**10,047**	**10,250**
Cash and cash equivalents	2,283	3,496	3,717
Marketable securities	359	424	271
Available cash pledges	235	-	303
Deposits (bonds)	165	207	197
Bank overdrafts	(157)	(145)	(129)
Net cash	**2,885**	**3,982**	**4,359**
Net debt	**6,515**	**6,065**	**5,891**
Consolidated stockholders' equity	6,094	7,032	6,906
Net debt/consolidated stockholders' equity	**1.07**	**0.86**	**0.85**
Net debt/consolidated stockholders' equity excluding derivatives	**1.08**	**0.86**	**0.90**

Financial ratio

Within the framework of the *Transform 2015* plan, the Group has set a target of reducing debt to €4.5 billion and the net debt/EBITDA ratio to below 2 at the end of 2014. This ratio is calculated based on the following metrics from the consolidated financial statements:

- net debt: see above table;
- EBITDA: operating result before amortization, depreciation and provisions.

12 month financial year to *(In € million)*	**December 31, 2011 pro forma**	**December 31, 2010 pro forma**	**March 31, 2011 reported**
Net debt	6,515	6,065	5,891
EBITDA	1,344	1,695	1,798
Net debt/EBITDA	**4.8**	**3.6**	**3.3**

Return on Capital Employed (RoCE)

Return on capital employed measures the return on invested capital by expressing adjusted income from current operations (after the application of a normative tax rate of 31%) as a percentage of capital employed.

It is calculated from the following aggregates in the consolidated financial statements:

- capital employed: consolidated stockholders' equity net of the valuation of derivatives (-€56 million at December 31, 2011 and + €25 million at December 31, 2010) and the badwill linked to the KLM pension fund surplus (€928 million) recognized on the adoption of IFRS. Net debt and annual operating leases, capitalized at seven times in accordance with the rule used by analysts following the Air Transport sector and the rating agencies, are then added to this figure;
- adjusted income from current operations after income taxes.

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Stockholders' equity excluding the pension fund surplus and derivatives	5,110	6,129	5,604
Net debt	6,515	6,065	5,891
Operating leases x7	5,936	5,642	5,817
Capital employed	**17,561**	**17,836**	**17,312**
Adjusted income/(loss) from current operations after taxation	**(45)**	**208**	**279**
ROCE	**(0.3)%**	**1.2%**	**1.6%**

Cost of capital

12 month financial year to *(In € million)*	December 31, 2011 pro forma	December 31, 2010 pro forma	March 31, 2011 reported
Cost of stockholders' equity	13.3%	13%	13%
Marginal cost of debt, after tax	4.5%	3.7%	3.7%
Percentage of stockholders' equity/target debt			
♦ Stockholders' equity	33%	35%	35%
♦ Debt	67%	65%	65%
Weighted average cost of capital	**7.4%**	**7%**	**7%**

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45 rue de Paris, 95747 Roissy-CDG Cedex, France

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